

Vietnam Monthly Review 2017 M08

BSC Research

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Macroeconomic

- The PMI rose marginally from 51.7 to 51.8. Industrial production recovered slightly thanks to improvement in processing and manufacturing industry while mining sector continued to diminish and inventory index increased.
- Total retail sales of consumer goods and services in August 2017 reached VND 330 trillion, up 11.7% over the same period last year.
- Foreign investment in August only continued to decline (-43.4% mom & -60% yoy). Electricity, gas, hot water and air-conditioner distribution & Processing and manufacturing are the two leading industries in attracting FDI.
- The VND/USD interbank exchange rate fell slightly compared to the previous month, fluctuating around 22,670 VND/USD. The short-term interbank rates began increasing, revealing less abundant in system liquidity.

Stock market

- VN-Index fluctuated sharply while HNX-Index maintained its uptrend. The VN Index dropped 0.79 points, down 0.1%; and HNX-Index increased by 2,699 points compared to the previous month, up 2.7%.
- The average liquidity on the two exchanges decreased by 4.7% compared to July 2017 and remained at the level of VND 4,419 billion per session. Foreigners were net buyers on the HSX and HNX, respectively at VND 2,653 billion and VND 25 billion.
- P/E of VN-Index and HNX-Index reached 16.55 and 11.98 respectively. P/E HNX-Index lowered to the third bottom rank; P/E of VN-Index rose to 9th position.

Market Outlook next month

- The VN-Index is fluctuating in the range of 760-800 points and having a chance to surpass 800 points when bluechips have a high consensus, the following reference scenarios are proposed as follows:
 - In positive case, VN-Index can reach for the new highs in the year with the leading of Bluechips, focusing on banking stocks. The action of rotating between Bluechips and trading ETFs will improve the liquidity. Foreigners continue having stable net purchase trend, focusing on newly listed stocks.
 - In negative case, VN-Index reverses to fall below 760 points due to negative information at home and abroad. This possibility is very difficult though because the cash flow is still quite positive.
- **Recommended stocks:**
 - Stocks and sectors that were rated as outperform in our 3rd Quarter Sector Outlook report.
 - Banks - finance stocks are backed by high credit growth, bad debt treatment and Circular 36 adjustment.
 - Group of divested shares or full room stocks that announced new divestment plan or when more room is opened;
 - Industry leading stocks in the retail sector have high growth rates and high dividends.
 - Fertilizer stocks can benefit from the amendment of the VAT Law at the October National Assembly meeting.

In the long – term, BSC's recommended stock is included in the 2017 Sector Outlook Report ([Link](#)), 3rd quarter updated report ([Link](#)), stocks with good performance will be recommended in the Weekly Reports ([Link](#)) and Sector/Company Update Reports.

Macroeconomic of August 2017

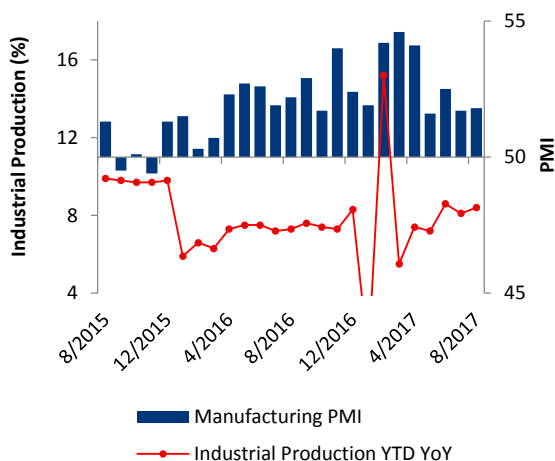
Economic growth

- **Industrial production index in August 2017 rose slightly to 51.8 (+0.2% MoM);**
- **Retail sales increased by 11.7% YoY.**

Industrial production index in August is estimated to increase by 8.4% YoY. Mining industry continued to decline, down by 5%; Processing and manufacturing increased by 12.4%; Electricity production and distribution increased by 9.6%; Water supply and waste disposal increased by 7.3%.

