

# Vietnam Sector Outlook

Báo cáo triển vọng ngành



# BSC

B S C R E S E A R C H

Vietnam Sector Outlook 2016  
4<sup>th</sup> Quarter

BSC

## Content

<b>Sector investment strategy 4Q2016.....</b>	<b>3</b>
Sector outlook overview in 4Q/2016 .....	4
Sector Outlook 4Q2016.....	6
BSC's review on stock market in 3Q 2016.....	8
Influential policies and economic factors in 2016 .....	9
Comparison with other regional stock markets .....	12
Performance of recommended portfolio .....	13
Comparison of sector and VN-Index 9M2016 .....	16
<b>3Q2016 Outlook .....</b>	<b>18</b>
Real Estate [OUTPERFORM] .....	18
Construction [OUTPERFORM] .....	21
Ceremic [OUTPERFORM].....	24
Technology – Telecommunications [OUTPERFORM] .....	1
Seaport [OUTPERFORM] .....	4
Electricity [OUTPERFORM] .....	7
Textiles [MARKET PERFORM].....	10
Dairy [MARKET PERFORM] .....	14
Fertilizer [MARKET PERFORM].....	17
Cement [MARKET PERFORM].....	22
Automobile [MARKET PERFORM] .....	25
Non – Life Insurance [MARKET PERFORM].....	28
Plastic [MARKET PERFORM] .....	31
Steel [MARKET PERFORM] .....	35
Sugar [MARKET PERFORM] .....	40
Tires [MARKET PERFORM].....	43
Banking [MARKET PERFORM].....	45
Pharmaceutical [MARKET PERFORM].....	51
Natural Rubber [MARKET PERFORM] .....	54
Oil & Gas [MARKET PERFORM] .....	57
Aquaculture [UNDERPERFORM].....	62
Marine transportation [UNDERPERFORM].....	64

## Sector investment strategy 4Q2016

As discussed in our [Sector Outlook Report 2016](#), and updated in our [Sector Outlook Report 3Q2016](#), it has become more challenging for investors to select sector for investment as LargeCap had an impressive growth of +31.6%, along with a strong growth of 28.3% for MidCap and BlueChips, 22.6% for SmallCap, and 11.7% for Penny. In 9M2016, most of the investment themes and our recommendations are developing as expected. On the other hand, some sectors and stocks were not performing as well as expected.

**Where is Vietnam in the business cycle?** It is difficult to assess the current business cycle due to the fact that emerging economies like Vietnam will depend heavily on the policies of large countries like China, US, and Europe. By definition of the business cycle, Vietnam is still in the middle of Initial Recovery and Early Upswing (before Late Upswing – Slowdown – Recession) with economic characteristics such as low inflation with slight increase, low short-term interest rates, low/reduced bond yields. This stage is more suitable for equity investment than other investment channels. We also note that the credit growth in 2016 is forecast to reach 18-20%, the highest level in the last 5 years, which directly impacts GDP, interest rates and inflation. The credit growth will correlate with the growth in money supply (inflation rise) and capital mobilization (interest rate rise). BSC forecasts interest rates will remain low and stable in the last months of the year, creating favorable conditions for stock investment in 4Q/2016 and 2017.

**We highly notice the following risks:** (1) China maintained a good growth as the Government accelerates spending: the investments by state enterprises rose by 21.4% and the government budget spending went up by 12.7% during 8M2016; (2) The spread of Nationalism after the Brexit, especially in Europe, where there will be many changes in the country leaderships; (3) The last moves of candidates for the 58th US presidential campaign; (4) The escalation of IS in the Middle East; and (5) FOMC in Nov and Dec with the possibility of rate hike. The market will also fluctuate along with the OPEC conference, the meeting among central banks of England, Japan, Europe.

**The 4th quarter, the acceleration quarter.** Typically, the last quarter is the peak season of business activities in a year. Particularly, 2016 is the year of election, so many business activities have slowed down, especially the public investments during the first 9 months of 2016. Therefore, in spite of strong growth of FDI flows, abundant money supply and low interest rates, the economic growth was much slower compared to the same period. Thus, the highlights of the fourth quarter would be the reform efforts and economic promoting measures, which begins to show positive impacts on enterprises and later on the stock market.

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 3 months of 2016 are based on analysis of (1) Policies and information affecting sectors in the last 3 months of 2016; (2) Evolution of sectors, stock market and macroeconomic factors which were assessed in [Macro & Market Report 9M2016](#).

## Sector outlook overview in 4Q/2016

Among our 7 investment thesis ( 5 thesis presented at the beginning of the year and 2 in Quarter 3 outlook report), in 9M2016, some sectors have gone in direction as we forecasted, some have not due to our underestimated sector growth engines. In the 4<sup>th</sup> quarter 2016, we update and add some opinions and information as belowed:

- **“Firstly, real estate has warmed up, liquidity increased”.** Real estate market has occurred worries and doubt. As of 1H2016, outstanding loan for real estate has reached 416.000 bil, up 5.76% from its level at the year beginning and has increased quicker than economy growth. However, business prospects of real estate firms remained positive since revenue might peak in 2017-2018, according to projects completion and handover. Some notable stocks: (1) group with strong growth: KDH, VIC, DXG and (2) group with large discount from their book value: ITC, SCR, SJS, VCG.

In Q4-2016, BSC believe investment opportunities might come from real estate’s downstream when construction season has returned in the South and light rainy season in the North. We expect positivities in construction (building and infrastructure), material (Cement, steel, plastic, building rock), furniture (bricks, tiles, wood, bulbs, wires,...). Investors may find more detail in [Ceramic and shares which was forgotten report](#).

- **“Secondly, Free trade Agreement (FTA)”.** BSC maintains our Positive assessment with stocks which benefits from FTAs, such as Seaports (VSC, GMD, and CDN), Infrastructure (CTI), and industrial zone (KBC, LHG, and D2D). They are expected to record high growth in the fourth quarter. In Oct 2016, the FTA EAEU-Vietnam will be in effect, positively affecting on Textiles and Aquaculture even though the impact is forecasted to be modest. We also notice that the proposal of increasing in minimum wages, to be effect in 2017, if passed will cause troubles for Textile and Aquaculture since tax benefits from FTAs (EVFTA, TPP) will only take effect from 2018. Also, the risk of not passing TPP is notable.
- **“Thirdly, influences from material prices”.** We have updated our opinion when material price had signs of improvement and leaded some positive affect on shares ([link](#)). BSC puts our expectation on positive movements of oil price as OPEC decided to cut oil supply on 30<sup>th</sup> Nov 2016. These information may boost oil price in the short run, increased oil average price to 45-50 usd/barrel in fourth quarter 2016 (average price in first 9 months 2016 was 44.2 usd/barrel), positively affecting on share prices of Oil group. Plus, BSC believes that basic material sectors will improve along with the commodity price movement and protection of domestic policy (Steel, Sugar). Investors should notice the Rubber sector since rubber price has increased from Q3 and Q4 should be the harvest season (accounted for 40% harvested volume of whole year).
- **“Fourthly, share group of divestment and out of room”.** Market in late 2016 will witness more and more vibrant of shares which are in the list SCIC divest, especially the 10 hot shares in the list: VNM, FPT, NTP, BMP, BMI, VNR, HGM, Vietnam infrastructure and real estate JSC, SGC, FPT telecom. The fact that SCIC has chosen foreign consultants to divest from VNM is expected to boost the divestment process. BSC also notices SCIC’s list divestment plan published on 31<sup>st</sup> May 2016 includes: HDC, VSH, VNC and VCG. Besides SCIC divestment group, the 2 beverage firms Sabeco and Habeco will have to be listed in 2016, which will be the highlight in Vietnam stock market and attracts considerable interest from foreign and domestic investors.
- **“Fifthly, fundamental shares with high stable dividend and low beta might remain to be the destination of the cash flow”.** In Q3/2016, the market continue being led by LargeCap and BlueChips groups, which mostly are good fundamental stocks, we believe that this trend will continue in Q4, the time record mainly the revenue and profits of businesses. Stocks with good business outcome, high stable dividend and long-term growth

prospect will continue to be the destination of the cash flow (VNM, HPG, BFC, PNJ, MWG ...). Stocks with low beta will still attractive to cautious investors (stocks of Ceramic, Rubber, Hydroelectric, Gas distribution ...)

- **“Sixthly, opportunities arise in Upcom market”**. Adding Upcom premium criteria will continue to make UPCOM stock to diverge ([Upcom Premium Report](#)). Opportunities on Upcom will come from two groups: (1) group with good business results, low valuation such as VGC, SWC, GEX ... ([Upcom Report 30](#)), (2) expect new large stocks listed in the 3 last month of the year. Notably, Circular 115/2016/TT-BTC take effect from Nov 1<sup>st</sup> 2016 will also increase the attractiveness of Upcom: within a maximum of 20 days from the expiration day of payment for the shares auctions, shares of enterprize will be required to be automatically traded on Upcom. This is a tremendous boost to the process of equitization of state enterprises.
- **“Seventhly, climate change”**. According to the Food and Agriculture Organization of the United Nations (FAO), La Nina in South East Asia can begin in September 2016 and lasted to February 2017, mainly focus in Indonesia, Malaysia, Philippines, and Papua New Guinea. Central and Southern Viet Nam even with La Nina not occurred, with the end of El Nino, lead to an increase in rainfall, BSC believes Hydroelectric, Rubber and partly Seafood industry will gain some benefits.  
Moreover, heavy rains at Tay Nguyen and Southern province, salinity reduced, drought ended and flood occurred lately at the Mekong delta province is expected to promote **Fertilizer consumption**.

## Sector Outlook 4Q2016

- We maintain **OUTPERFORM** assessments for the following sectors: **Real Estate, Construction, Construction materials (tiles, plastic), Technology, Sea Ports, and Electricity**. Downstream sectors of Real Estate are expected to have promising growth in the near future. Infrastructure sectors such as Sea Port Electricity are expected to maintain sustainable growth. Although we have not yet mention in this report, the Retail sector is also expected to have strong growth, along with the domestic demand ( and not subject to the volatility of global market)
- We assess **MARKET PERFORM** with sectors: **Plastic, Steel, Sugar, Tires, Cement, Automotive, Insurance, Banking, Pharmaceutical, Fertilizer, Oil & Gas and Natural Rubber**. We change the outlook down from Outperform to Market perform outlook for **Textile and Dairy**. 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 3Q2016 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 fourth quarter is usually the time with more exciting business activities than the rest of the year. We expect the downstream sectors of the Real Estate (construction and building materials) continue to grow. Sectors of Sea Ports, Electricity and Infrastructure continue to improve earnings. The rainy season also makes the agricultural and hydro power sectors to have more positive volatility.

## 2016 Sector Outlook Summary

No	Sector	2016 Rating	Medium and Long term Recommendation	Tracking / Holding
1	Real Estate	Outperform	DXG, ITC	KDH, SCR, VIC
2	Construction	Outperform		CTD, HBC, FCN, CTI
3	Tiles	Outperform	TLT, TTC, VGC	VIT, CVT
4	Technology	Outperform	FPT, CMG, ITD	ELC
5	Sea Port	Outperform	HAH, VSC	GMD
6	Electricity	Outperform	SJD, CHP; REE	NT2, BTP, PPC
7	Steel	Market perform	HSG, HPG, NKG	SWC, VIS
8	Dairy	Market perform		VNM, HNM, VLC
9	Textile	Market perform	TNG, VGG	TCM, EV
10	Fertilizer	Market perform		BFC, DPM, LAS
11	Cement	Market perform	BCC	HT1, BTS
12	Automobile	Market perform		SVC, HTL, TMT
13	Insurance	Market perform		PGI, VNR, BMI, PVI
14	Plastic	Market perform	NTP	BMP, AAA
15	Sugar	Market perform	BHS	SBT, LSS, SLS, KTS
16	Tire	Market perform		DRC, CSM
17	Banking	Market perform	MBB	VCB, ACB
18	Pharmacy	Market perform		DHG, IMP, DMC
19	Rubber	Market perform	TRC	DPR, PHR
20	Oil & Gas	Market perform	PGS, PGC	CNG, PXS, PVD, GAS
21	Aquaculture	Underperform		HVG, VHC, FMC
22	Marine Transport	Underperform	VTO, PVT	GSP

Source: BSC Research



## BSC's review on stock market in 3Q 2016

In order to evaluate the accuracy and efficiency in BSC's assessment in [our Sector outlook Report 2016Q3](#) for the third quarter, we consider the following 3 factors: (1) Market movements; (2) The trend of stocks; (3) Influential information.

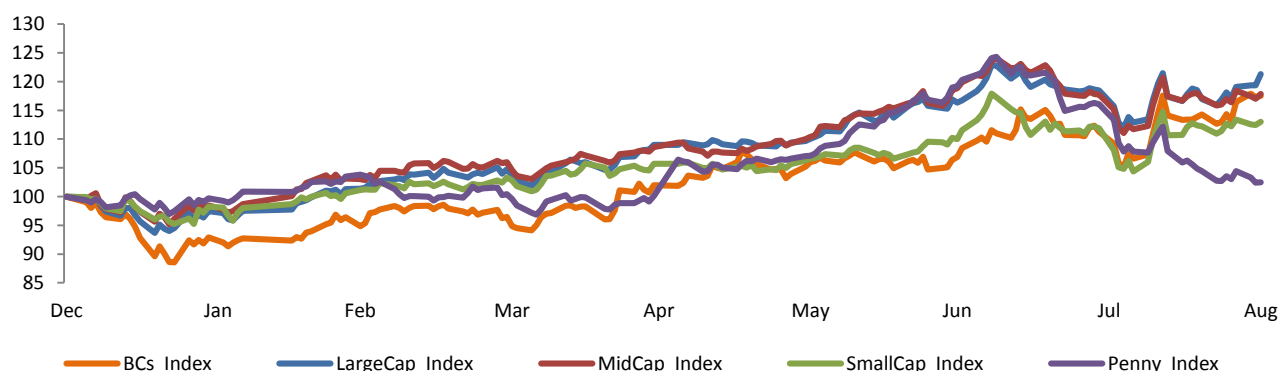
- (1) In terms of market performance.** Generally, Vietnam stock market has remained in the long-term uptrend since the beginning of 2016. The VN-Index has rose 8.5% VN-Index since 2016Q3 and 21.9% YTD; while the HNX-Index increased slightly 12.32% in 2016A3 and 6.3% YTD. Specifically, the market experienced a dramatic fluctuation which range from 620 pts to 680 pts in July. During this phase, investors have took short-term profit whenever official positive information released.

The market was affected by the dip of oil price trend and the lower global growth forecasts of IMF. It has bottomed in August and increased again in September when foreigners stopped to be net sellers. Besides, Q3 earnings also impacted positively on the investors' sentiment. The VN-Index once again surpassed the solid resistance of 680.

- (2) Regarding Stocks Trend in 2016,** in general, all stock groups, except Penny, had good growths in 9M2016. BlueChips continued to top with 6.5% MoM gain, followed by LargeCap, SmallCap, MidCap and Penny with increases of 3.5%, 3.0%, 1.4% and -11.3% MoM, respectively.

The market had strong differentiation between sectors and between stocks in a sector. Only 10/20 industries outperformed VN-Index. VN30 also had 13 decliners. Several impressive increasing sectors are Steel (HPG +36.9%, NKG +66%), Pharmaceuticals (IMP +44.2%, DMC +22.4%), Plastics (BMP +32.7%, NTP +30.7%, DAG +30%), Seafood (VHC +29.2%) and Construction (HBC +41%, CTD +34.5%)

Stock Movements in 9M2016



Source: BSC Research

## Influential policies and economic factors in 2016

In the last months, we appreciate the positive changes of macroeconomic and government's solutions to support the growth. Those will be an important platform for the stock market to maintain growth momentum since the early year.

On the macroeconomic, GDP in the 3<sup>rd</sup> quarter had positive changes with an increase of 6.4% after sluggish growth in the first 2 quarters of 5.78% and 5.48% respectively. GDP in the first 9 months increased by 5.93%, in which the industrial & construction sector and services sector remain major contributions to growth in 9 months. The decline came from mining and agriculture sector, making the growth rate to be slow over the same period.

### Considering the positive information:

- Lower interest rates, good credit growth, increased liquidity
- Positive macro-economic indicators published by the end of 3<sup>rd</sup> quarter (GDP, FDI, Import-&Export Value)
- The Government's solution to achieve 6.7% growth target: To maintain loose monetary policies, promote the administrative reform to free resources growth, accelerate the disbursement of ODA and Government bonds.
- 2016 third quarter earnings results;
- Election of the US president on 8<sup>th</sup> Nov: Positive with Hillary candidate, negative with Donald Trump candidate.
- OPEC Meeting on 30<sup>th</sup> Nov: announce the output cut after agreeing to cut at the meeting on 28<sup>th</sup> Sep and the negotiations with Russia and the United States thereafter.
- FTA Vietnam-EAEU takes effect on 5<sup>th</sup> Oct.
- The state divestment activities are more intense.

### Considering the negative information:

- Judging 6 serious economic cases in 4Q2016-1Q2017: Wrongdoing in Printing, Trading and Services Agribank Company; Vietnam Waterway Construction Corporation; Que Vo Textile Corporation and affiliates support fund in Quevo, Bacninh; Vien Duong Vinashin Lines; Bien Bien transaction office - Vietinbank and Oceanbank.
- Two Fed Meeting for raising interest rates on 1<sup>st</sup> – 2<sup>nd</sup> Nov and 13<sup>rd</sup> -14<sup>th</sup> Dec: The increase in interest rate is more likely to be accepted in Dec Meeting rather than in Nov Meeting because the the President election takes place right after the Nov Meeting.
- Developments related to the ability of passing TPP.
- The market appears more speculative stocks such as TCH, ROS ...
- Higher margin Scale in some Securities companies.

No.	Policies and macroeconomic factors	Effective date	Influential status	Influential degree	Status till 24th June, 2016
<b>International economy and policies</b>					
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
<b>Vietnam macroeconomy and policies</b>					
1	Decree No. 99/2015/NĐ-CP (guiding Housing Law)	Dec 10 <sup>th</sup> , 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 <sup>st</sup> , 2015	Negative	Very strong	Affecting
3	Circular No. 06/2016/TT-NHNN	1 <sup>st</sup> , July, 2016	Negative	Strong	Affecting
4	Decree No. 60 (open room for foreign investors)	Sep 1 <sup>st</sup> 2015	Positive	Very strong	Affecting
5	Circular 200/2014/TT-BTC (Corporate accounting treatments)	Jan 1 <sup>st</sup> 2015	Positive	Average	Affected
6	Decision 211/QĐ-VSD (T2 payment for stocks)	Jan 1 <sup>st</sup> 2016	Positive	Average	Affected
7	Decree No. 108/2015/NĐ-CP (amending the Law on Special Excise Duty)	Jan 1 <sup>st</sup> 2016	Neutral	Strong	Affecting
8	Circular 155/2015/TT-BTC	Jan 1 <sup>st</sup> 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 <sup>st</sup> , 2016	Positive	Average	Affecting
11	Increase tax rate on Nature Resources	Jan 1 <sup>st</sup> , 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
<b>Free Trade Agreements</b>					
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 <sup>st</sup> , Dec, 2015	Positive	Average	Affecting

Source: BSC Research

## Influential macroeconomic factors on sectors

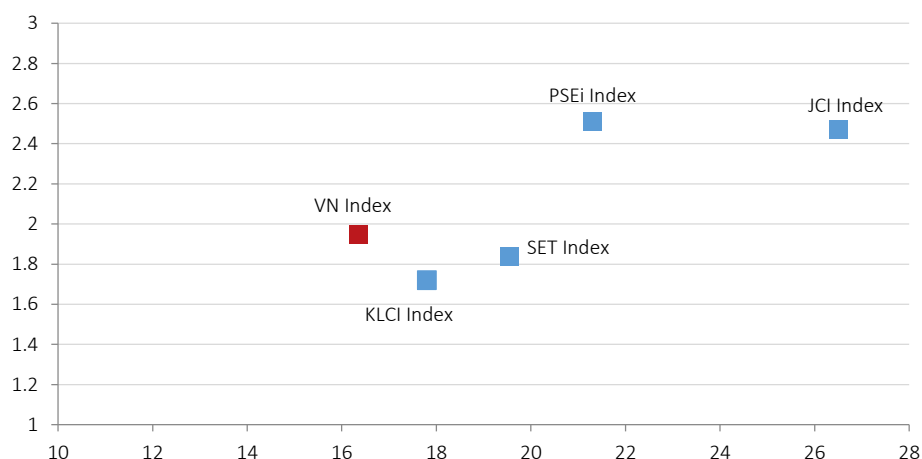
Factors	Oil recovery	FED raise interest rate	USD appreciation	Eu economy slow down / Brexit / EUR depreciation	JPY appreciation	Domestic interest rate increase	Chinese economy slow down	Presidential election result US	TPP, ACFTA from FTA VN - EU
Marine transportation	(-)		(-)			(-)	(-)	(-)	
Real estate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

Source: BSC Research

## Comparison with other regional stock markets

In the scope of Asia Emerging stock markets, Vietnam's stock market has accelerated in 3Q2016 to the regional level. Vnindex P/B is around the regional average, while P/E is the lowest, but very close to Malaysia's market. In each sector, the discounts of PE and PB varies.

Comparison of PE and PB to the Asia Emerging Markets



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, and Philippines. Some sectors showing large discount include: Telecommunication, Techonology, Healthcare, Oil & Gas and consumer service.... In contrast, financial sectors, such as Banking, Real Estate and Insurance has reached to the regional level.

	Vietnam	Median	Indonesia	Malaysia	Phillipines	Thailand
Health care	17.2	36.0	32.9	51.2		39.1
Consumer Service	11.4	23.8	25.7	22.3	32.5	23.8
Technology	10.4	16.2	16.2	24.3	20.3	11.3
Utility	11.5	17.5	30.0	20.1	17.2	17.5
Industrials	9.4	17.3	13.7	20.1	21.3	17.3
Oil & Gas	13.9	28.0	28.0	32.8	29.6	15.2
Consumer goods	10.1	16.6	18.3	22.3		14.9
Basic materials	9.4	12.1	12.1	19.0	11.9	12.7
Financials	12.0	13.3	14.5	12.5	19.2	13.3

Source: Bloomberg, BSC Research

## Performance of recommended portfolio

In 9M2016, while the whole market has 299 gainers out of 693 stock, our recommended portfolio had 59 gainers out of 75 stocks, with the YTD increase of 39.2%, significantly higher than the 16% gain of VN Index. Among all the recommended stocks, top leaders belong to a few sectors such as Steel (HSG, NKG); Pharmaceutical (DMC); Sugar (SLS), Plastic (AAA); and tiles (CVT). Besides, some stocks in our recommended portfolio declined sharply in 9M2016, including TCM (-37.5%); HTL (-34%). 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 23/9/2016	% +/-	Target price
Real Estate	<a href="#">VIC</a>	53,000	4,100	2,110	26.0	2.03	23.5%	33,609	44,350	32%	53,000
	<a href="#">DXG</a>	2,148	661	2,300	8.2	1.10	28.2%	14,574	11,412	-22%	22,800
	<a href="#">KDH</a>	1,765	290	2,305	9.4	1.08	11.3%	21,040	27,100	29%	25,100
	<a href="#">ITC</a>	450	20	289	31.8	0.43	1.3%	8,400	11,000	31%	14443
	<a href="#">SCR</a>	1,448	176	810	12.2	0.70	5.5%	8,700	9,800	13%	N/A
Construction	<a href="#">CTD</a>	16,000	877	18,743	10.7	2.31	22.0%	148,191	242,000	63%	N/A
	<a href="#">HBC</a>	6,500	175	2,300	8.3	1.15	17.0%	15,200	29,000	91%	N/A
	<a href="#">FCN</a>	2,342	157	3,290	6.5	1.30	20.9%	19,414	21,200	9%	23,493
	<a href="#">CTI</a>	1,405	107	2,521	11.6	1.44	13.0%	18,281	31,300	71%	31,800
Tiles	<a href="#">CVT</a>	1,230	135	7,031	6.7	3.10	46.5%	21,299	47,400	123%	49,217
	<a href="#">VIT</a>	920	52	3,400	8.9	2.40	26.8%	18,448	30,300	64%	25642
	<a href="#">TTC</a>	365	26	4,327	5.3	1.40	26.2%	12,446	22,900	84%	32,754
	<a href="#">VGC</a>	8,250	448	1,694	9.0	1.30	13.6%	7,785	15,200	95%	19,696
	<a href="#">TLT</a>	476	36	5,179	4.0	12.2	473.8%	12,000	20,700	73%	31,074
IT – Telecom	<a href="#">FPT</a>	42,514	2,678	4,618	10.3	2.03	21.6%	40,146	47,400	18%	51,000
	<a href="#">CMG</a>	4,209	171	1,808	9.0	1.12	17.8%	14,078	16,300	16%	18,900
	<a href="#">ITD</a>	740	52	2,694	8.5	1.91	23.1%	13,991	22,800	63%	25,500
Seaport	<a href="#">GMD</a>	3,954	583	3,910	7.1	1.04	11.0%	26,949	28,400	5%	32,800
	<a href="#">PHP</a>	2,531	741	1,385	15.0	1.73	12.0%	20,598	18,600	-10%	22,980
	<a href="#">VSC</a>	1,391	381	7,005	9.3	1.62	15.0%	68,824	73,000	6%	86,208
	<a href="#">HAH</a>	509	113	4,564	8.9	1.78	21.0%	42,133	39,800	-6%	47,419
	<a href="#">CDN</a>	597	177	1,575	15.9	2.21	14.0%		25,000		18,800
Textile	<a href="#">TNG</a>	2,021	101	2,930	4.9	1.00	18.0%	17,273	14,200	-18%	21,128
	<a href="#">TCM</a>	2,980	113	2,300	8.2	1.10	12.6%	30,256	18,900	-38%	30,000
	<a href="#">VGG</a>	7,166	350	8,327	7.0	2.00	35.0%		58,300		70,333
	<a href="#">EVE</a>	801	90	2,130	11.9	0.80	9.9%	17,253	25,500	48%	N/A
Electricity	<a href="#">NT2</a>	5,902	1,204	4,016	9.1	1.67	17.0%	23,537	36,600	56%	N/A
	<a href="#">PPC</a>	7,271	532	1,669	8.7	0.79	14.0%	15,892	14,600	-8%	N/A
	<a href="#">SJD</a>	348	163	3,289	8.5	1.17	21.0%	25,900	27,800	7%	N/A
	<a href="#">CHP</a>	527	208	1,581	13.0	0.81	20.0%	19,052	20,600	8%	N/A
Dairy	<a href="#">VNM</a>	45,016	8,823	7,353	19.0	7.54	41.0%	102,736	140,000	36%	N/A
	<a href="#">HNM</a>	360	3	170	47.1	0.74	2.0%	8,900	7,800	-12%	N/A
Fertilizer	<a href="#">DPM</a>	9,404	1,666	3,736	7.6	1.46	19.0%	27,669	28,450	3%	N/A
	<a href="#">BFC</a>	6,050	267	4,205	8.9	2.03	23.0%	20,661	37,300	81%	40,000
Cement	<a href="#">HT1</a>	8,229	785	1,975	14.0	1.7	15.1%	26,800	27,700	3%	32,175
	<a href="#">BCC</a>	4,384	257	2,689	7.1	0.95	13.4%	13,400	19,100	43%	25,487
	<a href="#">BTS</a>	3,279	141	1,288	7.8	0.79	10.2%	9,000	10,000	11%	11,786
Automobile	<a href="#">SVC</a>	11,000	160	3,778	12.1	1.2	10%	39,834	47,800	20%	52,000
Insurance	<a href="#">PGI</a>	2,376	103	1,474	12.7	1.60	12.1%	16,700	22,700	36%	N/A
	<a href="#">BMI</a>	3,590	134	1,578	15.1	0.90	5.9%	21,970	28,000	27%	31,800
	<a href="#">VNR</a>	1,730	261	1,576	11.8	0.80	7.1%	19,915	21,800	9%	N/A
	<a href="#">PVI</a>	10,367	249	1,117	22.1	0.80	3.7%	23,711	25,300	7%	N/A

