



# VIETNAM MACRO & MARKET OUTLOOK

2017



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**Year 2017**

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# Investment strategy in 2017

Vietnamese economy is going through a good growing cycle, capital market is focused, which makes a positive impact on several aspects of Vietnamese stock market including market scale, a larger number of listed stocks and investment accounts. However, the quality has not been improved, especially some aspects are going down such as (1) liquidity (market turnover, the quantity of stocks having a scale of transaction as more than 1 million USD is decreasing), (2) foreigner investors collect their capital from Vietnamese stock market, which increases the risk to the investment flow heavily dependent on margin, (3) the transparency is deteriorating (some new blue chips fluctuate unexpectedly, the rally and low liquidity both influence indices negatively and erode the investor's belief, (4) new listings in Upcom exchange brings various selections to investors, but also create stock dilution of big stocks. Low liquidity has led to rally of new listed stocks on Upcom, nevertheless this will make a bearish pressure on the market like what happened in 2006-2007 period when these stocks moved to HNX and HOSE.

The expectation is not appreciated in the year of 2017 like it was previously because the macroeconomic risks are getting bigger, combined with a small source for executing fiscal policy, the decrease of interest rate, exchange rate and overseas cash flows in quoted market and the dramatic increase of stock supply. Besides, market supporting solutions have not been deployed yet, so short term measures such as adjusting the time for payment from T+3 to T+2, T+1 or T+0 is essential to push demand. According to the big problems in macroeconomics, stock market and current big trend in Vietnamese market (are mentioned above), we provide you some predictions and investment strategy for the year of 2017:

**The scale of quoted stock market could increase to USD 90-100 billion**, 25 big companies that have been or are going to be listed in the market recently or in the next year, like Sabeco, Vinatex, Thaco, Novaland, ... could have the total value of USD 36 billion (estimated) accounting for 40% current Vietnamese market capitalization.

**The divergence of the cash flows.** Although the market scale increased significantly, the liquidity could hardly go up comparably.

- Limited cash flow from domestic investors, along with the pressure of margin will make the investing activities continue to concentrate on firms with fundamental values, transparent management and bright prospects when the others with high betas will weaken.
- Foreigner's cash flows could be continuously taken out of the market in the first period in 2017 based on the impact of FED and macroeconomics.

- M&A activities, OTC, IPO auction will attract the cash flows from the quoted market. Some old stocks with an attractive value will be a good choice for investors at the end of the year because it will have been ignored before that.

**About VN-Index**, VN-Index is expected to get a bad scenario and a good one with the point of 590 and 758, respectively. The index is continuously influenced by the appearance of new and big stocks. Those new players will overshadow the veteran blue-chips of the recent years

**The movement of the market in 2017**, bullish and bearish trend will exchange each other with a strong volume. The market was adjusted in the end of 2016 and is being continued in Jan, 2017 and the first half of Feb, 2017. Therefore, the probability of the recovery in March and April, 2017 is so high, because:

- The market will get higher based on its cycle in March and April if it is adjusted in Jan and Feb because in that point of time, the market will receive lots of supporting information from the expectation of the economy, companies will publish their audited financial statements, plans for the quarter I, 2017 and AGMs in 2016.
- Domestic investors focus more on the market after the holiday. The foreigners more likely take their bid after withdrawing their capital, which makes a safe spread for investing activities.
- The point of time for the auctions and quotation of attractive stocks.

**The psychology effect from new stocks**, the performance in 2016 and Q1-2017 can help the market be stable in the first 6 months of the year. However, the remaining 6 months will depend on the new cash flow, solutions for supporting demand. In this period, elections in big nations in EU, along with macroeconomics policy, the fluctuation of exchange rate and interest rate will clarify the complex change in the stock market. So, the prediction for the market in the end of the year will be detailed in the Statement of Vietnamese Macro and Market Outlook for the last 6 months 2017.

**About the “leaders” in the stock market in 2017**, some new, big stocks with the plan of capital divestment of the State will continuously attract the attention the market, but if their liquidity is not improved, the contribution is only in terms of Index number. (2) Based on the recovery of the commodities on the world and the commercial protectionism trend ...several sectors like Steel, Oil, Rubber, ... will continuously get benefits (3) The intention to invest in infrastructure, support to high-tech agriculture will create the chance for the fields of Construction, Technology and Agriculture. (4) Defensive stocks with a high dividend payment, sectors having a stable growth and being suitable for long-term approaching, some blue-chips with an attractive price will be the “leaders” (5) The domestic consumption oriented sectors will obtain the attention such as Retail, Beverage, Pharmaceuticals and Airline services.

**For prospects of the sectors and shares in 2017**, please refer to details in **"Vietnam Sector Outlook 2017"**.

# A dynamic and prosperous Vietnam

After 30 years of renovation, Vietnam has become a developing country with medium income per capita, a dynamic economy with a deep integration with the world economy. Vietnam's economy is highly opened with a total trade volume reached 360 billion US dollars in 2016, more than 1.7 times the GDP and has signed 12 free trade agreements with many countries and regions. The main trend for the economy in the period 2016 - 2020 will create a development platform for the stock market in the medium and long term, be generalized as:

**The economy maintains the recovery trend with growth rate of 6.5%.** GDP bottomed with an average increase of 5.88% in 2011-2015, rebounded from 2005 and maintained increasing rate at around 6.2% in 2016. On average, growth in the period 2016-2020 is expected to be from 6.5% to 7%. Income per capita was \$ 2,228 in 2015 and is expected to rise to 3200-3500 dollars in 2020. GDP per capital rise helped the domestic market to become one of the important growth driver and to facilitate for development on many sectors.

**Large workforce, demographic structure facilitates economic growth in the next 10 years.** Vietnam's population is estimated at 94.44 million, accounting for 1.27% of the total world population, and ranked 14 of the world population. The average age of people is 30.8 years, the urbanization rate is of 35%. Workforce over age of 15 is 52.84 million, accounting for 56.5% of the population. Number of employees over age 45 reaches 19.72 million people (over 50 years old was 13.89 million or 14.9%) equivalent to 21.1% of the labor force and will turn dependent in the next 10-15 years. Opportunities arise from golden population before moving on to the aging of 18-20 years, according to the World Bank.

**The private sector is paid attention and is an important growth drive.** Private sector with more than 500,000 enterprises, accounting for nearly 90% of enterprises, contribute 40% of GDP, 30% of total industrial output, 80% of the total turnover of retail goods and services (for the period 2006 -2015). The message is that private enterprise is given development condition in most economic sectors, particularly small and medium enterprises, start-up businesses; participating in state divestment. "The government of creating and serving" continues to remove barriers from redundant procedures in many sectors.

**Stock market size continues to expand with expectation of 80% of GDP in 2020.** in 2016, the market capitalization increased by 30% and equal to 42% of GDP by boosting listing on official exchanges. Compared to the average market capitalization rate of 88.6% GDP of four Southeast Asian countries including Malaysia (121%), Thailand (103%), the Philippines (82.5%) and Indonesia (48%), the current market capitalization of Vietnam is still quite modest. The target of market capitalization of 80% GDP in 2020 (about US \$ 200 billion) is quite ambitious, but not really unachievable because: (1) The state-owned companies have been accelerating privatization and must be listed after 1 year of privatization; (2) 777 public companies are unlisted; (3) listing activities of the private business sector.

**Vietnam is in the stage of accelerating urbanization,** the fastest pace in Southeast Asia (up 3.4% / year). Goals in 2020 is that the urban population of about 44 million people (32.3 million in 2016), accounting for 45% of the population, by 2025 the urban population of about 52 million, accounting for 50% of the population. This would create a foundation for the development of urban



infrastructure as well as the related fields, boosting annual GDP growth and attract more FDI flow into Vietnam.

## The central issues of Macro Economy and Stock markets in 2017

Besides main trends, Vietnam like other developing countries are facing challenges come from macro and political environment specifically in 2017. We posed 7 big questions on macro economy and stock markets with issues that we think may put strong impacts on 2017 outlook. Details on followings:

### 1. Is it possible that Inflation may be out of control in the context of the recovery in commodity prices?

Inflation target of 4% on average of Government in 2017 is likely to face many challenges, and, if not achieved would put direct pressure on interest rates and exchange rates, which affect the prospects of the stock market.

**The first challenge** comes from the trend of commodity prices recovery formed from the beginning of 2016. World commodity prices have recovered 9% since the beginning of the year and, in particular, recovered more than 3% since the US election results due to the optimism about large demand for constructional materials for massive infrastructure development policy of Mr. Trump. Besides, oil prices are in the rebounding trend when the agreement to cut production in and outside of OPEC has achieved the first steps. Therefore, prices of commodity are likely to continue upward trend in 2017 with many important commodities such as metals, steel, zinc, copper and crude oil, this would directly affect input prices for manufacturing & building.

**The second challenge** comes from the dollar's rising trend. Trump's victory along with the forecast of three times Fed rate hikes in 2017 has consistently pushed US dollar index (DXY) rise back to the highest in 14 years. Exchange Rate increases will cause imports to rise, pushing up inflation, not to mention pressure on public debt and domestic interest rates.

**Table 1: Changes of commodity prices as of 26/12/2016 compared to previous period**

	Crude oil	Gold	Copper	Tin	Zinc	Steel	Iron ore	Coal
Change (%)	43.13	4.86	16.56	43.09	69.53	48.81	86.59	65.55

**Table 2: Since 2012, inflation moved in the same direction with Bloomberg Commodity index development**

	2012	2013	2014	2015	2016E
Inflation (%)	6.8	6	1.84	0.63	5
Change of BCOM (%)	-1	-10	-17	-25	10

Source: Bloomberg, BSC Research

**The third challenge** is that inflation control also faces internal difficulties such as price adjustments on healthcare and education services according to the schedule and the possibility to raise electricity prices in 2017. With the two remaining adjustments on health care, education costs and the possible rise on electricity prices, rising cost of fuel and building materials, **inflation in 2017 is estimated to be the lowest at 4.5% and the highest at 6%.**

Thus, the possibility of high inflation in 2017 is high and would influence the selection of the investment portfolio. Although the estimate is not too high, that could cause sharp fluctuations in the currency markets and foreign exchange markets, but its impact is expected to make the interest rates bottom up in 2017 before rising by 1% and VND would lose about 2%.

## **2. Would FDI inflows into Vietnam slowdown due to the possibility of TPP collapse?**

After Trump had won the US president election, there have been many concerns about the feasibility of the TPP. Right after becoming the new US president, Trump has shown toughness in view on the US withdrawal from TPP. Although without TPP, Vietnam would continue deep integration with 12 FTAs, the strong determination to withdraw from TPP plus the slow down of FDI inflows in the last months of 2016 raised concerns. FDI is considered to be an important factor for Vietnam's economy when FDI sectors have contributed greatly to trade surplus and GDP growth and foreign exchange stability. FDI inflows in the last months showed signs of decline which affects the risk of growth, foreign exchange rates, trade balance. Factors to be considered when assessing FDI trend in Vietnam

- (1) The source of Vietnam's annual FDI mainly come from Korea, Japan and Singapore (accounting for nearly 53%) while FDI from the United States accounted for only 1.5%. Thus, the policy "America first" of Donald Trump to reduce investment in the emerging markets will not affect significantly the structure of FDI in Vietnam.
- (2) The currency of the two countries Korea and Japan are in the downward trend, which will spur capital to seek investment destination outside the territory. In particular, the JPY may suffer stronger downward pressure in 2017 when the BoJ is likely to continue to maintain quantitative easing.
- (3) FDI flows into the production, processing and manufacture more instead of flowing into the real estate business channel, enabling stable and sustainable capital flows.
- (4) FDI flows into China are showing signs of decline (11-month cumulative FDI flows into China fell 8.5% YoY) and will have to find new investment destination in the area. This factor maintains a sustainable level of FDI in the long term as the cost of production in Vietnam is at low levels accompanied with improved infrastructure.
- (5) Besides TPP, other trade agreements which are on progress such as RCEP, FTA promise FDI to Vietnam

**Table 3: Structure of FDI into Vietnam (%)**

	2012	2013	2014	2015	2016E
Manufacturing	69.8	77.2	75.9	64	67
Real estates	15.1	13	7.3	11.5	9.7
The rest	15.1	9.8	16.8	24.5	21.3
FDI disbursed	10.5	11.5	12.4	14.5	16



FDI registered*	13	21.6	20.2	22.76	19.1
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\*FDI registered includes newly registered projects and adjusted capital for projects registered in previous year

Source: GSO, BSC Research

**Therefore, FDI flow into Vietnam is expected to continue to be stable in the long term.** FDI disbursement is expected to continue to grow at 11.4% CAGR in the next 3 years while FDI registered will slow down to the average level of 20 billion dollars annually. The sharp decline in FDI is less likely to happen, however, the disbursement rate in the near future could probably not grow as well as the previous period. This makes sectors heavily influenced by FDI and foreign capital inflows would expose to more significant risks. However, we believe that these concerns were reflected largely on market developments of the stocks in the sectors: direct (textiles, seafood, agricultural products); Indirect (logistic, seaport, industrial real estate). Thus, when these industries begin bottoming and business results grow again thanks to the long-term trend of FDI flow, it is the chance of the stock market in 2017.