The consumption index of the whole processing industry in July 2017 increased by 1.6% MoM and by 8.3% YoY. Taking the first 7 months as a whole, consumption index of manufacturing sector rose by 9.5% YoY. Industries with relatively high consumption rates are metal manufacturing (+22.2%) and pharmaceutical production (+18.9%).

Chart 1
Industrial production index & PMI



Source: GSO, Markit, BSC Research

Inventory index of the entire manufacturing and processing sector as of August 1st, 2017

increased by 9.8% compared to the same period 2016. Inventory of tobacco and cigarette declined significantly by 25.1%. By contrast, sectors that have higher inventory index than average were beverage production (+62%); computer, electronic and optical products manufacturing (+55.2%), other non-metal products manufacturing (+25.6%).

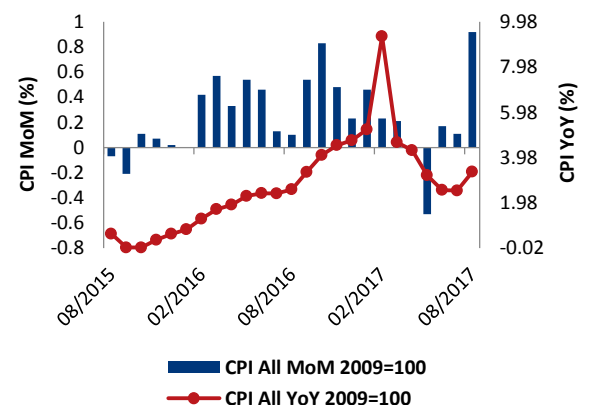
The PMI rose marginally in August 2017. The PMI increased to 51.8 thanks to improvement in processing and manufacturing industry while mining sector continued to diminish and inventory index increased.

Inflation

- **Average CPI in 8M2017 was 3.84% higher than that of last year.**
- **CPI in August increased by 0.92% mom thanks to rising price of 10/11 essential goods and services groups, especially pharmaceutical and medical services and transportation.**

Consumer Price Index (CPI) in August rose by 0.92% mom and by 3.35% yoy. Core inflation in August 2017 increased by 0.1% over July and by 1.31% over the same period of 2016.

Chart 2
Monthly CPI Development

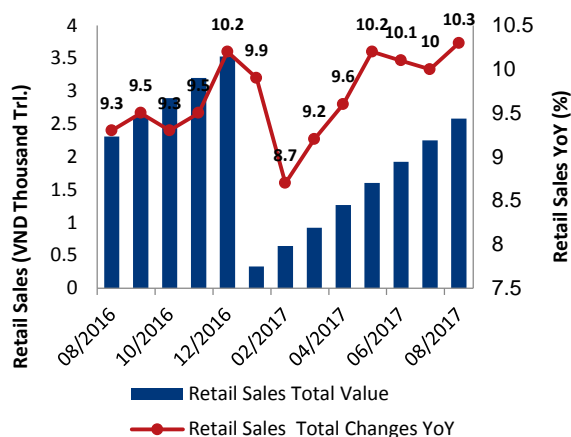


Source: GSO, BSC Research

In August, price of 10 out of 11 essential goods and services groups saw a growth, especially pharmaceutical and medical services with growth rate of 2.86% due to price adjustment applied to patients without insurance in 17 provinces. The followings were transportation with a rise of 2.13% because of gasoline price increase and foods services & restaurants which had the growth rate of 1.06% due to a rise of 1.64% in food price.

Total retail sales of consumer goods and services in August were estimated at VND 330 trillion, up 0.3% MoM and up 11.7% YoY. Retail sales reached VND 249 trillion, up 1.5% MoM and up 12% YoY; Revenue from hospitality, food services was VND 39 trillion, down 6.8% MoM and up 8.4% YoY; Tourism revenue reached VND 3.2 trillion, down 4% MoM and up 18.9% YoY; other services sales reached VND 38.7 trillion, up 0.9% MoM and up 12.6% YoY.