Plastic	<a href="#">BMP</a>	3,525	689	15,141	12.8	4.18	31.0%	126,934	175,500	38%	
	<a href="#">NTP</a>	4,063	418	6,368	13.5	3.66	23.0%	48,199	81,000	68%	98,100
	<a href="#">AAA</a>	2,100	121	1,497	20.5	1.84	6.0%	11,802	30,500	158%	
Steel	<a href="#">HPG</a>	32,417.	5,940.	7,041	6.5	1.9	29.2%	24,614	45,900	86%	53,866
	<a href="#">HSG</a>	17,098	1,503	7,650	5.4	1.99	36.8%	19,688	41,500	111%	48,540
	<a href="#">NKG</a>	7,946	583	7,955	3.8	1.72	45.5%	11,053	39,300	256%	47,680
Sugar	BHS	4,858	217	1,742	10.6	1.11	10.5%	19,500	17,300	-11%	N/A
	SBT	3,090	255	1,330	23.5	2.32	9.9%	24,100	30,900	28%	N/A
	<a href="#">LSS</a>	1,697	75	1,066	16.1	0.73	4.5%	8,635	14,700	70%	N/A
	SLS	741	118	17,410	6.9	2.86	41.4%	49,534	136,400	175%	N/A
Tire	<a href="#">DRC</a>	3,774	455	3,551	11.3	2.02	26.0%	31,604	40,450	28%	N/A
	<a href="#">CSM</a>	3,235	277	2,445	10.4	1.83	23.0%	16,673	22,800	37%	N/A
Bank	<a href="#">VCB</a>		8,491	2,060	18.4	2.26	17.9%	31,875	37,350	17%	45,500
	ACB		1,223	1,353	12.9	1.16	8.5%	19,800	17,400	-12%	N/A
	<a href="#">MBB</a>		2,823	1,561	9.5	1.0	12.1%	14,600	14,750	1%	16,600
Pharmaceutical	<a href="#">DHG</a>	3,530	695	7,196	15.0	4.01	22.0%	63,762	108,000	69%	N/A
	<a href="#">IMP</a>	999	104	3,103	19.9	2.11	12.0%	35,873	61,800	72%	N/A
	<a href="#">TRA</a>	2,100	210	7,829	14.3	4.8	22.0%	61,306	112,000	83%	N/A
	<a href="#">DMC</a>	1,415	155	5,802	15.5	3.02	20.0%	30,970	90,000	191%	N/A
Rubber	<a href="#">TRC</a>	339.73	70.66	1,941	11.7	0.45	3.9%	19,701	22,800	16%	27,800
	DPR		120	2,990	11.2	0.64	5.7%	35,900	33,800	-6%	N/A
	PHR		198	2,520	6.8	0.63	9.2%	15,871	18,400	16%	22,800
Oil & Gas	<a href="#">PGS</a>	4,052	97	1,442	12.4	0.66	9.0%	15,663	16,500	5%	20,100
	<a href="#">CNG</a>	900	123	4,600	8.7	0.85	15.0%	29,928	40,300	35%	N/A
	<a href="#">PXS</a>	1,900	116	1,837	7.6	1.02	7.0%	11,344	12,500	10%	N/A
	<a href="#">PGC</a>	2511	111	1600	7.2	0.98	13.6%	11,100	11,450	3%	13,200
Aquaculture	<a href="#">HVG</a>	23,994	349	1,537	6.2	0.75	12.0%	11,000	9,560	-13%	N/A
	<a href="#">VHC</a>	7,500	340	3,696	16.8	2.49	15.0%	28,074	58,500	108%	N/A
	<a href="#">FMC</a>	3,176	105	3,500	6.2	1.40	22.0%	20,844	21,650	4%	24,000
Marine transport	<a href="#">PVT</a>	6,747	507	1,794	8.0	1.10	13.0%	8,815	14,400	63%	17,900
	<a href="#">GSP</a>	1,132	71	1,922	7.1	1.06	20.0%	13,976	13,600	-3%	15,200
	SKG	382	218	8,921	10.1	5.55	37.0%	62,374	90,200	45%	100
	<a href="#">VTO</a>	1,428	105	1,288	7.7	0.80	8.0%	6,385	9,790	53%	13
	<a href="#">VIP</a>	625	106	1,561	5.6	0.53	N/A	8,879	8,690	-2%	N/A

Source: BSC Research, \*: diluted EPS

## Top Stocks in 9M 2016

## TOP 5 UP TREND MOVERS ON VN - INDEX

Ticker	Price 23/09/2016	YTD(%)	Index pt
GAS	68,600	+89.5%	+31.2
VNM	140,000	+31.2%	+23.8
VIC	44,350	+31.9%	+13.1
VCB	37,350	+14.8%	+8.8
HPG	45,900	+80.7%	+8.5

Source: BSC Research

## TOP 5 DOWN TREND MOVERS ON VN - INDEX

Ticker	Price 23/09/2016	YTD (%)	Index pt
HNG	5,420	-81.2%	-8.4
BID	16,050	-22.1%	-7.8
CTG	16,900	-9.1%	-3.1
STB	9,500	-27.5%	-2.7
MSN	71,000	-8.4%	-2.1

Source: BSC Research

## TOP 5 CP LEADERS ON VN-INDEX

(Price &gt; VND 10,000, Average volume &gt;70,000)

Ticker	Price 04/01/2016	23/09/2016	%Chg
NKG	11,228	39,300	250%
DMC	30,746	90,000	193%
VHC	26,440	58,500	121%
C32	33,200	72,600	119%
NNC	44,225	95,045	115%

Source: BSC Research

## TOP 5 CP LAGGERS ON VN-INDEX

(Price &gt; VND 10,000, Average volume &gt;70,000)

Ticker	Price 04/01/2016	23/09/2016	%Chg
HNG	29,000	5,420	-81%
TNT	25,000	5,620	-78%
TSC	13,700	3,490	-75%
TTF	28,700	9,320	-68%
BCG	17,870	5,900	-67%

Source: BSC Research

## TOP 5 VOLUME LEADERS ON VN-INDEX

Ticker	Average volume
FLC	6,539,118
KBC	5,698,335
DLG	3,925,090
HPG	3,919,210
ITA	3,541,431

Source: BSC Research

## TOP 5 UP TREND MOVERS ON HNX - INDEX

Ticker	Price 23/09/2016	YTD(%)	Index pt
VCS	146,500	+147.4%	+1.95
NTP	81,000	+61.5%	+1.66
VCG	15,900	+40.7%	+0.66
AAA	30,500	+147.9%	+0.46
TV2	123,400	+191.4%	+0.38

Source: BSC Research

## TOP 5 DOWN TREND MOVERS ON HNX - INDEX

Ticker	Price 23/09/2016	YTD(%)	Index pt
ACB	17,400	-12.12%	-1.2
OCH	4,200	-66.4%	-0.98
SHB	4,700	-27.7%	-0.88
MBG	3,300	-79.5%	-0.63
PLC	27,500	-23.8%	-0.43

Source: BSC Research

## TOP 5 LEADERS ON HNX

(Price &gt; VND 10,000, Average volume &gt;20,000)

Ticker	Price 04/01/2016	23/09/2016	%Chg
VCS	57,282	146,500	156%
AAA	12,090	30,500	152%
DNP	12,243	28,000	129%
CVT	21,206	47,400	124%
VC7	12,775	26,500	107%

Source: BSC Research

## TOP 5 CP LAGGEERS ON HNX

(Price &gt; VND 10,000)

Ticker	Price 04/01/2016	23/09/2016	%Chg
SGO	10,300	1,700	-83%
MBG	15,400	3,300	-79%
OCH	11,300	4,200	-63%
TFC	20,933	7,900	-62%
DPS	11,200	6,200	-45%

Source: BSC Research

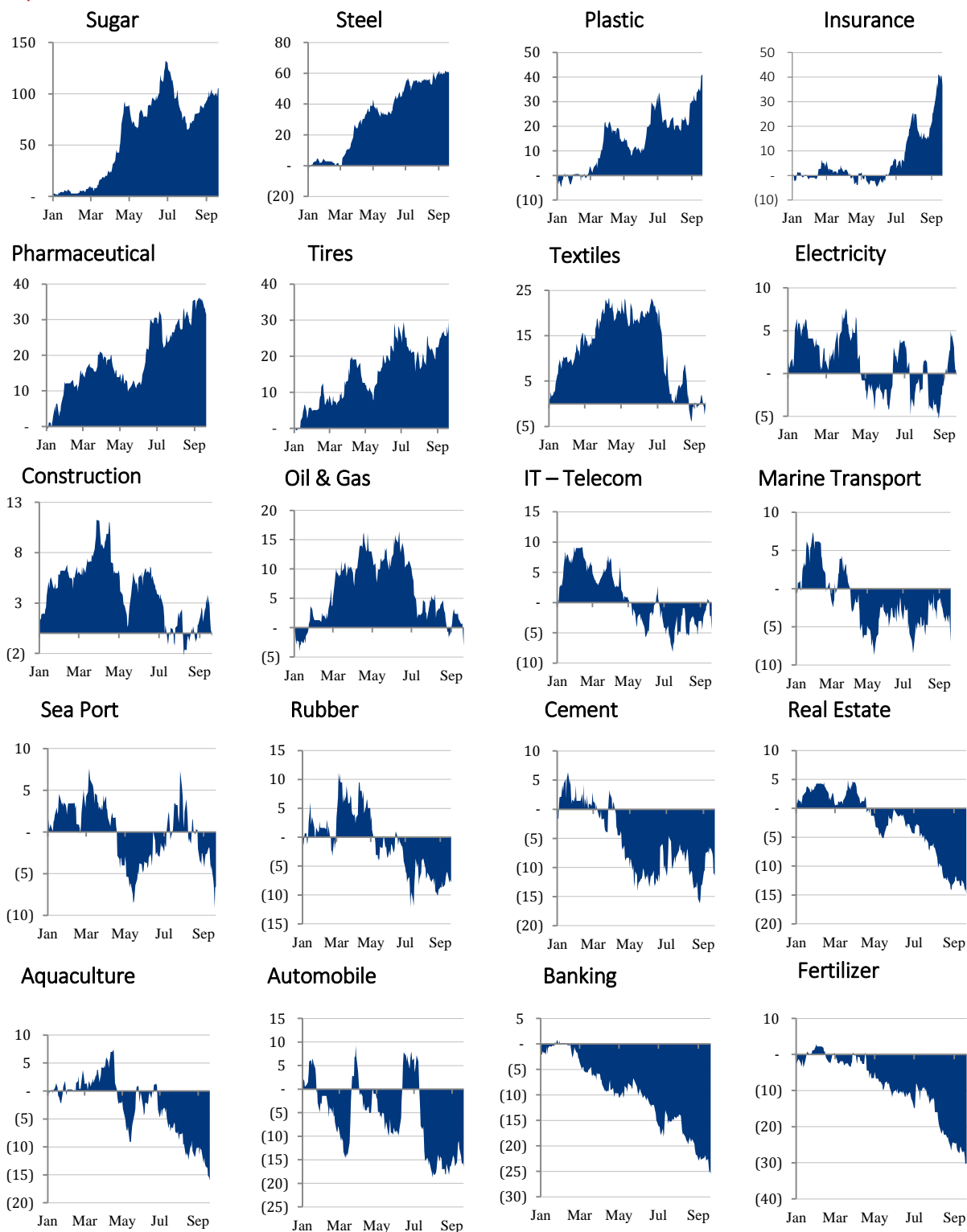
## TOP 5 VOLUME LEADERS ON HNX

Ticker	Average volume
HUT	2,312,316
VCG	2,270,031
PVS	2,012,530
KVC	753,001
VGS	701,151

Source: BSC Research



## Comparison of sector and VN-Index 9M2016



**Sectors having good stock price growth in 9M2016 are: Sugar, Steel, Plastic, Insurance, Pharmaceutical, and Tire.** These have some abnormal supporting information, such as the strong rebound of sugar price, the new tariff on imported steel; the expectation from Thailand investment towards M&A deals with plastic companies; information about the foreign partner and the SCIC divestment for insurance companies; and the Amendment in Pharmacy Law (strengthen the non-tariff barriers). The sugar sector had correction in the 3<sup>rd</sup> quarter, after a strong gain in 1H2016, due to some concerns over the TPP results amid the developments of USA presidential campaigns. On the other hand, Insurance had strong growth in Quarter 3, after 1H2016 going sideways.

**Textile, Electricity, Construction, Oil & Gas, and Technology had sideways movement compared to the index.** The textile sector plummeted after a good start in 1H2016, under the concerns for TPP to be approved. Others had divergence as we expected. In particular, the strong firms with good financial health and favorable business conditions are still growing, while weaker stocks continued to decline, such as the hydro versus thermal power.

**Declining sectors in 3Q2016: Bank, fertilizer and automobile.** Fertilizers were still under pressure from oversupply and weak demand due to the impact of the El Nino phenomenon. The automobile was also under the influence of over supply from Chinese imported trucks from 2015 year end, which had downward pressure on selling price.

**Sectors that are at the bottom of difficulty** such as Marine Transportation, rubber, Aquaculture continues to struggle in the third quarter of 2016. We are still waiting for signals of rebound from these sectors.

## 3Q2016 Outlook

### Real Estate [OUTPERFORM]

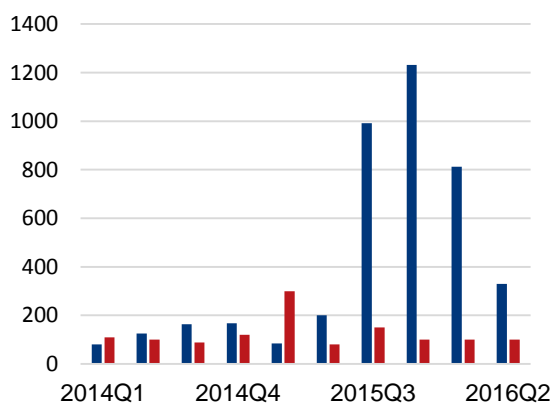
- Credit loans of the real estate is still growing faster than the average.
- Supply continues to rise, especially in apartment segment.
- 2016Q4 and 2017 outlooks will be positive due to the delay in revenue recognition
- 2016H1 revenue and profit are grown
- Several notable shares: VIC, KDH, DXG, SCR and ITC

### 9M2016 review

**Credit loans of the real estate is still growing:** As of 2016Q2, the outstanding loans of the real estate sector reached nearly VND 416.000 billion (+5.76% YTD), of which approximately VND 171.600 billion is in HCMC. Credit growth rate of the real estate is faster than the average, which indicates a strong individual's demand for housing. Bank is targeting to individual having real housing demand to avoid high bad debt.

**Supply continues to rise:** In apartments for sale segment, total primary supplies in HCMC and Hanoi are 40,100 units and 17 370 units in 2016Q2, up 54% yoy and 34% yoy, respectively. Some major projects are expected to be launched in the near future are Rive rCity (4800 units), Venice City (3100 units) and Riverside Sunrise (2200 units). In townhouse / villa segment, primary supplies in HCMC and Hanoi are 3.200 units (+ 180% yoy) and 2.396 units (+ 133% yoy) in 2016Q2. Supply from this segment is continually expected to be high as several large projects such as Long Truong Villa (135 units), Lucasta (160 units) and Him Lam Phu Dong (207 units) will be launched. HCMC's absorption rate is down from 35% in 2014Q2 to 25% in 2016Q2.

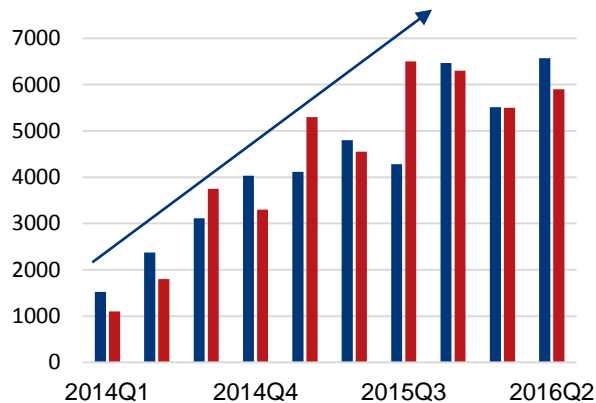
Primary stock of grade A



Source: Savills

■ HCMC ■ HN

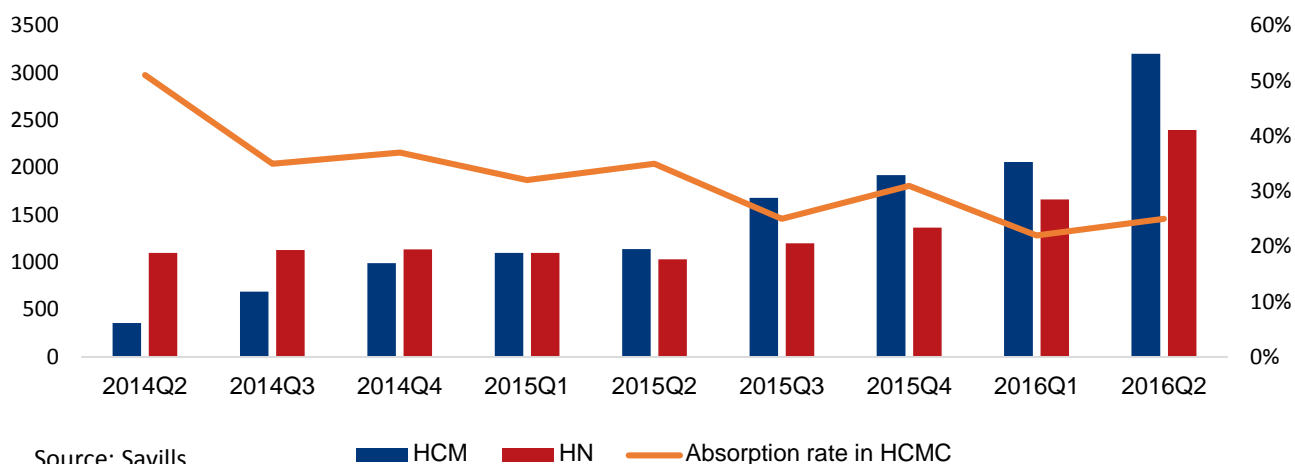
Primary stock of grade B & C



Source: Savills

■ HCMC ■ HN

## Primary stock of villa &amp; townhouse and Absorption rate



**2016Q4 and 2017 outlooks will be positive:** Due to the delay in revenue recognition, 2016Q4 and 2017 earnings of real estate companies are forecasted positive because of historical volume transaction. Many large projects will be completed in 2017 - 2018, hence positive business result will also be reflected in financial statements during this period.

**2016H1 revenue and profit are grown:** In the first 6 months of 2016, the real estate companies generated \$1.57 billion in revenue (+55% yoy) and VND 3.212 billion (+27% yoy). 10/62 losers made a net loss of VND 80.7 billion. Several companies announced the impressive profits in 2016H1 are VIC 2016 (VND 1.544 billion), KDH (VND 200 billion) and SJS (VND 163 billion).

Ticker	Rev 2015H1	PAT 2015H1	Rev 2016H1	PAT 2016H1	% change Rev.	% change PAT	Gross margin	Customer advance	Inventories	Customer advance / Inventory
VIC	12.426	717	24.005	1.544	93%	115%	30%	28.015	33.629	83%
DXG	384	153	1.087	149	183%	-3%	32%	416	939	44%
KDH	480	102	1.251	201	161%	98%	38%	480	5976	8.3%

Source: Companies' financial reports, BSC Research

## Investment Recommendation - Outperform

We still maintain a **Outperform** assessment to the real estate industry due to business earnings will continually grow thanks to (1) current high volume transactions and (2) the delay in revenue recognition. 2016H1 earnings of real estate companies also climbed as our forecast 2016Q3 outlook report.

Several notable shares:

- *Growing in revenue and profit due to good sales:* KDH, VIC, DXG and HDG. Their products usually have high quality and are launched successfully. They also own huge lands and currently deploy many projects.
- *Having large discount than book value:* ITC, SCR. Although these companies also own projects in good position, political entanglements caused deferential progress, which led to large inventories resulting in high discount to book value. Nowadays, after completing legal formalities, they are now focusing on building and launching their current projects to clear inventories.

### VIC – Tracking

2016 consolidated net income is expected to be VND 4.000 billion (+ 167% yoy), EPS = VND 1.161. Current prospective projects are Central Park, Park Hill (Times City), Nguyen Chi Thanh and Vinpearl Villas. As for the retail segment, losses from this segment will probably not increase while VIC are now addressing to enhance the operational efficiency of the current stores instead to add new ones. VIC is being traded at VND 44.700 VND / share, PE fw = 38.5x.

### ITC –BUY – target price VND 15.443 / share – Upside 66%

We forecast that earnings of ITC should improve next year thanks to a positive deployment in Intresco Plaza and other smaller project transfers. According to the business plan, 2016 profit after tax is VND 20 billion (+ 170% yoy). Currently, ITC is traded at VND 11.000 / share, PB = 0.51x, lower than the general market.

### HDG – Tracking

We believe that the HDG is attractive investment opportunity in 2017 thanks mainly to the deployment of Z756 project. In addition, HDG started consolidating earnings of hydroelectric segment after increasing its ownership in Za Hung Hydropower JSC to 51%. Stable cash flow from hydropower will continually rise in the coming years as capacity of hydropower facilities will boost in 2018. Besides, construction segment remained stable with gross margin of 10%.

### SCR – Tracking

Business results of SCR will improve during 2017 – 2018 due to the deployment of current projects like Jamona City, Jamona Golden Silk. 2016 expected PAT is VND 176 billion (-11% yoy). Currently, SCR is traded at VND 9.800 / share, PB = 0.7x, lower than the general market.

Ticker	Rev 2016E	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Price on 23 Sep, 2016	Target price	Download report
VIC	53,000	4,100	2,110	26.00	2.03	23.50%	44,350	53,000	<a href="#">Link</a>
DXG	2,148	661	2,300	8.22	1.10	28.20%	14,800	22,800	<a href="#">Link</a>
KDH	1,765	290	2,305	9.37	1.08	11.30%	27,100	25,100	<a href="#">Link</a>
ITC (*)	450	20	289	31.8	0.43	1.3%	11,000	14,443	<a href="#">Link</a>
SCR (*)	1,448	176	810	12.2	0.7	5.5%	9,800		

(\*) Companies' plan

Source: BSC Research

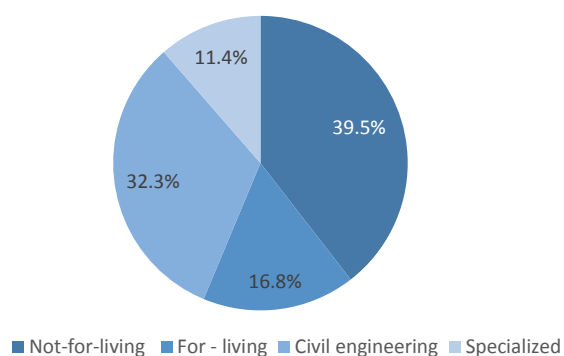
## Construction [OUTPERFORM]

- The total production value of construction sector reached at VND 456 trillion (+8.7%YoY).
- The 2Q2016 business results of construction companies were positive, there were 77/108 firms recognizing growth.
- The acceleration in disbursement of foreign borrowed fund for transportation infrastructure within the last months.
- The revised Circular 06 has loosened cash flows in real estate market.
- The construction sector is expected to increase steadily in the last quarter of 2016.

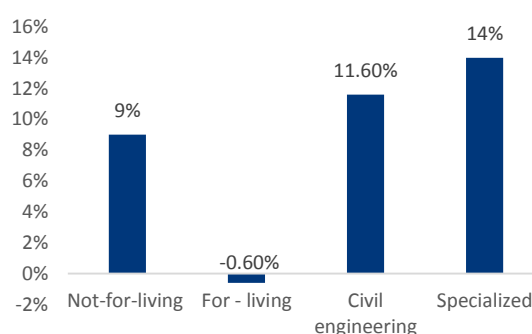
## Review 9M2016

**The total construction value grew steadily: for the first half of 2016.** The total construction value reached at VND 456 trillion at the current price, equivalent to VND 361 trillion at the 2010 comparable price (+8.7%YoY). Almost all construction segments recognized growth except the slight decline in not-for-living construction segment (-0.6%YoY).

Construction sector 1H2016



Growth by segments



Source: General Statistics Office

**The 1H2016 business results were positive for construction companies as the recovery of real estate market.** For the first half of 2016, the total revenue of construction companies reached VND 41,479bn (+14.6%YoY), the total profit reached at VND 2,012bn (+9.7%YoY). The growth took place over on a large scale with 77/108 firms recognizing higher profit compared the same period last year. The positive business result of construction sector in the first half primarily due to the recovery of real estate market. In which, the total real estate inventory value fell sharply to VND 37,489bn (updated in June 30th 2016), which decreased by 26.33% compared with the figure of 2015 December.

6T2016	Rev (VND bn)	% yoy	PAT	%yoy	2015 Div paid 2016	Note
CTD	8,145	+86.2%	595	+176.5%	55% cash	The GPM increased from 7.7% to 9% as there were more D&B (general contractor model) projects.
HBC	4,061	+74%	137	+205%	15% stock	The GPM increased rapidly from 5.9% to 9.8% as the industry infrastructure segment (GPM =50%) started contributing VND 211bn to the total revenue.
VCG	3,246	+0.1%	274	20.6%	7% cash	The GPM rose from 16% to 17.5%.

FCN	644	+18.6%	45.3	-14.8%	10% cash	The PAT decrease since the financial expense rose by 53% and the administrative expenses went up by 44.1%.
HUT	1,186	+160.6%	159.4	+560%	12% cash	The revenue from real estate segment (GPM=36.3%) rocketed up to VND 976bn compared with 4.8bn of the last year.
CTI	562	+64.77%	55	+100%	16% cash	Began to recognize toll revenue from QL91A tollbooth.

Source: financial reports & BSC Research.

**The Resolution 60/NQ-CP on accelerating foreign loan disbursement has positive impact on transportation infrastructure segment in the last months of 2016.** Whereby, disbursement schedules of ODA and foreign concessional loans, with 35%-40% on transportation, will be adjusted according to the actual construction progress instead of being limited by the 2016 foreign capital plan, which had been previously approved by the congress. In the first six months of 2016, the ODA and concessional loans signed reached VND 2.56bn (+61%YoY), but the total disbursement was approximately the 2015 figure with only VND 1.85bn due to the restriction from congress. Thus, we forecasts the transportation infrastructure segment will significantly grow in the last months.

**The revised 06 Circular has loosened cash flows in real estate market.** Whereby, the coefficient for real estate loans will increase from 150% to 200% instead of 250% as drafted; the schedule for reducing the maximum rate of short-term capital for long-term loans has been adjusted from 60% (end of 2016) to 50% (2017) and 40% (2018). We also notice that the impact of real estate market on construction sector normally takes about 3-6 months lagged. Therefore, in case the real estate slows down as the Circular 06 becomes valid on January 1<sup>st</sup> 2017, the effect on construction sector will take place in the second half of 2017.

**The construction sector is expected to increase steadily in the last quarter of 2016.** The driving force is from the increase in construction demand for new real estate projects. Until the end of 2Q2016, the outstanding loans for new residential area construction rose by 25.62%YoY to VND 88,376 bn. Besides, the decrease in interest rate by 0.3%-0.5% at the end of September helps firms with high leverage reduce the interest burden.

## Investment Recommendation – Outperform

We maintain the view **OUTPERFORM** for construction sector with the fact that leading companies already had large backlogs, which is a guarantee for their performance lasts for long time. Moreover, infrastructure companies will benefit from positive policies from the government. The construction sector has median P/E and P/B are 8.9 and 1.1 in comparison with P/E=16.53 and P/B=2.22 of Vietnam market

### CTD – Tracking

Till the end of 2nd quarter, CTD achieved 49.4% 74% of 2016 plan revenue PAT respectively. As we discussed with CTD, the performance kept positive in the third quarter. In addition, there were huge number of new projects being signed recently including D' Capitale Tran Duy Hung (VND 4,000bn), Diamond Lotus (VND 1,300bn), Sai Gon Service Apartments project (VND 1,368bn)... Therefore, we forecast CTD will achieve the plan revenue (VND 16,500 bn) and exceed their plan PAT (VND 1,000bn) in this year. EPS 2016 = 20,326; P/E forward = 12.1.

### HBC – Tracking

We forecast HBC continues to grow strongly at the end of 2016 and the first half of 2017 based on their large backlog, which reached at new record high of VND 19,000 bn. At the end of 2Q2016, HBC achieved 56% of plan

revenue and 55% plan PAT. According to the company, it continue to grow rapidly in the third quarter with the expected revenue and PAT of VND 2,500bn and 80bn respectively. Besides, there were VND 40bn from industrial infrastructure segment is expected to be recognized within this year. We forecast in 2016, HBC will recorded the revenue of VND 9,000bn and the PAT of VND 290 bn. EPS 2016 = VND 3,072, P/E forward = 9.96.

**FCN: Buy – Target price: VND 23,493 per share. Upside 9.7%.**

In this year, besides the traditional foundation construction and soft ground handling, FCN expects to recognize VND 100bn revenue from underground construction segment (Metro Ben Thanh – Suoi Tien) and VND 400bn revenue from transportation infrastructure construction (BOT Phu Ly). With the backlog of VND 2,300bn (end of August) and the characteristic of recognizing large project revenue at the end of a year, we expects 2016 revenue of FCN would reach VND2,342.7bn (+41.1%YoY), PAT of the parent company would reach VND 157bn (+10.4%YoY). EPS =3,290. P/E forward = 6.5.

**CTI: Hold – Target price: VND 31,800 per share.**

CTI invests in and explores BOT projects in Dong Nai and other cities in South East area. The company is now implementing project 319 and Ho Chi Minh – Long Thanh highway (VND 700bn), Tam Hoa social housing project (VND 325bn). CTI also owns 3 large quarries in Dong Nai with our estimated remaining value of VND 4,709bn. In the fourth quarter, the QL 91B tollbooth is expected to be put into operation and contribute more VND 22bn into the total revenue.