### 3. Could a real estate bubble happen in 2017?

Real estate bubble in 2007 and 2010 were the two major influences on the economy of Vietnam. With as many as 65% specific collateral is real estate loans, the financial market and real estate market are always connected, and expose to potentially greater risks from the banking system. When the real estate bubble bursts, property prices will plummet and bad debts will rise, which is the least desirable perspective for investors. To see whether the real estate bubble would occur in 2017, let's go over the signs including:

**The first sign of the real estate bubble** is macroeconomic overgrowth with credit surge. However, the current economy is still in the recovery phase, estimated at just 6.2% growth in 2016 and 6.6% in 2017, and credit growth in recent years has been low and stable. Credit growth in 2016 is estimated at 18% and in 2017 will be maintained at 18-20%. Thus, the macroeconomics shows currently no sign of overgrowth.

**The second sign** is the loose lending policies and low credit standards in real estate area. However, with Circular 06 amendment of Circular 36 (increasing the risk ratio of real estate from 150% to 200% from the date of 01.01.2017) and the reduction of using short term deposit for medium and long term lending, the credit flow to the real estate has considerably slowed down, especially in the last months of 2016. The credit flow into real estate business is expected to grow gradually in 2017.

**Table 4: the growth indicators for real estates - construction**

	2013	2014	2015	2016E
Credit growth (%)	12.51	14.16	17.29	18
Credit growth for real estates (%)	15.4	19.3	26	9
Short term deposit for mid and long term lending (%)	43.1	45.4	31	33
GDP (%)	5.42	5.98	6.68	6.2

Source: SBV, BSC Research

**The third sign** is the mismatch of demand and supply of housing. Real estate bubble in 2010 occurred mainly in the segment of medium and high housing when the price level was pushed up too high while the supply also surged. The consequence is the price stumble in 2011. Supply increase on affordable-price housing with the participation of many investors will reduce supply mismatch.

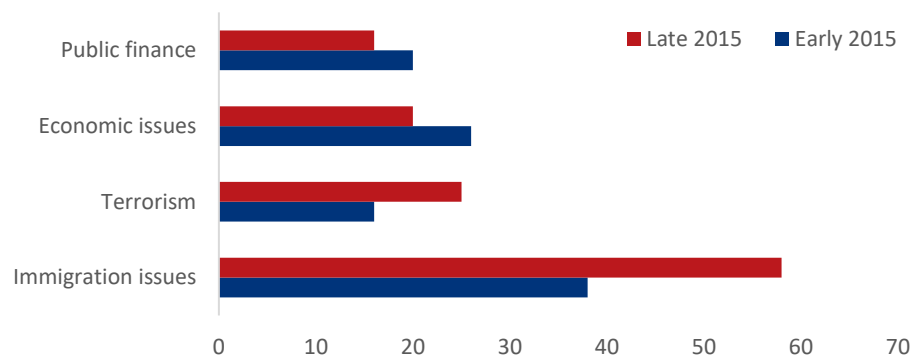
**The fourth sign** is the unstable interest rate and large fluctuations. Lending interest rates for real estate loans in 2010 are very high, at 15% and even climbing up to 20%, thus, businesses were unable to sign new credit agreement and old credit contracts were not completed. This factor in the 2017 most likely will not happen when the current monetary policy and interest rates are stable, showing no signs of large fluctuation.

**Considering all the above factors, it can be expected that the real estate bubble in 2017 will not happen, in contrast, real estate prices may be cooled.** However, there are several points to note such as (1) After the 30,000 billion subsidy ended on January 06.2016, in the coming period, it will be difficult to find a similar package. The reason is that the budget is in difficulty while many other areas of social spending need more capital (2) the real estate credit growth will slow down significantly due to the prudent policies of the central bank (3) inventories are still too large (after 6 months of 2016, inventories amounted to VND 82.823 billion, nearly four times that of 2012, debt of up to 160, 956 billion VND). Although real estate bubble will not happen and liquidity will be kept at good level, the business results of real estate companies continue to be further divergent and real estate stocks shares continue to experience difficulties in 2017.

#### **4. Would the big political changes in the world if happen affect Vietnam's economy like Brexit and the US presidential election?**

In 2016, two major events in the world have a great influence on the development of Vietnam's economy may be mentioned as Brexit and the US presidential election. British Pound and the Euro fell to the lowest levels in the history after Brexit, this posed direct impact on the competitiveness and export of Vietnam. More specifically, Brexit has shown a certain impact on Vietnam's economy such as slower growth of exports and imports (cumulative turnover of imports and exports increased only by 3.4% in 10 months in 2016 compared with CAGR of nearly 17% in the period from 2008 to 2015) and textiles, computer device and components. Besides, the FTA in negotiations with EU will take longer when the UK is no longer in this block. Similarly, Donald Trump became the new US president was a big surprise and will affect Vietnam's economy through the threatening to withdraw from the TPP and undermine global trade.

In 2017, three major elections in France, Germany and the Netherlands will take place, and if again unexpected results happen will then affect Vietnam's economy. There are legitimate reasons to be concerned about the possibility of a surprise due to populism, concerns about terrorism and rising immigration in Europe.

**Graph 1: Survey on which are the most concerns in EU (%)**

Source: Eurobarometer

French President Francois Hollande has refused to participate in the 2017 election, while Angela Merkel is under domestic criticism against Germany loss incurred from radical Islamic fundamentalism. **If the result of 3 major elections in Europe continued to favor populism and protectionism, Vietnam's economy which depends on the export and investment flows would be affected strongly and probability of this scenario is not low.** The most sensitive sectors are export-oriented industries (especially to Europe) and is dependent on foreign investment flows. For exports to the US, most of them which are low value added goods would not be influenced strongly.

#### 5. Divestment in State-owned enterprises influence to market size in 2017?

**Divestment in state-owned enterprises is the determination of the government of Vietnam in 2016.**

This leads to two major events: (1) The value of the market capitalization of the UpCom far exceeds this value on the HNX (As of early December 2016, the market capitalization of the UpCom has reached more than 253 459 trillion, while which of the HNX is estimated at 147 246 trillion) and (2) VNM largest enterprises on the floors listed piloted divestments (9% of Grapher capital, the SCIC has successfully sold 5.4% stake (60% compared to the plan), collection about 1.286 billion dong at December 12, 2016). Despite the divestment of state in 2016 was slower than the plan. As reported by the Ministry of Finance, for the period 2011-2015, the Government is expected to quit the 26,000 billion dong; 42% done and the remaining 58% (15,000 billion dong) is expected to be divested during 2016-2020.

How will the year 2017 continue the trend of the State divestment, and potential impact on the stock market? We give some assessment as follows:

**Stock market capitalization of Vietnam will probably exceed \$ 100 billion.** Number of listed companies will continue to increase due to pressure from the policy of the State. In particular the Ministry of Finance issued Circular No. 180/2015 / TT-BTC guiding the registration of securities transactions on the trading system for unlisted securities, to tighten registration deadline on the Upcom; and Decree No. 145/2016 / ND-CP on the issue of sanctioning of administrative violations in the field of securities and securities markets. At the present, 25 large enterprises which have to be listed on the stock market are pulled long from the present time until the next year, as Sabeco,

Vinatex, Novaland, Thaco, .... the total estimated value of about 30.6 billion US dollars, or about 40% of Vietnam's stock market capitalization at present.

**Promote State divestment and privatization.** Although VNM has not divested successfully as expected, it is a typical case for the State to make the next round of divestments more efficient. 2017 will also be important in promoting the process of divesting the State even for the large SOEs, which have not completed the divestment plan in 2016. This is not to mention pressure from the bank divestments, major investment corporations of the State.

**The impact of divestments on the stock market.** In the longer term, the State divestments, new listings and increase in the room for foreign investors make Vietnam securities market size increase rapidly, so it could attract more large investments, and be upgraded to emerging markets. The market will have better goods; but it also need more cash amount corresponding to the absorption of all the volume of goods in state divestments in the near future. However, in the short term, the money flow did not grow up with the speed of divestments and new listings, leading to shortage of demand in the first stage of the stock market listing. Table 5: 27 large enterprises with large-scale influence the market size in the coming period.

**Table 5: Top 25 firms impact stock market size the most**

STT	Status	Company Name	Group	Grapher Capital (bil USD)	Estimated capitalization (bil USD)	Estimated price (1000 dong)
1	HOSE	SAB	Food, Beverage	282.22	5,560.40	198
2	UPCOM	Vissan	Food, Beverage	35.61	178.07	50
3	UPCOM	Viwas upco	Build	22.01	90.23	40
4	UPCOM	ACV	Aviation	752.34	4,752.98	48
5	UPCOM	QNS	Food, Beverage	82.55	794.94	96.2
6	UPCOM	BHN	Food, Beverage	102.02	1,275.31	128
7	UPCOM	TCT 36	Build	18.93	27.82	16.9
8	HOSE	Novaland	Real estate	274.16	1,609.34	58.7
9	OTC	Petrolimex	Petroleum	594.19	2,124.23	35.75
10	OTC	Masan Consumer	Food, Beverage	231.22	1,965.40	85
11	OTC	Thaco	Car	155.15	227.29	146.5
12	OTC	Vinafor	Forestry	154.05	155.81	10
14	OTC	Viejet	Aviation	2.00	1,571.30	102
15	OTC	Vietnam Airlines	Aviation	620.69	2,715.50	43.75
16	OTC	Veam	Car	584.86	979.64	16.75
17	OTC	VIB	Bank	248.46	422.38	17
18	OTC	Vinatex	Textile	220.07	346.61	15.75
19	OTC	FPT Telecom	Telecommunication	60.33	301.65	50
20	OTC	TCB	Bank	390.76	771.75	19.75
21	OTC	VPbank	Bank	404.09	424.30	10.5
22	IPO	PV Power	Electricity	575.62	1,188.38	20
23	IPO	PV Oil	Oil and Gas	479.05	479.05	10
24	IPO	Mobifone	Telecommunication	660.21	3,661.97	55

27	IPO	Vigecam	Agricultural materials	9.68	10.65	11
26	IPO	HUD	Build	175.22	175.22	10
27	IPO	BSR	Oil and Gas	1,540.49	1,540.49	10
<b>Total</b>					<b>33,350.73</b>	

Source: BSC Research

## 6. Schedule of the Federal Reserve to raise interest rates affect the cash flow of foreign investment in 2017?

Recent years, **the foreign cash flow still plays the leading role and market orientation**. Fed in recent years maintained the lowest base rate in history helped avoid the collapse of financial markets in 2007-2008, and also helped rebound financial market in the following years. US Federal Reserve (Fed) raised interest rates from 0.5% to 0.75% on December 15, 2016, but its impact has occurred earlier. Up to date research data collection in December, **foreign investors were net sellers perform \$ 355.06 million from the beginning of the year 2016**.

In 2017, facing many changes from the world economic situation, the pressure from the possibility of the Fed raising interest rates makes foreign capital flows to withdraw from the frontier market, and this trend will also be the mainstream. Along with the decision to raise interest rates this year, the Fed also announced plans to raise interest rates three times in 2017, each time increased by 0.25%, and forecast to 2018, the US Federal interest rates are likely in the 2,125%. If this plan can be implemented, it will continue to limit the amount of foreign investment on the frontier market, or only partially stimulates cash flow on this market in the short term after the moment of Fed disclosure.

**Table 6: The trading value of foreign net for the Fed's plan and forecast the impact in 2017**

Year	Interest of Fed	QE	Start date	End date	The net value of the foreign investor ( mil USD)
2010	0.0-0.25	QE1	25/11/2008	31/03/2010	158.95
2011	0.0-0.25	QE2	3/11/2010	30/06/2011	318.14
2012	0.0-0.25	Operation Twist	21/09/2011	12/12/2012	40.82
2013	0.0-0.25		31/12/2012	31/12/2013	324.95
2014	0.0-0.25	QE3	13/09/2012	29/10/2014	562.99
2015	0.25-0.5		16/12/2008	16/12/2015	1,423.04
2016	0.5-0.75		16/12/2015	14/12/2016	-353.17
2017	0.75-1.5		14/12/2016	31/12/2017	-100.0

Source: BSC Research

**The immediate effects on ETFs, Pnotess.** As of December 2016, 2 ETFs on the market net withdrawal 71.01 million for DB-X Ttrackers on FTSE Vietnam, and 78.53 million for VanEck Vectors Vietnam, and the pressure in terms of net withdrawal may remain in the coming period. In the short term, the market will also be deficient cash flow from foreign investors, this also poses challenges of providing new alternative cash flow to ensure market liquidity is maintained more stable. Meanwhile, the insufficient domestic cash flow and not-enough low-cost ground could lead to shortage of demand on the stock market, particularly if the short-term cash flow of Pnote is strongly withdrawn.