Chart 3
Retail Sale



Source: GSO, BSC Research

Table 1

Changes of Good and Service in the month

No	Good & Service Group	MoM (%)	YoY (%)
1	Restaurant and Food Service	1.06	-1.36
2	Transportation	2.13	5.67
3	Pharmaceutical & Healthcare	2.86	42.06
4	Housing & Construction Material	0.93	4.23
5	Entertainment	0.01	0.92
6	Beverage & Cigarettes	0.07	1.47
7	Apparel, hats & footwear	0.09	1.02
8	Household Appliances	0.03	1.03
9	Education	0.57	9.96
10	Postage and telecommunications	-0.04	-0.61
11	Others	0.10	2.25

Source: GSO, BSC Research

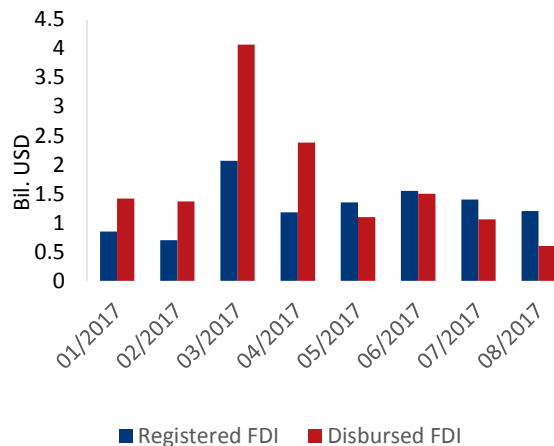
Foreign direct investment (FDI)

- New registered foreign investment continued to decline in August.
- Investment flowed mainly into Electricity & Gas production and distribution and Processing & manufacturing sector.

As of 20 August 2017, the total of new registered foreign investment of 1,624 plans reached USD 13.5 billion (+37.4% yoy). Adding up USD 6.4 billion adjusted capital of 773 plans which gained approval in previous years, the total FDI registered in 8M2017 was USD 19.9 billion (+38.3% yoy). Of which, newly registered FDI in August was USD 0.6 billion, down 43.4% compared to the previous month and down 60% over the same period of 2016.

Import/Export Activities

Chart 4
FDI (Bil. USD)



Source: GSO, BSC Research

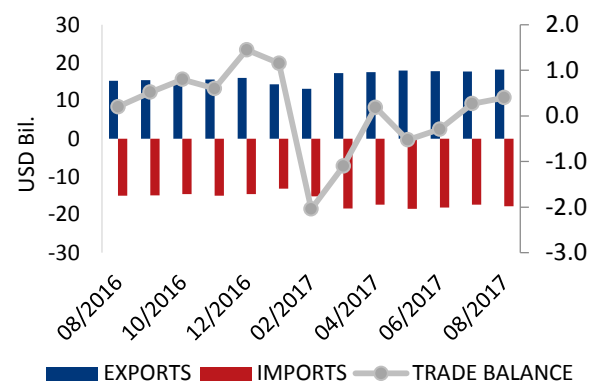
In 8M2017, electricity, gas and hot steam production and distribution attracted the largest amount of FDI with the newly registered amount reaching USD 5.4 billion, accounting for 39.8% of the total capital. The second place belonged to processing and manufacturing industry with USD 4.8 billion which made up for 35.9%. If additional registered capital of previous plans and stock purchasing are added up, the total amount of foreign investment flowed into processing and manufacturing sector reached USD 11.7 billion, comprising 50%. The top three provinces in attracting FDI were Thanh Hoa (22.7%), Nam Dinh (15.8%), Kien Giang (10%).