Ticker	2016F Rev (VND bn)	2016F PAT (VND bn)	2016F EPS	2016F P/E	2016F P/B	2016F ROE	2016 Dividend	Closed price 23/09/2016	Target price
CTD	16,500	1,000	20,326	12.1	3.3	28.3%	30% tiền	242,000	n/a
HBC	9,000	290	3,072	9.96	2.38	22.4%	15% tiền	29,000	n/a
FCN	2,342	157	3,290	6.5	1.3	20.9%	10% tiền	21,400	23,493
CTI	1,405	107	2,521	11.1	1.44	14.4%	16% tiền	31,300	31,800

Source: BSC Research



## Ceremic [OUTPERFORM]

- Valuations remain attractive with a P/E ratio of 6.8x
- Selling prices of ceramic tiles in Q3 decreased slightly by 2-3% compared to Q2/2016
- Earnings of ceramic listed firms in 6M2016 were generally positive
- In Q4, the ceramic tiles price is forecast to rise slightly by 3-5% compared to Q3

### 9M2016 Review

**Selling prices of ceramic tiles in Q3 decreased slightly by 2-3% compared to Q2/2016.** Supply of ceramic tiles in Q3/2016 continued to rise due to the capacity expansion of many companies from the end of 2015. Meanwhile, demand for tiles in Q3 increased but not absorbed the supply in the market, creating a slight downward pressure on ceramic price.

**Earnings of ceramic listed firms in 6M2016 were generally positive:** Except for CYC, TTC and TCR, other listed companies had good sales growth in the first 6 months of the year, notably CVT, VIT, VHL and VTA with an increase by 42.4%, 27.9%, 20.7% and 23.8% respectively. Excluding VIT and TLT, other businesses improved gross margin significantly compared to the same period last year. The net profit of the entire enterprises therefore grew well.

Ticker	Rev 6M2016	% yoy	GPM 6M2016	GPM 6M2015	EAT 6M2016	%yoy	EPS trailing 12M	P/E	P/B	2016 Plan		
										Div 2015	Rev 2016	EBT 2016
VIT	389.2	27.9%	13.4%	16.7%	18.7	18.4%	2,680	11.3	2.4	15% cash	1020	70.5
CVT	449.7	42.4%	24.8%	17.8%	59.0	116.4%	4,930	9.6	3.1	25% cash	1000	90
TLT	206.0	+4.0%	18.7%	20.02%	17.7	+5.4%	4,854	4.26	12.2	0	476	43
TTC	184.7	-2.7%	16.6%	13.5%	13.0	33.5%	4,200	5.5	1.4	10% cash	n/a	15
TCR	808.3	-19.5%	21.5%	14.8%	23.9	n/a	1,940	4.0	0.5	n/a	1490	60.1
VHL	872.5	20.7%	22.3%	17.2%	57.4	17.4%	6,820	7.3	1.6	20% cash	1683	138.2
VTA	177.0	23.8%	12.3%	12.5%	8.2	44.3%	1,680	4.3	1.5			

Source: Financial Reports, BSC Research

**In Q4, the ceramic tiles price is forecasted to rise slightly by 3-5% compared to Q3:** Q4 is the peak quarter of finishing construction materials, including ceramic tiles. Demand for ceramic tiles from the building and civil is forecasted to be high as the completion and delivery of apartment buildings & housing are accelerated, as well as demand for home improvement before the New Year in residential will increase.

### Investment Recommendation - Outperform

We continue to maintain our **OUTPERFORM** assessment as in the Ceramic Tile Sector report in the early 2016 because the growth in real estate and construction markets maintain stable, while ceramic tiles demand is forecasted to grow sharply in the last quarter of the year.

We recommend to BUY the VGC, TTC, TLT stocks and TRACKING with CVT, VIT, TCR shares.

#### VGC – BUY- VND 19,696 per share

VGC is the only listed enterprise manufacturing various construction materials (construction glass, Fired tiles and bricks, ceramic tiles, sanitary ware - shower faucet) as well as owning large land bank in real estate – industry zones. With strengths in market share (40% market share of glass, 50% market shares of bricks and tiles, 6.6% market share in Industrial Zone), superior product quality (for example: energy-saving glass, super white glass,

clinker and cotto tiles, ceramic tiles, granite, ...), and benefit from the stable growth in real estate - Construction market, earnings of VGC in 9M2016 were relatively positive, reaching VND 599.2 bil (87% of the 2016 plan).

In the last quarter, VGC is expected to recognize some real estate projects that will be handed over, and there will be strong revenue growth in VGC's building materials segment when demand increases in the year-end. Therefore, we expect VGC's EAT will reach VND 448 billion in 2016 (+ 36.4% yoy), equivalent to EPS 2016 of VND 1,694 per share and diluted EPS 2016 of VND 1,459 per share. With a closing price of VND 15,200 per share on 23<sup>rd</sup> Sep, P/E forward is 8.99x, which is relatively attractive level for the industry leader as VGC.

**Planning to raise capital, decrease state ownership and switch stock exchange:** VGC plans to continue to issue 43 million shares in early 2017 to reduce the percentage of state ownership from 78.8% recently to 69.1%. The plan to increase chartered capital to VND 4,700 billion could soon be completed in 2017 instead of 2021 as previously planned. The switch from UpCoM up to HNX exchange will be done before the release of shares.

#### **TTC - BUY – VND 30,284 per share**

TTC focus on manufacturing affordable ceramic tiles products which having stable consumption and reduce costs such as interest expense, depreciation and fuel costs. Those help the company's earning grow quite well even though the revenue fell slightly. In the last quarter of 2016, the increase in ceramic tiles demand will continue to improve TTC's business results. We expect that in 2016, the revenues will reach VND 364.5 billion, EAT will be VND 25.7 billion, equivalent to 2016 EPS of VND 4,327 per share. On 23<sup>rd</sup> Sep, TTC stocks closed at a price of VND 22,900 per share, equivalent to trailing PE of 5.45x and fw P/E of 5.29x, valuation is relatively attractive.

#### **TLT – BUY- VND 31,074 per share**

TLT's main product are the wall tiles (90%) and enamelled tiles (10%). The business activities in TLT were relatively stable in 2016. In Q3/2016, the average consumption reached 600,000 m<sup>2</sup> per month (570 thousand m<sup>2</sup> per month in previous quarter), selling prices and input costs fell slightly by 3-4%. We estimate that TLT will complete the 2016 planned EBT of VND 43 billion, equivalent to EAT of VND 36.2 billion, EPS 2016 of VND 5,179 per share. With a closing price of VND 20,700 per share on 23<sup>rd</sup> Sep, trailing PE is 4.16x and fw PE is 3.99x, which are relatively attractive levels.

The only minus point is that TLT still has accumulated loss (VND - 46.3 billion) as of 30<sup>th</sup> June 2016.

#### **CVT – HOLD - VND 49,217 per share**

After putting the CMC 2-2 plant into operation in 2016Q1, increased by 50% capacity to 15 million m<sup>2</sup> per year. In Q3, sales volume was relatively good, average of 1.3 million m<sup>2</sup> per month, up 18% from the previous quarter. The rate of type 1 was at a high level, especially in plant 1 from 79% in 2015 to 92% in this year. According to our estimates, in 2016, CVT's EAT is expected to reach about VND 135 billion, equivalent to EPS of VND 7,031 per share, trailing P/E of 9.61x and P/E fw of 6.74x (according to the closing price of VND 47,400 per share on 23<sup>rd</sup> Sep 2016).

Regarding new investment plan, CVT plan to invest a glazed tiles factory (plastic pressed technology, not been produced in Vietnam), capacity of 15 million units per year (total investment of VND 300-500 billion depending on the technology). The project is expected to start in Oct-Nov 2016 and funded by retained earnings (2016 dividend plan is 50%, with 10% cash and 40% stock). The Micro crystal tiles production plan in the second half of this year postponed.

#### **VIT - TRACKING**

After the first half of 2016 putting into operation the new plant in Thaibinh Province, the business activities were currently stable. In Q3, the average consumption reached 650-700 thousand m<sup>2</sup> per month, (the average

volume in Q2 was 600 thousand m2 per month), the quality and type 1 products was at high rates (94% in Thai Binh, 90% in Tien Son) . VIT has switched to use CNG gas in Tien Son factory since Aug 2016 to improve product quality, the CNG price and coal price currently were equivalent.

The quarter 4 normally is the peak period of VIT. We expect that the revenues will reach about VND 919.7 billion, profit after tax will be about VND 52 billion, equivalent to EPS 2016 of VND 3,400 per share. With closing price of VND 30,300 per share on 23<sup>rd</sup> Sep, PE trailing is 11.3x and PE fw is 8.9x, relatively balanced.

Ticker	Rev	EAT	EPS	P/E	P/B	ROE	Div 2015	Price on	Target	Link
<b>CVT</b>	1,230	135	7,031	6.74	3.1	46.5%	Cash Div 5%;	47,400	49,217	
<b>VIT</b>	919.7	52	3400	8.90	2.4	26.8%	Cash Div 12%;	30,300	25,642	
<b>TTC</b>	364.5	25.7	4,327	5.29	1.4	26.2%	Cash Div 8%	22,900	30,284	
<b>VGC</b>	8,250	448	1,694	8.99	1.3	13.6%	Cash div 4%	15,200	19,696	
<b>TLT</b>	476	36.2	5,179	3.99	12.2	473.8%	0 (due to	20,700	31,074	

Source: Financial Reports, BSC Research

## Technology – Telecommunications [OUTPERFORM]

- Growth from the State customer will turn back to positive
- Telecommunications sector still has growth potential
- Outsourcing in Viet Nam is still attractive
- Attractive valuation with P/E ratio 9.2x

### 9M2016 Review

**Growth from the State customer will turn back actively:** After Tan Son Nhat and Noi Bai airport attacked by hacker, the Government has strengthened of IT applications in management and increased the security for the entire system. Resolution No.36a/NQ-CP on e-Government will continue to be implemented, the Government Office is developing a plan to adopt safety network information system, continue to increase the use of digital signatures and encryption solutions to enhance the security of the national cyberspace.

**The telecommunications sector still has growth potential:** According to Internet World Stats, the internet penetration rate in Viet Nam as of June 2016 reach 51.5%, higher than the Asian average (44.2%) but still lower compared to other developed region such as Europe (73.9%) and North America (89%). Main user of internet is group of under 35 years old and this group currently account for the majority of Viet Nam population.

**Outsourcing in Viet Nam is still attractive:** According to 2016 Global Services Location Index (GSLI) report, Viet Nam ranked 11th among the top 55 countries for outsourcing services, increase one rank compare to 2014, based on the assessment of (1) the degree of financial attractiveness, (2) business environment, and (3) the level of manpower. Japan remains the major outsourcing market for Viet Nam corporate, and a number of leading firms are looking to improve capacity to penetrate deeper into the outsourcing services to get greater added value.

**Update business results of enterprise:** Business results of enterprise generally have good growth over the same period in 2015, excluding FPT due to the influence of integration/IT (in the first 6M almost no public financing projects bidding), increase depreciation cost of the Telecommunications sector and decrease business efficiency of Distribution segment, business results for Q3 of FPT is expected still not satisfactory.

	Rev 6M2016	Rev 6M2015	+yoy	PAT 6M2016	PAT 6M2015	+yoy
FPT	17,425.04	17,970.02	-3.03%	1,076.70	1,137.86	-5.37%
ELC	359.71	258.75	39.02%	30.08	7.83	283.96%
CMT	196.38	127.19	54.40%	1.63	3.66	-55.55%
	Rev Q1/2016	Rev Q1/2015	+yoy	PAT Q1/2016	PAT Q1/2015	+yoy

CMG	987.31	756.78	30.46%	28.24	19.41	45.48%
ITD	101.75	55.60	82.99%	7.04	2.31	204.20%

*Source: Financial Report, Fiscal year of ITD and CMG from 01/04 – 31/03*

Business results of Technology – Telecommunications enterprises will continue to growth in 4Q2016 because in the last quarter, integration projects, ITS, IT ... will be accelerate the acceptance and recognition.

### Investment Recommendation - Outperform

We still remain **Outperform** outlook for IT – Telecommunications as previous reports, the demand from the state customer is expected to improve as the situation is better than the first half of 2016; besides, the Internet and Outsourcing markets still have many growth potentials.

#### FPT – Buy – Target price VND 51,000 ([link](#))

PAT 2016 is estimated to reach VND 2,678 billion (+9.85% yoy), PAT attributable to shareholders of parent company reach VND 2,121 billion, EPS 2016 = VND 4,618 (excluding the additional profit from the sale of Retail and Distribution Segment)

**Business result for 8M2016 has not been satisfactory:** Net revenue for 8M2016 reached VND 24,544 billion (-6%yoy), PAT attributable to shareholders of parent company was VND 1,119 billion (-2% yoy), EPS 8M = VND 2,441 (-2% yoy). FPT currently has over 1.5 million subscribers, in which 2/3 is fiber cable and a third is copper cable. Fiber changing plan will continue to affect the profit margin of FPT Telecom because FPT still continue the plan, the changing cost is divided into two sections, one recorded in fixed asset and depreciation from 5 to 7 years and one recorded in materials that will be allocated all in the year (this section account for nearly 50% of total investment). In the first half of the year, FPT has completed phase 1 of fiber optic swap in five provinces: Hai Phong, Da Nang, Dong Nai, Binh Duong and Can Tho, total cost of about VND 200 billion, up to about 100 thousand subscribers. Fiber optic swap in other provinces is continue to be deployed.

The divestment of Retail Distribution Segment has not been completed; it may be extended to the beginning of 2017. However, this will create short-term expectation for FPT stocks.

#### CMG – Buy – Target price VND 18,900 ([link](#))

BSC estimated revenue for 2016 of CMG to reach VND 4,200 billion, 2016 consolidated PAT of VND 171 billion, EPS 2016 = VND 1,808. We maintain buy recommendation for medium and long-term of CMG stock, target price of VND 18,900.

**Telecommunications Segment.** Data transfer service and FTTx for corporates has high growth. Notably, in September, APG undersea cable system went into operation. APG system is depreciated in 15 years, it is expected to help the company strengthening their competitiveness and creating initiative in their business activities.

In addition, after the completion of the APG system, the company also plans to invest the north – south telecom axis in year end with investment cost of VND 200 billion, construction period is one year, depreciation period will be 10 years.

**Software Segment.** The number of signed contracts grow strongly, in which backlog for 2016 has reached VND 200 billion, ensuring this year sales plan of the company (VND 177 billion).

**Integration System Segment.** Currently, revenue from hardware remain the major contribution to the revenue of IS Segment. However, pre-tax profit margin of the hardware is relatively low (5%) compared to software of 18%, besides, the hardware demand is showing sign of saturation. Thus the main direction of the company will be the development of services and solutions. Until now, backlog currently reach about VND 1,000 billion.

#### ITD – Buy – Target price VND 25,500 ([link](#))

Fiscal year 2016 – 2017, ITD estimated consolidated net revenue of VND 740 billion, consolidated PAT of parent company's shareholders is VND 47 billion (equivalent to the result of 2015), EPS 2016 = VND 2,454.

We estimate the consolidated PAT of parent company's shareholders 2016/2017 reached VND 51.60 billion, EPS 2016 = VND 2,694. On 04/10/2016, ITD shares are traded with VND 21,500, PE FW = 7.98x.

**Update the ITS projects:** The growth motivation of ITD will continue come from ITS segment, the other segments remaining stable. This year, ITD has the contract with Tasco for the design, supply and installation of equipment to deploy automated fare collection systems and the vehicle weight control for 19 stations on National Road 1 and Ho Chi Minh route through Tay Nguyen, the total revenue of VND 195 bil, gross margin of 22 – 23%. The Company expected revenue of VND 195 billion to be recorded in 2016, or maybe 50% in 2016 and 50% in 2017, due to the ground has not been handed over for setting up equipment (it often takes 1-2 months for setting up). Currently the total value of signed contracts and implementing is VND 600 billion, in which VND 400 billion will be recorded in 2016.

Ticker	Rev 2016 (bil dong)	PAT 2016 (bil dong)	EPS 2016	PE 2016	PB 2016	ROE 2016	Div yield 2016	Price 23/09/16	Target Price
FPT	42,514	2,678	4,618	10.26	2.03	21.57%	30%	47,400	51,000
CMG	4,209	171	1,808	9.02	1.12	17.82%	N/A	16,300	18,900
ITD	740	52	2,694	8.46	1.91	23.09%	12%	22,800	25,500

Source: BSC forecast

## Seaport [OUTPERFORM]

- Container throughput increased by 19% in 8M2016.
- 6M2016 business results of seaport firms in Hai Phong witness slight increase while warehousing in the South had fairly growth.
- Fourth quarter will be peak season of seaport firms, noticed warehousing and ICD firms in the South.

## 9M2016 Review

**Cargo throughout kept its high growth of 10% in 8M2016.** Total cargo throughout reached 306 mil ton (+10%yoy) in the first 8M2016, in which container throughput witness dramatically surge of 19% yoy standing at 8.8 mil Teus. Notably, exported container increased by 16% which was higher than it was in the same period in 2015 of about 12%, thanks to increased in signed FDI.

**6M2016 business results.** As we forecasted in Q3 -2016 sector outlook, most of seaport firms in the North recorded slight increase in revenue over the same period in 2015 due to long Tet holiday and decline in reefer volume. On the other hand, warehousing in the South such as TMS, GMD benefited from increasing in cargo throughout Cai Mep, Cat Lai and infrastructure improvement.

### Q2-2016 business performance.

	Rev		GPM		NPAT		P/E	P/B
	Q2-2016	% yoy	Q2-2016	Q2-2015	Q2-2016	% yoy		
GMD	1,799	4%	29%	27%	188.03	-8%	13.56	1.00
PHP	1,179	2%	43%	36%	268.32	38%	18.06	1.70
VSC	503	11%	36%	39%	124.57	-8%	10.75	2.60
TCL	376	-7%	18%	21%	43.26	-7%	7.95	1.20
DVP	310	-4%	53%	47%	143.51	8%	10.33	3.40
TMS	277	16%	28%	25%	82.43	3%	12.22	1.60
PDN	186	21%	32%	35%	30.81	18%	11.46	2.10
DXP	69	-27%	36%	35%	25.40	5%	6.99	1.60
HAH	230	-23%	40%	35%	72.00	-9%	5.88	1.63
CLL	147	16%	42%	43%	44.72	26%	9.53	1.65
Average			36%	34%			11.42	1.85

*Source: Companies financial reports.*

**Hanjin bankruptcy will have modest impact on Vietnamese seaport firms.** Hanjin transported cargo into Vietnam through Cat Lai, Tan Cang Hiep Phuoc and VICT with about 10-12 trips per month. In Hai Phong, Hanjin recently had no ship which transport directly but only transiting with small volume. In reality, Hanjin accounted for small share in Hai Phong's seaport firms (VSC 3-5%), DVP (5%). Therefore, we believe that Hanjin bankruptcy will have small impact on seaport and warehousing firms in Vietnam.

**Fourth quarter will be the peak season of seaport firms.** We believe that total cargo throughout Hai Phong region will reach about 13-14%, benefiting ports located at Dinh Vu peninsula such as Tan Vu (PHP), Vip-green (VSC), Nam Hai Dinh Vu (GMD). Investors please take notice in 2016, especially in Q3 and Q4, seaport



firms in Hai Phong will no longer record huge profit from reefer as they did in 2015, resulting in lower revenue and GPM. Besides, investors might be interested in warehousing and ICD in inner Ho Chi Minh city (TMS, SWC, TCL, STG, GMD) since they are forecasted to be beneficial from improvement of roads, bridges and increase of cargo throughout seaport system.

### Investment recommendation - Outperform

Thanks to high growth of cargo through out, especially container one, we remain out **Outperform** assessment to Seaport sector. Because of highly defensive (stable business performance, low beta, high dividend ratio), peak revenue in the last 2 quarters, seaport shares are forecasted to remain the capital flow destination. When it comes to recommended stocks, we remain recommend BUY with VSC, HAH and HOLD with PSP, CDN, PHP and GMD.

#### **GMD- HOLD- Target price 30.503 dong/share.**

Recently, GMD was still trading around our recommended price reported in Q2 sector outlook and GMD updated report. However, some points investors should take notice: (1) in our model, we did not factor profit from selling 15% of Gemadept tower (will force to sell at the end of second quarter 2017, profiting about 100 bil). (2) Cold storage in Hau Giang is projected to be into operation in fourth quarter 2016 with fulfilled percentage of 30%. (3) GMD will invest about 360 bil ( equal to 60% ownership) to found Nam Dinh Vu JSC with core businesses: coastal freight and ocean, active online support services for railway transport and road transport, cargo handling, road freight transport, warehousing and storage of goods, service activities direct support services for water transport. If passed, this will be main driver for GMD to grow fast in the future.

#### **VSC- BUY-Target price 86,206 dong/share.**

Until now, QC4 in Vip-Green port have not been assembled, so the second berth has not been into operation yet. VSC projected to put this berth into operation at the middle of Oct 2016, making VSC's revenue and profit to be boosted in Q4-2016. When it comes to Green Port, VSC is planning to build a DC to take advantage of being a connection point of 3 mean of transportation which are road, rail and waterway. For more details, investors please refer to VSC updated report.

#### **HAH-BUY- Target price 47,419 dong/share.**

HAH is believed to be the most efficient seaport firm in Hai Phong with high profitability ratios. The transportation services increased 24% reaching 102 bil in 6M2016, offsetting the decline of port cargo handling. In last quarters 2016, we believe that transportation segment will keep its strong growth thanks to low oil price, high demand on the route HCM-HN. On the other hand, port segment will witness decline over the same period 2015 due to no longer recording reefer and uncompetitive berth location.



Ticker	Rev 2016(bil)	NPAT 2016 (VND Bil)	EPS F 2016	P/E F 2016	P/B F 2016	ROE F 2016	Div 2016	Price as on 23/09/2016	Target price	increase/ Decrease
GMD	3,954	583	2,858	9.93	1.09	10.64%	Cash:20%	28.400	32,800	13.40%
PHP	2,531	741	1,385	13.43	1.54	12%	Cash:3%	18.600	22,980	9%
VSC	1,391	381	7,005	10.42	1.82	14.8%	Cash:10%	73.000	86,208	33%
HAH	509	113	4,564	8.72	1.76	21%	Cash: 30%	39.800	47,419	17.7%
PSP	N/A	N/A	N/A	N/A	N/A	N/A	Cash: 5%	10.800	N/A	N/A
CDN	597	177	1,575	15.87	2.21	14%	Cash: 10%	25.000	18,8001	N/A

<sup>1</sup> Target price includes the offering of 20 Mil shares for Tien Sa 2 Port construction.

**Electricity [OUTPERFORM]**

- Generated and purchased electricity volume increased by 10.75% in 6M2016
- El Nino and exchange rate fluctuation was the 2 main factors affecting 6M2016 business results of electricity firms.
- La Nina will happen in fourth quarter 2016, positively affect hydro power plants, especially firms from the Middle to the South.

**9M2016 Review**

**6M2016, generated and purchased electricity of EVN increased 10.75%**, reaching 84.75 bil kWh, in which proportion of hydro power was 28.3%, gas turbin 29.36%, thermal oil 1.24%, purchased electricity from China 1.38%. Especially, thermal coal output reached high mobilization, accounted for 39.78%. Notably, in second quarter, due to El Nino, the structure of electricity sold on the competitive market also fluctuate towards increasing the share of thermal power (from about 42% to 46%) and reduced hydropower percentage (from 17% to 13%).

**Exchange rate fluctuation diversified away 6M2016 business result of thermal power firms (gas and coal).** Firms with large Eur or Krw loan outstanding such as NT2, BTP benefited from depreciated Eur/Vnd and Krw/Vnd (down 1.63% and 1.02 respectively over the same period 2015). In the meantime, thermal power firm such as PPC recorded foreign exchange loss of 672 bil (recorded only 77 bil in whole year 2015) due to appreciated JPY.

**Overall, hydro power encountered difficulties due to El Nino, thermal power benefited.** Due to low water level as affected by El Nino, hydro power firms especially firms from the Middle to the South recorded unencouraging business results. On the other hand, if removed effects of exchange rate, most of thermal power firms witness high increase in volume output (except for PPC since had not signed PPA contract for PL1).

**2Q2016 business results.**

	Type	Capacity	Location	Rev 2Q2016	%yoy	NPAT 2Q2016	%yoy	P/E	P/B
<b>NT2</b>	Gas turbin	750	Đồng Nai	2,951.19	-21%	695.40	12%	7.5	1.9
<b>VSH</b>	Hydro power	136	Bình Định	222.82	-18%	145.44	-16%	14.1	1.1
<b>KHP</b>				1,609.54	13%	25.83	-52%	8.6	0.7
<b>SJD</b>	Hydro power	104	Bình Phước, Gia Lai, Điện Biên	136.71	-14%	60.10	-23%	7.7	1.1
<b>PPC</b>	Coal thermal	1040	Hải Dương	3,222.58	-24%	(349.59)	- 195%	0.0	1.0

HJS	Hydro power	12	Hà Giang	81.73	0%	18.98	30%	8.2	1.4
TBC	Hydro power	120	Yên Bái	138.94	-13%	72.55	-15%	13.8	1.7
BTP	Hydro power	388	Vũng Tàu	788.82	-7%	44.18	-198%	5.0	0.9
TMP	Hydro power	150	Bình Phước	201.13	-40%	27.89	-79%	18.1	2.1
NBP	Coal thermal	100	Ninh Bình	352.82	1%	16.62	214%	4.3	1.0
CHP	Hydro power	170	Huế	175.04	-45%	1.77	-99%	14.2	1.8
SHP	Hydro power	123	Lâm Đồng	130.60	-28%	(53.17)	N/A	14.4	1.7
DRL	Hydro power	16	Đắc Nông	38.62	57%	22.45	84%	10.5	3.1
SD3	Hydro power		Pleiku	317	N/A	21	N/A	24.43	0.62

*Source: companies financial reports*

**Hydro power might rocket in fourth quarter 2016.** According to International Research Institute for Climate and Society reported on 8th Sep 2016, probability of La Nina to be happened in the last quarter 2016 will be 36-40% ( down from 65% as forecasted before). Recently, rains and floods are occurring in the Middle quite frequently. When La Nina occurs, or at least El Nino ends, thermal power especially ones from The Middle to The South such as CHP, SHP, VSH, TMP or SJD will have strong water flow, increase electricity generated compared over same period 2015 as well as over the first 2 quarters 2016.

Exchange rate fluctuation will be unknown for thermal powers. In the first 2 quarters, exchange rate USD/VND, EUR/VND or KRW/VND had strong negative affect on NPAT of thermal powers. Forecasting exchange rate is considered to be like gambling, so we recommend investors to tracking exchange rate closely. Investors noticed PPC since we believe that as long as JPY/VND exchange rate depreciates, PPC price might increase in the near future (detail in updated PPC report).

## Investment recommendation - Outperform

We remain **Outperform** assessment with electricity sector. In the fourth quarter 2016, we reckon thermal powers will operate more efficiently compared over the same period 2015 and the first 3 quarters 2016 since the negative weather condition of El Nino had finished at the end of second quarter 2016. Therefore, in the last 2 quarters 2016, investors may take notice to thermal powers especially from The Middle to The South such as CHP, VSH, SHP and SJD.

**NT2- HOLD- Target price 36,045 dong/share.**

We expect that in whole year 2016, NT2 will remain electricity volume of 5.5 bil kWh as it did in 2015 thanks to high power demand in the South even though hydro power might recover in the end of 2016 when La Nina occurs. In addition, based on assumption that average oil price at USD 43 per barrel, we forecast that in 2016 NT2 may record revenue of 5.902 bil in revenue and 1.204 bil NPAT, not taken into account exchange rate loss, translating to EPS 2016 of 4.016 dong/share. NT2 is in process of feasibility study of Nhon Trach 2 expansion, projected to add 2 more gas turbin plants with total capacity of 1.800 MW, in

which phase 1 cycle gas turbine plant with capacity of 850 MW, 100 MW larger than current plant. The plant will use import LNG and expected to be in operation from 2021.

### BTP- Tracking

The selling price in 6M2016 was still temporarily charged as the same as it was in 2015. In 6M2016, BTP only recorded exchange loss of 23.46 bil ( this number in whole 2015 was 62.95 bil) thanks to depreciated KRW. In second quarter 2016, some plants were forced to run by oil due to corrupted gas pipeline. Therefore, in the last quarter 2016, generated electricity volume is forecasted to increase. In addition, we believe that KRW/VND will be stable in the last quarter 2016.