## 7. Stocks abnormalities can appear more?

**These phenomena when shares were listed previously, the currently witness loss of liquidity or a decline** during a course makes the market raise questions about the quality of shares given that the money market is becoming less positive. While the market has more stocks with good reviews on their fundamentals, the phenomenon, in which the newly listed shares rose sharply and attractive cash flows dependent on market factors and then there are the processes of rapid decline having appeared more and more. Including stocks: (1) There are problems of governance / financial; (2) Raising remarkably capital for listings; (3) These shares have been floating low and the push for price increase. Those shares have low free-float and thus, their prices are easily pushed. Combined with high margin status, when there is fluctuation in the market or interest rates, stocks began to reveal the risks and often fell very sharply, causing losses for investors.

**The shares which have problem above will occur more often in 2017**, due to the difficulty level of cash flow management and more tightening from state agencies. The market is gradually eliminating junk stocks, but these phenomena are causing losses and eroding investor confidence as the quality of the stock on the floor can not be guaranteed, as well as declining general quality of market and indirectly affecting the new cash flow on the market.



# Macro economy in 2016

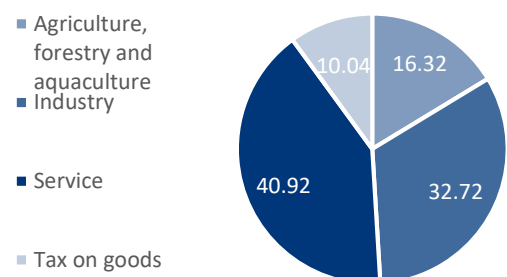
## Economic growth

- GDP 2016 grew by 6.21%
- IIP in 2016 grew less than 2014 and 2015 due to declining Mining
- Consumption rate is kept at positive level, some industries with notable declining inventory
- Retail sales grew well due to pricing factor though buying force is less than last year

Graph 2: GDP per quarter over recent years



Graph 3: GDP structure (%)



Source: GSO, BSC research

**Total domestic product (GDP) in 2016 increased approximately by 6.21% YoY (Q1 + 5.48%, Q2 + 5.78%, Q3 + 6.56%, Q4 + 6.68%)**

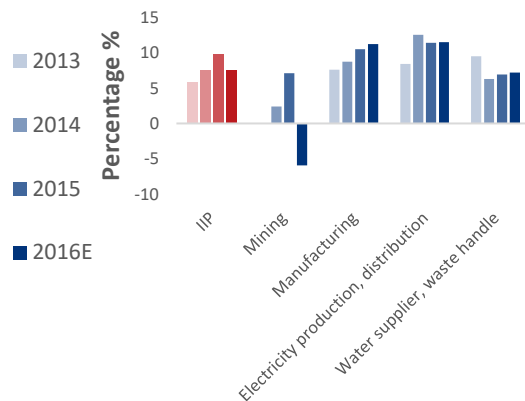
The agriculture, forestry and fisheries increased by 1.36%, the lowest in five years, only contributed 0.22 percentage points to the general rise. Industrial areas and construction up by 7.57%, 9.64% lower than the previous year, contributing 2.59 percentage points. The service sector rose by 6.98%, contributing 2.67 percentage points.

**Industrial production index in December is estimated to increase at a rate of 8.3% over the same period last year.** For the whole year 2016, the whole manufacturing index rose by 7.5% compared to 2015, significantly lower than the rate of 9.8% in 2015 and 7.6% in 2014 because of strongly declining mining sector.

**Consumption index of manufacturing industry increased by 4% MoM in 11/2016 month and increased by 11.9% YoY.** After 11 months, the index increased by 8.4% YoY. Some sectors with notable increased consumption are: Manufacturing of motor vehicles (+ 20.8%); electronic products, computer and optical products (+ 15.1%); beverages and metal (+ 11.9%). Some sectors with the lowest increased consumption are: production of drugs and pharmaceuticals (+ 2.8%); tobacco products (+ 2.7%); other transport vehicles (+ 1.4%)

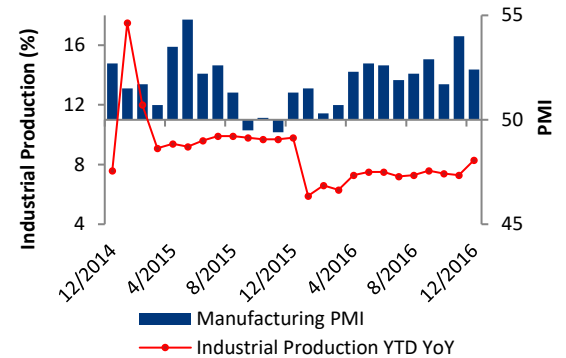
**Inventory index of manufacturing industry rose by 8.1% YoY on 12/01/2016, the lowest inventory levels in recent years.** Some industries have reduced inventory: manufacturing of fabricated metal products -10%; drug manufacturing, pharmaceutical and medicinal - 13%; tobacco products - 27.5%. Some industries have high inventory than the general: Manufacturing of paper and paper products increased by 117.8%; manufacturing electronic products, computer and optical products increased by 93.5%; Beverage increased by 40.4%

**Graph 4: Industry growth over recent years**



Source: GSO, BSC Research

**Graph 5: IIP and PMI**



**PMI fell to 52.4 in December from 54 in November.** PMI in 2016 remained higher than 50, indicating that business conditions were improved continuously throughout the year thanks to increasing order volumes, production and increase of the amount of inventory.

## Inflation

**CPI rose by 0.23% MoM in December, continued to decelerate since October. By the end of December, consumer price index rose 4.7% YoY, lower than the 5% target for 2016**

Consumer price index over the same period 12/2016 2015 increased mainly due to these reasons:

- Prices of medical services increased by 77.57% pushed CPI increase by 2.7%.
- Educational group price index rose by 12.5% after 12 years pushed CPI up by 0.58%.
- Food and catering in 12/2016 increased by 0.58% over the same period in 2015 due to natural disasters, unwanted climate change and higher shopping, entertainment demand

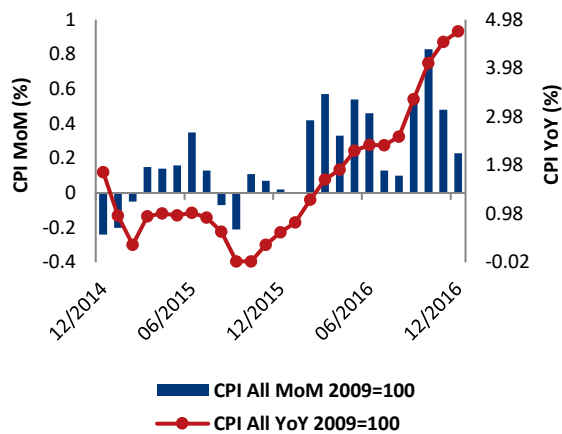
**Table 7**

### Increase/decrease of goods and services MoM and YoY

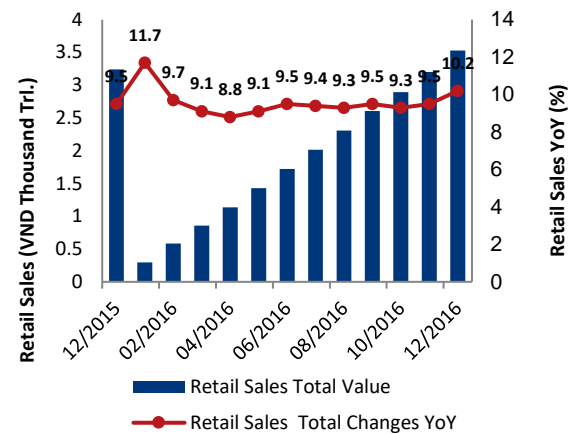
Nr.	Sectors	MoM (%)	YoY (%)
1	Food and catering	-0.03	2.87
2	Transportations	-0.89	-1.12
3	Health cares	5.3	55.72
4	Housing, construction materials	0.19	3.26
5	Entertainments	-0.01	1.35
6	Beverage and cigarette	0.21	1.97
7	Clothing	0.25	1.64
8	Housing appliance	0.08	1.02
9	Education	0	10.81
10	Telecommunication	-0.03	-0.72
11	Others	0.1	2.31
CPI		0.23	4.74

Source: GSO, BSC research

**Graph 6: CPI development**



**Graph 7: Retail sales over recent periods**



Source: GSO, BSC research

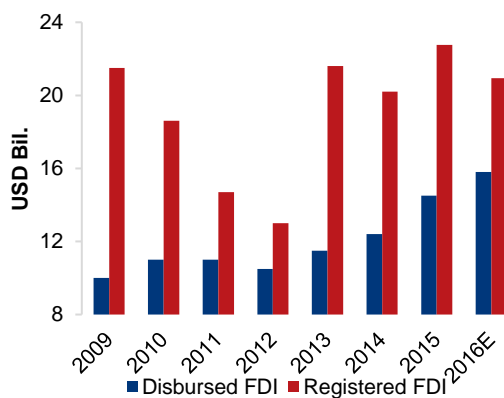
**Total retail sales of goods and services in December were estimated at VND 320.3 trillion, up by 3.7% MoM and 9.8% YoY**

For the whole year, total retail sales of consumer goods and services reached VND 3,527 trillion (+ 10.2% YoY), eliminating the pricing factor, only grew by 7.8%, lower than the 8.5% growth of previous year due to buying demand increased less but price rose.

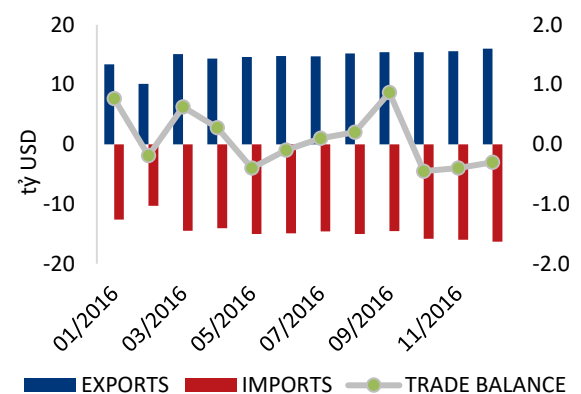
## Foreign direct investment (FDI)

- FDI registered rose on projects but declined on value YoY
- Hai Phong has attracted USD 2.464 billion FDI, accounting for 16.2% of total, the most across the country

**Graph 8: FDI registered and disbursed over years**



**Graph 9: Export import (billion USD)**



Source: GSO, BSC Research

Accumulated 12 months, reaching 2,556 FDI projects licensed with total registered capital reached 20.94 billion (after adjusting for capital projects licensed from previous year), an increase of 27% in number of projects, but decreased 8.0 % YoY in value. FDI reached 15.8 billion USD implement YTD, + 9.0% YoY.

Accumulated FDI structure after 12 months are as followings: total FDI registered in manufacturing and processing industry reached USD 9.8 billion, accounting for 64.6% of total registered capital; in business real estate reached USD 1.5 billion, accounting for 10.1%; the remaining sectors reached USD 3.8 billion, accounting for 25.3%. There is tendency that FDI flew into manufacturing and processing industry more while FDI in real estate decreased in the last months.