Up to August 2017, Japan was the biggest investor with a capital of USD 4.83 billion, accounting for 35.9% of total newly registered capital, followed by Singapore with USD 2.84 billion, making up 21.1%. In the third place was Korea with USD 2.17 billion, accounting for 16.1%.

- Trade balance in the August 2017 is estimated to be surplus USD 400 million and up to August 2017, total trade deficit is USD 2.13 billion cumulatively.

Export value in August 2017 was estimated at USD 18.2 billion, up 3% over July, of which the domestic economic sector gained USD 5.33 billion, up 0.6%; the foreign invested sector reached USD 12.87 billion, up 4%.

Chart 5
Import/Export (Bil. USD)



Source: GSO, BSC Research

Import value in August was estimated to be USD 17.8 billion, up 2.3% compared to that in July, of which the domestic economic sector reached USD 7.3 billion, up 2%; foreign invested sector reached USD 10.5 billion, up 2.4%.

Table 2
Top 10 Export Goods

No	Export Goods	Value (USD billion)	%YoY
1	Mobile phone	26.0	14.8%
2	Textile	17.0	7.2%
3	Electronics	15.7	39.3%
4	Shoes	9.6	13.0%
5	Other machines	8.1	30.1%
6	Aquaculture	5.2	19.2%

7	Woods	4.9	10.6%
8	Vehicles	4.6	19.6%
9	Vegetables	2.3	48.0%
10	Coffee	2.3	3.7%

Source: GSO, BSC Research

Export value of some major goods and commodities continued to increase over the same period of last year. Phone and components' value was still in first place, reaching USD 26 billion. Electronics, computers and components' was USD 15.7 billion, up 39.3% compared to the same period of last year.

Table 3
Top 10 Import Goods

No	Import Goods	Value (USD billion)	%YoY
1	Machine	24.1	33.5%
2	Electronics	22.1	24.8%
3	Mobile phone	8.7	33.3%
4	Fabric	7.4	8.6%
5	Steel	6.0	16.3%
6	Plastic	4.8	23.4%
7	Gasoline	4.5	38.2%
8	Textile Materials	3.7	10%
9	Other metals	3.6	16.7%
10	Plastic Products	3.4	19.7%

Source: GSO, BSC Research

Import value of goods and commodities used in manufacture increased sharply over the same period of last year. Machinery, equipment and spare parts' imported value led the list with USD 24.1 billion, up 33.5% yoy.

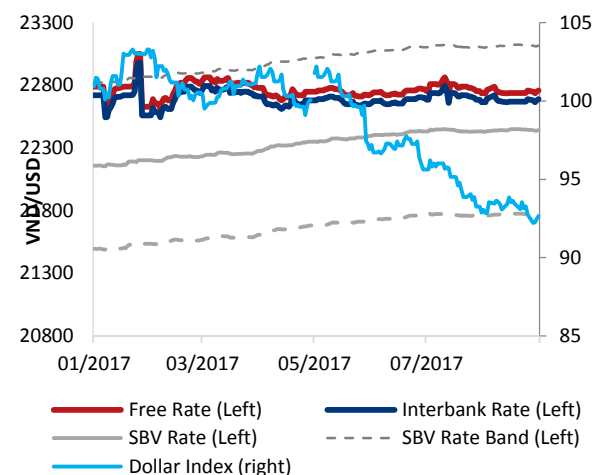
Foreign Exchange Market

- **The interbank rate decreased slightly compared to that of July, nearly flat at the end of August, fluctuating around 22,670 VND/USD.**

USD/VND interbank rates in August 2017 fluctuated in the range of 22,665 – 22,720 VND/USD. This month's average rate declined

slightly by 0.2% mom, down to 22,678 VND/USD. In August, the SBV rate fluctuated within the range 22,429 - 22,450 VND/USD as the previous month, with an average of 22,442 VND/USD, increased by 0.02% mom.