### PPC- Tracking.

In May 2016, PPC had signed PPA contract for PL1 with fixed price of 261 dong/kWh, 10 dong lower than before. The quantity contract is 595 mil kWh in the last 6 months of 2016. Hence, we expect that PPC's revenue in the last 6 months of the year will be slightly improved. However, as fully depreciated, overhaul cost for PL1 will be rocket in the year 2016 (in 6M2016, overhaul cost was 203 bil compared with only 169 bil in whole year 2015) making GPM to be at low level as it was in first 6M2016. In addition, JPY/VND exchange rate will be the unknown force to PPC's bottom line. So, we recommend investors to Tracking with PPC.

Ticker	Rev 2016	NPAT 2016	EPS 2016	P/E fw	P/B	ROE 2016	Dividend 2016	Price as on 23/9/2016	Target price
NT2	5,902	1,204	4,016	9.11	1.67	17%	22% tiền, 7% cp	36.600	36,400
PPC	7,271	532	1,669	8.74	0.79	14%	12% tiền	14.600	15,700
SJD	348	163	3,289	8.45	1.17	21%	25% tiền	27.800	30,940
CHP	527	208	1,581	13.03	0.81	20%	9% tiền, 5% cp	20.600	23,200

Source: BSC forecasted.

Source: BSC Research

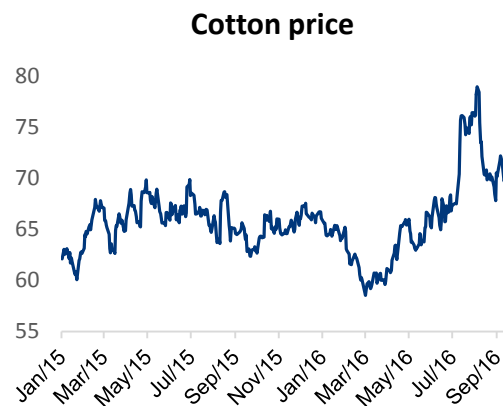
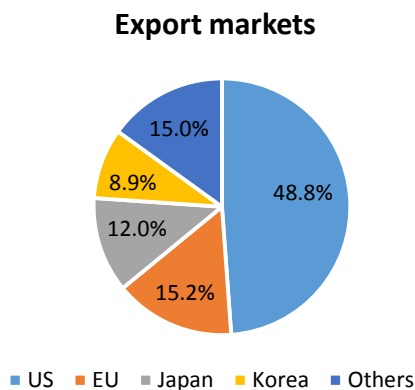
## Textiles [MARKET PERFORM]

- The export value of Textile sector in 8M2016 remains low
- In the 1H2016, the majority of listed textile companies had good revenues growth, but profit growth strongly differentiated
- The 2017 increase in minimum wage proposal if approved would cause difficulties for Textile enterprises
- Some regulations positively affecting the Textiles sector
- Free Trade Agreement EAEU-Vietnam will enter into force on 05<sup>th</sup> Oct 2016

### 9M2016 Review

**The export value of Textile sector remains low:** Generally by the end of August 2016, the total textiles export value reached USD 15.64 billion, up 5.5% compared to the same period 2015. The orders switched to other countries like Myanmar, Bangladesh, Laos ... because (1) the lower labor cost compared to Vietnam's; (2) Imports tax rates of textile products to America and Europe has been endowed, while Vietnam's FTA (EVFTA, TPP), in most positive scenario, will have been valid since 2018; (3) Countries that did not participate in the TPP (China, India, Bangladesh, Pakistan, ...) have adjusted preferential policies for their textiles in response to the TPP.

The main markets (the US, EU, Japan and South Korea) still had positive growth, with an increase of 4.5% in the US, 5.1% in EU, 6.4% in and 15.7% in South Korea compared to the same period in 2015.



Source: General Department of Customs, BSC Research

Source: Bloomberg, BSC Research

**In the 1H2016, the majority of listed textile companies had good revenues growth, but profit growth strongly differentiated.** In 6M2016, total revenues of the listed textile companies still grew by 14.5% hoh, reaching VND 8,756.1 billion. Except for EVE and NPS with negative revenue growth of -4.4% and -2.9% respectively, the remaining firms had good revenue growth, typically VGG, TCM, KMR, and GIL with 2-digit growth. However, the total profit after tax (PAT) of listed companies reached VND 472.1 billion, up 0.01% hoh. PAT of 4/11 listed companies plummeted, including EVE (-16.2%), TCM (-42.4%), STK (-41.5%) and TET (-63% hoh). The remaining firms had profit growth, notably VGG (+ 9.1%), TNG (+ 17.3%), GIL (+ 126.2%), G20 (+ 13.9%) and NPS (+ 567.4%).

Ticker	Rev 2016H1	% hoh	PAT 2016H1	%hoh	Gross margin 2016H1	Gross margin 2015H1	EPS trailing 12M	P/E	P/B	2016 Plan		
										Div 2015	Rev 2016	PAT 2016
VGG	3,516.1	19.2%	171.6	9.1%	11.7%	12.3%	9,830	5.9	2.0	30%	6,300	200
TCM	1,517.4	13.3%	49.8	-42.4%	13.9%	19.2%	2,380	7.9	1.1	10%	3,264	160
TNG	853.7	7.0%	39.9	17.3%	17.7%	20.1%	2,730	5.2	1.0		2,485	120
STK	663.5	5.3%	32.0	-41.5%	10.2%	18.4%	910	21.1	1.5	5%	1,860	130.9
GMC	698.3	6.4%	49.8	1.2%	15.9%	15.3%	6,010	5.6	1.4	n/a	n/a	n/a
EVE	377.8	-4.4%	42.2	-16.2%	34.5%	36.2%	3,830	6.7	0.8	20%	1,100	150
KMR	225.4	18.4%	12.1	n/a	21.2%	20.1%	440	11.9	0.5	n/a	n/a	n/a
G20	137.4	0.4%	6.1	13.9%	12.3%	12.1%	870	7.4	0.6	n/a	n/a	n/a
GIL	730.5	41.6%	64.4	126.2%	20.7%	16.6%	7,340	8.6	1.9	n/a	n/a	n/a
NPS	15.3	-2.9%	0.6	567.4%	20.0%	13.0%	420	31.0	0.8	n/a	n/a	n/a
TET	20.6	3.2%	3.6	-63.0%	47.6%	34.5%	1,300	16.2	1.6	n/a	n/a	n/a
<b>Total</b>	<b>8,756.1</b>	<b>14.5%</b>	<b>472.1</b>	<b>0.01%</b>								

Source: Financial Reports, BSC Research

**The 2017 increase in minimum wage proposal if approved would cause difficulties for Textile enterprises:** In the meeting for the 2017 increase in minimum wage proposal of the National Wage Council, 93% of members agreed the proposal (except Vietnam Textile and Apparel Association). Accordingly, the 2017 minimum wage will increase by 7% compared to 2016. The National Wages Council will submit to the government for approval in the near future. Currently, Vietnam's minimum wage are relatively high compared to other countries in the region that the textile sector had difficulties in keeping the orders of traditional customers. In addition, the tax incentives in major markets (US, Europe) under free trade agreements (EVFTA, TPP) will be valid as early as in 2018. Thus, if the 2017 minimum wage policy approved, the textile sector will continue to face many difficulties in the coming year.

**Some regulations positively affecting the Textiles sector: (1)** In 2016 Import-Export Tax Law (taken effect since 1<sup>st</sup> Sep 2016), import duty on raw materials and materials imported for manufacturing exports are exempted, which encourages the shift from CMT to FOB; **(2)** VITAS propose to repeal Circular 37/2015/TT-BCT due to unclear rules about checking textiles products, including the samples, which is costly and time

consuming for businesses; **(3)** Small and medium enterprises (SMEs) will be reduced the enterprise income tax to 17% in the period 2017-2020.

**Free Trade Agreement EAEU-Vietnam will enter into force on 05<sup>th</sup> Oct 2016:** Eurasian Economic Union (EAEU) includes the following countries: Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan, which are potential markets of Vietnam's products. Under the terms of the FTA, the textile products are committed to cut 82% of tariff lines, of which 36% of tariff lines to be removed completely as soon as the agreement takes effect. But the agreement applies (1) Threshold defense for the 180 line tax, including Textile, which sets the threshold in volume and considers the impact on local production in EAEU; (2) Rules of Origin, in which products certified through state agencies (rather than self-certification like new FTA). Besides, Vietnam has now been completed 14 FTAs, equivalent to about 55 economies, including 17/20 partners in the G20 and 7/7 counterparts in G7, excluding TPP. Therefore, we believe that the agreement will have a positive impact to the Vietnam Textile, however, the impact is not huge.

### Investment Recommendation – Market perform

After a series of FTAs successfully signed and partly in effect from 2015, we expected that the Textiles sector would be flourishing in 2016. However, the industry faced huge challenges from rising labor costs, lead orders to move to other markets, making the textiles export growth in 8M2016 remain low (+ 5.5% in the same period); Listed firms generally had low profitable growth in 6M2016, as well as faced difficulty with orders in remaining months. Besides, if the TPP is not passed after the coming American presidential election, textile stocks will be severely affected. For those movements, we change our perspective from Outperform to **Market perform** for the textile sector in the remaining quarter of 2016.

We recommend TRACKING with TCM, EVE stocks and recommend BUY with TNG and VGG.

#### TNG - BUY - VND 21,128 per share

In 8M2016, estimated revenue were VND 1301.3 billion (52.3% of the 2016 Plan), profit after tax reached VND 64.7 billion (40.4% of the plan). Orders signed are quite good, with approximately VND 93.3 million, equivalent to 91.1% 2016 Rev planned and 77% of production capacity. In the remaining months, with positive orders as well as the decrease in the costs like selling cost, general and admin cost, etc. we expect that in 2016, TNG's revenues will reach VND 2,021 billion, PAT will be VND 100.5 billion, equivalent to 2016 EPS of VND 2,930 per share. With the closing price on 23<sup>rd</sup> Sep of VND 14,200 per share, the P/E trailing is 5.7x and P/E F is 4.85x, which are relatively attractive.

Note that (1) dilution risk: In the next four years to 2020, TNG plans to issue 5% ESOP per year. (2) High short-term debt rate: 62% of total assets are funded by debt, of which 70% is short-term debt, create repayment pressure for TNG.

#### VGG – BUY – VND 70,333 per share

VGG has relatively favorable conditions, such as **(1)** 75% of the Revenues comes from FOB orders, which creates more added value, **(2)** using raw materials from domestic suppliers, **(3)** Brand has been identified, which helped VGG to sign orders more favorably **(4)** Reduced significant debt after converting VND 140 billion convertible bond into ordinary shares. Those help the business results of VGG still grow steadily in the context of textile sector being in a difficult period.

We estimate that in 2016, VGG's revenues will reach VND 7,166.3 billion, EAT will be VND 349.7 billion, EPS F 2016 is VND 8,327 per share. With a closing price of VND 58,300 per share on 23<sup>rd</sup> Sep, P/E trailing is 5.93x and P/E forward is 7.0x, which are relatively attractive.

#### TCM – TRACKING

TCM is the only listed textiles companies owns full production chain. TCM's prospects in the last months can be more positive with: (1) Fiber Segment (40% Rev) is expected to improve gross margin from -3% in the first half to +3%; (2) Demand of Fabrics (accounting for 10% Rev) was relatively stable and is planned to increase capacity in the Oct 2016; (3) Textiles continues to face challenges with shortage orders, however, Vinh Long garment factory is expected to reach the break even in 4Q2016, reducing the burden on TCM. (link)

In 2016, we estimate that the Revenues will reach VND 2,980 billion, PAT will be VND 113 billion, equivalent to 2016 EPS F of VND 2,300 per share. With a closing price of VND 18,900 per share on 23<sup>rd</sup> Sep, the P/E trailing is 7.4x and P/E F is 8.2x.

#### EVE - TRACKING

Owning the leading market share in the blanket - pillows - cushions (26%) and cotton sheets (29%), 80-90% of revenues are traditional customers, EVE has relatively stable earnings. The last quarter normally is the peak period for blanket- cushion products, we therefore expect the 2016 business results will be more positive, with VND 801 billion of estimated Rev and VND 89.5 billion of EAT, equivalent to 2016 EPS F of VND 2,130 per share. With closing price of VND 25,500 per share on 23<sup>rd</sup> Sep, P/E trailing is 9.96x and P/E forward is 11.97x, which is relatively balanced.

One noteworthy point is that EVE scheduled for release maximum of 15 million shares for foreign investors in the beginning of 2017. Of which 15 million shares will be deposited at a depository bank (be specified), and depository certificates (certificates of foreign investors owning those 15 million shares) will be listed on a foreign stock exchanges (maybe Korean). Proceeds from the issuance will be used to (1) Building new plant in Khoai Chau - Hungyen province and (2) Renting land for 50 years in Khoai Chau - Hung Yen, in which 30% of the land bank for building new plant , 70% of the area will be available for rent, creating about 20% of current Rev.

Ticker	Rev 2016E	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Div 2015	Price on 23 <sup>rd</sup> Sep	Target price	Link
TNG	2,021	100.5	2,930	4.85	1.0	23.3%	6% cash	14,200	21,128	
TCM	2980	113	2,300	8.2	1.1	12.6%	6% cash	18,900	-	-
VGG	7166.3	349.7	8,327	7.0	2	35.0%	30% cash	58,300	70,333	
EVE	801	89.5	2,130	11.97	0.8	9.9%	20% cash	25,500	n/a	

Source: Financial Reports, BSC Research

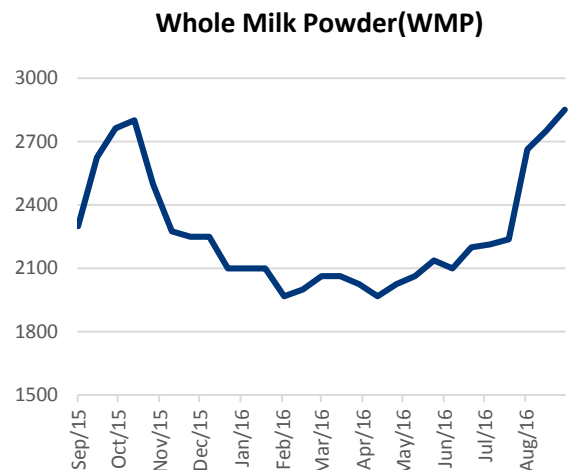
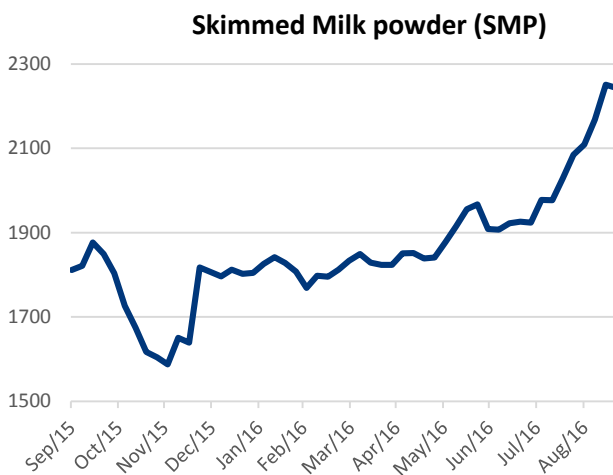


## Dairy [MARKET PERFORM]

- The recovery of milk powder prices: SMP +13.9% QoQ and WMP +33%QoQ due to the decrease of output.
- The US Dairy Export Council forecasted milk powder prices would increase slightly at the end of 2016.
- The 2Q2016 business results of two listed dairy companies strongly diverged.
- Recommend Tracking for VNM, VLC and HNM.

### 9M2016 Review

**Milk powder prices recovered up as the supply decreased and the demand strongly increased.** In the 3rd quarter, the average milk powder prices rose significantly: +19% YoY for SMP and +25% YoY for WMP. In the second quarter, top 5 producing group including EU, US, Australia, New Zealand and Argentina witnessed a decline of 0.4%. In which, in June, the output of this group fell by 1.6% YoY, which was mainly caused by the sharp drop of 1.9% YoY in the output of EU. Besides, major importing countries strongly purchased milk powder to make a step ahead of an increase in the near future. The dairy import of China, the largest importer, has went up by 18% YoY.



Source: Bloomberg

The US Dairy Export Council forecasted milk powder prices would increase slightly at the end of 2016. The main driving force would be the cut (-5% YoY) in output of top 5 producing group. While the milk powder yield of New Zealand will almost remain, production of EU, Australia and Argentina will keep decreasing significantly. The only rise in output is expected to be in US, but the increasing consumption will limit the dairy export. Moreover, the milk powder demand of major importing countries is expected to go up in the last quarter of 2016.

The 2Q2016 business results of two listed dairy companies strongly diverged. VNM recorded a strong growth with 2Q2016 revenue of VND 12,491 bn (+18.7% YoY) as the domestic consumption grew fast to VND

10,321 bn (+20.7%YoY). The GPM also rose to 43% compared with 41.7% of last year due to the rise in the proportion of organic products. This led to a significant increase (+29.2% YoY) in the PAT (reaching VND 2,824 bn). Meanwhile, the revenue and PAT of HNM fell sharply to VND 50 bn (-35.5% YoY) and VND 0.25 bn (-85.7% YoY) due to the production interruption for repair.

**BSC forecasts the dairy sector will remain stable in the last months of 2016.** The GPM will remain high as milk powder prices were set at a low level in 2015. However, we notice that input powder prices for 2017 will be set in new contract signed in this November, and they are expected to be significantly higher than the current input price if the global dairy prices keep moving upward as recently: SMP +20% YoY and WMP +25% YoY. This will result in lower GPM of dairy companies.

### Investment Recommendation – Market perform

We downgrade the outlook of dairy sector from **Outperform** to **Market perform** due to the concern about a significant increase in input powder prices in 2017.

#### VNM – Tracking

In which, we recommend Tracking for VNM as along with the probability of higher powder prices, we are also concerned with that the sales expense would increase more rapidly than the revenue (+27% YoY for 6T2016), especially after the company opened online distribution channel. Moreover, it is worth mentioning that in 4Q2016, SCIC will divest more 9% of total 45% that they hold in VNM.

On Sept 26<sup>th</sup> 2016, a VNM share was traded at the price of VND 141,400, equivalent to the P/E forward = 22.1 and P/B = 7.5.

#### HNM – Tracking

We recommend Tracking for HNM as its operation has not shown any positive signs. In which, the operation continues to be interrupted and non-production costs remains high. On Sept 26<sup>th</sup> 2016, a HNM share was traded at the price of VND 7,500, equivalent to P/E forward = 44.1 and P/B = 0.74.

#### VLC – Tracking

The Vietnam Livestock Corporation also participates in dairy industry through its subsidiary Moc Chau Dairy Cows Joint Stock Company with its ownership of 51%. The 1H2016 revenue of VLC was VND 1,364 bn (+3.4% YoY) including the dairy revenue of VND 998.7 bn (+7.4% YoY), equivalent to 73.2% total revenue. We recommend Tracking for VLC.

Ticker	2016F Rev (VND bn)	2016F PAT (VND bn)	2016F EPS	2016F P/E	2016F P/B	2016F ROE	2016 Dividend	Closed price 26/09/2016	Target price
VNM	45,016	9,228	6,359	22.1	7.5	38.45%	40% ( round 1)	141,000	n/a
HNM	360	3.4	170	44.1	0.7	1.6%	0	7,500	n/a

VLC	550(*)	51(*)	n/a	n/a	n/a	n/a	6.5% cash	16,000	n/a
-----	--------	-------	-----	-----	-----	-----	-----------	--------	-----

(\*) Plan revenue and PAT of parent company.

Source: BSC Research

## Fertilizer [MARKET PERFORM]

- Excess supply, fertilizer inventories continue at high levels, reaching 564 thousand tons of urea, 354 thousand tons of NPK and 150 thousand tons of DAP at the end of the second quarter 2, 2016
- As of the beginning September, 2016, fertilizer prices decreased from 6-15% compared to the end of 2015
- Raw material prices fell, 9M2016, average prices of gas fell by 23%, average prices of sulfur dropped by 40% compared to 2015
- Business results of fertilizer companies continued to decline.

## 9M2016 Review

**Oversupply, low demand, inventories continued at a high level.** According to Agromonitor, inventories of urea, NPK and DAP increased, reaching 564 thousand tons, 354 thousand tons and 150 thousand tons by the end of the second quarter, 2016.

- **Production decreased.** 7M 2016, total production of DAP down by 35.5% yoy to 162 thousand tons, the production of NPK fell to 1,361 thousand tons (-7.6% yoy), urea contracted to 1,222 thousand tons (-6.6% yoy), phosphate 3.1% yoy, phosphate cut to 851 thousand tons.
- **Imports of fertilizer dropped.** 7M2016, Vietnam import 2,294 thousand tons fertilizers (-8.9% yoy). However, the import volume of urea rose sharply, up 57% yoy to 319 thousand tons due to reduced supply from Ninh Binh and Ha Bac fertilizer plants.
- **Low consumption** because of cold weather in the north, drought in Tay Nguyen and saltwater intrusion in the South. According to DPM, fertilizer demand fell by 5% yoy in the first 6 months of 2016. Since the end of 2Q2016, heavy rains in the Tay Nguyen and southern provinces, reduced salinity, ended drought and late flood in the Mekong delta provinces are expected to promote the consumption of fertilizers.

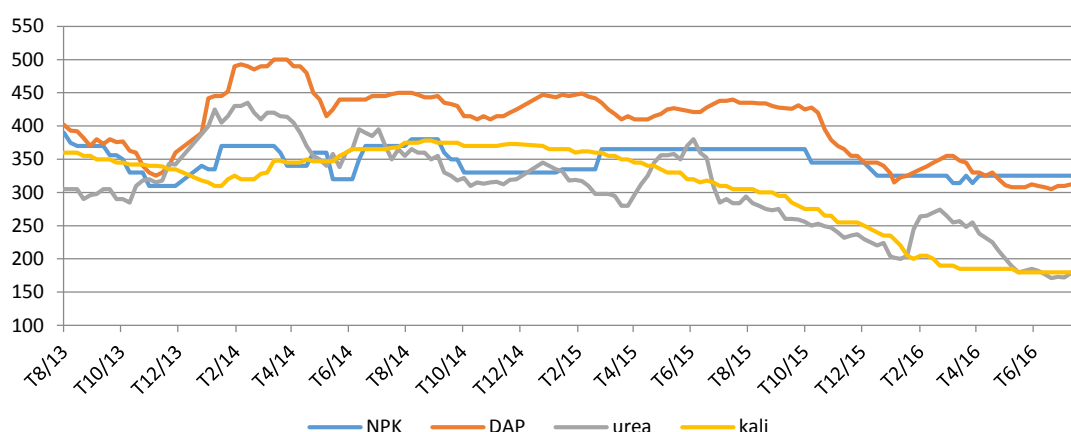
Unit: tons	Ure		NPK		DAP	
	2015	1H2016	2015	1H2016	2015	1H2016
Beginning inventories	150,000	361,412	320,000	250,000	50,000	145,000
Supply	2,846,547	1,304,000	4,186,995	2,117,000	1,482,306	632,000
Domestic production*	2,259,072	1,033,000	3,800,000	1,945,000	468,608	213,000
Imports	587,475	271,000	386,995	172,000	1,013,698	419,000
Demand	2,647,920	1,101,000	4,249,373	2,013,000	1,399,299	627,000
Plants	2,100,000	830,000	3,900,000	1,840,000	980,000	400,000
For NPK production	300,000	210,000			180,000	120,000
Export	247,920	61,000	349,373	173,000	239,299	107,000
Ending inventories	361,412	564,412	257,622	354,000	133,007	150,000

Sources: Agromonitor, \* the number is differ from what Ministry of Industry and Trade offer

**Production capacity continues to increase**, especially NPK fertilizer capacity because of low investment. The total capacity of NPK fertilizer is currently at about 4 million tons / year. Binh Dien is expected to increase by 250,000 tons of NPK after the completion of Phase 2 of Binh Dien Ninh Binh and Binh Dien Tay Ninh. Phu My urea fertilizer (DPM) and Ca Mau urea fertilizer (DCM) plan to operate NPK plant with a capacity of up to 250,000 tons in 2017 and 300,000 tons in 2018, respectively. According to the investment projects concerning the fertilizer sector, a new plant with a capacity of 500,000 tons is expected to be deployed in the North during 2016-2018. The total capacity after 2018 has been estimated to increase to almost 5.6 million tons/year. This will increase competition in the segment of fertilizers become more acute.

**Fertilizer prices continue to fall.** Due to oversupply, high inventories, fertilizer prices continued to down sharply. In Vietnam market, as of early of September, 2016, Phu My urea prices fell by 15% to around VND6,000 / kg, Ca Mau urea downed by 10% to 5,650 VND / kg, DAP downed by about 15% DAP, Kali downed by 6% compared with the end of 2015. NPK fertilizer prices decreased slower than the straight fertilizers. Average 6 months, Dau Trau NPK fertilizer dropped by 1.3%, prices of NPK of LAS, SFG decreased by 5% compared to 2015.

Movement of global fertilizer



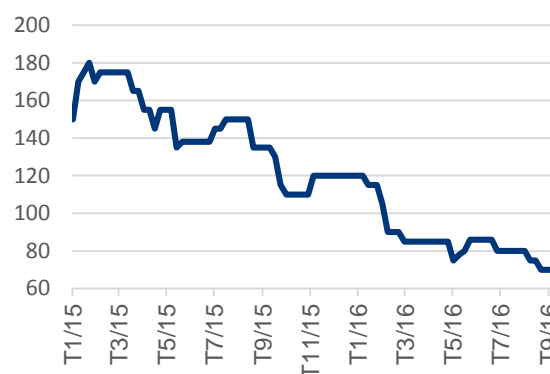
Sources: Bloomberg

**Low material prices.** The input prices tends to rise in 2016, however, are still lower than the same period in 2015. 9M2016, average price of gas decreased by 23% compared to 2015 which give cost advantages to DPM. 9M2016 average price of sulfur decreased by 40% compared to 2015 which reduce production costs for phosphate and NPK. The prices of gas and sulfur are expected to continue at a low level due to oversupply.

Movement of gas prices



Movement of Vancouver Sulfur price



Sources: Bloomberg

**Business result down.** Because output is low, output price is declining and VAT tax for input cost is unable to deduct. Total revenues and net profit of listed firms decreased by 6.3% to VND 22 thousand billion and by 11.4% to 1.6 thousand billion, respectively. Almost fertilizer firms witness the pessimistic performance, only net profit of BFC increased by 23% because input prices declined more sharply than NPK prices and Binh Dien Ninh Binh Jsc contributed about VND 20 billion in the second quarter, 2016.

Ticker	Main products	Net revenues (VND.Bil)	% yoy	Gross margin (%)	Operating margin	Net profit (VND. Bil)	% yoy
DPM	Urea	4,424	-14%	32%	20%	786	2%
DCM	Urea	2,309	-19%	26%	15%	347	-23%
LAS	Phosphate	2,034	-26%	21%	5%	61	-65%
VAF	Phosphate	642	-9%	25%	5%	34	-21%
NFC	Phosphate	347	4%	20%	5%	14	0%
SFG	Phosphate, NPK	1,232	1%	9%	5%	54	-9%
BFC	NPK	3,030	-2%	13%	9%	129	23%
QBS	Commerce	2,687	67%	6%	3%	7	-84%
PCE	Commerce	1,234	-6%	3%	1%	13	6%
PSE	Commerce	1,197	-10%	4%	1%	9	-23%
PSW	Commerce	1,139	-16%	3%	1%	14	-3%
PMB	Commerce	764	-7%	5%	2%	16	-12%
PCN	Commerce	130	61%	5%	0%	(0)	-118%

Sources: BSC research

**2H2016 prospects.** Fertilizer output is expected to be higher than the same period in 2015, thanks to much rainy in Tay Nguyen and southern provinces, ended drought, ended saltwater intrusion, late foods in the

Mekong delta provinces and high probability of La Nina. However, because 2H2016 is often low fertilizer consumption seasons, fertilizer output might be lower than 1H2016. (1) Urea price is dropping while gas price gains in the third quarter, 2016 might shrink gross margin of DPM. (2) Phosphate manufacturers continue to get trouble because of low consumption, decreased output prices while stable apatite price and nondeductible VAT tax expenses. (3) Business results of NPK manufacturers are estimated to be positive thanks to input prices decrease faster than NPK prices.

## Investment Recommendation – Market perform

We maintain our **Market perform** on the fertilizer stocks. As stated above, the fertilizer business might continue to face difficulties due to fierce competition, decreased output price, and nondeductible VAT tax expenses. The positive point is that fertilizer consumption is expected to rise after the El Nino ended, La Nina occur. Opportunities can come up with urea manufacturers when Ninh Binh and Ha Bac urea plants lost then cut down production (from 550,000 tons each plant to 150,000 tons and 220,000 tons, respectively) and the Government might give some supports to urea sector. Domestic fertilizer tickers are currently traded at median P/E of 8.74x and median P/B of 1.04x, relatively attractive compared to fertilizer firms in Asia – Pacific emerging market (at P/E of 13.54x and P/B of 1.99x).