## Trade, export - import

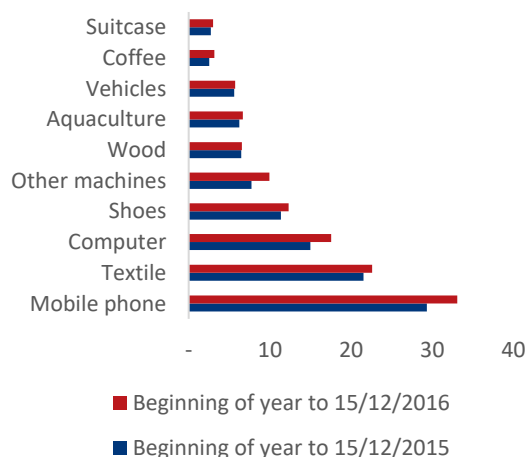
- **Year to date, trade surplus is estimated at USD 2.68 billion**
- **Trade deficit in December is estimated at USD 300 million**

Export turnover in 12/2016 is estimated at USD 16 billion, down 0.8% MoM, cumulative export turnover is estimated at USD 175.9 billion, up 8.6% YoY. In particular, the domestic sector export reached USD 4.68 billion, up 8.5%; FDI areas (including crude oil) reached USD 11.32 billion, down 4.2%. Export turnover decreased from the previous month due to heavy-weighted goods fell sharply: Phones and components decreased by 11.4%; electronics, computers and components fell by 4.5%

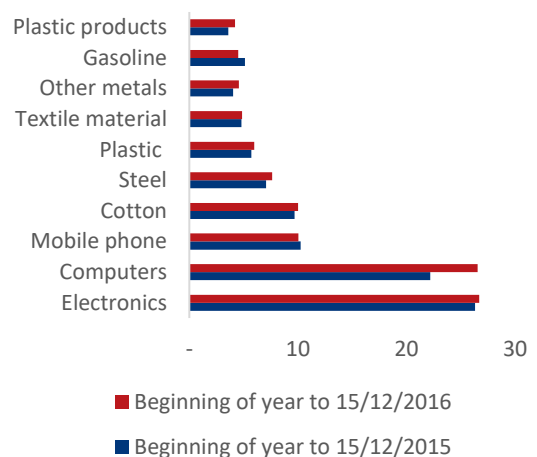
Import turnover in 12/2016 is estimated USD at 16.30 billion, down 0.5% MoM, estimated accumulated at 173.3 billion, up 4.6% YoY. Domestic sector import reached USD 6.85 billion, down 0.6%; FDI sector import reached 9.45 billion dollars, down 0.3%

The total import-export turnover in 2016 is estimated at 349 both billion + 6.6% YoY, USD 2.68 billion trade surplus.

**Graph 10: Top 10 exported goods till 1H December (billion USD)**



**Graph 11: Top 10 imported goods till 1H December (billion USD)**



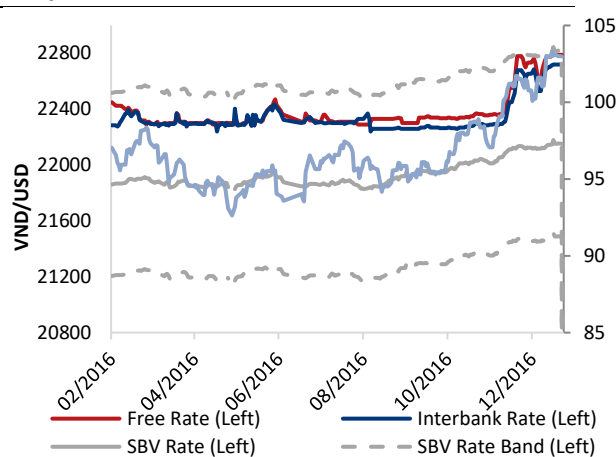
Source: GSO, BSC Research

## Forex

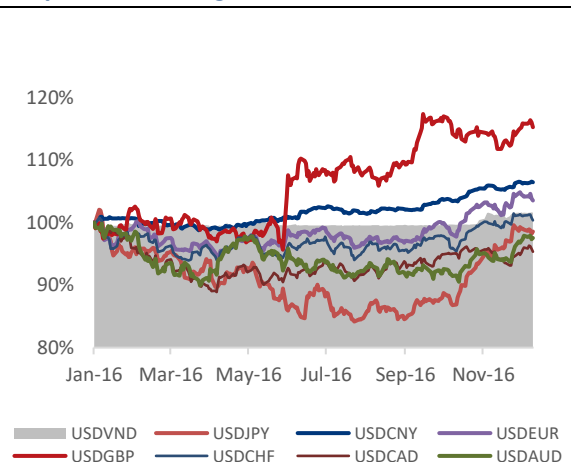
**Central exchange rate maintained upward trend formed from November.** The interbank exchange rate and free exchange rate volatiled strongly in middle of the month. At one point, the exchange rate moved up to more than 23.390 USDVND on the free market due to the money change rumors and DXY index rose to its highest level in recent 14 years. In contrast, EURVND, JPYVND fell sharply as the Fed raised interest rates in the FOMC meeting in December to 0.5 - 0.75%.

At the end of 2016, the VND was devalued only by about 1.3% against the dollar while the dollar index (DXY) rose by 4.6% and the US dollar rose sharply with many other strong currencies such as EUR (+ 4.2%), GBP (+ 17.4%), CHF (+ 3.2%).

**Graph 12: USDVND movement**



**Graph 13: Exchange rates movement in 2016**



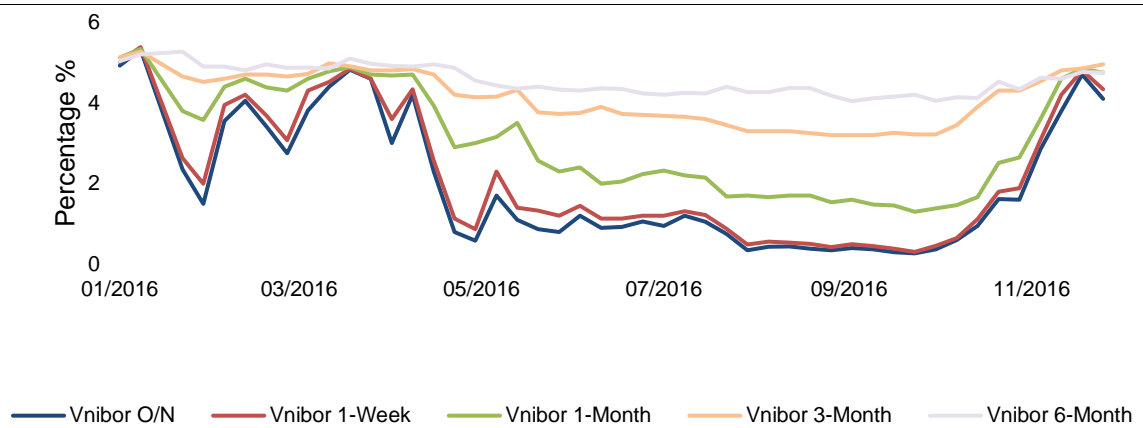
## Banking – interest rates

- **Credit growth till 20/12 is estimated at 16.46%, rose considerably MoM, deposit growth is estimated at 16.88%**
- **Stable deposit and lending rates, no signs of interbank liquidity stress**

Deposit rates were relatively stable. Interest rate level of common priority areas were at 6% -7% / year for short-term, 9% -10% / year for the medium and long term. Interest rates for loans of popular business sectors were at 6.8% -9% / year for short-term; 9.3% -11% / year for the medium and long term.

Interbank interest rates surged to the highest level in recent 11 months in mid-December, then leveled off and are now commonly at 4.1 - 4.75% / year. Banking liquidity is stable, there is no signs of liquidity shortage at year end.

**Graph 14: Interbank rates**



Source: Bloomberg, BSC Research

**Table 8: Lending rates**

Terms	2015	2016M12	Diff.
VND short term	6,8 - 9	6,8 - 9,0	0
VND mid, long term	9,3 - 11	9,3 - 11	0
USD short term	3 - 5,3	2,8 - 4,8	-0,5
USD mid, long term	5,5 - 6,5	4,9 - 5,6	-0,9

Source: SBV, BSC Research

**Table 9: Deposit rates**

Term	2015	2016M12	Diff
<b>VND</b>			
Demand and below	0,8 - 1,0	0,8 - 1,0	0
1 month			
1 month - 6 month	4,5 - 5,4	4,5 - 5,4	0
6 month - 12 month	5,4 - 6,5	5,4 - 6,5	0,05
Over 12 month	6,4 - 7,2	6,4 - 7,2	0
<b>USD</b>			
Citizen	0,25	0	-0,25
Institution	0	0	0

Source: SBV, BSC Research



## Economic indicators over recent years and forecast for 2017

**After the stalled rally in 2016, GDP is expected to continue recovery trend in 2017.** The 6.6% growth of GDP in 2017 can be achieved when the average crude oil price in 2017 is expected to rebound to 55 USD / barrel and with the recovery of the agricultural sector and steady growth of industrial production, manufacturing and processing.

**Import-export turnover of Vietnam is estimated to continue growing steadily** despite concerns from the TPP and Brexit thanks to new potentially trade agreements. Sustainable export growth of FDI sector will also help keep the trade balance surplus continue in 2017. Applying Arima model (2,0,0) for import data and Arima (1,0,1) for export data, total import-export turnover forecasted for 2017 will be around 354 billion dollars, while the trade balance surplus will be nearly 4 billion dollars (with the absence of significant changes).

**Public debt and government debt is likely to continue to increase in 2017**, however, due to (1) rebounded nominal GDP and (2) the Government has more revenue from divestment of State-owned enterprises, the increase rate of the public debt will slow down

**Table 10: Macro indicators over recent years and forecast for 2017**

Indicator /year	2012	2013	2014	2015	2016E	2017E
GDP YoY (%)	5.2	5.4	6	6.7	6.2	6.6
Inflation (%)	9.09	6.59	4.08	0.62	4.8	4.5 - 6
Trade balance (billion USD)	0.78	0.86	2.14	-3.54	2.4	4
Total trade (billion USD)	228	263	298	327	346.62	354
Exchange rate (VND/USD)	20840	21095	21388	22485	22755	23200
Public debt/GDP (%)	50.6	54.2	59.6	61.3	63	64.5
Government debt/GDP (%)	39.4	42.3	47.4	48.9	49.5	50
Credit growth (%)	8.91	12.51	14.16	17.29	18	18
FDI disbursed (billion USD)	10.5	11.5	12.4	14.5	16	17
FDI registered (billion USD)	13	21.6	20.2	22.76	19.1	20

# Vietnam stock market movements in 2016

Report Macro & Market Outlook 2016 Vietnam has identified *"movements of VN-Index is forecasted to decline in January and recovered fluctuated in the upward trend to the end of August, fell back at the end of 2016". "In terms of the VN index points, 650 points is expected in the positive scenario"*.

As Vietnam Quarterly Review 2016Q2, third quarter outlook *"VN-Index is forecasted in the range of 605-640 points"*. According to this report, in August the market recheck previous peak of 640 and can go further from the previous high of 8 years.

As Vietnam Quarterly Review 2016Q3, fourth quarter outlook *"less positive scenario, VN-Index after peaking in October or November would lose motivation gains and moving back to the 650-660 price point"*.

Review the macro and stock market report in 2016 on three aspects (1) Score (2) Evolution and (3) Stock groups, BSC has predicted fairly accurately the first two aspects of the market in 2016.

The first - Score, BSC has forecast quite close scores in 2016 VN-Index in January, April, May when the false prediction market index does not exceed 1%.

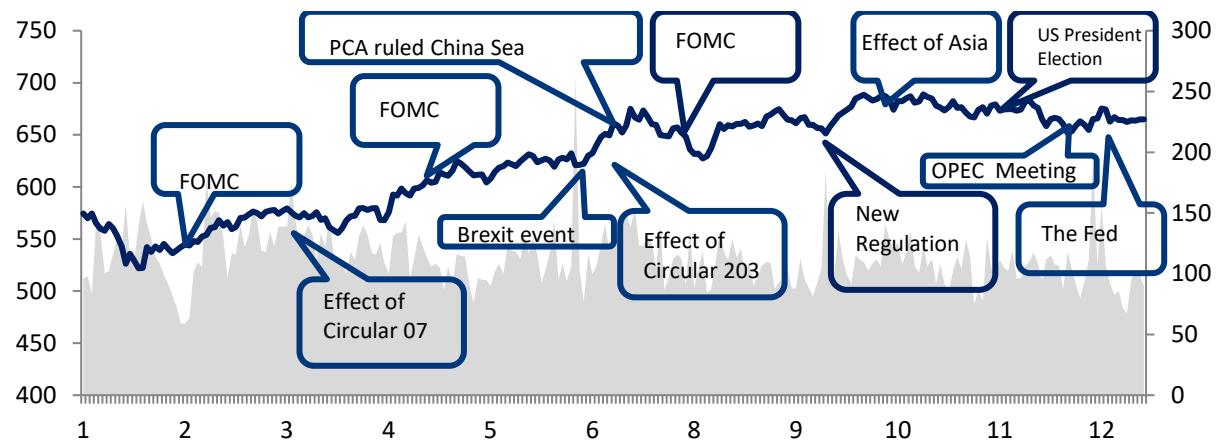
The first- Score, forecasts of market developments in August and November is quite close to its outlook for the third quarter and fourth quarter of the BSC. Accordingly, in August the market recheck previous peak of 640 and can go further from the previous high of 8 years. Less positive scenario, VN-Index after the peak in October or November would lose motivation gains and moving back to the 650-660 points.