Chart 6
Exchange Rate Development



Source: Bloomberg, BSC Research

The free exchange rate also moved similarly to the interbank exchange rate, **the free exchange rate increased and fluctuated in a more narrow range compared to the previous month, between 22,735 VND/USD - 22,790 VND/USD.** The average free exchange rates in August 2017 declined by 0.2% compared to July, reaching 22,748 VND/USD.

USD price index as of 31/08/2017 decreased by 0.2% compared to the end of July 2017. The USD price index increased in the first half of August as the negative effect of international geo-politic disputes died down. However, this index declined afterwards due to the staff change at the White House, increasing tension in South Korea as well as the destruction caused by Storm Harvey.

After the sideways movement in quarter II/2017, from 22,700-22,780 VND/USD, the free exchange rate was in a downtrend period and it fluctuated in a smaller marginal range.

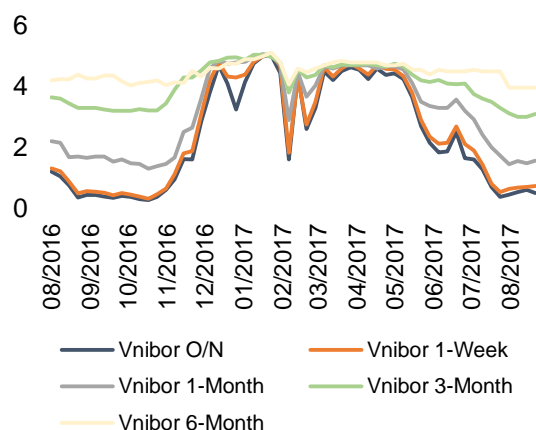
The interbank exchange rate also had similar movement and Dollar Index continued its downtrend movement since quarter II/2017.

Banking - Interest Rate

Short-term interest rates (overnight, 1 week and 1 month) began rising, while the 6-month interest rate decreased slightly and the 3-month interest rate was unchanged. Specifically, in the fourth week (21/8-25/8), SBV net deposited VND 506 billion while there was no maturity. As for the Treasury bill, the SBV issued VND 21,000 billion of new bills while the amount of bill in due that week was VND 21,000 billion. Thus by both OMO and T-bill channel, the SBV net deposit was VND 506 billion into the market.

By the end of August, interest rates at commercial banks is maintaining their stable trend and having signal of increasing again. However, raising interest rate pressure when the government increase credit growth rate target to 21% has caused pressure in bank rates.

Chart 7
Interbank Rates



Source: Bloomberg, BSC Research

Currently, the overnight interbank rates, one week, one month terms rose marginally to 0.5%, 0.753%, 1.57% respectively. At the same

time, 3-month rate stayed the same at 3.1% and 6-month rate continued to decline to 3.97%. The net inject via OMO channel revealed less abundant of system liquidity and influence of interest rate lifting pressure on short-term rates.

Macro Forecast in September 2017

On an international level, Vietnam September macro-economic condition can be affected by the followings events:

Monetary and interest rate policy of some nations are expected to be published: In the first week of September, the Fed will publish the Beige Book containing U.S. macroeconomic condition. This is one of the most important documents that are expected by market participants before FED's annual meeting by the end of September which aims at discussing its monetary policy. At the same time, ECB will conduct a meeting in order to make its decision of EU's interest rate. In accordance with their schedule, the central banks of many nations including Korea, Brazil, Australia, Germany and Canada are going to discuss and publish their respective monetary policy in the first half of September.

Tensions on North-Korean Peninsula: The tension rose when North Korea declared its success of firing intercontinental missile in July. The aggressive exchange between North Korea and the U.S had caused fear on the U.S and other countries stock markets to reach its peak in many sessions. Midway of August, the warning of an attack on Guam died down but the annual military exercises between North Korea and the U.S. had made the tension rise again. Recently, South Korean announced the possibility of preparing the anti-nuclear missile for the next missile test, if this prediction comes true; the political disturbance would cause a strong disruption in the economy and panic sentiment on the market.