### BFC - HOLD – Target price of VND 40,000 per share

BFC is the first class NPK manufacturer in Vietnam with largest capacity of 925,000 tons / year, occupying 28% of market share in the South, 10% in the North and 10% in the Central. Business results are expected to improve because prices of straight fertilizers reduce faster than NPK price and proportion of high quality NPK consumption rise. Binh Dien Ninh Binh plant went into operation in late 2015 reduce transportation costs and corporate income tax expenses. The plant is estimated to contribute about VND 44 billion to 2016 net income of parent company (equal to 16% of estimated net profit). Capacity expansion (of 250,000 tons per year) helps BFC penetrate deeper the North and export markets. We forecast that BFC will sell 647 thousand tons NPK in 2016, revenues and profit after tax of shareholders of the parent company will be VND 6.050 billion, and VND 267 billion (+17 % yoy), respectively, equivalent to 2016 EPS of VND 4,205 per share.

### DPM - tracking

DPM is the leading urea manufacturers with a capacity of 800,000 tons per year. Consumption is expected to rise, output price might reduce slower than because Ninh Binh and Ha Bac urea fertilizer plants run under capacity. DPM operates at full capacity, therefore, we estimate that 2016 output of DPM rise by 3% to 863 thousand tons. Low input prices and fully depreciated plant bring cost advantages to DPM. We forecast that 2016 revenues and net profit will be VND 9,404 billion (-4% yoy) and VND 1,666 billion (+12% yoy), respectively. We note that the long term prospects of the company depends on: (1) The performance of high-quality NPK plant, scheduled to go into operation in 2018. Expected capacity is 250,000 tons, total investment up to VND 5000 billion, investment per tons is about VND 20 million. In addition, NPK fertilizer is over supply. (2) UFC 85 is consumed at under expectation if Ninh Binh and Ha Bac urea fertilizer plants stop working. (3) Payment in lieu of PVTEX debt obligation of USD 57 million from 2017-2029 might have to take provision.

Tickers	2016 revenues	2016 net profit	EPS 2016	P/E FW	P/B	2016 ROE	Dividend	Price on 23/09/2016	Target price	Link
BFC	6,050	267	4,205	8.87	2.03	23%	20% bonus shares	37,300	40,000	<a href="#">Link</a>
DPM	9,404	1,666	3,736	7.62	1.46	19%	20% cash 30% cash	28,450		<a href="#">Link</a>
LAS	3,547	128	1,132	11.4	0.87	7.6%	15% cash 45% stock	14,100	N/A	



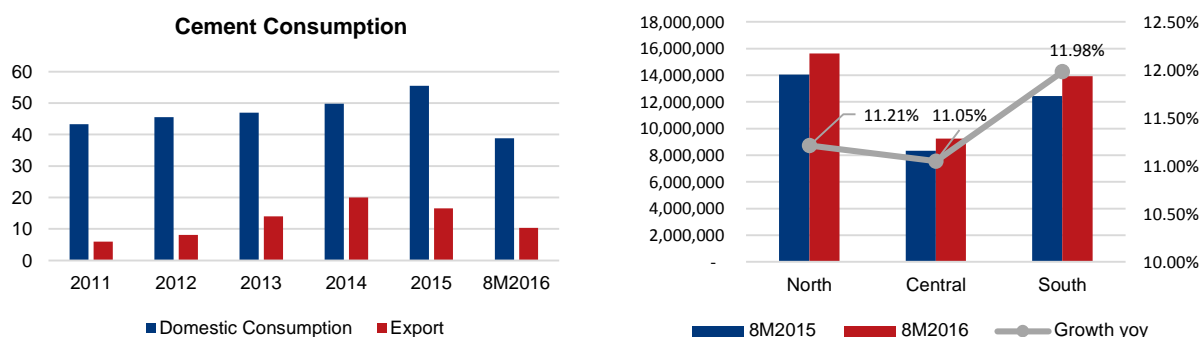
## Cement [MARKET PERFORM]

- The growth rate of domestic consumption decreased in all three regions to 11-12%, consumption in the South is more positive than in the North and Central.
- Cement export has signs of recovery; minor forex losses occurred in 3Q2016
- Expectations for construction season in Q4 and short-term investment opportunities with IPO of VICEM information in early 2017

### 9M2016 Review

**Domestic demand is still the main driving force for the sector growth.** As reported by Cement Association, total domestic selling volume in 8M2016 reached 38.81 million tons (+ 10% yoy), exports volume reached 10.39 million tons(-6% yoy). Consumption growth in 3 regions significantly declined in July and especially in August due to Ngau month psychological. The growth decreased from 15.36% yoy in 6M to 11.21% yoy in 8M in the North, from 14.78% to 11.05% in the Central, and from 14.07% to 11.98 % in the South. Currently, markets in the South are more positive than in the North and Central.

Output of cement exports decreased against the same period since China continued to boost cement exports when current production capacity excess demand by about 670 million tons; besides, Thailand is also a great rival affecting Vietnam's export markets. However, BSC believe that cement exports will probably be better in the coming period when production in China has started to moderate since May 2016.



Source: Cement Association, BSC Research

**Slight forex losses in 3Q 2016.** According to the VCB's selling exchange rate, the VND/EUR on 29<sup>th</sup> Sep 2016 slightly increased by 215.08 VND compared with the exchange rate on 30<sup>th</sup> June 2016. With estimated debts on 30<sup>th</sup> Sep 2016 of HT1, BCC and BTS being EUR 55.5 million, EUR 19.61 million and EUR 26.7 million respectively, estimated unrealized forex loss of those firms were approximately VND 11.94 billion, VND 4.22 billion and VND 5.74 billion respectively.

Ticker	Rev 6M2016 (bil VND)	Rev 6M2015 (bil VND)	%yoy	EBITDA 6M2016	EBITDA 6M2015	%yoy
HT1	3,928	3,663	7.24%	946	937	0.99%
BCC	2,200	1,932	13.82%	356	381	-6.52%

<b>BTS</b>	1,640	1,415	15.89%	289	301	-4.17%
------------	-------	-------	--------	-----	-----	--------

Source: Financial Reports, BSC Research

Regarding Q3 earnings, BSC believe that earnings from core business will be lower than earnings in Q2 due to the psychological impact of Ngau months. For Q4 outlook, we believe that earnings growth will be positive thanks to (1) Q4 is the construction season of the year; (2) Under USD/EUR forecast compiled by Bloomberg, the exchange rate will fluctuate around 1.12 USD/EUR as present, no large fluctuations.

### Investment Recommendation – Market perform

We maintain our **Market perform** assessment for the Cement sector as in **2016 Sector Outlook Report**. We expect that the business situation in Q4 will be more optimistic due to entering the construction season and short-term investment opportunities with the IPO of VICEM in early 2017. We recommend to HOLD HT1 and BUY BCC stocks.

#### HT1 – Hold – Target price VND 32,175 /share ([link](#))

We estimate the 2016 PAT of VND 785 bn, the bonus and welfare fund (20%) is temporarily deducted, EPS 2016 core = VND 1,975 (the total outstanding share: 317,952,000).

**Estimated 3Q2019 business results:** the 3Q estimated domestic consumption reached 1.62 mil tons of cement (+17%YoY) and the export yield reached 72,533 tons (approximately the figure for 3Q2015). Among the cement consumption amount, the Ha Long Cement processed over 200,000 tons. The total designed capacity of cement grinding lines of HT1 is 6.4 mil tons (including 5.2 mil of HT1 and 1.2 mil of Ha Long Cement), the maximum available expansion capacity is 20%. HT1 has operated in about 83-85% of total capacity. The outstanding foreign currency debt is about EUR 55.5 mil and USD 21 mil. We estimate the 3Q2016 core PAT of HT1 reached at about VND 257.86bn, approximately 3Q2015 figure.

#### BCC – Buy – Target price VND 25.487 /share ([link](#))

The estimated 2016 core PAT of VND 257bn, 2016 EPS = VND 2,689/share (the outstanding share is 95,661,397).

Estimated 3Q2016 business results: the domestic cement consumption was about 781,954 tons (approximately 3Q2015 figure) and its export was about 142,637 tons (+43% YoY). The estimated 3Q core PAT was about VND 50-60bn due to the decrease in the consumption in September because of heavy rain. The outstanding foreign currency debt of BCC is about EUR 19.6 mil with the semiannual payment of EUR 9 mil. Thus, it is expected to be fully paid off in September 2017.

The investment plan of cement grinding lines (including packing): the estimated total investment is VND 800bn, which is funded by 75% from loans and 25% from equity. All those loans are in VND with the interest rate of 8-8.5% per year. The project is in equipment bidding process, and expected to start in the end of 2016 or early 2017.

**About the dividend,** the 15% stock dividend plan has been approved by the Ministry of Construction and is submitted to the Securities Commission. The closing date will be in 4Q2016.

### BTS – Hold – Target price VND 11.786 /share ([link](#))

The estimated 2016 core PAT is about VND 141bn, EPS = VND 1,288 per share (from 2016, the whole PAT of BTS will be taxed 20% of corporate income-tax as the accumulated losses run out.)

**Update 3Q2016 business results:** the accumulated cement consumption on Sept 15<sup>th</sup> 2016 reached about 2.24 mil tons (+25.05%YoY). We estimate the outstanding foreign debt of BTS on Sept 30<sup>th</sup> 2016 was about EUR 26.7 mil.

Ticker	2016 Rev (VND bn)	2016 PAT (VND bn)	2016 EPS	2016 P/E	2016 P/B	2016 ROE	2016 Div Yield	Price on 23/09/16	Target price
HT1	8,229	785	1,975	14.03	1.70	15.06%	N/A	27,700	32,175
BCC	4,384	257	2,689	7.10	0.95	13.41%	10% stock	19,100	25,487
BTS	3,279	141	1,288	7.76	0.79	10.21%	5%	10,000	11,786

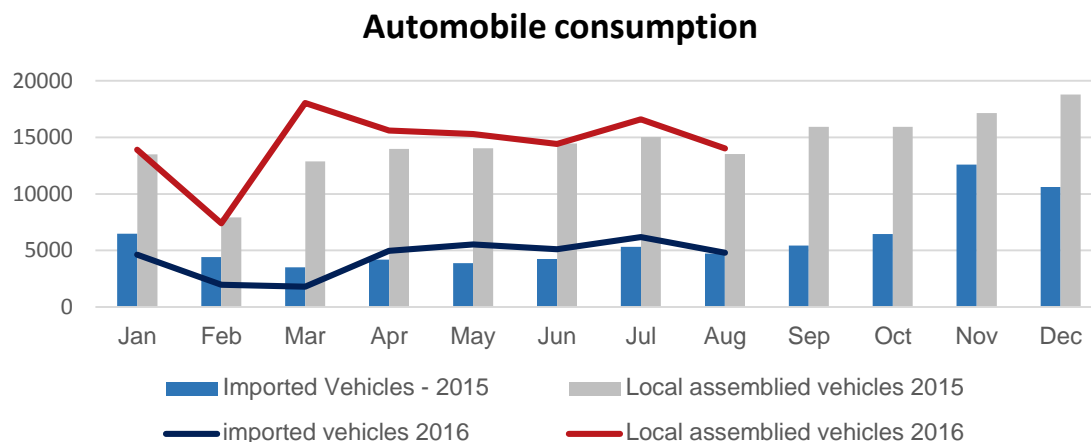
Source: BSC forecast

## Automobile [MARKET PERFORM]

- Automobile selling volume increased by 32% yoy in 8M2016, especially imported ones.
- Overall, listed firms face difficulties in 1H2016 due to downward pressure on selling price.
- We remain our Market perform assessment with expectation of higher selling volume in Q4 due to cyclical

### 9M2016 Review

**High automobile demand 8M2016.** According to the Automobile Manufacturers Association in Vietnam, in the first 8 months of 2016, Vietnam consumed 187,853 cars, quick growth of 32% yoy, although significantly lower than the 58% yoy growth of 8M2015. Good growth is maintained uniformly across all categories of passenger cars, commercial and professional use. In term of originality, imported car only grew by 19%, while local assembled cars increased by 37% yoy



Source: VAMA, BSC collected

**On 1<sup>st</sup> Jul 2016, excise tax policy came into effect**, affecting mainly types with medium and large capacity. The rate increased about 5% with 2-3L and about 30-90% with luxury ones. However, this policy had strong effect on luxury cars in Q3. Specifically, Lexus witnessed dramatically decline of selling volume from 242 cars in Jun to only 24 cars in Jul and 55 cars in Aug.

**Overall, in contrary to positive improvement of car consumption, listed firms remained in difficulties in first half of 2016**, with 60% decline of total profit. Car price decreased evenly in all firms, making GPM to be narrow. Notably, HHS witness strong decline of 4%, the others decreased about 1% on average. When it comes to truck, inventory rocketed due to slowing demand from China. Accordingly, car distributors have decreased their selling prices, putting pressure domestic firms. On the other hand, passenger car distributor recorded positive results. Specifically, HAX profit increased approximately 100% but

contributed mainly from Mercedes bonus by reaching sales target. Besides, SVC recorded increase of 48% in revenue but only 1.2% in NPAT.

1H2016 ( tỷ đ)	REV	% yoy	NPAT	% yoy	Notes
SVC	6,039	+48%	68.8	+2.6%	Profit from car selling and services decreased 7% yoy while profit from real estate recorded good growth of 37%, making total NPAT to growth fairly.
HAX	1,299	+75%	33.6	+119%	Business growth mainly grew from Mercedes bonus thanks to reaching selling target, standing at 29.3 bil in 1H2016.
TMT	1478	-24%	47.4	-65.8%	Negatively affect as oversupply from China put pressure on selling price.
HTL	691	-12%	39.6	-36%	
HHS	950.2	-54%	81.6	-76%	

## Investment recommendation- Market perform

We remain our **Market perform** assessment to automobile sector in Q4-2016. Cyclically, automobile demand will increase in last months of year but have no clear sign to be factored in revenue of listed firms as it happened in the first half 2016. Some recommended stocks in Q2 outlook report have not performed well as expected. Following is some updated business performances. On 23<sup>rd</sup> Sep 2016, automobile shares were trading at P/E trailing of 9.3x on average.

### SVC – Tracking.

BSC believe that with strong distribution channel, Savico is considered to have good fundamentals and will be benefited from increase in car demand. However, pressure on selling price and GPM will be remained in fourth quarter 2016. SVC had a decent growth over the last year, and has exceeded our target price in the last report. As of 23/9/2016, SVC was trading at 47.800 per share, equivalent to P/E trailing of 12x and P/B 1.5x, quite high compared with industry average.

### TMT – Tracking

Most of TMT's expansion plan were behind schedule. The Sinotruk assembly were only completed in Q3 (instead of beginning of Q2 as projected), combined with Southern storage not to be finished yet influenced its taking market share ambition. The Q3 business result in general was still under high competition. However, we believe that GPM will be improved thanks to no longer affected from inventory handling as it did in first half of 2016. On 23<sup>rd</sup> Sep 2016, TMT was trading at 24.500 dong/share, P/E trailing 8.6x.

### HTL – Tracking.

HTL is the largest distributor of Hino in Vietnam, the brand which accounted for about 5% in Vietnam. In 8M2016, Hino selling volume in Vietnam market reached 2.588 cars, decreased by 27% yoy. In July and August, selling volume of this brand was just 388, decreased by 56% yoy and 40% compared with average volume of this brand in 1H2016. Therefore, we reckon that HTL's business result in the 2H2016 will remain difficulty. On 23<sup>rd</sup> Sep 2016, HTL was trading at 64,000 dong/share, P/E trailing 6.8x, P/B trailing 3.1x

Sector	Ticker	Planned rev 2016	NPAT 2016 Planned	EPS 2016 (KH)	PE 2016	PB 2016	ROE 2016	Div 2016	Price as on 23/09/16	Target price	Report link
Ô TÔ	TMT	5,803	256.3	7,795	5.5	2.2	39.3%	50%	24,500	N.A	
	SVC	11,000	160	3,778	11.6	1.2	10%	14%	47,800	N.A	
	HTL	1,481	66	5,500	17.1	3.8	22%	50%	64,000	N.A	
	HAX	2,385	36	3,230	11.1	2.1	19.1%		33,300	N.A	
	HHS	4000	398	1,475	6.7	0.7	10.8%	15%	5,780	N.A	

Source: BSC Research

## Non – Life Insurance [MARKET PERFORM]

- Gross premium witnessed strong increase in 1H2016 (+15%yoy), especially in retailing: vehicle (+23.6%yoy), health insurance (+31%yoy).
- Estimated claim ratio decreased significantly from 13% to 30.2%.
- 2016 business results of listed firms are forecasted to be positive with revenue increase at 24% and profit increase at 25%.
- Q4-2016 outlook will be neutral due to fluctuation in interest rate and flood situations at the end of year.

## 9M2016 Review

**The non-life insurance market grew fairly well in 6M2016.** According to department of insurance supervision, gross premium reached 17,623 bil (+15.3%yoy). The retailing segment remained high growth as it did in the last years, increased 23.6% for vehicle insurance and 31.2% for health insurance. Besides efforts to promote distribution channel system and channel, some market elements had role to play in this strong growth of insurance firms: (1) increase in car selling; (2) citizen income improved. (3) Enhancement of people awareness about insurance.

**Total compensation in 6M2016 was 5.327 bil**, translating to real compensation ratio of 30.2%, much lower than it was in the same period in 2015 standing at 43.9%. This huge decline was blamed for large compensation related to Binh Duong and Ha Tinh events in 2015.

**Positive 1H2016 business result**, with average profit growth of 25% and evenly in most listed companies. Some recorded high growth thanks to mutation financial income (BMI, PTI, BIC, PVI); PGI recorded good growth thanks to gross premium operation. When it comes to gross premium, in general insurance firms operated less effectively with average combination ratio increased from 1.5% to 99.6%.

1H 2016 bil	BVH (*)	PVI	VNR	BMI	PTI	PGI	BIC
Gross premium rev	2,958	3,538	887	1,396	1,470	1,183	816.7
% yoy	+6.9%	-3.8%	+8.3%	+5.6%	+32.9%	+8.8%	+10%
% Compensation (1)	53.9%	51.2%	52.4%	43.5%	43.8%	50.8%	39.5%
%yoy	increase 0.3%	increase 2.2%	Decrease 15%	increase 7%	increase 7%	Decrease 3%	increase 6%
Combined ratio (2)	96.1%	94%	93%	101%	100.2%	98%	99.3%
%yoy	decrease 3%	Decrease 3.8%	Decrease 5.3%	increase 2.4%	increase 2.3%	Decrease 0.8%	increase 2.3%
<b>Investment</b>							
Invested cap	56,469	8,589	3,342	2,740.3	3,118.9	2,077	3,008
% qoq	2.3%	+12%	+3.2%	+0%	+3.8%	+8.4%	3.1%
Gross profit of Investment activities	1,684.5	47.7	79.4	124.3	88.7	56.6	88.8
% yoy	11.4%	-77.1%	-25.6%	86.4%	116.4%	9.5%	48.5%
Investment ratio	6.0%	1.1%	4.8%	9.1%	5.7%	5.5%	5.9%

NPBT 1H2016	954.9	193.7	133.1	122	93.3	80.4	93.6
% yoy	+5.4%	-15%	+0.2%	25.4%	49%	22.6%	25.9%

(1) Compensation ratio was computed by dividing total compensation amount (included provision) to gross insurance rev.

<sup>2</sup> combined ratio calculated by = (Total insurance service expenses + admin expenses)/ Rev from insurance contracts  
(3) numbers of non-life insurance sector.

**Q4-2016 outlook will be neutral**, due to some fluctuated elements on market such as: (1) Interest rate is forecasted to witness much changes affecting investment activities. (2) Compensation expenses might be high since Q4 is the peak season of storms and flood. In addition, profit from investment activities of BIC (receiving money from Nov) and PTI (receiving money from May) will not record as high growth as it was in first half 2016.

### Investment recommendation- Market perform.

We remain our Market perform assessment to Insurance sector. Stocks in insurance group have increased quite well in Q3 and stayed at new higher level price with average P/E of 14.9 and average P/B of 1.73. This is considered quite high compared with average in the region. With

#### BMI – BUY – Target price 31,800 dong/share

In 2016, Bao Minh has restructured its investment portfolio, including completing PTI divestment with profit of about 60 bil (in Q2) and divestment in Bao Minh Security with estimated profit of about 20 bil (will be recorded in Q3). The divestment will increase BMI's book value, increase Company's investment capital. However, BMI's insurance operation was not be very bright in Q2 with combined ratio of 101% the highest in the industry. On 23<sup>rd</sup> Sep 2016, BMI was traded at 28,000 dong/share, P/E trailing 11.4x and P/B 1.1x, considering to be quite attractive compared with industry average.

#### PGI – Tracking

PGI is the last insurance firm without strategical partner. PGI planned to sell 20% ownership in 2016. We expect some more new information of the divestment in Q4-2016. The stake selling to strategical partner will increase PGI's book value, increase investment capital and PGI's insurance capacity in the future. When it comes to PGI's core business performance, PGI had risk management procedure in place, with lowest combined ratio, even though revenue increase lightly. On 24<sup>th</sup> Sep 2016, PGI was traded at 22.700 dong/share, P/E trailing 15x and P/B fw 1.5x

#### VNR – Tracking

We believe that VNR will be benefited from growth of non-life insurance in general. VNR is also on the list to divest of SCIC, bringing positive outlook from new board of management. On 23<sup>rd</sup> Sep 2016, VNR was traded at price of 21.800 dong/share, P/E trailing 11.8x and P/B 1.0x, quite low compared with industry average.

#### PVI – Tracking.

PVI recently transferred 25% ownership remaining in PVI Sun Life to Sunlife, increase their ownership to 100%. The mutation profit from this transfer is estimated to be 450 bil and will be recorded in Q3. 2016.



Besides, PVI have advocated to transfer PVI tower to realize invested capital. The divestments will bring abundant source of capital, increased PVI's book value. On 23<sup>rd</sup> Sep 2016, PVI was traded at 25.300 dong/share, P/E trailing 10.3x and P/B 0.85x.

	Rev 2016	NPAT2016	EPS 2016	P/E F	P/B F	ROE	DIV	Price as on 23/9/2016	Target price	Link
<b>PGI</b>	2,376	102.6	1,474	12.7	1.6	12.1%	14%	22,700	N/A	<a href="#">Report</a>
<b>BMI</b>	3,590	134.1	1,578	15.1	0.9	5.9%	10%	28,000	31,800	<a href="#">Report</a>
<b>VNR</b>	1,730	260.5	1,576	11.8	0.8	7.1%	15%	21,800	N/A	<a href="#">Report</a>
<b>PVI</b>	10,367	248.6	1,117	22.1	0.8	3.7%	12%	25,300	N/A	<a href="#">Report</a>

Source: BSC Research

## Plastic [MARKET PERFORM]

- Plastic production increased sharply (+12.2%yoy in 7M2016)
- Plastic consumption rise, output of plastic pipe grew over 20% and plastic exports increased by 5% as 15<sup>th</sup> September, 2016
- Low plastic resin prices brings cost advantages for plastic firms.
- 1H2016 positive performance.

### 9M Review

**Plastic production increased sharply.** Manufacturing index of plastic products rose by 12.2% yoy in 7M2016. Most of the plastic resin are imported. As of 15<sup>th</sup> September, 2016, the volume of resin imports increased by 17.8% yoy, reaching to 3.1 million tons. This is a sign that production of plastic products maintain a high growth in the third quarter, 2016.

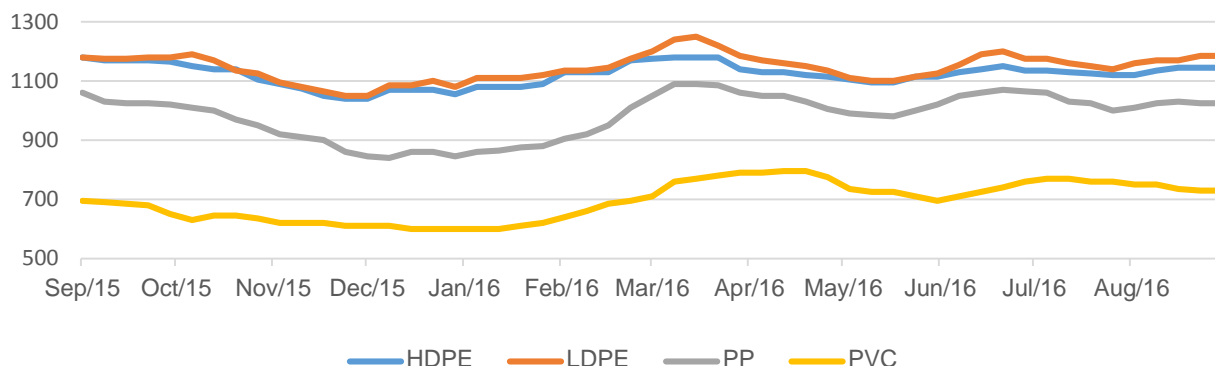
**Plastic consumption continues go up.** Listed plastic firms mainly operates in plastic packaging and construction. Plastic construction products is mainly used for finishing stages of real estate projects, are expected to grow further due to the recovery of the real estate market. Output of plastic pipe of BMP and NTP surged to 39.8 thousand tons (+ 29.5% yoy) and 40 thousand tons (+ 21% yoy), respectively. Demand for plastic packaging depends on growth rate of the retail market (expected CAGR of 12% from 2016 to 2020) and export growth rate (as of 15<sup>th</sup> September, 2016, exports of plastic products up 5% yoy in value, reaching USD 1.5 billion). Exports is expected to grow rapidly in the near future thanks to FTAs which are signed with main export markets including EU (accounted for about 25.43% of export value), Japan (22.98%) United States (14.66%) and South Korea (5.99%).

**Low resin prices.** PE prices rose slightly in the third quarter, 2016 due to limited supply, the maintenance of many European plants. Meanwhile, global prices of PP, PVC fell back at the end of the 3<sup>rd</sup> quarter, 2016. Compared to the beginning of 2016, resin prices tend to rise, however, is still lower than the same period last year. As of 23<sup>rd</sup>, September, 2016, HDPE is traded at USD 1.185 per ton (+ 7% ytd, - 3% yoy), PP price is USD 1025 per ton (+ 22% ytd, - 3.4% yoy), only PVC prices increase to USD 730 per ton (+ 19.6% ytd, +5% yoy). We believe that resin prices remain its low level in the coming period, due to increased supply and weak global demand. PE production capacity is forecasted to increase by 8.3 million tons from 2016 to 2025, PP production capacity is expected to rise by 1.15 million tonnes.<sup>2</sup>

#### Movements of plastic resin prices

---

<sup>2</sup> <http://www.icis.com/resources/news/2016/03/23/9981688/market-outlook-europe-and-asia-polymer-outlook/>



Sources: Bloomberg

**Positive performance.** 1H2016, total revenues and net profit of listed plastic firms increased by 18.3% to VND 7,879.6 billion, and rose by 37.8% to VND 757.7 billion thanks to higher output volume, lower plastic resin price and reduced costs. Some witnessed strong net profit growth including DPC (+ 182%, thanks to restructuring operation, reduced costs), DNP (+ 115% mainly thanks to water contribution), and DAG (+ 45.4%), AAA moved from the losses of VND 1 billion in 1H 2015 to gains of VND 62 billion in 1H2016, TPS (+3.1x), TPP (+51%), BMP (+26%), SPP (+21.1%), RDP (+14.4%), NTP (+12%) and VBC (+8.2% yoy).

### 1H2016 performance of listed companies

Ticker	Main products	Net revenues (VND. Bil)	% yoy	Gross margin	Net profit (VN . Bil)	% yoy
NTP	Plastic pump	1,994.1	21.9%	36.8%	196.7	12.1%
BMP	Plastic pump	1,599.1	22.6%	34.3%	345.4	26.0%
DNP	Plastic pump	691.8	78.6%	22.4%	44.2	114.8%
DPC	Plastic pump	35.8	-6.3%	19.2%	1.4	181.6%
DAG	Profile bars, plastic doors	681.7	10.0%	8.9%	29.6	45.4%
AAA	Packaging export	940.6	36.8%	13.3%	62.0	n/a
RDP	Packaging	583.2	10.0%	14.3%	32.4	14.4%
TPP	Packaging	276.3	-33.5%	21.7%	14.9	51.0%
SPP	Packaging	384.7	-4.3%	13.6%	5.0	21.1%
VBC	Packaging	344.9	8.2%	11.4%	15.2	8.2%
TPC	Packaging	347.3	7.7%	6.8%	10.8	210.2%
<b>Total</b>		<b>7,879.6</b>	<b>18.3%</b>	<b>18.4%</b>	<b>757.7</b>	<b>37.8%</b>

Source: BSC research, Bloomberg.

**2H2016 expected positive results** thanks to strong growth rate of plastic consumption. Plastic firms often remain days in inventory of one quarter. The price of plastic resins continuously increased from the second quarter, 2016. 2Q2016 and 3Q2016 average price of plastic resins is higher than 4Q2015 and 1Q2016 prices. Therefore, 2H2016 gross margin will be lower than 1H2016.