The third – Stock groups, Vietnam Macro & Market Outlook 2016 said that *"the shares are full-room and be open the room for foreign investors with SCIC divestment and these groups are also expected to lead the market in the next year."* In fact, SAB and a number of other stocks in the case of SCIC divestment affects scores, as well as market trends at the end of the year.

## The flow of events

Two market index in 2016 has created upward trend throughout the year, creating a peak from the lowest points of year respectively 31.9% and 20.7%; however, VN-Index maintained sideways trend in the last months and the HNX-Index also corrected to the lower support levels during the same period. December 30 trading sessions, VN-Index closed at 664.87 points, up 85.84 points from 2015's close, rose 14.8% respectively; HNX-Index closed at 80.12 points, up by 12.16 points compared to closing in 2015, only increased by 0.2% compared to the same period last year.

**Graph 15: The flow of events of VN-Index**



Source: BSC Research

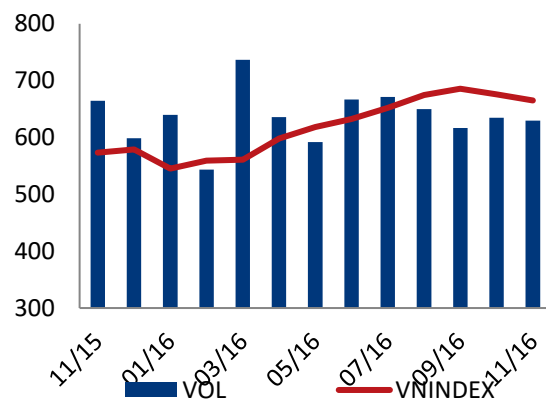
**The market had 3 times of strong volatility**, sideways movement in the period last year, the overall market index reflects a uptrend in 2016.

- Phase 1 (from 01.05.2016 đến 04.04.2016):** This period witnessed the support of VNM, the recovery of the stock GAS after correcting chain for over 1 year earlier, and return to strong growth of HPG and HSG (also the industry mainstream during the year). The Fed kept interest rates in the first session and create positive effects for investor sentiment. Market index recovered from the bottom of 513.82 and increased itinerary until the last days of March, the peak at 583.53 (13.6% increase from the bottom). The decision of the Fed in the FOMC meeting from March 15-16 partly supported the uptrend of the stock market and commodity markets.
- Phase 2 (from 04.05.2016 to 08.05.2016):** Fed meeting from April 26 to 27 was no surprise considering the previous comments that the Fed will keep interest rates unchanged and only the ability to adjust interest rates at the meeting June 14 – 15. This decision, along with the decision of the BOJ and EU policy unchanged, China has shown signs of recovery have helped world stock markets remained stable in April. Market Indicators continue to be the group's strong support of the steel industry and two times of strong uptrend of VNM. VN-Index strengthened in support of 560 points and the journey to conquer resistance at 680 in the end of July. Positive information from the PCA verdict on the South China Sea, the impact of Brexit

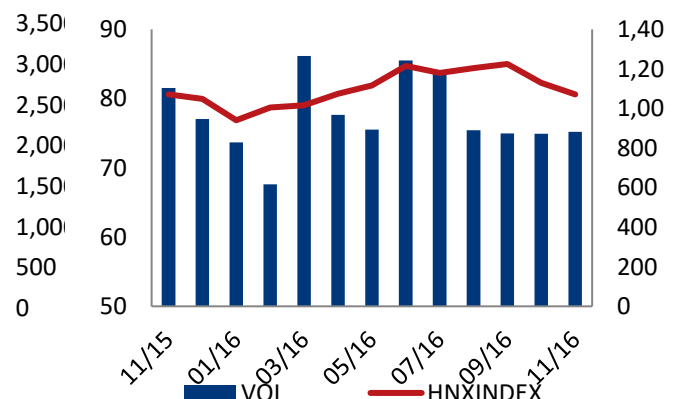
event was not negative as the forecast and advantages from the of Circular 203 was effective psychological support on the market. However, the weakness of banking sector stocks in the last week of July has led market index corrected to lower the support of 620 points.

- Phase 3 (from 08.08.2016 to the end of year):** This is evidence that volatile period in terms of information and market sentiment is much more than the previous phases. New regulations in transactions at 2 Exchanges take effect, it expects to increase market liquidity and increase the attractiveness, but also somewhat reduce the impact of fluctuations in market index. Market index remained almost sideways around 660-680 during this period. Stage also appears the listings of new shares and galloping growth has an impact on the general market index, but most of the stocks on the market have weakened both the liquidity and value. The big events also affect the psychology of the market trading phase include, FTA Vietnam and Asia - Europe is in effect, the president election results surprise US International, reaches agreement OPEC meeting to cut production and oil prices soared. In particular, the decision to raise interest rates by the Fed in the last meeting of this year from 0.5% to 0.75%, besides also issued a statement likely to raise interest rates by 3 times in 2017. Lack term market growth dynamics tend to withdraw when foreigners' continued stronger, although in terms of index, VN-Index remained stable, however the majority of the shares on the market in the process of creating a lower price level, liquidity narrowed significantly

Graph 16: VN-Index movements



Graph 17: HNX-Index movements

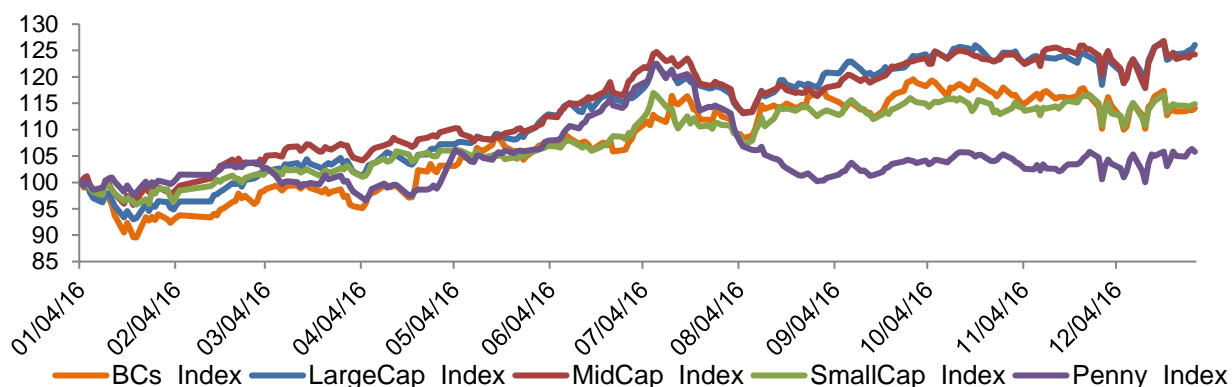


## Movements of the index groups

In general, these stocks by market capitalization has grown compared to the beginning of the year, mainly increased in the first half of this year, momentum weakened and balance in the last quarter. Specifically, the group LargeCap and MidCap index led respectively 26.1% and 24.2 % compared with

the beginning of the year. Penny Group, BCs, and Small Cap rising more slowly and tend to further corecting in the period September, Penny increased by 5.8%, BCs increased by 14% and Small Cap increased by 14.8%. Effects weakening cash flow from foreign investors and reduce market volatility from new trading regulations affect the group performance index in the last quarter of 2016.

**Graph 18: Movements of the index groups**



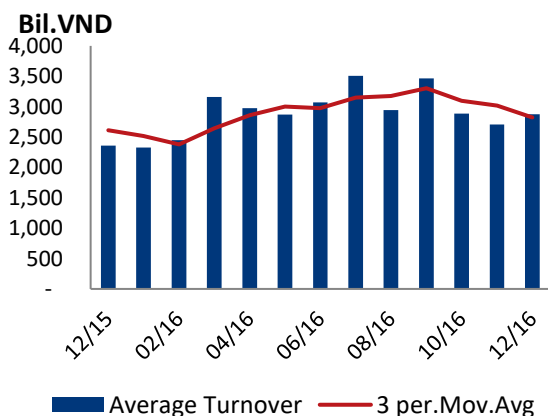
Source: Bloomberg, BSC Research

## Market statistics in 2016

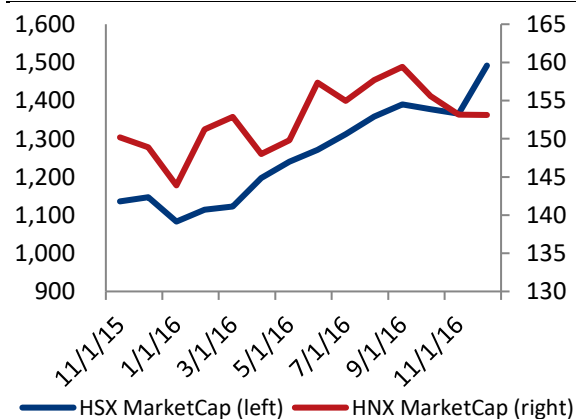
### Liquidity of the market

The average liquidity in 2016 reached 2,936 billion / session, increased overall compared with the average market liquidity in 2015, respectively, up 18.34%. Market liquidity rose sharply focused during the second quarter and third of the year, and have weakened in the last quarter. The trends of foreign net withdrawal also undermine market liquidity and trading psychology in the last months

**Graph 19: The average Trading Value in 2016**



**Graph 20: The scale of market capitalization in 2016**



## Market Capitalization

By the end of December 2016, capitalization of both exchanges reached 1,642 billion VND, equivalent to 37.34% of GDP and increased 26.83% over 2015.

**Capitalization of UpCom has far exceeded the market capitalization of the HNX.** As of early December 2016, the market capitalization of UpCom over 253.459 trillion, while the HNX estimated at 147.246 trillion. Increasing market capitalization comes from strong demand from large-cap stocks, creating new waves attract cash flow on the UpCom. The equitisation of some economic groups, state corporations, large-scale SOEs associated with auction and listing on the stock market gave the stock market a variety of products quality goods, strong impact on the development of capital markets.

**The process of divestment of State enterprises and listing exercise is taking place more slowly than expected, troubled by unfavorable market.** As reported by the Ministry of Finance, for the period 2011-2015 is expected to quit the 26,000 billion; 42% have quit being so only 58% (more than 15,000 billion) to implement the divestment period 2016-2020. Thus, in 2017 will also be the stage continues to promote the process of divesting the State even for the large SOEs that have not completed the divestment plan in 2016.

**The size of the market capitalization could reach about 70% of GDP, bond market reached 30% of GDP by 2020,** the need to accelerate the process of privatization and divestment of state-owned enterprises coming, indirectly encourage increased scale and efficiency of the securities market. Currently, 25 large enterprises just or are expected to list on the stock market extends from the present time until next year, as Sabeco, Vinatex, Novaland, Thaco, ... estimated equivalent to about US \$ 30.6 billion , or about 40% of Vietnam's stock market capitalization at the moment.

## Foreign transaction

Recent years, the foreign cash flow still plays the leading role and market orientation. In the period 2012-2015, net buying from foreign investors remain dominant and positive contribution in increasing the value and liquidity of the market. In 2016, facing many changes from the world economic situation, the pressure from the possibility of the Fed raising interest rates makes foreign capital flows to withdraw from the frontier market, and will also be a key trend in the coming period .

- Up to date, according to research data collected in December, foreign investors were net sellers selling \$ 355.06 million calculated on the entire market, equivalent to 8041 billion VND
- Only 4 months that foreign investors were net buyers, in March, May, June, July, boosting sales in the remaining 8 months of the year, in which the peak of the sales value in September with \$ 123.39 million.
- Foreign investors were net buyers on MBB (1545.0 billion dong), CII (1115.5 billion dong), GAS (897.5 billion dong), SSI (594.9 billion dong), MWG (586.7 billion dong) on HOSE throughout 2016, while selling out strongly VIC (7185.6 billion dong), VNM (2244.1 billion dong), HPG (892.8 billion dong), STB (580.6 billion dong).

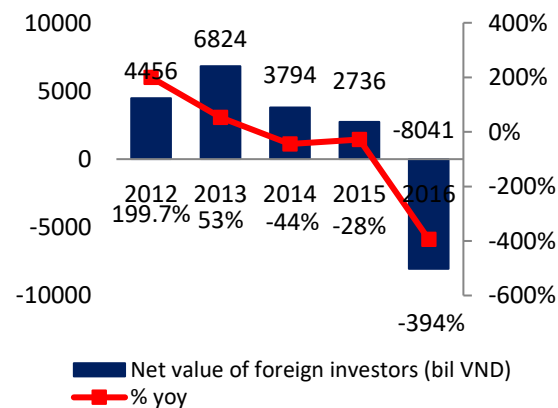


In the short term, the market will also deficient cash flow from foreign investors, this also poses challenges need to meet a new alternative cash flow to ensure market liquidity is maintained more stable.