For domestic condition, notable highlights composed of following matters:

(1) 93/2017/NĐ-CP Decree will officially be in effect since 25/9/2017 regulating financial law of credit institutions, foreign banks branch and supervise financial condition, evaluating government investment efficiency in credit institution 100% owned by the government. Aside from new information of financial regulation, financial administer principle..., decree also listed the five sources that composed of credit institution and foreign bank branch's revenue,. For credit institution that had more than 50% of government ownership, the document also states performance valuation criterial, financial plan, reports regulation...heading to more transparent, united evaluation efficient of these credit institutions.

(2) 10/2017/TT-BTC Circular corrected 234/2012/TT-BTC Circular guiding government bond trading management regulation which is in effect as of 1/9/2017. This circular has reduced the types of listed government bonds down to three categories; introducing new regulations on the members' reports... The latest news of this circular is the bonds loan to sell. Accordingly, the Government bond is under the agreement of respective parties and through the trading system at Hanoi SEC or on the securities lending system at VSD, ensuring the principle of (i) Only bidding members are allowed to borrow government bonds for sale under the regulation of the Hanoi SEC; (ii) The maximum duration of a loan is 180 days and must not exceed the remaining term until the maturity of the government bond; (iii) The loan must be repaid by a loaned government bonds or equivalent government bonds that can be transferred. These regulations are opening up important legal corridors for a number of derivative products in the bond market.

(3) Interest rate and inflation. Interest rates of commercial banks continued to be under pressure from the raising credit growth limits to 21% policy. In addition, CPI also maintained its upward momentum with 10/11 sectors growth and commodity and food service sector continued growing as food and gasoline prices maintained their upward momentum. Raising the credit growth limit to 21% will continue to put pressure on interest rates and inflation in September. The SBV ability to manage its interest rate and monetary policy will continue to be tested at more difficult level when the gap between credit growth and capital mobilization is rising.

Table 4
Monthly Macro Indicators

Indicator/Month	2017M1	2017M2	2017M3	2017M4	2017M5	2017M6	2017M7	2017M8
	-	-	5.1	-	-	6.17	-	-
GDP yoy (%)	-	-	5.1	-	-	6.17	-	-
GDP ytd yoy (%)	51.9	54.2	54.6	54.1	51.6	52.5	51.7	51.8
PMI	15.2	15.2	5.5	7.4	7.2	8.6	8.1	8.1
IIP yoy (%)	15.2	15.2	5.5	5.1	5.7	6.2	6.5	6.7
IIP ytd yoy (%)	9.9	8.7	9.2	9.6	11.6	11.6	10.3	11.7
Retail Sales yoy (%)	9.9	8.7	9.2	9.6	10.2	10.1	10.0	10.3
Retail Sales ytd yoy (%)	0.52	0.23	0.21	0.00	0.53	0.17	0.11	0.92
CPI mom (%)	5.22	5.02	4.65	4.30	3.19	2.54	2.52	3.35
CPI yoy (%)	1.42	2.03	6.86	9.24	10.24	11.84	12.9	13.5
Registered FDI (Bil. USD)	0.85	1.55	3.6	4.8	6.15	7.7	9.1	10.3
Disbursed FDI (Bil. USD)	7.3	13.0	16.3	17.5	17.9	17.8	17.5	18.2
Export (Bil. USD)	7.38	14.2	17.4	17.3	18.4	18.0	17.8	17.8
Import (Bil. USD)	1.15	-1.2	-1.1	0.2	-0.5	-0.2	-0.3	0.4
Trade Balance (Bil. USD)	23,050	22,648	22,829	22,680	21,724	22,744	22,793	22,748
Exchange Rate (VND/USD)	-	-	2.81	-	-	7.54	-	-
Credit Growth (%)								

Source: BSC Research

Stock market in August 2017

Market Outlook

VN-Index and HNX-Index were fluctuating in two separated trends, while VN-Index was being quite dynamic, HNX-Index maintained its upward trend, market liquidity of 2 exchanges in August decreased. As of 31/08/2017, VN-Index decreased by 0.79 points in comparison to the previous month, corresponding to a decrease of 0.1%; and HNX-Index increased by 2.699 points in comparison to the previous months and increased by 8.22 points in comparison to the end of July, equivalent to an increase of 2.7%.