### Investment Recommendation – Market perform

We maintain our **Market perform** on the plastic stocks. High demand for plastic products go along with low resin prices bring a positive outlook for the plastic business. However, we suppose that these have been reflected in plastic stock prices. M&A trend as mentioned in the [2Q2016 Sector Outlook](#), divestment of SCIC and open room for foreign investors is paid attention by investors. We recommend buy on NTP, hold BMP and track AAA.

#### **NTP - Buy – Target price of VND 98 100 per share, 21% upside**

NTP is currently the largest plastic pipe manufacturer in Vietnam. The design capacity is 120,000 tons per year, supply mainly in the northern market with over 57% of market share. The company take directly benefited from the recovery of the real estate and tax incentives for NTP Central ([link](#)). Consumption continuously rise, by 21% in 2014, by 20% in 2015 and by 21% in 6M2016 to 60,000 tons. In 2016, NTP shorten depreciation period, therefore, depreciation expense increased by VND 53 billion (equivalent to 12% of profit before tax). Note, NTP discount for distributors is much higher than BMP, NTP gives discount rate of 65% at maximum, and about 25% -30% at average, while the popular discount rate BMP offers is only 15%. 6M2016, the cost to distributors increased by 93 NTP billion (equivalent to 42% of profit before tax). Therefore, although gross margins of NTP is higher than BMP (36.8% versus 34.3%), operating margin of NTP was only 12.48% while of BMP was 26.57 %. We expected that this gap will be shrank, NTP efficiency surged after SCIC divestment, restructuring of business operations.

#### **BMP - Hold.**

We move from **buy to hold** recommendation on BMP because the current price has exceeded our target. BMP remains our favorite stocks. Earnings is expected to grow strongly thanks to higher sales volume, over 20% in 2016, lower resin prices, outstanding efficiency. The firm owns healthy financial position, high dividends and transparent governance. BMP is paid attention by many investors as a result of business growth (output and revenues increased by 23% and by 9% in 7M2016, respectively, net income rose by 26% in 6M2016), FOL plan and 2017 divestment plan of SCIC. BSC expects net sales and profit after tax will be VND 3,525 billion and VND 689 billion, 2016 EPS is VND 15,141 per share.

#### **AAA- Tracking.**

Business results grew rapidly because (1) consumption soared (+ 37% in 9M2016, reaching 51,112 tons, and 4Q2016 target output is 20,454; (2) the company terminated the contract which sold at a loss to customers from the second quarter, 2015. The firm raised 2016 target profit after tax to VND 121.3 billion, equivalent to 2016 diluted EPS of VND 1,497 per share. From 2017, after doubling capacity to 8,000 tons of plastic bags per month (Factory No. 6 and 7 go into operation), exports to Japan and the United States increased 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 creating downward pressure on stock prices in the short term. According to the agreement of the company and its partners, the volume of bonds will be converted gradually in 2016 and 2017 (not more than 82% in value of these bonds will be converted in 2016).

Sector	Ticker	2016 Revenues	2016 Net profit	2016 EPS	P/E FW	P/B	ROE 2016	Dividend	Giá tại ngày 23/09/2016	Giá mục tiêu	Link báo cáo
Plastic	BMP	3,525	689	15,141	12,80	4.18	31%	45% Cash	193,800		<a href="#">Link</a>
	NTP	4,063	418	6,368	13.51	3.66	23%	35% cash 20% shares	86,000	98,100	<a href="#">Link</a>
	AAA	2.100	121	1,497	20.51	1.84	6%	7% cash	30,700		<a href="#">Link</a>

## Steel [MARKET PERFORM]

- Positive signal when China reduces steel production
- Vietnam set provisional anti-dumping on galvanized steel products
- Good growth in domestic steel consumption, 26-33% depending on the type of steel
- Attractive valuation with average forward PE of 5.24x

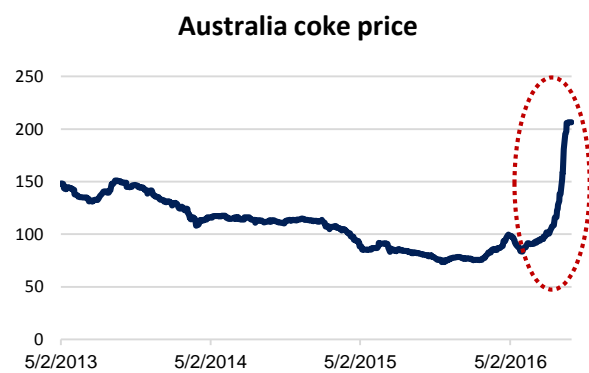
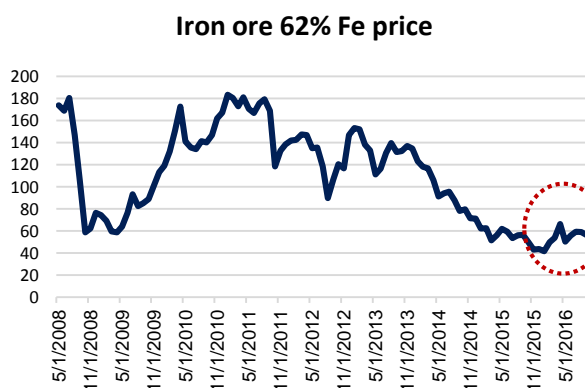
## 9M2016 Review

**Positive signal when China reduces steel production.** Goal of China in 2016 is cutting production of 45 million tons steel and 280 million tons coal, besides, cutting 100-150 million tons steel and 500 million tons coal by 2020. This is a very positive move for the global steel industry as in 2015 China produced 803.8 million tons of steel (49.6% of global production), of which exporting 103 million tons of crude steel, accounting for 12.8% of total manufacturing output.

From the Chinese situation, iron ore forecast price was adjusted at a higher level, it is also positive signals for the steel industry. Goldman Sachs raised its forecast for iron ore price in the next 3 and 6 months (from Aug 2016) from 45 USD and 35 USD / ton to 50 USD and 40 USD / ton; besides, UBS also increased forecast for iron ore price at 53 USD / ton for 2016 and 50 USD / ton for 2017.

Steel production cut of China also led to coke production reduction; with the Chinese government's reduction in the number of working days from 330 days to 276 days at the coal mines and rainy weather in 3th Quarter, coke prices rose sharply, from 100.6 USD/ton in early August to 210.8 USD / ton (Sep 29, 2016), + 110%.

In our opinion, business result of companies with production by blast furnace technology will be affected negatively if they don't adjust prices, due to higher material prices will be reflected from October (if inventory is 2 months), in addition, effectiveness compared with electric furnaces also will fall because in normal conditions, the profitability of steel in blast furnace is usually only 5% higher than the electric furnace (HPG's case).



Source: Bloomberg, BSC

**Vietnam set provisional anti-dumping on galvanized steel product.** According to Decision 3584 / QD-BCT, the temporary anti-dumping duty have been effective from Sep 16, 2016 to Jan 13, 2017, then they will consider setting official anti-dumping duty. Each manufacturer will be subjected to different tax rates, the highest is 38.34%.

**The Vietnam galvanized steel enterprise will be beneficial** when there is about 1 million tons of color coated steel sheet, Al-Zn galvanized steel sheet consumed in Vietnam is originated from China, in addition approximately 50-60% of the steel pipe sold is produced by small businesses, importing steel material from China to produce (cost of a steel pipe machine is only about VND 1-2 billion). If materials imported from China is reduced, big companies such as HSG, NKG, Dong A... will be beneficial.

**Domestic steel consumption has increased rapidly.** As reported by Steel Association, in 8M2016, Construction steel consumption reached 5.16 million tons (+ 26.75% yoy), Steel pipes consumption reached 1.20 million tons (+ 31.3% yoy) and Galvanized steel consumption reached 1.75 million tons (+ 33.94% yoy). Notably, the amount of steel sold in August (Ngau month) increased relatively well, consumption of construction steel reached 676,099 tons (+ 36.05% yoy), Steel pipe consumption reached 173,470 (+42.07% yoy) and Galvanized steel reached 229,796 (+ 36.44% yoy).

**Update business results of the enterprises.** Positive market movements, material prices increased, low-price inventory help steel enterprises to have improved profit margins. In addition, domestic consumption also increased strongly, contributed to optimistic picture of the steel industry.

	Rev 6M2016	Rev 6M2015	+yoy	PAT 6M2016	PAT 6M2015	+yoy
<b>HPG</b>	15,191	13,486	12.64%	3,050	1,902	60.37%
<b>HSG</b>	8,985	9,115	-1.42%	866	360	140.89%
<b>NKG</b>	3,973	2,498	59.07%	307	65	368.32%
<b>SMC</b>	4,371	5,424	-19.42%	231	(202)	N/A
<b>VIS</b>	1,304	1,565	-16.70%	22	(37)	N/A

Source: Financial reports, the result of HSG is from 01/01 – 30/06/2016

The situation in 3Q2016 will continue to surge over the same period in 2015, but it will not be as optimistic as the first 2 quarters because of psychological factors (Ngau month) and rainy months, that impact to construction. 4Q earnings result is always the best quarter of the year, but it is noted that coke price rises sharply, affecting on the cost of steel production with blast furnace technology, besides, the US is inquiring Vietnam galvanized steel, affecting on export orders to the US.

## Investment Recommendation – Market perform

With the improvement in the market condition and the business results, BSC maintains our **Market Perform** assessment for Steel sector. We are concerned about the output cut from China, and the volatility in ore prices. We maintain our BUY ratings for HPG, HSG and NKG. We also note VIS and SMC

**HPG – Buy – Target price VND 53,866 ([link](#))**

Revenue 2016 is estimated at VND 32,417 billion (+ 18.08% yoy), Net profit 2016 = VND 5,940 billion (+69.49% yoy), EPS 2016 = VND 7,041. On Sep 30, 2016, HPG share was traded at VND 45,700, PE FW = 6.49x.

**Consumption has grown well, steel price was adjusted to increase.** In 8M2016, construction steel consumption reached 1.07 million tons (+ 20.12% yoy), steel pipe reached 297,900 tons (+ 45.39% yoy). In particular, consumption in August (Ngau month) achieved impressive growth with construction steel of 146,485 tons (+ 37.46% yoy) and of steel pipe of 45.2 thousand tons (+ 53.22% yoy). Besides, in 3Q, HPG steel price was adjusted up approximately VND 400,000 per ton, the price at the beginning of July was approximately VND 9.6 million / ton and up to ~ VND 10 million / ton in late September 2016. BSC estimates revenue of HPG in 3Q2016 is VND 8,591 billion, net profit is VND 1,734 billion.

**Coal price rose sharply, which may affect on profit margins in 4Q.** Coke prices in particular and raw coking coal started to increase in the beginning of August 2016, coal inventory of HPG is 4 months, so the price increase of raw coal can only reflect a part in earnings result in 4Q, profit margin is affected adversely.

**Feed mills are operating stably.** The factory in Hung Yen is running about 30% of design capacity, production was about 8 thousand tons in September. At the end of 2016, the factory in Dong Nai will be completed and early 2017 the factory in Phu Tho will be constructed, the expected capacity is around 200-300 thousand tons, investment is about VND 200-300 billion.

**Update real estate projects:** Mandarin Garden 2 has been sold 30%, the average price is VND 26 million / m2 (without VAT)

**HSG – Buy – Target price VND 48,540 ([link](#))**

Net profit of HSG in 2016 is estimated to reach VND 1,503 billion, EPS 2016 = VND 7,650. On 29/09/2016, HSG shares is traded at VND 42,000 VND, PE FW = 5.49x.

**Estimated business result 2015 - 2016:** HSG estimated sales to reach 1.28 million tons in this year (+18% yoy), including 1.21 million tons of finished products (+ 19% yoy), thick-plated steel reached 854,000 tons (+ 14% yoy), steel pipe reached 328,000 tons (+ 29% yoy) and plastic pipe reached 31 thousand tons (+ 44% yoy). Exports accounted for 40.7%, reaching 494,000 tons (+ 21% yoy) and domestic consumption was 718,000 tons, up 17% yoy, accounted for 59.3%.

Revenue 2015 - 2016 is estimated at VND 17,573 billion (+ 1% yoy) and net profit is estimated at VND 1,350 billion (+ 106% yoy).



**Business Plan 2016 - 2017:** total consumption reaches 1.58 million tons (+ 23% yoy). Revenue reaches VND 21,495 billion (+ 22% yoy) and PAT is VND 1,400 billion (+ 4% yoy). We believe that the target is relatively cautious, in 2017 profit margin will be improved thanks to a cold rolling mill with capacity of 400,000 tons / year will operate in June 2017 (current cold rolling capacity of HSG is 980,000 tons / year); Besides production of finished products also increases when the plastic pipe lines, steel pipe and galvanized steel in Ha Nam and Binh Dinh go into operation in early 2017.

### **NKG – Buy – Target price VND 47,680 ([link](#))**

We maintain Buy recommendation in medium and long-term with NKG, target price of VND 47,680 / share. Net profit in 2016 = VND 583 billion, EPS 2016 = VND 7,955 (with 73,241,233 shares - assuming issue 5 million shares to strategic partners and then issue shares to pay dividend with rate of 20%) and is VND 10,404 per share with the current number of share is 56,034,361.

**Update business result in 3Q2016:** Estimating net profit is around VND 120-150 billion. Galvanized steel sheet of 300,000 tons / year has gone into operation, the current production is 20 thousand tons / month. The export orders were closing to November. Cold rolled line with capability of 450,000 tons / year is expected to be completed in Dec 2016 and operate in Jan 2017.

In 4Q2016, NKG is expected to issue shares to pay dividend of 20%, implementing after the successful release for the next strategic partners (the number of shares is under negotiation, not official closing). ESOP 2% is expected in Dec 2016 or 2017.

### **SMC update**

Estimated net profit in 2016 is VND 316.18 billion (net profit in 4Q2016 is expected to be VND 20-30 billion), net profit of parent company shareholders is about VND 310 billion, EPS 2016 = VND 10,508 (with existing number of shares). On Oct 4, 2016, SMC shares is traded at VND 18,100, PE FW = 1.72x.

The highlights of the SMC are (1) the surprise in business result thanks to positive market conditions and (2) redirecting into production to improve profitability and increase stability.

In our opinion, the earning results in 2016 is difficult to repeat in 2017 because of the increase of raw material steel prices began to level off. Net income in 2017 is expected to reach about VND 90 billion (stable conditions), EPS 2017 = VND 3,050 and VND 2,451 VND if SMC issue additionally 7.2 million shares to Hanwa and some individuals.

**Business Result Update:** Net profit in 3Q is estimated at about VND 60 billion, up sharply from VND 1.86 billion in 3Q 2015. Sales output in 9M2016 reached about 780 thousand tons, of which 40% was flat steel (steel pipes, steel sheets ...) and 60% was construction steel. SMC's goals in the coming years is promoting the consumption of flat steel and reducing construction steel to the cash flow be more stable and safer. SMC is accounting for 6-7% market share in steel distribution throughout the country, and around 14-15% market share in the South.

**Diverting into production:** SMC is investing cold rolling lines with capacity of 80-100 thousand tons / year in Sento steel pipe mill, total investment is VND 110-115 billion (of which 75% - 80% loans). It is expected to operate in Feb 2017. SMC is producing 3,000 – 3,500 tons of steel pipes / month (~ 40,000 tons / year), SMC will invest an additional line to increase capacity of steel pipe to 80,000 tons / year at the end of 2017, comply with the production capacity of cold rolled line. Expecting after investing the cold rolling line the gross profit margin of steel flat will increase from 8-9% to 15%.

**Separate issues for Hanwa.** 15% of total capital. The deal is still being negotiated, could be completed in 1Q2017.

Ticker	Rev 2016 (bil dong)	PAT 2016 (bil dong)	EPS 2016	PE 2016	PB 2016	ROE 2016	Div yield 2016	Price 23/09/16	Target Price
HPG	32,417	5,940	7.041	6.52	1.90	29.20%	30%	45,900	53,866
HSG	17,098	1,503	7,650	5.42	1.99	36.76%	N/A	41,500	48,540
NKG	7,946	583	7,955	3.78	1.72	45.45%	N/A	39,300	47,680

*Source: BSC forecast*

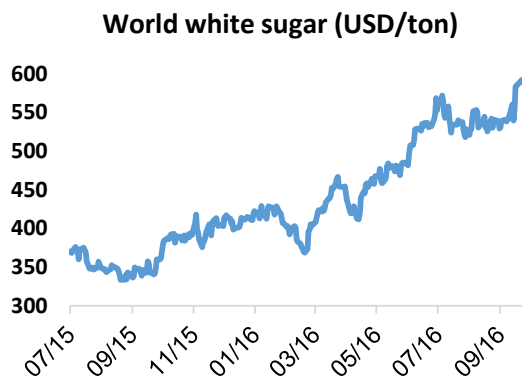
## Sugar [MARKET PERFORM]

- World white sugar prices continued to rise in Q3, closer to domestic prices
- Domestic sugar prices rose slightly in Q3
- Successful implementation of the first piloting session Auctions sugar import quota
- Business results in the crop year 2015/16 of listed firms grew impressively
- In the 2016/2017 crop year, sugar prices are expected to have a slight growth, average 5-8% compared to 2015/16 crop year

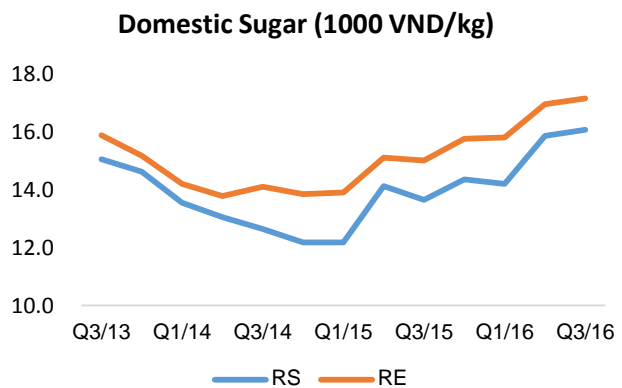
### 9M2016 Review

**World white sugar prices continued to rise in Q3, closer to domestic prices** (London No 5): world white sugar prices reached an average of USD 544.6 per ton in Q3, up 13.1% compared to Q2 and up 55.1% compared to same period due to concerns that supply shortage will continue in the 2016-2017 crop, with lower forecasted production than demand (169.3 million tons lower than 173.6 million tons). As of 23<sup>rd</sup> Sep, the price of white sugar traded at USD 592.2 per ton, equivalent to VND 13,200 per kg, 16% lower compared to the wholesale RS domestic sugar price. (As of Jan 2016, the difference is about 34%). With a faster growth rate than the domestic price growth, the price difference between domestic and the world price is rapidly shrinking. Forecasts in Q4, world sugar prices will keep rising slightly by 10% over the 2016Q3.

**Domestic sugar prices rose slightly in Q3:** In Q3, domestic sugar prices rose by 1.2% -1.4 compared to Q2/2016, in which the prices increased in July then fell slightly in August and September due to plentiful supply, with 416,000 tonnes in stock and about 300,000 tonnes of sugar imported (smuggled and imported by quota).



Source: Bloomberg, BSC Research



Source: Ministry of Finance, BSC Research

**Successful implementation of the first piloting session Auctions sugar import quota:** In Sep 2016, the Ministry of Industry and Trade has made auction 40,000 tons of raw sugar and 45,000 tons of refined sugar imported under the quota. The registered participants included companies directly used sugar as raw materials for production (only registered auction with refined sugar) and firms use raw sugar to

produce refined sugar (only registered auction with raw sugar). The result is 11 over 14 firms successfully bid. Conducting an auction for right to buy sugar instead of the quota allocation will somewhat ensure benefits between manufacturers and businesses using sugar.

### Business results for 2015/16<sup>(1)</sup>

The 2015/16 crop year (July 2015-June 2016) is the first crop having sugar price increasing after fourth consecutive falling crops. Besides, some companies have merged before and during the financial year begins, so earnings growth of listed sugar companies were impressive. Except for KTS with revenue falling slightly, the revenues of the remaining firms had 2-digit growth. Net income of 4 listed firms increased 3-digit, except the SBT with a more modest increase (66.2%). Gross margin of all companies rose strongly, especially SLS and KTS.

Ticker	Rev 15/16	%yoy	GPM 15/16	GPM 14/15	EAT	%yoy	EPS 12M Trailing	P/E	P/B	Div 2015	2016 Plan	
											Rev 2016	EAT 2016
SBT	3,265.4	57.6%	15.2%	12.5%	270.7	66.2%	1,390	22.23	2.3	8%-	3,306	220 <sup>(i)</sup>
BHS	4,371.4	46.9%	13.7%	11.7%	248.6	151.2%	1,919	9.01	1.1	8-	3,125	205 <sup>(i)</sup>
SLS	594.7	19.7%	25.9%	11.8%	136.5	193.4%	20,069	6.80	3.4	n/a	n/a	n/a
LSS	1,804.7	21.8%	13.0%	10.1%	89.1	138.9%	1,272	11.55	0.6	8.50	1710	78
KTS	291.1	-4.7%	32.9%	10.4%	41.1	216.1%	8,113	7.95	2.3	20%	262.3	15.1

(i): EBT

Source: Financial Reports, BSC Research

**In the 2016/2017 crop year, sugar prices are expected to have a slight growth, average 5-8% compared to 2015/16 crop year:** After one season with impressive increases in both prices and earnings, we believe that in the new crop year 2016/2017, this uptrend will continue due to the lower in forecasted production compared to domestic sugar demand (1.4 million tonnes < 1.6 million tonnes). However, the expected growth would not surge as the last crop year, and we forecast sugar prices will increase by 5-8% in average over the 2015/16, earnings of sugar companies therefore will depend on sugarcane volume in the crop.

The new sugarcane crop starts to harvest in Q4 which will increase the supply. Meanwhile, the rising in sugar demand for New Year confectionery production will offset the falling demand from beverage production. Therefore, we believe that the earnings of some companies in Q4 will increase slightly (BHS, SBT and LSS), while relatively strong decrease in some others (SLS and KTS).

### Investment Recommendation – Market perform

This time last year, we've enhanced the views for Sugar Sector from underperform to **Market perform**, as well as forecasted that domestic sugar price and earnings of sugar companies would positively change. After 1 year in review, the movements of sugar sector and stock price of sugar firms grew very strongly as our expectations.

In present, except for BHS having no major changes and is still relatively attractive, price of the remaining firms (SBT, LSS, SLS, KTS) reflected earnings growth in the past 1 year. In addition, in the new crop year

2016/2017, we expect the growth in sugar sector will be not as strong as previous year. Therefore, we maintain our **Market perform** view and recommend **BUY** with BHS, **TRACKING** with SBT, LSS, SLS, KTS.

Note that, M&A trend in the sugar industry is expected to continue, especially with some listed companies, the valuation whereby will also be affected.

Sector	Ticke	Rev	EAT	EPS	P/E F	P/B F	ROE	Dividend	Closed	Target
Sugar	BHS	4,858	217	1,742	10.62	1.11	10.5%	5% cash div	17,300	22,023
	SBT	3,090	255	1,330	23.5	2.32	9.9%	7% cash div	30,900	n/a
	LSS	1,697	74.6	1,066	16.1	0.73	4.5%	1.5% cash	14,700	n/a
	SLS	741	118	17,410	6.9	2.86	41.4%	65% cash	136,400	n/a

Source: BSC Research

## Tires [MARKET PERFORM]

- 8M2016 automobile consumption go up 32% yoy which push tire output.
- Fierce competition, Radial output is lower than breakeven point
- 3Q2016 rubber average price is USD 1.68 per kg, 14.7% higher than the average price in 2015.
- 1H2016 pessimistic business performance.

## 9M 2016 Review

**Automotive consumption maintains rapid growth boost demand for tires.** In 6 months in 2016, 3 domestic tire manufacturers supplied 1,235 thousand automobile tires (equivalent 42% in 2015); and more than 3.5 million tires. By August, 2016, automobile sales increased by 32% yoy in volume, in which, assembly automobile go up 35% yoy.

**Radial tire consumption is so slow that DRC and CSM still suffer losses.** 1H2016, DRC sold 101,205 Radial tires (equal to 38% of its plan, 16% lower than breakeven point), CSM sold 43,000 tires (equal to 34% of its plans, 66% lower than its breakeven point). Radial gross profit was -9% in 6M2016.

**Product price reduce due to fierce competition** as mentioned in previous [Sector Outlook report](#). The largest rival is Chinese manufacturers, especially, after United States raised anti-dumping and anti-subsidy tax rate on Chinese car tires and light truck tires. United States market is the largest tires importer of China, accounting for about 11% of Chinese output. Competitive pressures are expected to decrease thanks to Chinese Government efforts to cut annual tire production. Due to fierce competition, price of tires has declined since mid-2015, down nearly by 20% for tires of CSM and down about by 8-10% for tires DRC.

**Rubber prices rose sharply in the third quarter, 2016.** As we mention in Rubber sector, rubber prices was USD 1.68 per kg at the end of the third quarter, 17% higher than the average price in 1H2016 and 14.7% higher than in 2015.

**Earnings declined.** 1H2016 earnings of 2/3 tire manufacturers decreased. Total net sales and profit after tax of 3 listed companies was VND 3565 billion (-13% yoy) and VND 360 billion (-10% yoy), respectively. Notably, revenues and net profit of CSM fell sharply, down by 25% yoy 23% yoy, respectively, because the company had recorded revenues and profit from real estate divestments in the second quarter, 2015. Excluding this, net sales and profit after tax decreased by 3% yoy and 11% yoy, respectively.

Ticker	Revenues (VND. Bil)	% yoy	Gross margin	Operating margin	Net profit (VND. Bil)	% yoy	ROE (TTM)	ROA (TTM)
DRC	1,634	-3%	22%	17%	199	-3%	27%	12%
CSM	1,491	-23%	23%	12%	124	-23%	18%	8%
SRC	440	-6%	22%	12%	38	2%	22%	13%

Sources: Bloomberg, BSC research

**2H2016 outlook is less optimistic.** The tire consumption is often low in the third quarter, as usually. Average prices of rubbers in the second quarter is lower than the same period, 2015, however, still higher than in the first quarter, 2016. Therefore, 3Q2016 gross profit margin might decrease compared to 1H2016 gross margin. The rubber prices continue to rise in the third quarter, 2016 will impact negatively on profit margins of tire manufacturers in the 4<sup>th</sup> quarter. In addition, slow consumption, reduced output prices make us believe that the business results in the 4<sup>th</sup> quarter, 2016 and in 2016 will less positive.

### Investment recommendation – Market perform

We maintain our **Market perform** on tire stock. Business results of these firms might decrease. If output of DRC's Radial phase 2<sup>nd</sup> and CSM's half steel plants is positive, the cost per product will lower and brings good results to these firms. For long term, investors should pay attention to consumption, factory progress and 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 2<sup>nd</sup> stage of Radial tire factory will reduce the average unit cost for DRC, therefore, the business result is expected to improve from quarter 1/2018. Dividend payout ratio is high, reaching 30% in cash and 30% in bonus shares in 2016. DRC pay high 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 is one of the two largest tire manufacturers in Vietnam. The firm has advantages in motorcycle tire and automobile tires. Financial position is healthy, dividend is high (20% cash and 40% bonus shares). However, fierce competitive, low Radial consumption and bottom signs of rubber price make me less positive about CSM's earnings. BSC forecasts that 2016 revenue will be VND 3.235 billion, profit after tax will be CVND 277 billion (-4.6%, excluding profit of real estate recognized in 2015). 2017 performance is expected to improve after the firm exports 500,000 half steel tires to US, contributing about VND 200 billion in revenues for the firm

Ticker	2016 revenues	2016 net profit	2016 EPS	P/E FW	P/B	ROE 2016	Dividend	Price 23/09/2016	on Target price	Link
DRC	3,774	455	3,551	11.83	2.74	26.06%	30% cash 30% bonus shares	42,000		<a href="#">Link</a>
CSM	3.235	277	2,445	9.49	1.71	24.02%	20% cash 40% bonus shares	23,200		<a href="#">Link</a>

Source: BSC Research

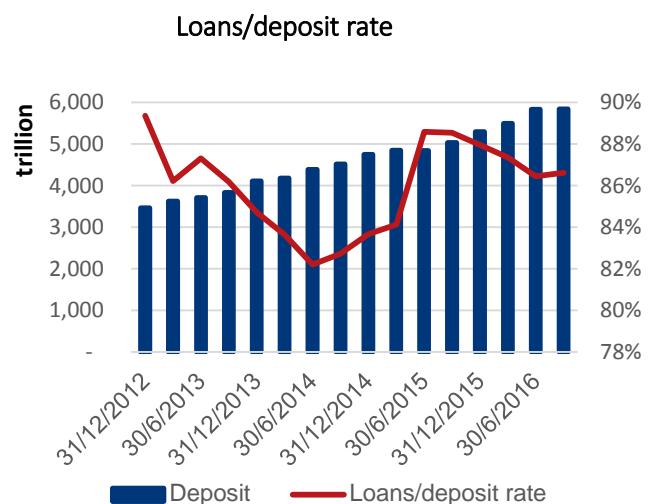
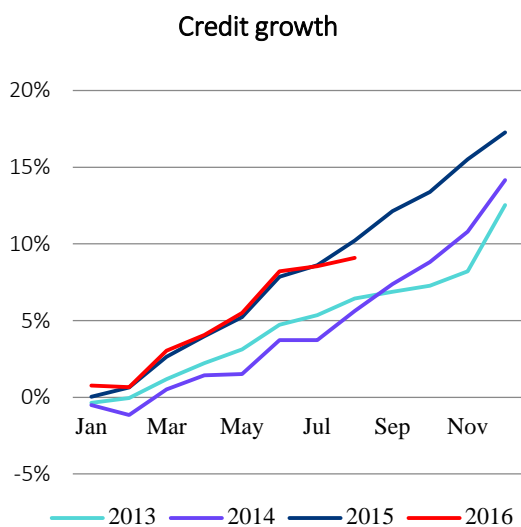
## Banking [MARKET PERFORM]

- Credit growth has slowed in Q3/2016, up by 10.46% as of 20/09/2016
- Mobilizing rate outpaced the same period, up by 12.02% as of 20/09/2016
- Abundant liquidity, the interbank interest rate fell to its lowest level since 2009.
- Deposit rates fell after local increasing at commercial banks.
- Earnings have been divergent, cost of credit risk provisions eroded banking profits.