**The Fed will raise interest rates also led to higher borrowing costs, boosting the net withdrawal of short-term cash flows from developing countries, and flow back toward the United States.** Also reviewed the issue of the Fed in recent years maintained the lowest base rate in history also helped avoid the collapse of financial markets in 2007-2008, and also helped the market rebound financial market in the following years. However, this is also encouraged to add more debt, especially in developing countries.

**Currently, foreign cash flows from the ETFs on the market is also affected by the general trend of net withdrawal.** As of December this year, two ETFs on the market also withdrew in total 71.01 million respectively db-x trackers on FTSE Vietnam, and \$ 78.53 million for VanEck Vectors Vietnam, and pressure can still net withdrawal maintained in the next period. In the short term, the market will also deficient cash flow from foreign investors, this also poses challenges need to meet a new alternative cash flow to ensure market liquidity is maintained more stable.

**Graph 21: Net transaction value of foreigners during 2012-2016**



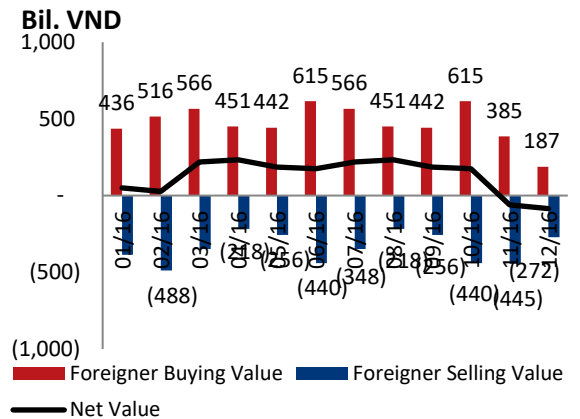
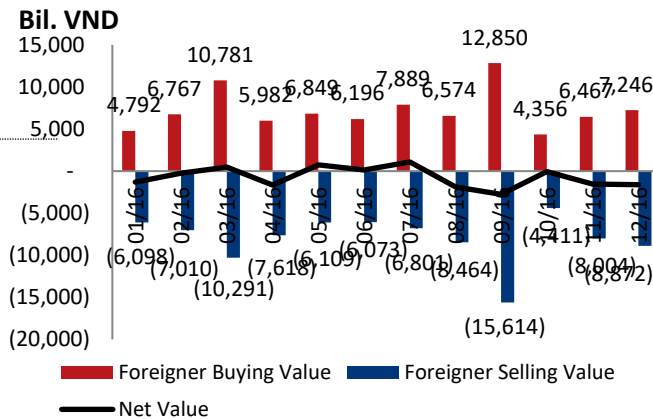
**Table 11: Foreign capital flows in Asia (Mil USD)**

Countries	December	2016Q4	Year 2016
India	(1,150.0)	(4,507.1)	2,860.5
Indonesia	(273.0)	(1,366.6)	1,258.7
Japan	6,906.5	24,810.1	(43,585.8)
Phillipines	(190.7)	(668.4)	1,277.8
Korea	1,245.4	952.0	10,715.2
Sri Lanka	24.1	33.0	18.7
Taiwan	1.3	(3,305.1)	10,956.4
Thailand	13.1	(1,545.2)	2,240.5
<b>Vietnam</b>	<b>(50.8)</b>	<b>(144.7)</b>	<b>(360.9)</b>

Foreign investment inflows into Vietnam's stock market declined sharply this year as well as the overall trend for other markets in the region as well as other frontier markets, major Asian markets such as Japan, Korea still received a positive flow of foreign capital in December and last quarter.

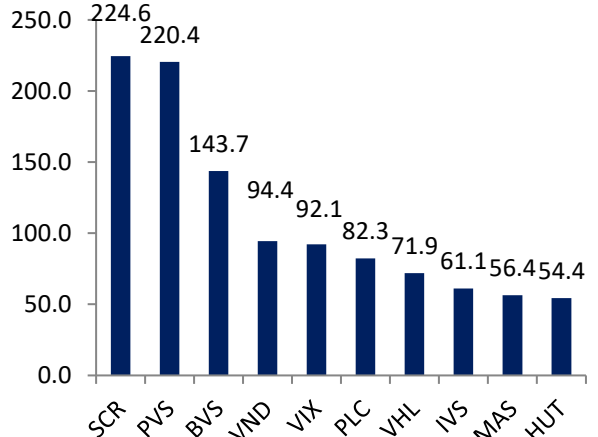
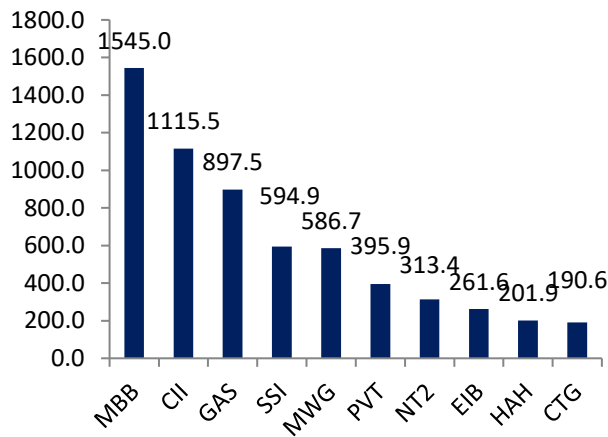
**Graph 22: Foreign transaction in HSX**

**Graph 23: Foreign transaction in HNX**



**Graph 24: Top 10 stocks net buying from foreigners in 2016 on the HSX**

**Graph 25: Top 10 stocks net selling from foreigners in 2016 on the HNX**



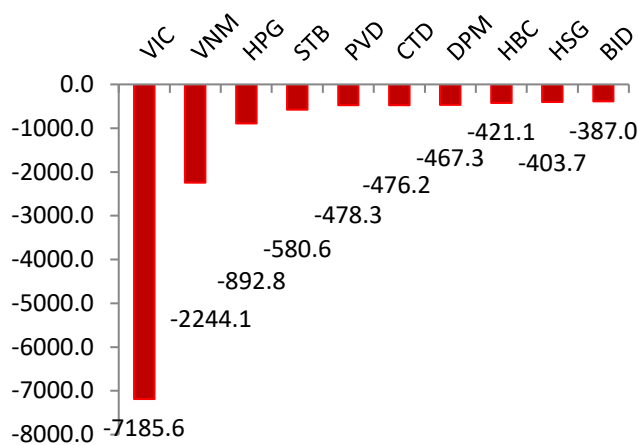
Source: Bloomberg, BSC Research

Foreigners were net buyers in January, March, April, May, August and net sellers in February, June, July, September, November, December. Activity strongest sales in June and lasts until the end of December this year.

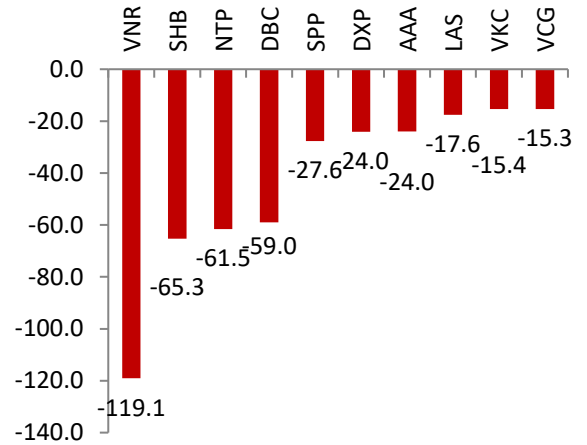
Foreigners were net buyers on SCR (224.6 billion dong), PVS (220.4 billion dong), BVS (143.7 billion dong), VND (94.4 billion dong), VIX (92.1 billion dong), on the HNX throughout 2016, while foreigners sold VNR (119.1 billion dong), SHB (65.3 billion dong), NTP (61.5 billion dong), DBC (59 billion dong). On UPCOM, foreigners have bought GEX (226.7 billion dong) and sold WSB (75 billion dong).

**Graph 25: Top 10 stocks net selling from foreigners in 2016 on the HSX**

**Graph 25: Top 10 stocks net selling from foreigners in 2016 on the HNX**

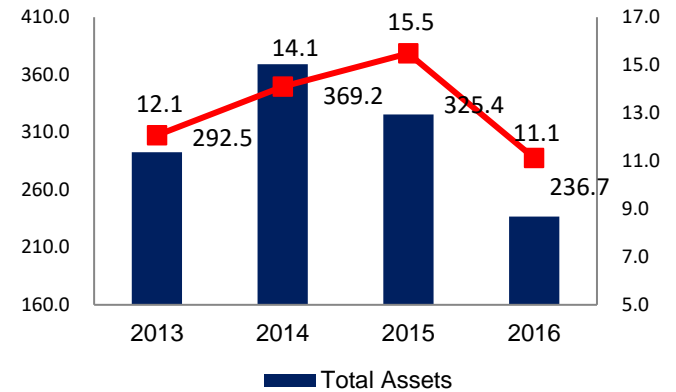
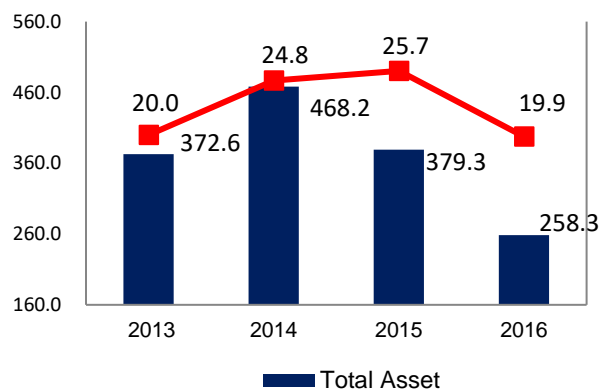


Source: Bloomberg, BSC Research



Graph 26: Total asset and fund certificate of VNM ETF

Graph 27: Total asset and fund certificate of FTSE VN



Source: Bloomberg, BSC Research

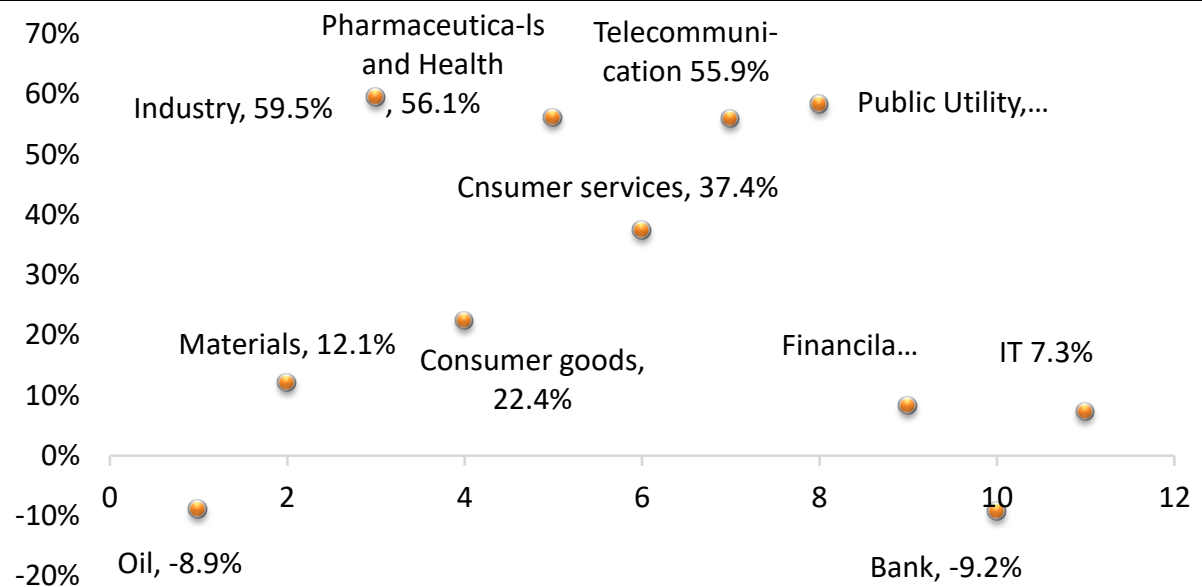
2 ETFs fell scale trend of foreign net withdrawal in 2016, the decline in the size of foreign investment funds may not end in the near future if the investment cash flow still looking for the development countries and the US economy. The policy of the Fed raising interest rates also affect the long-term foreign currency flows.