Table 5

Market index performances in the last 7 months on HOSE exchange.

Month	Index	Volume (Bil share)	Capitalization (VND Trillion)
8	782.76	4,24	1,981
7	783.55	3.80	1,919
6	776.47	3.97	1,903
5	737.82	4.39	1,792
4	717.73	3.09	1,747
3	722.31	4.11	1,691

Source: HSX, Bloomberg, BSC Research

Most stocks had a correction period in August; most VN30 stocks had negative effect on VN-Index points. 3 highest supportive stocks are VIC (contributed 4.7 point), ROS (contributed 3.4 point), MSN (contributed 2.3 point) supporting the uptrend of VN-Index.

P/E VN-Index increased by one rank in comparison to the previous month While P/E of HNX-Index decreased by 1 rank, the general correction trend of VN30 affected significantly on the decrease of VN-Index P/E. P/E VN-Index as of 31/08 was at the rate of 15.32 and P/E of HNX-Index was 12.31.

Market cash flow continued rotated in different sectors along with the market movement in August. At the beginning period, VIN-Index continued its upward momentum approaching the peak level of 796.62 points due to the upside of individual stocks such as SAB; the cash flow was mainly invested in to speculative stocks and Real-estate stocks. After which, market cash flow divested from fundamental stocks notably VN30 stocks, market index had a deep correction period downed to the 760 level, this period market liquidity was at its weakest in the month, market cash flow spread into speculative stocks, most market sector also suffered from weaken liquidity. At the last trading session of the month, the cash flow returned to VN30 stocks, leading sectors including Banking sector, Steel sector, causing the market index to go down near the bottom level of last month. At the end of August, stocks including ROS, FLC, HAI, and largecap stocks such as HPG, NVL, HSG, VNM, DXG are the top liquidity stocks in the markets.

Table 6

Market index performances in the last 7 months on HNX

Month	Index	Volume (Bil share)	Capitalization (VND Trillion)
8	103.88	1.34	190
7	101.18	1.38	188
6	99.14	1.33	187
5	93.91	1.34	174
4	89.54	1.14	168
3	90.82	1.16	171

Source: HNX, Bloomberg, BSC Research

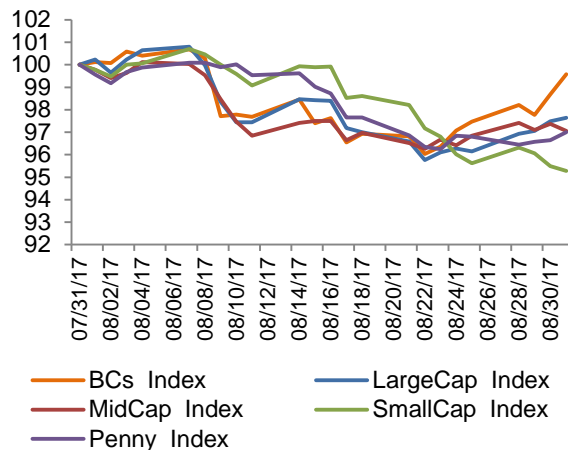
All market caps type stocks performances

These stocks had a correction in August, in which SmallCap, Penny had the strongest

decrease, BCs index decreased slightly by -0.4%, MidCap -2.9%, LargeCap -2.4%, Penny -3.0%, SmallCap -4.7%, in comparison to the end of July.

Chart 8

All market caps type stocks performance



Source: Bloomberg, BSC Research

Capitalization scale

Market capitalization scale reached VND 2,171.21 thousand billion, Corresponding to 95.37 billion USD, increased by 2.17 % (MoM).