## 9M2016 Review

**Credit growth rate has slowed in Q3/2016.** After achieving high growth rate in 6M2016, reaching 8.21% (6M2015 increased by 7.86%), credit growth reached 10.46% by 20/09/2016, lower than rate of the same period in 2015 (10.78%). Credit growth has slowed possibly due to the impact of Circular No.06 which tighten lending activities of real estate, construction and long-term credit. Investors may refer to the assessment on impact of the TT06 [here](#). Specifically, credit growth of construction sector only reached 4.1% in 6M2016 while it was 8.89% by the same period in 6M2015. According to the Monetary Policy Department, the credit growth in the real estate segment tends to slow down.

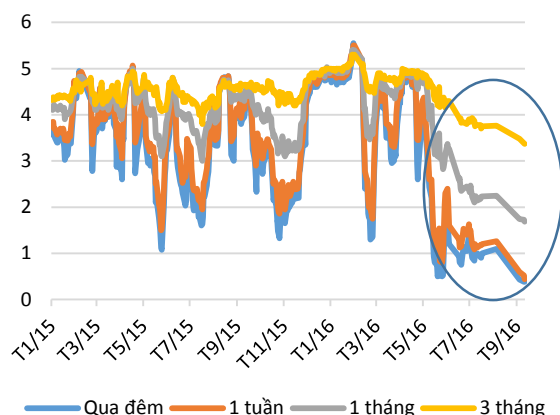
**Abundant liquidity.** As of 20<sup>th</sup> September, 2016, M2 increased by 11.76% (higher than rate of 8.88% in the same period in 2015), up to VND 6.728 trillion. Deposit up by 12.02% as of 20/09/2020<sup>th</sup> September, 2016 (same period in 2015 up by 8.9%). Loans/deposit rate by the end of July reached 86.61%. Proportion of short-term capital used for medium and long term loans was 31.08% as of 30/06/2016, much lower than the rate allowed by the SBV in 2016 which is 60%. Due to abundant liquidity, interbank rates fell sharply to its lowest level since 2009. As of 27/09/2016, overnight interbank interest rates fell to 0.54%, the 1-week rate dropped to 0.58%.





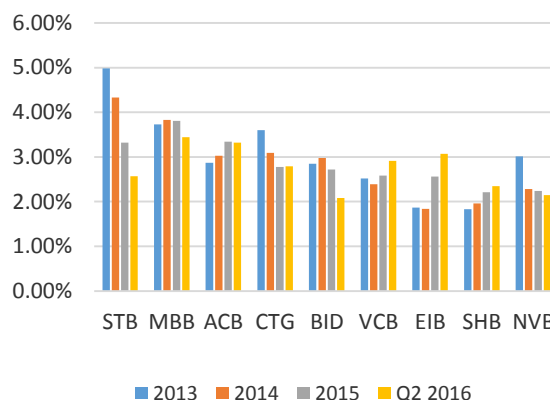
Sources: SBV, BSC research

Movement of interbank interest rate



Sources: Bloomberg

NIM of listed banks

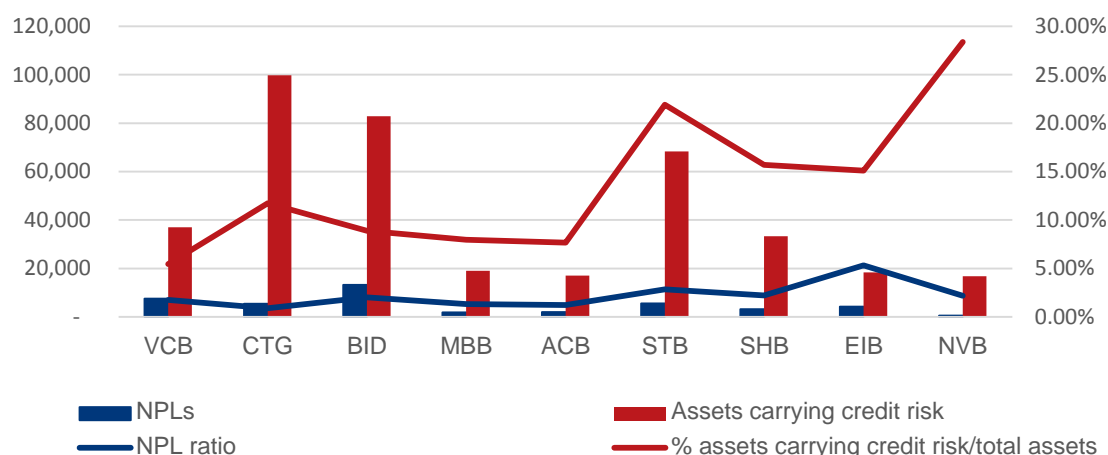


Sources: BSC research

**Deposit rates showed signs of decline.** After a local interest rate increase at commercial banks in 2016, as of 26/09/2016, simultaneously 4 commercial banks owned by SBV including VCB, BID, CTG and Agribank dropped by 0.2-0.5% for short term rate under 12 months. Thanks to abundant liquidity, low inflation with positive steering from the operator side, interest and lending rates are expected to decrease slightly and remained at a low level in the second half of 2016. This will slow the decline of the commercial banks' NIM.

**Solving bad debts remains as a key task, and provision expenses can erode the profitability of banks.** Bad debt ratio till end of June, 2016 of the entire banking sector was 2.58%, equivalent VND 130 trillion, down from the same period in 2015. Total accumulated bad debts sold to VAMC by end of August, 2016 was about 217 trillion. Thus, total system's bad debts including ones sold to VAMC is VND 347 billion (equivalent to ratio of bad debt of 6.89%), higher than the total bad debt in 2012 (VND 239 trillion). Pressure of solving bad debts and debt sold to VAMC remains high and provision expenses can erode the profitability of banks. Although the bad debt ratio reflects more truly the credit quality of the banks, we found that the proportion of the assets carrying credit risk of banks stayed high and need to pay attention.

**NPLs and assets carrying credit risk of listed banks.**



Sources: BSC research

The maximum percentage of ownership of foreign investors in domestic banks can be raised to over 30%. This is what has been proposed by many banks like CTG, VCB, ABBank, SCB to SBV and was mentioned by the Prime Minister during his visit to Hong Kong, China. Banks will attract more foreign capital inflows to meet CAR under Basel II. This will also create better risk cushion for the banks, as a prerequisite for expanding business activities including credit growth. VCB planned a private placement of 10% of capital which has been issued to GIC (Hong Kong) and Mizuho at a rate of 7.73% and 2.27%, respectively.

**Earnings diversification, large credit risk provision expenses.** 6M2016, the total profit after tax of 9 listed banks reached VND 12,440 billion (+ 4% yoy). The main momentum of growth of banks has come from credit, accounting for about 85% of total operating income of the banks. Large cost of credit risk provisions accounts for 46% of pre-provision profits of commercial banks, reached 13,221 billion. Some banks enjoyed increase in the profit after tax in 6M2016 are VCB (+ 39.49% to VND 3,421 billion), ACB (+ 16.19% to VND 663 billion), MBB (+ 4.58% to VND 1,504 billion) thanks to the positive growth of credit and falling cost of credit risk provisions, BID (+ 7.42% to VND 2,655 billion) thanks to recorded earnings from divesting VID Public (VND 827 billion) and interest earnings growth. Business results of the rest banks, notably EIB (-86% yoy), STB (-74% yoy) declined mainly due to increased provision expenses.

	VCB	CTG	BID	MBB	ACB	STB	SHB	EIB	NVB
<b>Size</b>									
Chartered capital (VND.Bil)	26,650	46,209	34,272	17,140	9,377	18,167	9,582	12,449	2,981
Equity (VND. Bil)	48,576	59,264	43,036	24,030	13,389	22,734	11,646	13,225	3,225
Total assets (VND. Bil.)	679,001	850,210	930,458	239,122	221,826	312,375	211,887	121,662	59,054
Equity/ total assets	7.2%	7.0%	4.6%	10.1%	6.0%	7.3%	5.5%	10.9%	5.5%
<b>Growth (ytd)</b>									
Asset growth	0.7%	9.1%	40.5%	8.2%	10.1%	6.8%	3.5%	-2.6%	22.4%
Loan growth	10.4%	10.2%	41.4%	16.6%	16.6%	7.1%	7.2%	-4.6%	7.4%
Deposit growth	7.0%	16.9%	49.5%	4.9%	8.9%	7.3%	7.0%	2.3%	14.3%

Loans/ deposit rate	79.8%	102.9%	94.9%	78.4%	82.0%	71.1%	88.5%	80.3%	55.6%
<b>Asset quality</b>									
NPL ratio	1.8%	0.9%	2.0%	1.3%	1.2%	2.9%	2.2%	5.3%	2.2%
NPL ratio (including NPLs sold to VAMC)	3.2%	2.8%	5.2%	3.8%	2.9%	4.5%	7.5%	12.5%	2.2%
Asset carrying credit risk/total assets	5.4%	11.7%	8.9%	8.0%	7.7%	21.9%	15.7%	15.1%	28.4%
Asset carrying credit risk/equity	76.1%	168.3%	192.4%	79.3%	127.0%	300.8%	285.7%	138.9%	519.6%
Provision for credit of losses of loans/ total loans	2.0%	1.0%	1.5%	1.5%	1.1%	1.4%	1.1%	1.3%	1.1%
Provision for credit of losses of loans / NPLs	113.1%	112.5%	75.4%	108.9%	90.2%	48.9%	49.3%	25.2%	49.6%
<b>Performance</b>									
Operating income before provision expenses (VND. Bil)	7,283	7,282	7,822	2,444	1,199	1,094	820	741	68
% yoy	12.1%	13.5%	12.9%	-18.9%	-1.9%	-50.8%	29.9%	1.0%	208.6%
Provision expenses (VND Bil.)	3,004	3,009	4,494	582	370	731	311	661	58
% Operating income before provision expenses	41.2%	41.3%	57.5%	23.8%	30.9%	66.8%	37.9%	89.3%	86.3%
Net profit (VND Bil.)	3,421	3,408	2,655	1,504	663	309	412	61	7
% yoy	39.5%	-16.5%	7.4%	4.6%	16.2%	-73.8%	-18.5%	-86.3%	571.5%
NIM (TTM)	2.9%	2.8%	2.1%	3.4%	3.3%	2.6%	2.4%	3.1%	2.2%
CIR (trailing 12 month)	40.7%	43.7%	42.2%	42.5%	61.2%	71.3%	56.1%	61.8%	83.7%
ROA (TTM)	1.00%	0.79%	0.73%	1.15%	0.54%	0.11%	0.43%	-0.27%	0.03%
ROE (TTM)	13.3%	10.7%	15.3%	12.2%	8.7%	1.3%	7.4%	-2.5%	0.4%
EPS (VND /share) (TTM)	1,913	1,056	1,359	1,386	1,239	-7	881	-278	43
Book value (VND/share)	18,227	12,825	12,557	14,020	14,939	12,604	12,283	10,757	10,833
<b>Valuation</b>									
P/E	19.52	16.01	11.81	10.65	14.04	-1,354.8	5.33	-38.18	139.73
P/B	2.05	1.32	1.28	1.05	1.16	0.75	0.38	0.99	0.55

Sources: BSC research

### Investment recommendation- Market perform

We maintain our **Market perform** on the banking stocks. Activities of banks follow and benefit directly from economic growth, global integration, etc. As mentioned above, credit growth is expected to have a differentiation between banks. Some banks are expected to maintain a high growth rate of credit such as VCB, MBB, ACB. Provision expenses will continue to erode the profitability of the banks. Provision expenses of VCB, MBB are expected to decline while of other banks might hike. We believe that opening room for foreign investors, if realized, along with a lower proportion of State ownership will create positive effects for stocks of banks which is nearly full room such as VCB, CTG and MBB. We recommend buy on MBB and tracking with VCB, ACB.

### VCB - Tracking

With the leading position in the whole industry, Vietcombank continued to benefit from the recovery of the economy as well as global integration trends. Good liquidity, LDR qualified Circular No. 06 (90%) allow bank promote credit growth in the coming period. NIM is high and likely to increase due to high proportion of demand deposits (28% of total deposits) and re-structure of the loan portfolio. In addition, due to good credit quality, high provisioning rate on bad debts, the provision expenses of the bank is expected to decrease in the near future. Bank's profit after tax is expected to reach VND 8491 billion (+ 60% yoy), equivalent to 2016 EPS of VND 2,060 per share. Notably, bad debt coverage ratio is declining, the size of corporate bonds and other assets of VCB are rising. VCB is currently trading at VND 37,900 share, equivalent to P/E FW and P/B of 2.81x and 18,4x, respectively, relatively high compared to other banks in the country and Asia - Pacific (P/E and P/B median of 1,09x and 9,89x, respectively)

#### MBB - Buy – Target price of VND 16,600 / share, 11% upside.

MBB is one of the leading banks on performance aspect in Vietnam, performance are expected to improve. (1) The bank has much room for credit growth because of low rate of loans / deposits, reached 78% at the end of the second quarter, 2016. (2) High proportion of demand deposit, accounting for about 26% in 6M2016, brings higher NIM for MBB. (3) Provision for loans losses is tight (high ratio of provision to bad debts was 109%, interest and fee receivable declined). We believe that the provision expenses for MBB will decrease in the near future. Note that, some of the high interest rate bonds hold by MBB in previous period was due, therefore, NIM of MBB might reduce. In addition, merger SDFC into MBB may reduce the quality of assets, increasing the cost of credit risk provisions of MBB, especially for the bonds issued by SDF, however, the influence is not large compared to MBB scale.

#### ACB - Tracking.

Results of the banking business are expected to improve due to credit growth, positive service earnings. Bank has been actively dealing with risks arising from 2012. Bank has basically completed risk treatment for interbank deposits. The current biggest risk of ACB is related to the recoverability of the debt of the G6 group (which has been approved to repay from 2015- 2018 by SBV). Goals of 2016, ACB targets to recover VND 2,000 billion, take the maximum provision for this item of VND 1,000 billion. 1H2016, bank recovered 100 billion, established provision for more than VND 500 billion. Investors need to monitor the process of recovery, setting up and handling of the debts of the group G6.

Tickers	2016 revenues	2016 net profit	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2016	Price on 23/09/2016	Target price	Link
MBB		2,823	1,561	9.45	1.00	12.1%	10% cash or stock	14,750	16,600	<a href="#">Link</a>
VCB		8,491	2,060	18.40	2.26	17.85%	10% cash 35% bonus shares	37,900		<a href="#">Link</a>
ACB		1,223	1,353	12.86	1.16	8.54%	10% stock	17,400		

Sources: BSC research



## Pharmaceutical [MARKET PERFORM]

- Imports of pharmaceutical products increased by 18% yoy and import of pharmaceutical raw materials increased by 5% yoy
- Upgrading the standards to PICs, EU-GMP is expected to boost profit growth for pharmaceutical companies.
- M&A of pharmaceutical enterprises and expectation of room relaxation for foreign investors
- 6M2016 business results were positive.

### 9M2016 Review

**High competition with foreign firms.** From beginning 2016 to 15<sup>th</sup> Sep 2016, Vietnam has spent USD 1.8 billion to import pharmaceutical products, increased by 18% yoy. On the other hand, imported of pharmaceutical raw material reached USD 0.254 bil (+5%yoy). BMI forecasted that spending on pharmaceutical products will reach USD 2.497 bil, equivalent to 54% of total drugs value used in Vietnam. The main imported markets of Vietnam includes France (12%), Germany (9%), USA (6%), Italy (6%), England (5%) and Switzerland (4%), which supply with high quality products. This did not cause much direct competition with domestic products. Products imported from Indian (11%) and Korea (7%) on the other hand, made high competition with domestic ones in generic drugs segment.

**Plant upgraded targeting on ETC market.** As mentioned in our last sector outlook, domestic drug factories were mostly qualified to GMP-WHO standard, competing intensively with Indian and Korea ones in terms of prices in generic segment (contractor group 3). The upgrade to GMP-EU and PIC/s-GMP standards then apply visa and export to countries in ICH and Australia, is necessary condition for domestic drugs to take part in contractor group 2 and contractor group 1 with higher prices and gross profit margin. This is expected to boost domestic drug firms revenues and profit. Recently, the drug plant 3 in Binh Duong of IMP has qualified to GMP-EU Spanish for its 2 drug lines of Cephalosporin and 1 drug line of Penicilin. DMC has qualified to PICs-GMP Philippines standard. DHG is pushing the construction and application of PICs standard with its new plant in Tan Phu Thanh IZ (expected to get at the end of 2018 and beginning of 2019).

**M&A of drug enterprises and expectation of room relaxation for foreign investors.** At the end of June 2016, Taisho, a Japanese drug corporation, has completed its purchase of 24.4% of DHG equity. In August, 2016, Abbott announced that it had successfully merge Glomed, one of the leading drug manufacturers in Vietnam. In addition, right after DMC was accepted to lift the foreign maximum ownership to 100%, CFR International SPA (Abbott's subsidiary) also lifted its ownership in DMC to 51.68%, making this firm become CFR's subsidiary. With its large population size, high growth of the pharmaceutical industry (CAGR of 15.8% from 2005 to 2015), we believe that the domestic pharmaceutical companies will continue to pay attention from the foreign investors. The room relaxation for foreign investors are waiting for implementation in other firms after the succession of DMC.

**Postive 6M2016 business results.** Despite encountering much difficulties with imported drug products in both OTC and ETC markets when FTAs went into effect, business results of domestic drug firms still witnessed fair growth. Sales growth were recorded in most domestic drug firms. Total revenue and NPAT in 6M2016 of listed firms increased by 6.3% and 16.3%, respectively. This positive results were blamed for successful restructuring in distribution channel (DHG, TRA) and restructuring of product portfolio leading to cost reduction (DP3, DHT). On the other hand, the 6M2016 business result of IMP decreased dramatically of 23% due to decline in OTC sale volume after recording high growth in 2015 and 2014, high input cost and promotional cost. Business results in the second half of 2016 of pharmaceutical companies are expected to continue to grow since drug consumption is generally higher in the last months of year.

### 6M2016 business results.

Tickers	Rev Q2/2016	% yoy	NPAT Q2/2016	% yoy	P/E	ROE
DHG	1,691	15%	306	17%	15.32	24.4%
TRA	1,019	6%	101	32%	20.87	23.8%
DMC	591	8%	81	21%	19.97	20.8%
IMP	429	-4%	41	-23%	23.40	8.5%
OPC	380	6%	38	-5%	12.77	13.5%
DCL	356	12%	41	38%	13.58	15.2%
PMC	198	9%	35	20%	8.62	30.1%
DHT	557	28%	18	21%	8.22	26.0%
LDP	248	9%	9	14%	12.32	22.8%
DP3	120	16%	15	60%	6.49	16.3%
DBT	271	2%	12	28%	9.03	22.2%
PPP	57	15%	4	-10%	13.69	7.0%
Average					13.69	18.6%

Source: Financial statement of listed firms

### Investment recommendation- Market perform

We remain our **Market perform** on pharmaceutical stocks. In 2016, thanks to positive effects from SCIC's divestment and equity transferring to foreign investors, pharmaceutical stocks have risen sharply such as DMC (+2.92x), TRA (+2.01x), IMP (+1.8x) and DHG (+75%). At the current price level, pharmaceutical stocks are trading at quite high P/E, approaching regional P/E of 23.7x. Pharmaceutical stocks are considered to be highly defensive, suitable to mid to long term investors. Recommendation Tracking to DHG, IMP, DMC.

#### DHG- Tracking.

DHG in the market leader in terms of market share, revenue and profit and exclusively domestic distribution channel. The business result is expected to record fairly growth thanks to restructuring of distribution channel and product portfolio, tax incentives for the 2 Non- betalactam and Betalactam plants. The construction of drug effervescent package plant qualified to PIC standard is expected to help DHC to take part in deeper to ETC channel. In third quarter, Taisho, the leading Japanese drug

manufacturer had completed to purchase 24.5% DHG equity and thereby support DHC with (1) the structure of the product portfolio, (2) study, development of new products, (3) exports.

### IMP- Tracking

Although 8M2016 business result was quite disappointed with revenue reaching VND 564 billion (-3.5%yoy), net profit of VND 69 billion (-18%yoy), IMP's business performance from 2017 is expected to improve thanks to ETC's growth. With EU-GMP certification for drugs factory in Binh Duong and expected export visa to EU, IMP's products are expected to be higher competitiveness with foreign ones in high quality drug segment. In this segment, IMP's products price is 20-30% lower than foreign ones. Therefore sales volume, average selling price will be higher, improving IMP's gross profit margin. IMP also plans to complete its high tech cure qualified EU-GMP standard plant in Binh Duong in 2017 and put into construction the high-tech antibiotics in Vinh Loc IZ. Investors should note the progress of the new factories and the winning results to the medical facility of the IMP.

### DMC – Tracking.

DMC has taken notice of investors in 2016 due to: (1) room relaxation for foreign investors (2) SCIC divestment plan and (3) increase in the percentage of ownership of major shareholders CFR. The restructuring process is expected to continue to improve business results. DMC has terminated its intermediated distributor and focused on product lines with higher competitiveness and gross profit margin. Hence, 6M2016 net profit increased by 21% despite the fact that revenues rose by only 8%. In July 2016, DMC has qualified to PICs standard issued by FDA Philippines. This will help DMC to take part in contractors with higher added value, improve its business's effectiveness. The Non-betalactam plant in Dong Thap with capacity of 3 billion unit, VND 250-300 billion invested amount, PIC and EU-GMP qualification, is expected to be into operation in 2017. This also is expected to contribute large share in DMC development. Investors should closely monitor the roadmap to increase the percentage of ownership of the CFR at the DMC, the winning outcome in hospital and product consumption growth of DMC.

Tickers	Rev 2016	NPAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price as on 30/09/2016	Target price	Report link
DHG	3530	695	7,196	15.00	4.01	27%	30% cash div.	108.000		<a href="#">Link</a>
IMP	999	104	3,103	19.92	2.11	11%	18% cash div.	61.800		<a href="#">Link</a>
TRA	2100	210	7,829	14.31	4.80	33%	30% cash div.	112.000		<a href="#">Link</a>
DMC	1415	155	5,802	15.51	3.02	19%	15% cash div.	90.000		<a href="#">Link</a>

Source: BSC Research

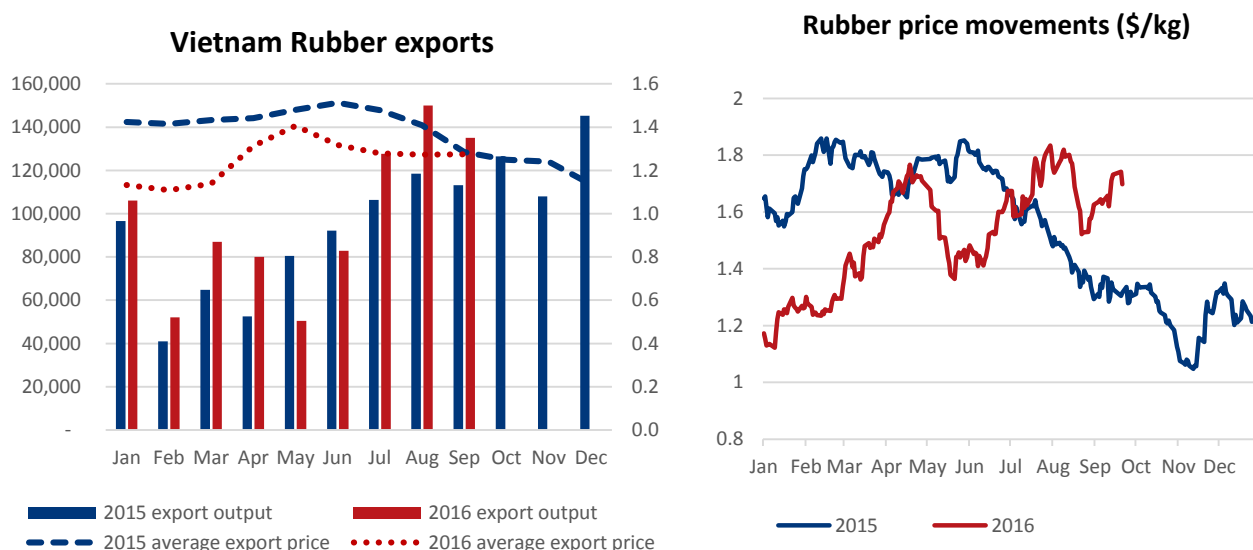


## Natural Rubber [MARKET PERFORM]

- Rubber export output increased by 14.2% in 9M2016 , with value up 1% yoy
- Global rubber prices volatile in Q3, with the average price increased by 14.7%
- Poor earnings in 1Q2016 with average revenue fell by 13%, and net profit down by 23% yoy.
- Rubber prices expected to sideways in 4Q2016.

### 9M2016 Review

**Rubber export output increased by 14.2% in 9M2016 , with value up 1% yoy.** According to preliminary statistics of the General Administration of Customs, volume exports of natural rubber in the first 9 months reached 854 thousand tons (+ 14.2% yoy) with a value of \$1.1 Bil (+ 1% yoy). The average export price sidewayed in 3Q, averaged at \$1.28/kg, 3.2% higher than the average price of 1H2015. This is positive compared to 3Q2015, when rubber price declined by 4% compared to average price in 1H2015.



Source: Bloomberg

**Global rubber price showed high volatility in 3Q2016**, averaging at \$ 1.68/kg, up 17% compared to 1H2016 prices, and up 14.7% compared to 2015 average. The recovery was due to **(1)** Production of the Association of Natural Rubber Producing Countries (ANRPC) in 9M2016 remained at the same level as last year; while ANRPC's consumption grew by 3.5%: India (+6.2%); Indonesia (+12.7%). Besides, China had decent growth of car manufacturing of 10.7% yoy; **(2)** The policies to cut exports of International Tripartite Rubber Council (ITRC); **(3)** fluctuations in oil prices.

**Poor business results in 1H2016.** In the second quarter, selling price of rubber ranged in VND 29-30 million / tons, significantly higher than the planned level of VND 26 million / ton. However, production of rubber production fell sharply over the same period last year due to bad weather. Besides, after the break season, the high costs related to the restart process rubber reduced profits. Accordingly, profits from rubber is negligible for most listed companies. Some businesses recorded positive business results (TNC, PHR) but mainly due to the impact of the liquidation of rubber trees.

1H2016	Rev (VND Bil)	% yoy	PAT	%yoy	Div paid 2016
--------	---------------	-------	-----	------	---------------

HRC	14.9	-56.8%	4.6	-83%	25% stock
TNC	26.5	-33.6%	19.4	+133%	5% cash
TRC	123	-18.9%	20.3	-8.4%	7.5% cash
DPR	305.6	-2.6%	57.5	-44.2%	35% cash
PHR	414.8	-20.9%	67.1	+13.7%	5% cash

Source: Financial statements of listed companies, BSC research

**Business result of 3Q2016 is expected to be better than the first half:** As we expect in our [sector insight report](#), rubber price has bottomed and have favorable movements in 3Q/2016. The price is kept at high level in Q3, which contributes about 30% of total annual output. Selling rubber prices in Q3 of domestic enterprises were around VND 31-32 million / ton, equivalent to the average price in 2015, and significantly higher than the plan (VND 26 million / tons). Due to production costs have been cut down to minimum, and output began to rise, we expect the positive business results in quarter 3/2016, with major contributions from core activities

**Rubber prices in Q4 / 2016 will be influenced by issues such as** (1) the agreement of the ITRC in having further output cut will be decided at a meeting in Nov 2016. (2) Major economies such as China, United States, (3) Oil price fluctuation. BSC expects growth in the recovery of major economies such as China, the US and India will help rubber prices remain at current levels in 4Q2016. Accordingly, the business results from the production of rubber is expected to increase in 4Q over the same period, since the rubber price in 4Q2015 was only 26-27 million / ton, and the fourth quarter contributes about 40% of total annual output.