2 ETFs VNM and VN FTSE fell sharply scale certificates issued in 2016.

VNM ETF fell from 25.7 million certificates in 2015 to 19.9 certificates in 2016 fund certificate, down 5.8 million certificates. Total assets decreased from 379.3 million to 258.3 million, the net withdrawal of \$ 121 million.

ETF FTSE scales fell from 15.5 million certificates in 2015 to 11.1 million certificate in 2016, down 4.4 million certificates. Total assets decreased from 325.4 million to 236.7 million, the net withdrawal of \$ 88.7 million.

**Graph 28: Level 1 sectors in 2016 (ICB)**



## 2016 Stock movement assessment

Stock market in the year 2016 was surprised and not easy for investors to forecast. However, immediate increasing or decreasing of the market brought a good compensation to the investors who always kept their head cold in the crash. In January, The World MSCI Index went down by 13% due to the worry about exchange reserve of China and VN Index also decreased by 9.8% but the markets quickly recovered what they lost when March came. Almost markets around the world were in their worst transaction section in June, 2016 because of Brexit event, but it only took some weeks for them to get a new peak. The result of the president election in November was the next shock and it also took a short time for the markets to recover. VN-Index's uptrend in 2016 was quite clear due to positive participation of the domestic demand and the support coming from blue-chips. Some movement trends of groups of major stocks in 2016:

- **The movement following the fluctuation of the global commodities.** Several globally basic commodities's price such as oil, steel, sugar, rubber,...increased significantly, which influenced quite strongly on stocks of the firms operating in these fields. Oil price increased by 95.4% in the beginning of June after getting its bottom on Feb, 11th, which made oil stocks (GAS, PVD, PVS) grow dramatically and stabilize the market in 1H2016. Equivalently, Steel sector (with HPG, HSG, NKG) surged from the beginning of the year due to the higher price of this metal and anti-dumping policy. Being supported by impressive performance, the Steel kept their increase to September and was one of the few groups of stocks remaining its growth in December. In the smaller scale, Sugar sector increased impressively in 1H2016 while the Rubber surged in the range of September and November.
- **Movement thanks to the expectation of the capital withdrawing of the State in listed companies and the wave of IPO.** The information about the capital withdrawing of SCIC in the big quoted firms like VNM, BMP, NTP, at some points of time made lots of stocks surge from June to October. Investing activities following this trend only were ceased due to the information of SCIC take the money out of VNM in 2016. The trend of investing in OTC market, bidding in IPO to come along with the quotation in the Stock Exchange occurred in October and the expectation was compensated when ACV, HBN, SAB listed and entered an uptrend. This trend continued to appear in the beginning months of the year 2017.
- **Reverse movement thanks to that TPP is difficult to succeed.** President Barack Obama was not supported by National Assembly to pass this pact in the end of his prorogue to come back the trend of relevant sectors. Groups of fields's price getting benefits from TPP were going down while the Pharmaceuticals surged significantly. The Pharmaceuticals and Health Care increased by 56.1% (the former went up by 60.3%).
- **Movement thanks to the prominent performance.** Groups of stocks like Construction sector (CTD, HBC) construction materials (CVT, VIT, BCC) getting their clearly positive changes increased strongly if they were compared with the market.

# Market Outlook in 2017

## Factors affect stock market

We assess factors affecting market in 2016 based on reviewing (1) economic environment, (2) internal market, (3) Capital flows, (4) international economy, (5) other factors. Market was supported by healthy business condition. Market size will grow fast thanks to listing and divestment. However, too fast growing with unbalanced supply and demand, deteriorating quality and transparency of stocks. Developments of international markets, especially Fed rate hikes also strongly affect market through foreign capital withdrawal

Table 12: These factors affect the stock market in 2017

		Content	The degree of impact	Impact direction
1	Economic environment	Population, income and urbanization	•••••	long-term
2		SOE divestment	•••••	Provide quality goods
3		Upgrading market	•••	Improve quality and market size
4		Restructuring the stock market	••••	Improving and developing the market
5		Improve the legal system	••••	Improve the quality and enhance the behavior rules
6	From within the market	Market capitalization	•••	Market Valuation
7		Market liquidity	••••	The attractiveness
8		State divestments	••••	
9		The shares on the OTC	•••••	
10		The degree of improved profitability	••••	Market Valuation
11		Providing new products	••••	The attractiveness and diversity of markets
12	Capital flows	Interest rates and exchange rates	•••••	Market valuations and investment cash flow
13		Cash flows of foreign investment	••••	New cash flow
14		Margin lending	•••	Market risk
15	Other problems	The trade agreements	••••	
16		State budget	•••	Pressure divestments
17		The commodity markets	••••	Pressure on inflation
18		Geopolitical issues	•••	
19	International economy	The Fed raised interest rates	•••••	The influence of foreign capital inflows
20		Policies of BOJ, ECB	•••	Affecting import and export, exchange rates
21		Economic policies of China	••••	Affecting exchange rates
22		The policy of the New President	••••	Export- import prospects

Table 13: The market indicators over the years and forecasts for 2017

Criteria	Year 2014	Year 2015	Expected in 2016	Forecast 2017
<b>General criteria</b>				
Market indexes				
- VN-Index	545.6	579.0	660.0	Positive 758
- HNX-Index	83.0	79.9	79.5	NA
- UPCOM-Index	60.3	51.0	52.7	NA
Number of listed companies	960	1,045	1,103	1,263
- VN-Index	310	317	320	330.0
- HNX-Index	366	375	376	376.0
- UPCOM-Index	284	353	407	557.0
Amount of the Account (thousand units)	1,390.0	1,570.60	1,690.0	1,859.0
- Foreign account	17.5	18.6	20.1	21.5
- Domestic Account	1,373	1,552	1,670	1,837.5
Market capitalization (mil USD)	54,236	60,304	75,648	106,248.0
- Growth (%)	17.3%	11.2%	25.4%	40.0%
Value of net purchases of foreign investors on the stock market	179.1	125.5	(355.1)	(100.0)
<b>Liquidity criteria</b>				
Average trading value / session of 3 floors (mil USD)	128.7	98.5	112.3	115.0
Rotation of market liquidity (Rotation of shares / year)	0.8	0.6	0.6	0.6
- HSX	0.7	0.5	0.6	0.5
- HNX	1.7	1.0	1.0	1.0
- Upcom	0.1	0.1	0.1	0.2
Shares traded on average \$ 1 million / day	36	27	23	23
<b>The underlying index</b>				
VN-Index				
- P/E	12.9	12.5	16.7	12.3 – 14.8
- P/B	1.8	1.7	4.2	3.5
- Basic EPS	3,325.0	3,385.0	3,643.0	3.850 – 4.100

Source: BSC Research



# Forecasting VN-Index in 2017

We use two methods of P/E and stock weighting method to forecast large VN-Index. VN-Index is forecasted to have 590 points of negative scenario and 758 points of positive scenario. The forecast is based on an assessment of the existing shares, the level of change will depend on the price and the weight on the floor of the newly listed shares of its impact on the index. The methods of forecasting the VN-Index as follows:

## Forecasting VN-Index by PE method

### Method overview

- This method is built on the basis of forecasts of market PE and EPS next year to determine the score. Forecasts PE are made based on the model ARIMA (8,1,8).
- We use chain metrics lasted from 2010 to the present, because of very strong market volatility

Forecast VN-Index in 2017H1

	Quarter 1/2017	Quarter 2/2017
<b>Negative scenario</b>	551.28	590.35
<b>Positive scenario</b>	664.42	707.65

## Forecast VN-Index using heavy-weighted stocks

### Method overview

- Using price forecast of key stocks in 2016 by Securities and financial institutions
- VN-Index is built on average, max, min of 30 most heavy-weighted stocks (79.7% of VN-Index)

Results as followings:

	Target	Max	Min
<b>VN-Index 2017</b>	675	758	599

Source: BSC Research

## Appendix: Forecast P / E and EPS market

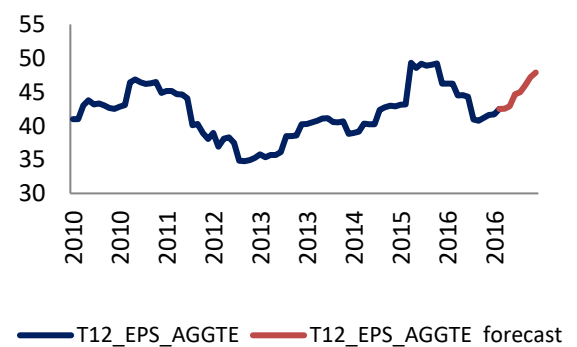
**Current PE of VN-Index reached 12.33.** PE market survey from 2010 to the present, the fluctuation range of the P / E of around [9.87; 14.78] with 90% confidence level, the lowest value at 8.64 and the highest value at 16.49.

PE downward trend of the market is in a trend to go back the next pulsation strong trend throughout 2016, PE tend to reach back to the support at 14.78 and possibly further down closer averages line.

**Graph 3: PE of VN-Index the period 2010 – 2016**



**Graph 4: Movements 2010 – 2016 & Forecast EPS in 2017H1**



Based on the predicted movement of such PE market, construct two scenarios for PE as follows:

- **Negative:** PE has reached the support line on + 1.28STDEV, approaching the average PE. PE corresponding values 12.33.
- **Positive:** PE market has recovered + 1.28STDEV around support levels. PE worth at 14.78 points.

### Forecasted EPS

Forecasted EPS of the market at the end of quarter 4/2016 and quarter 2/2017 by model ARIMA (8,1,8), and the results will be shown as following:

#### Forecast EPS in 2016H1

Date	Forecast EPS	% growth compared with EPS 2016
3/31/2017	44.95	5.72%
6/30/2017	47.88	12.6%

Source: BSC Research

#### Forecast VN-Index in 2017H1

	Quarter 1/2017	Quarter 2/2017

Negative scenario	551.28	590.35
Positive scenario	664.42	707.65

## Appendix 1: Price target of top 30 stocks on VN-Index from securities and financial institutions

Ticker	Weight on VN-Index	Last price	Average expected price	% change to Dec23	Max	% change to Dec23	Min	% Change to Dec23
VNM	12.4%	124,000	143,650	15.8%	158,000	27.4%	106,000	-14.5%
SAB	8.8%	200,000	151,070	-24.5%	168,650	-15.7%	141,580	-29.2%
VCB	8.8%	35,600	38,680	8.7%	41,470	16.5%	34,150	-4.1%
GAS	8.2%	62,000	52,900	-14.7%	62,700	1.1%	35,600	-42.6%
VIC	7.7%	42,100	43,990	4.5%	48,000	14.0%	37,500	-10.9%
CTG	3.9%	15,200	17,620	15.9%	18,700	23.0%	15,900	4.6%
BID	3.4%	14,600	15,860	8.6%	17,500	19.9%	12,680	-13.2%
MSN	3.4%	65,300	83,300	27.6%	92,000	40.9%	63,000	-3.5%
ROS	3.3%	110,200	89,000	-19.2%	89,000	-19.2%	89,000	-19.2%
BVH	2.8%	59,600	58,600	-1.7%	70,600	18.5%	48,300	-19.0%
HPG	2.5%	42,950	50,940	18.6%	57,300	33.4%	38,500	-10.4%
MWG	1.6%	154,800	161,770	4.5%	192,000	24.0%	93,000	-39.9%
MBB	1.5%	13,200	15,990	21.1%	16,900	28.0%	14,700	11.4%
FPT	1.4%	42,650	56,600	32.7%	64,000	50.1%	54,000	26.6%
CTD	1.0%	182,400	195,250	7.0%	150,000	-17.8%	247,000	35.4%
STB	0.9%	8,340	10,045	20.4%	13,600	63.1%	6,370	-23.6%
EIB	0.8%	9,600	9,940	3.5%	10,900	13.5%	8,660	-9.8%
HSG	0.7%	51,300	54,470	6.2%	70,200	36.8%	41,500	-19.1%
SSI	0.6%	19,400	22,660	16.8%	24,300	25.3%	21,030	8.4%
DPM	0.6%	22,750	30,964	36.1%	35,000	53.8%	26,440	16.2%
BMP	0.6%	193,800	193,800	0.0%	179,000	-7.6%	127,000	-34.5%
KDC	0.6%	34,000	31,750	-6.6%	33,500	-1.5%	30,000	-11.8%
DHG	0.6%	94,800	109,740	15.8%	134,900	42.3%	102,500	8.1%
PVD	0.6%	21,350	25,270	18.4%	32,900	54.1%	18,100	-15.2%
HT1	0.5%	20,800	26,200	26.0%	30,000	44.2%	24,300	16.8%
NT2	0.5%	27,500	35,500	29.1%	38,000	38.2%	34,100	24.0%
CII	0.5%	28,500	30,300	6.3%	32,100	12.6%	27,250	-4.4%
REE	0.5%	24,000	27,330	13.9%	29,770	24.0%	26,200	9.2%
PNJ	0.5%	67,500	83,260	23.3%	97,400	44.3%	60,540	-10.3%
KBC	0.5%	13,550	19,970	-21.7%	22,600	-11.4%	17,800	-30.2%
<b>Average</b>				<b>9.8%</b>		<b>22.5%</b>		<b>-6.8%</b>