## Investment recommendation – Market perform

**Based on the developments and prospects of rubber prices, we maintain our MARKET PERFORM assessment for rubber sector.** We are concerned for the sustainability of the recovery of demand, while the supply cuts are mostly short-term factors. At 23/09/2016, the rubber stocks are trading at a P / E median of 8.7x, and P / B of the sector at 0.55x. We note that a number of stocks in the industry with good fundamentals, can attract investors in the near future

### **TRC – BUY – Target price 27,800 – upside +21.9% ([link](#))**

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.

BSC expect high growth in business result of TRC in 2H2016. 2016 PAT is estimated at VND 74.4 bil (+30%), equivalent to 2016 EPS of 2,046 ( excluding provision for bonus and welfare). As of 23/9/2016, TRC was trading at a price of 22,800 VND/share, equivalent to a P/E forward of 11.2x and PB of 0.4.

### **PHR – BUY – Target price 22,800 - upside 24.6%**

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 120-150 billion per year.

We expect PHR to record VND 220 Bil of PBT in 2016, (-15.7% yoy), mainly due to the lower liquidation profit. 2016 EPS is expected at 1,792, after excluding provision for bonus and welfare. As of Sept 23rd 2016, PHR was trading at a price of 18,300 VND/share, equivalent to a P/E trailing of 6.3x and PB of 0.6x.

### DPR – Tracking

Similar to TRC, DPR has the advantage with high yield orchards and high value-added product structure. 75% of rubber production is concentrated in 2H2016 will be the main factor contributing to the profitability of the business. In case of rubber prices remain stable at 30 million / ton, the profit contribution from the activities of the DPR rubber in 2016 will be around VND 45-50 billion, higher than the VND 19 billion by 2015. However, we are concerned that the high provision for bonus and welfare will affect profit available for shareholders. At 23 / 9/2016, DPR is trading at a price of 33.500 VND / share, equivalent to a P / E trailing = 13x and P / B forward of 0.34x

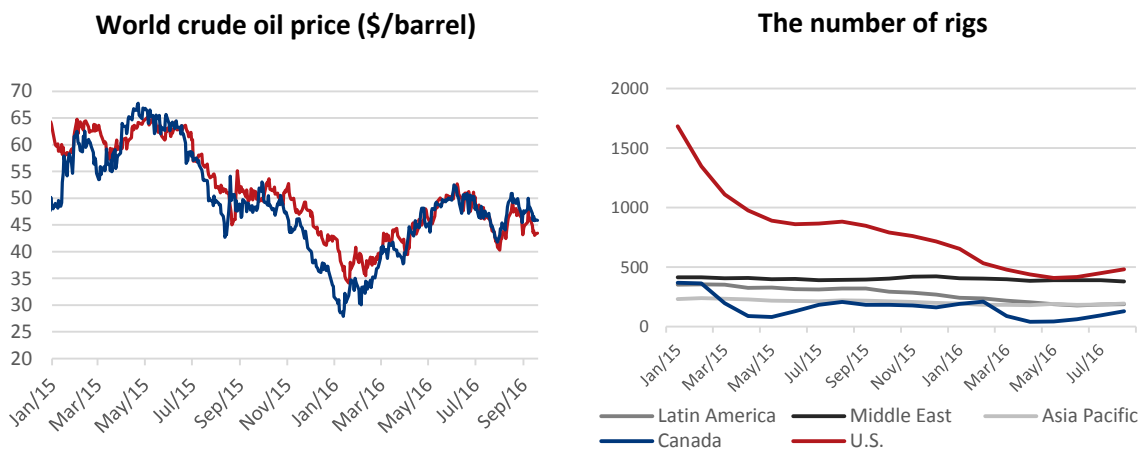
	Rev 2016	PAT 2016	EPS 2016	P/E F	P/B F	ROE	Div 2016	Price as of 24/6/2016	Target price	Upside	Link
TRC	339.73	70.66	1,941	11.7	0.45	3.9%	10%	22,800	27,800	21%	<a href="#">Link</a>
DPR		120	2,990	11.2	0.64	5.7%	30%	33,800	n/a		
PHR		198	2,520	6.8	0.63	9.2%	10%	18,300	22,800	25%	

## Oil & Gas [MARKET PERFORM]

- Oil prices fluctuated in 3Q2016, with the average price of \$ 45.2/barrel for WTI
- Expectations for rising of oil prices prior agreement by OPEC to cut production
- LPG price decreased by 10% over the same period last year and 18.6% compared to 1H2016
- Crude oil production of PVN fell by 7%
- High differentiation in the business results of the upstream and downstream groups.

### 9M2016 Review

**Oil prices fluctuated sharply in 3Q2016:** In 3Q2016, WTI oil prices averaged at \$ 45.2 / barrel, slightly up 2% compared to the average level of 1H2016. However, oil prices have plummeted by 20% in July on the \$41.8, before rising strongly up to \$50 in early September. The volatility in oil prices is influenced by **(1)** the number of rigs in the world had started to increase from July after 10 consecutive months of decline, with an increase of 5% mom, the major growth came from the US (7.5% mom) and Canada (40-50% mom) **(2)** fluctuations in oil production by OPEC, increased in July and slightly declined in August; **(3)** Reports on the economic situation of the world's major countries like the US and China also have significant influence on oil prices.



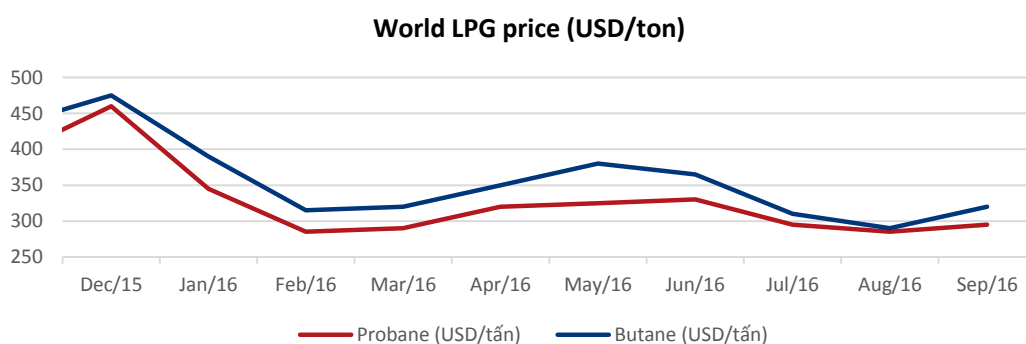
Source: Bloomberg

**High expectation for rising of oil prices amid OPEC's agreement:** On 29/09/2016, OPEC agreed on a preliminary agreement for the reduction of oil output. Preliminary reduction was 750 thousand barrels / day, corresponding to 2% of the current production, with details for each country to be determined on Nov 30th 2016. The consensus of OPEC helped WTI oil prices surge by 5.3% to \$ 47.05 / barrel.

**However, a number of international organizations maintain their assessment for oil prices.** Experts from Goldman Sachs said that the impact of the production reduction would only support oil prices in the short term, since non-OPEC countries, such as Libya and Iraq, would increase production which offsets OPEC cuts. Accordingly, Goldman maintained its forecast WTI oil price of \$43/barrel for the 4<sup>th</sup> quarter 2016 and

\$53/barrel for 2017. Societe Generale Organization also noted that the production cut would not have much influence on oil supplies, with the WTI price forecast is \$ 48.5 in 4Q2016 and \$ 58.5 in 2017.

**9M2016, crude oil production of PVN is estimated at 12.93 million tons, down 7% from the same period last year**, and reached 80% of the plans set of 16.03 million tons for 2016. On Sep 26<sup>th</sup>, PVN officially release that the government had added 1 million tons of oil for production in 2016, which raised the plan to 17.03 million tons, up 1% compared to 2015. As the result, in the last 3 months, some mines such as Thien Ung, Su Tu Trang project ... will start to be exploited, help to boost output in the last months.



**LPG price movements echoes oil prices:** decreased in July, August and rebounded in September. The LPG average price was low in Q3/2016: \$ 291.7/ton for propane, decreased 10% from the previous quarter, and 18.6% from the same period last year.

Update progress of petrochemical projects: **(1)** Nghi Son oil refinery project (Thanh Hoa) with a capacity of 2.7 million tons / year is expected to start the trial run in the Q4/2016. By the end of September/2016, the project has finished 92% and following its schedule. The project is expected to have commercial operation by the end of 2017. **(2)** Project Victory Nhon Hoi was officially stopped on July 22<sup>nd</sup> 2016, due to the delay of PTT Public Company Limited, and the withdrawal of Saudi Aramco **(3)** Long Son oil refinery project faced difficulties, when Qatar corporation, the investor contributed 25% of the project, along with the contract to supply raw materials for the plant, officially withdrew . Accordingly, the starting date was postponed until Q4/2017, instead of late 2016 as previously. As the result, the domestic oil supply will begin to rise from 2018, when the Nghi Son oil refinery operate commercially. In 2016 and 2017, the project's Nghi Son and Long Son are the growth engines for construction companies such as PVS, PXS, PXT.

**High differentiation in the business results among Oil & Gas companies:** In 1H2016, the impact of the decline in oil prices has been clearly reflected in the business results of the oil and gas companies. The majority of them recorded a sharp decline, especially the upstream corporation such as GAS, PVD, PVS, PVC, PVB. In contrast, companies in the downstream distribution sustained better results (CNG, PGS, PGD).

	Revenue 1H2016 (billion VND)	%yoy	NI 1H2016 (billion VND)	%yoy	Revenue in plan 2016 (billion VND)	NI in plan 2016 (billion VND)	Dividend 2016 (%)
GAS	29,803	-5%	3,137	-41.3%	54,751	7,085	30
PVS	9,146	-27%	688	-22.0%	22,000	960	12
PVD	3,353	-59%	116	-89.1%	7,500	100	
PGS	2,116	5%	292.201	256.0%	6,220	116	
PGD	2,028	-20%	195.289	13.6%	5,155	110	10
PVC	1,409	-26%	-6220	N.A	3,000	83	14
PVG	1,196	-8%	10.74	-27.7%	2,950	12	
PGC	1,160	-6%	58.786	11.1%	2,439	120*	
PXS	1,055	-1%	73.563	-5.2%	2,200	145*	13
CNG	438.465	-4%	58.81	1.6%	1,133	92	30

(\*: PGS Q1/2016 divestments, CNG books 248 billion VND in net profit)

(\*\*: Earnings before taxes)

Source: BSC

**Business situation in Q3 of oil and gas enterprises maintained the trend in the first half of the year.** The gas distribution enterprises maintained stable profit, thanks to the policies peg both input and output prices to fuel oil prices. Accordingly, these business are unaffected by oil prices, which are in adverse trends. By contrast, with oil prices remaining low, the mining, exploration are stalled, leading to the severe decline in the oil and gas construction business (PVD, PVS).

## Investment Recommendation

We maintain our **MARKET PERFORM** assessment for Oil & Gas sector in 4Q2016. BSC expect positive developments in oil prices, when OPEC officialize and specify their decisions on oil production reduction at its meeting on 30.11.2016. The information on production reduction will support oil prices in the short term, which help average oil prices will be \$45-50/barrel in 4Q2016 (average level of 9M2016 was \$44.2 /barrel). Investors should note the gas distribution enterprises have the ability to maintain stable profit, and construction firms that have signed contracts for the second half of 2016 and 2017. Oil & gas stocks are traded at medium P/E of 10.7x on 23/9/2016

### PGS – Buy - Target price: 19,000 VND/share (+ 15.2%)

9M2016, CNG consumption is estimated to increase by 10% yoy and LPG volume increased by 22% for the industrial segment and 4% for the residential segment. This growth is much appreciated in the context of the high competition in LPG market due to be loosened business conditions under Decree 19. Moreover, CNG production is expected to increase since 2017 thanks to consumption of 2 major customers, Samsung and Nam Kim Steel. These two will contribute approximately 18% growth compared with the current CNG output. As of September 23<sup>rd</sup> 2016, PGS is trading at 16.500 VND / share, equivalent to trailing P/E of 8.1x. (BSC estimates, excluding unexpected profit and contributions of CNG Vietnam in business results)

We forecast that in 2016, PGS will record revenue of VND 4.052 (+ 2% yoy) and VND 106 billion (-8% yoy). We note that our forecasts were excluded the abnormal from CNG divestment.

### **PGC – BUY – Target price 13,200 VND/cp**

Petrolimex Gas JSC is the largest LPG distribution business in Vietnam, with 10% market share. The company has major advantage in distribution through 2,100 nation-wide stations of Petrolimex, enable PGC to overlay LPG distribution business in all 3 regions.

PGC maintain high and stable dividend, at about 11%. We expect PGC earnings to have a stable growth thanks to good management; along with growth in new clients. BSC forecasts that in 2016 PGC will reach VND 2,511 billion of net sales (-2% y.o.y) and VND 111 billion (+ 14% yoy), corresponding to EPS of 1,600 VND / share. PGC is trading at a P / E FW 2016 = 6:56 - relatively low compared to peers.

### **CNG - Tracking**

Among Oil & Gas stocks, CNG maintains a stable in profit thanks to the mechanism that pegs output and input prices to fuel oil. This is the business's strength in the context of oil price fluctuations at low level. In 2016, BSC expects CNG will exceed profit target thanks to the high growth in construction activities ( the client segment contributed more than 70% of the CNG consumption. The outlook for 2017 is positive thanks to the contribution from major customer, Vigracera, with contribution of approximately 20% growth in output. As of september 23<sup>rd</sup> 2016, CNG was trading at VND 40.300 / share, equivalent trailing P/ E of 9.2x and P/B of 2.8 x.

We forecast that in 2016, CNG will book VND 910 billion in revenue (- 4.3% yoy) and VND 123 billion in PBT (+ 4.3% yoy), corresponding to 2016 EPS of VND 4,600/share

### **PXS- Track**

From 01.01.2016 to 31.08.2016, PXS had VND 1.459 billion contract value had been made , of which VND 1,273 billion has been paid. PXS projects are under downward pressure on unit prices, while low oil prices hinder investors' financial ability. Gross profit margin has remained at 13-14%, with gross margin of on-shore projects of about 15% and off-shore projects of 10%. We forecast that in 2016, PXS will record about VND 1,900 billion in revenue and VND 116 billion in net profit. On 26/09/2016, PXS closed at VND 12,600/share, equivalent to trailing P/E of 7.05x.

Expected to remain the stability in 2017: in 2017, the company plans to continue to implement a three-rig project for the Ministry of Defense (VND 636 billion), completed in 1H2017, Song Hau thermal power project (VND 152 billion) and the rest of the Thai Binh 2 thermal power projects (VND 160 billion). These work will focus primarily in the first 6 months of 2017. Additionally, PXS has recently signed the Long Son project, with total value of \$110 million, that will be carried out within 3 years from the Q4 / 2017, with the contribution in 2017 is negligible (around 10 billion VND)

Stock	Revenue 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 23/09/2016	Target price	Link báo cáo
	4,052	97	1,442	12.4	0.66	15.00%	25% cash & 31% stock	17,700	20,100	
CNG	900	123	4,600	8.7	0.85	9.80%	30% cash	40,300		
PXS	1900	116	1837	7.56	1.02	15.00%	13% cash & 10 % stock	13,700		
PGC	2,511	111	1,600	7.15	0.98	13.60%	12% cash & 20% stock	11,450	13,200	<a href="#">Link</a>
PVD		100	287	89.1	0.69	0.07%	N/A	25,600		
GAS		5,800	3,060	22.2	3.3	14.80%	25%	68,130		

Source: BSC forecast



## Aquaculture [UNDERPERFORM]

- Aquaculture export value in 8M2016 increased by 4% over the same period 2015
- 2Q2016 business results witnessed strong growth of leading companies.
- Total export value may reach USD 7.1 bil (+8%yoy) in whole year 2016

### 9M2016 Review

**Aquaculture export in 8M2016 grew 4.1% yoy**, reaching USD 4.3 bil. America, Japan, China and Korea remained the largest export markets; markets with strongest growth were China (53.9%), USA (11.9%) and Thailand (9.9%)

**Shortage of input cause material prices to increase lightly.** 8M2016, pangasius planting area in Mekong Delta has been decreased by 26%, harvested area was also declined 20% over the same period 2015. 9 out of 10 provinces witnessed strong decrease such as Kien Giang, Soc Trang, Can Tho. In second quarter 2016, pagasius price in domestic market increased slightly from 18.000-19.300 dong/kg to 20.300-20.800 dong/kg.

**Second quarter business performance.** Except for VHC recording strong growth in core business thanks to increase in main export market America (+11%yoy), Japan and China (doubled compared same period 2015), these other firms remained disappointed. HVG recorded light growth in core business. 9T2016, revenue increased by 148% thanks to FMC consolidated. However, gross profit decreased from VND 105 bil to VND 104 bil, NPAT increased 9 times because of 30% difference in import-selling soybean residue (HVG has been sold half of import soybean residue amount).

#### Second quarter business results.

Ticker	Rev (bil)		Gross profit (bil)		NPAT (bil)		P/E	P/B
	Q2/2016	%yoy	Q2/2016	%yoy	Q2/2016	%yoy		
HVG	10,427	44%	741	59%	62	33%	29.63	1.18
VHC	3,681	15%	605	47%	325	70%	9.87	1.87
FMC	1,182	-4%	89	-14%	36	13%	7.15	1.53
IDI	1,412	25%	196	18%	37	-42%	8.45	0.76
ANV	1,393	27%	230	50%	(19)	N/A	N/A	0.41
ACL	571	0%	93	17%	16	26%	6.06	0.59
TS4	377	0%	68	-3%	5	82%	21.69	0.48
ABT	218	-5%	43	-32%	24	-39%	10.59	1.31
<b>Average</b>							<b>13.35</b>	<b>1.02</b>

Source: Companies financial reports

**Shrimp export might encounter difficulties due to increase in antidumping duty from 0.91% to 4.78%.** Specifically, all consignments of frozen shrimp imported into the US from 01.02.2014 to 01.31.2015 will be subject to anti-dumping tax rate of 4.78%, while the tax rate the last time was 0.91%. This tax rate if enforced will make Vietnams shrimp export businesses less competitiveto as rivals such as Thailand, India is subject to a 2-3 times lower duty.

**Vesep forecasts that aquaculture export value might increase 8% in whole year 2016, reaching USD 7.1 bil**, in which shrimp export reach USD 3 bil and pangasius reach USD 1.6 bil. This forecast number is lower than Vacep announced before, standing at 13%, due to shortage of input material in last quarter 2016 and higher antidumping duty in shrimp export.

### Investment recommendation - Underperform

We remain **Underperform** assessment to Aquaculture sector. Leading firms such as VHC, HVG in the last 3 months 2016 are forecasted to keep being stable because this is the peak season of aquaculture consuming in main markets such as USA, Korea, Japan and EU. However, when it comes to sectors as a whole, we reckon that non-tariff barriers in the main markets, weather fluctuation will somehow have negative affect on the sector in middle to long-term perspective. We recommend investors to track some leading firms such as HVG, FMC, VHC thanks to expansion plans to meet export demand, resource autonomy, good product quality and highly appreciated by export markets.

#### HVG- Recommend Tracking.

3Q2016 mutation profit did not come from core business but through arbitrage selling soy cake. HVG had imported 127.000 tons of soy cake with price of 7.000 dong/kg, and has been selling a half at price of 11.000 dong/kg. The remain is intended to be sold in Q4-2016 and Q1-2017. Besides, HVG is hiring E&Y restructuring the company in a direction that current parent company will be the Holding company, focusing on 5 mains activities: (1) Panangasius (2) Shrimp (3) Livestock (pig) (4) animal feed (4) Cold Storage. The plan is in process, so we recommend investors to Track HVG at the momment.

#### VHC- Recommend Tracking.

In quarters 2016, USA market was the bright spot of VHC since aquaculture import from this country increased by 21% yoy, reaching USD 87 mil. In addition, China was also VHC's growth engine since this market increased by 159% yoy, standing at USD 7 mil. In September, the Van Tien Duc Giang plant was put into production focusing on Teriyaki with high added value, expected to bring better outlook for VHC in fourth quarter 2016 and 2017. However, we believe that VHC's growth potential has been factored in VHC's current price, so we recommend investors to Tracking with VHC.

#### FMC- Recommend Tracking.

FMC is now the largest shrimp exported listed. When the shrimp antidumping tariff increases to 4.78%, FMC will bear the greatest negative impacts since USA is still the largest import market. Recently, FMC had adjusted its 9M2016 business plan with the decline of 66% in revenue, only standing at 2.230 bil. Therefore, we reckon that FMC Q4-2016 outlook will be difficult.

Sector	Ticker	Rev 2016(bil)	NPAT 2016(tỷ)	EPS F 2016	P/E F 2016	P/B F 2016	ROE F 2016	Div 2016	Price 23/09/2016	Target price
Aquaculture	HVG	23,994	349	1,537	6.22	0.75	12%	Cash:20%	9.560	N/A
	VHC	7,500	340	3,696	16.83	2.49	15%	Cash:20%	58.500	N/A
	FMC	3,176	105	3,500	6.18	1.40	22%	Cash 15%	21.650	24,000

## Marine transportation [UNDERPERFORM]

- Transportation volume of domestic fleets decreased by 4% in 6M2016.
- 6M2016 business results remained diversified between tanker and bulk cargo.
- In fourth quarter 2016, tanker transportation is forecasted to be stable while bulk cargo firms remain at crisis

### 9M2016 Review

**Transported volume of domestic fleet has decreased by 4%**, standing at only 54.2 mil tons and fulfilled 43% plan. Vinalines's revenue witness significantly decline, in which bulk cargo decreased by 16%, container 2% and tanker 20%. The main reasons should be blamed for big gap between fleet supply and demand, and price in charter contract has decreased about 30-50% over the same period 2015.

**Demand for bulk cargo fleets remained low.** The BDIY index closed at 836 on 19th Sep 2016, much higher than it was at the end of second quarter (at 660) but still remained 7% lower than it was in the same period in 2016

**6M2016 business results- remained diversified between tanker and bulk cargo fleets.** Overall, the tanker fleet remained stable business results thanks to increase in imported clean oil and Dung Quat refinery run stably. In contrary, bulk cargo fleet kept being in trouble due to weak demand, exchange rate fluctuation and large depreciation expenses.

### Q2-2016 business results.

Ticker	Type	Rev		GPM		NPAP		P/E	P/B
		Q2/2016	%yoy	Q2/2016	Q2/2015	Q2/2016	%yoy		
PVT	Liquid	3,265	29%	11%	12%	192	40%	9.17	1.06
VOS	Bulk cargo	683	-14%	7%	-2%	-126	N/A	0.00	0.24
VTO	Liquid	599	-8%	19%	12%	51	92%	9.56	0.7
GSP	Liquid	558	11%	12%	14%	32	-7%	8.64	1.13
VNA	Bulk cargo	279	-14%	1%	4%	(29)	N/A	0.00	0.26
VIP	Liquid	283	-5%	24%	25%	80	177%	5.95	0.55
PJT	Liquid	203	4%	15%	13%	16	62%	5.91	0.83
SKG	Tourist transport	189	22%	70%	67%	119	33%	16.19	5.9
VFR	Bulk cargo	0	-100%	0%	-2%	-	-100%	0.00	0.82
HTV	Bulk cargo	98	1%	26%	21%	15	-5%	6.82	0.72
TCO	Bulk cargo	76	-9%	25%	26%	16	30%	5.88	0.93
TJC	Bulk cargo	86	-11%	18%	12%	8	6%	8.17	0.64

Source: Companies financial reports.

**Bulk cargo fleet will remain at crisis at least until the end of 2016.** Due to weak demand of some main cargo such as steel, rice, combined with fleets being purchased with very high prices leading to high depreciation and interest expenses, we reckon that bulk cargo fleets such as VOS, NOS will be hard to recover in the fourth quarter 2016.

**Tanker fleets will be stable in the fourth quarter 2016.** Thanks to being in time charter contract with Petrolimex and PVN, tanker fleets have quite stable business performances. In third quarter 2016, VTO, VIP and PJY (subsidiaries of Petrolimex) had purchased clean oil tanker fleets in anticipation of increase in clean oil imported to take advantage of tax benefit. This is expected to bring positive results to these firms. Besides, PVT, the leading tanker in Vietnam, will witness modest fluctuation in business result for the last 3 months 2016 thanks to 100% uptime in FSO/FPSO and crude oil transportation for Dung Quat refinery.

### Investment recommendation - Underperform

Due to weak demand from China and domestic market, we remain our **Underperform** assessment to Marine transportation in general. However, domestic tanker fleets such as PVT, VTO, PJT, VIP we believe will keep being stable thanks to stable Dung Quat refinery operation and strong growth of clean oil imported (taking advantage of reducing clean oil imported tax).

#### PVT- BUY- Target price 17,900 dong/share.

PVT's fourth quarter outlook: (1) crude oil transportation for Dung Quat refinery will remain stable as it did in 2015, standing at 7.2 mil ton despite low oil price. (2) FSO and FPSO will have uptime of 100%. (3) exchange rate will have modest effect on PVT's bottom line since USD loan outstanding was just USD 80 mil as at 30th June 2016. In 2017 as well as long-term, Nghi Son refinery will be in operation, significantly increase PVT's crude oil transportation demand. Therefore, in 2018 PVT is planning to find strategic partner to purchase one VLCC and decrease PVN ownership from 51% to 36%.

#### VTO- BUY- Target price 12.800 dong/share.

In Aug 2016, VTO had purchased vessel with capacity of 20,000 dwt to transport clean oil for parent company Petrolimex from Singapore, in exchange for 1 vessel which VTO rented before. Recently, transportation volume is still fairly stable thanks to increase in clean oil imported by Petrolimex taking advantage of low tax when AEC going into effect. Therefore, we believe that VTO's fourth quarter outlook is still bright. However from 2017 VTO might have to run their fleets under spot contracts after Nghi Son refinery officially operation (projected to run at full capacity at the end of 2017) with lower efficiency compared with time charter contracts with Petrolimex.

#### GSP- Tracking.

At the end of Aug 2016, GSP had changed its business plan in the way that increase its revenue to 1.135 bil (compared with 620 bil before) due to Vietnam Japan transportation JSC separation and add LPG commercial trading and LPG trucker transportation, NPAT increases to 43.8 bil. GSP's Q4-2016 outlook is

quite stable thanks to its lion share of LPG transportation in domestic market. In 2017, GSP will be up for bidding to transport LPG for GPP Ca Mau with volume of about 30.000 ton per month. GSP projects to record revenue from GPP Ca Mau from April 2017.

Ticker	Rev 2016(bil)	NPAT 2016(bil)	EPS F 2016	P/E F 2016	P/B F 2016	ROE F 2016	Div 2016	Price as of 23/09/2016	Target price
PVT	6,747	507	1,794	8.03	1.10	0.13	N/A	14.400	17,900
GSP	1,132	71	1,922	7.07	1.06	0.2	Cash 12%	13.600	15,200
SKG	382	218	8,921	10.11	5.55	0.37	cash 30%	90.200	100.400
VTO	1,428	105	1,288	7.69	0.80	8%	Cash 8%	9.790	12.800
VIP	625	106	1,561	5.57	0.53	N/A	Cash: 8%	8.690	N/A

BSC research

**Disclaimer**

*The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user.*

**Le Thi Hai Duong****Sales & Advisory**

Tel: 0439352722 (155)

Email: [duonglh@bsc.com.vn](mailto:duonglh@bsc.com.vn)**Tran Thang Long****Head of Research**

Tel: 0439352722 (118)

[longtt@bsc.com.vn](mailto:longtt@bsc.com.vn)**EQUITY ANALYSTS****Luong Thu Huong**

Steel, Cement, Technology

[huonglt@bsc.com.vn](mailto:huonglt@bsc.com.vn)**Tran Thi Hong Tuoi**

Banking, Pharmaceutical,

Plastic, Tire, Fertilizer

[tuoith@bsc.com.vn](mailto:tuoith@bsc.com.vn)**Nguyen Bao Hoang Le**

Oil &amp; Gas, Insurance, Automobile,

Rubber

[thanhpntn@bsc.com.vn](mailto:thanhpntn@bsc.com.vn)**Le Thi Trang**

Textile, Sugar, Tiles

[tranglt@bsc.com.vn](mailto:tranglt@bsc.com.vn)**Chu Tuan Phong**

Seaport, Marine Transport,

Aquaculture, Electricity

[phongct@bsc.com.vn](mailto:phongct@bsc.com.vn)**Nguyen Tran Tri**

Construction, Dairy

**Nguyen Quoc Truong**

Real Estate

[truongnq@bsc.com.vn](mailto:truongnq@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](http://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

Facebook: [www.facebook.com/BIDVSecurities](https://www.facebook.com/BIDVSecurities)

*No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).*



Lầu 9, 146 Nguyễn Công Trứ, quận 1, TP. Hồ Chí Minh.  
Tel: (08) 3821 8508 - Fax: (08) 3821 8510