Source: Bloomberg, BSC Research, stocks without forecast will use price on date 23/12

### Appendix 2: Increase/decrease structure of the sectors in 2016 (ICB) and prominent stocks

Series	Sectors	Level	Up/down	Three prominent stocks in the sector
1	<b>Oil</b> Oil service and equipments	1 4	-8.9% -8.9%	PVD-19.4%, PVB-62.5%, PVC-49.4%
2	<b>Materials</b> <b>Chemistry</b> Plastics, rubber & fiber Petrochemical goods, Agrochem & other chemicals Forestry and wood manufacturing Paper manufacturing Steel & goods from steel Coal exploitation Extraction	1 2 4 4 4 4 4 4	12.1% -6.2% 28.3% -12.6% -67.5% 14.2% 48.4% 6.7% -1.3%	AAA+95.1%, TPP+62.2%, VKP-66.7% TSC-81.2%, QBS-48.3%, LAS-35.2% TTF-78.4%, DLG-59.4%, GTA-21.2% HAP-45.8%, SVT-41.6%, VID-32% HSG+144.3%, HPG+74.5%, NKG+178.6% TC6-53.5%, TDN-40%, MDC-31.5% BMC-8.4%, KSB+77.7%, DHM+95.6%
3	<b>Industry</b> <b>Construction &amp; materials</b> Construction materials and furniture Construction <b>Goods &amp; Industrial services</b> Containers & Packaging Complex industry Electrical% Electronic goods Electric devices Trucks & Boat building Industrial Machine Marine transportation Logistics & maintenance Transportation services Advisory & Business Support Training & Jobs Devices suppliers Waste & environment	1 2 4 4 2 4 4 4 4 4 4 4 4 4 4 4 4 4	59.5% 81.2% 43.0% 110.1% 26.1% 21.2% -47.5% 59.1% 4.8% -5.6% 7.4% 10.5% 25.6% -0.3% 35.6% -31.3% 15.2% 55.7%	BMP+47.9%, NTP+57.2%, CVT+70.9% CTD+64.1%, HBC+91.8%, VCG+19.5% MCP+68%, BPC+49.6%, SPP+85.1% VHG-65.4%, QHD-6.7% CAV+7.1%, PAC+55.1%, TYA+16.1% EMC+8.4%, LGC+6.4%, DHP-4.5% MAC-14.2% REE+9.5%, SRF+82.65, PMS-104.1% PVT+35.1%, VOS-61.9%, GSP-24% GMD-2%, NCT-42.6%, TMS-47.7% MHC-47.2%, TCL-8.8%, HTV-4.1% PAN+23.3%, TV2+369.9%, VN+4.6% VCM+55.5%, CMS-55.3%, SDA+50.6% SFN+74.7%, ARM+17.4%, SMA+12.1% MTH+128%, SDV+20%, STU-49.9%
	<b>Consumer goods</b> <b>Automobile &amp; parts</b> Car manufacturing Tires <b>Food &amp; Beverage</b> Brewers Vintners & Distillers Soft drinks	1 2 4 4 2 4 4 4	22.4% -12.6% -35.7% 9.0% 23.3% 285.6% 4.3% 42.7%	HAX+120.5%, HHS-70.9%, TMT-68.3% DRC+0.6%, CSM+16.4%, VKC+75.6% SAB+51.5%, BHN+208%, WSB+77.1% VDL-5.7%, VTL-40.4% VCF+25%, SCD+17.6%
4	Farming & Fishing plantation Food <b>Personal &amp; household goods</b>	4 4 2 4	-41.5% 10.9% 31.4% -29.0%	VHC+92.8%, AGF-47.5%, HVG-32.4% VNM+19%, MSN-15.7%, HKB-85.4%, KSD-28.9%

	Durable household products			
	Household devices	4	35.2%	DQC+20.9%, RAL+74.3%, GDT+40.1%
	Consumer Electronics	4	92.5%	TAG+83.3%, GTL+33.1%
	Clothing	4	-5.4%	TCM-52.8%, EVE+36.7%, TNG-27.5%
	Footwear	4	-19.2%	SSF-19.2%
	Personal products	4	55.6%	PNJ+57.3%, LIX+46.9%, GIL+30%
	Tobacco	3	31.6%	VTJ+58.8%, CLC+20%, NST-31.3%
5	<b>Pharmaceuticals &amp; Health Care</b>	1	<b>56.1%</b>	
	Health care equipment & services	3	-26.2%	
	Medical equipment	4	-34.6%	JVC-34.6%
	Pharmaceuticals	3	60.3%	DHG+42.6%, IMP+48%, DMC+110.2%
6	<b>Consumer services</b>	1	<b>37.4%</b>	
	<b>Retail</b>	2	65.4%	
	Food retailers	4	-46.5%	TH1-53.7T, AGX+35%
	Apparel retailers	4	75.3%	MWG+97.2%, BSC+94.2%, PET-23.3%
	<b>Media</b>	2	100.6%	
	Books & Publishing	4	28.4%	DST+33.7%, BDB+74.6%, EBS+6.2%
	<b>Travel &amp; leisure</b>	2	-17.1%	
	Hotels	4	-44.0%	OCH-56.8%, DLD-31%, SGH-8.6%
	Recreational services	4	-13.3%	DSN+14.4%, RIC-4%, KLF-45.5%
	Restaurants & Bars	4	-28.8%	ATS-28.8%
	Travel & Tourism	4	-6.8%	SKG-18.5%, TCT+7.9%, SAS-13.5%
7	<b>Telecommunication</b>	1	<b>55.9%</b>	
	Fixed line telecommunications	3	38.6%	PTP+29.9%, ABC+6.6%
8	<b>Utilities</b>	1	<b>58.3%</b>	
	Electricity	3	10.8%	NT2+12%, PPC+7.6%, VHS-2.5%
	Water & Gas	3	76.8%	
	Petroleum & Gas Distribution	4	80.4%	
9	<b>Financials</b>	1	<b>8.3%</b>	
	<b>Insurance</b>	2	17.3%	BVH+12.5%, BMI+8.8%, BIC+150.4%
	<b>Real Estate</b>	2	9.2%	VIC+25.3%, KDH+24.8%, HAG-47%
	<b>Financial services</b>	2	-12.9%	
10	<b>Banks</b>	3	-13.2%	SSI-12.6%, HCM-12%, BVS+39.6%
	<b>Banks</b>	3	-13.2%	
11	<b>Banks</b>	1	<b>-9.2%</b>	
	<b>Banks</b>	2	-9.2%	VCB+11.7%, BID-29.1%, CTG-18.3%
	<b>IT</b>	1	<b>7.3%</b>	
	<b>ITs</b>	2	7.3%	
11	Software & computer services	3	5.1%	FPT+3.7%, CMG+0.3%, CMT-23.4%
	Hardware & Equipment	3	19.9%	ITD+46.1%, ELC+20.7%, ST8+76%

### Appendix 3: Industry volatility and VN-Index before QE and time of the announcement of the Fed raising interest rates

STT	Setor	31/3 - 03/11/2010	30/6 - 21/9/2011	22/05 - 26/06/2013	18/09 - 31/12/2013	29/10 - 31/12/2014	29/10 - 31/12/2015	29/10 - 19/12/2016
1	Insurance	13%	-32%	-13%	15%	0%	-1%	-1%
2	Real estate	-36%	-8%	3%	15%	4%	1%	-2%
3	Information Technology - Software	-17%	10%	36%	-4%	-2%	1%	-1%
4	Company stock	-44%	8%	2%	23%	-13%	-2%	1%
5	Machine-building, Mechanical Engineering	-16%	-8%	-5%	-2%	-19%	NA	NA
6	Traffic Services	-23%	-8%	-11%	-6%	-3%	NA	NA
7	Support Services, Consulting, Design	-23%	-1%	NA	20%	0%	10%	2%
8	Pharmaceuticals, veterinary medicines, agricultural chemicals	9%	-2%	-9%	25%	-2%	4%	-5%
9	Specialty chemicals	-9%	-13%	9%	7%	-11%	NA	NA
10	General Mining	-47%	7%	-2%	4%	-9%	1%	1%
11	Coal mining	-26%	-6%	-5%	18%	0%	NA	NA
12	Agricultural products and fisheries	-22%	-2%	5%	-1%	-4%	NA	NA
13	Bank	-27%	5%	-3%	1%	7%	3%	-2%
14	Plastic Products, Rubber, Chemicals	-5%	3%	-8%	-15%	-16%	4%	-2%
15	Steel	-38%	-9%	2%	8%	-6%	NA	NA
16	Equipment, construction materials	-19%	1%	-16%	-1%	12%	NA	NA
17	Transportation, warehousing	-25%	-1%	-4%	42%	-4%	-2%	-1%
18	Oil, gas	-18%	0%	1%	6%	-30%	-15%	-2%
19	Building, Construction	-29%	-12%	-2%	36%	1%	0%	-8%
20	Publish	-9%	10%	0%	61%	16%	19%	29%
<b>VN-Index</b>		<b>-11%</b>	<b>3%</b>	<b>-6%</b>	<b>6%</b>	<b>-12%</b>	<b>-4.3%</b>	<b>-11.6%</b>

Source: BSC Research

### Appendix 4: Macro indicators over recent months

Indicators/Month	2016M5	2016M6	2016M7	2016M08	2016M09	2016M10	2016M11	2016M12
GDP YoY (%)	-	5.78	-	-	6.68	-	-	6.68
GDP ytd YoY (%)	-	5.52	-	-	5.93	-	-	6.21
PMI	52.7	52.6	51.9	52.2	52.9	51.7	54	-
IIP YoY (%)	7.8	7.4	7.2	7.3	7.6	6.5	7.2	8.3
IIP ytd YoY (%)	7.5	7.5	7.2	7.3	7.6	7.4	7.3	8.3
Retail Sales YoY (%)	9	11	9.3	9	9.7	9.3		10.2



Retail Sales ytd YoY (%)	9.1	9.5	9.4	9.3	9.5	9.3	9.5	10.2
CPI MoM (%)	0.54	0.46	0.13	0.1	0.54	0.83	0.48	0.28
CPI YoY (%)	2.28	2.4	2.39	2.57	3.34	4.09	4.52	4.7
FDI registered (billion USD)	3.27	1.23	1.665	1.5	2.03	1.18	0.49	1.5
FDI disbursed (billion USD)	1.16	1.5	1.3	1.2	1.22	1.68	1.6	2.84*
Export (billion USD)	14.6	14.8	14.7	15.2	15	15.4	15.6	16
Import (billion USD)	15	14.9	14.6	15	15.1	15.85	16	16.3
Cán cân TM (tỷ USD)	-0.4	-0.1	0.1	0.2	-0.1	-0.45	-0.4	-0.3
Tỷ giá (VND/USD)	22,400	22,177	22.47	21.91	21.94	22.32	22.72	22.76
Credit growth (%)	-	-	-	9.67	10.46	11.81	14	18
Bad debt (%)	-	-	-					

#### Appendix 5: Timetable for FED's conference and the probability of increasing interest rate in 2017

Time of FED's Conference	Date	Characteristics	Statistics of Bloomberg on Dec.28th		
			The probability of increasing interest rate	0.5%-0.75%	0.75%-1%
Feb	Jan 31 <sup>st</sup> - Feb 1 <sup>st</sup>		12.4%	87.6%	12.4%
Mar	14 <sup>th</sup> -15 <sup>th</sup>	Conference with the economy target adjustment	31.3%	68.7%	28.6%
May	2 <sup>nd</sup> - 3 <sup>rd</sup>		43.5%	56.5%	35.7%
June	13 <sup>th</sup> - 14 <sup>th</sup>	Conference with the economy target adjustment	73.5%	26.5%	46.8%
July	25 <sup>th</sup> – 26 <sup>th</sup>		78.6%	21.4%	42.9%
Sep	19 <sup>th</sup> -20 <sup>th</sup>	Conference with the economy target adjustment	88.0%	12.0%	33.4%
Nov	Oct 31 <sup>st</sup> – Nov 1 <sup>st</sup>		90.5%	9.5%	29%
Dec	12 <sup>th</sup> – 13 <sup>th</sup>	Conference with the economy target adjustment	95.7%	4.3%	18.2%

## Disclosure

*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 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. 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).*

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