Since August, 2017, on the HOSE, there were 6172 million additional listed shares, more than 567 million shares for delisting, and 53 million additional ETF fund certificates. 340 shares listed on the HSX with the total value listed to be 565 trillion, of which VND, SCR, and VPB, are listed and transferred to higher market floors contributing 53.85 trillion. These factors contributed to the increase of market capitalization in August.

The capitalization growth rate of the HSX was 0.89% MoM, while that on the HNX was 0.8% MoM.

Average market liquidity

The average liquidity on the two exchanges decreased by 4.7% compared to July 2017, and remained at the level of VND 4,419

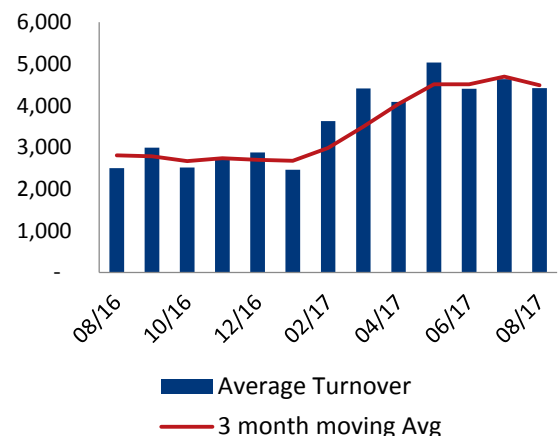
billion/session, equivalent to USD 194.10 million/session.

In addition to the correction of general market index, liquidity also decreased in August, liquidity increased steadily in the first five months of the year and it declined in the next months, which had the highest average liquidity with an average of 5.034 billion per session.

Chart 9

Average transaction value

Bil.VND



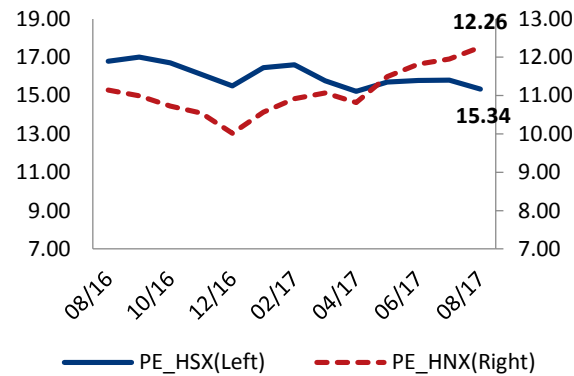
Source: Bloomberg, BSC Research

Price level of VN stock market

VN-Index and HNX-Index respectively reached P/E of 15.32 and 12.31. Along with the rising momentum of the market, P/E of VN-Index and HNX-Index also increased rapidly in the first eight months of the year. In the whole region, HNX-Index lowered 1 rank and VN-Index increased by one rank compared to last month. The current P/E of HNX-Index is in the bottom 4th position; P/E of VN-Index is in 9th position.

Chart 10

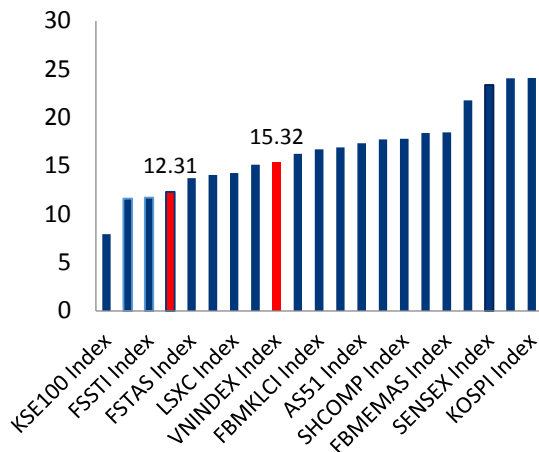
P/E indicator performances on both Exchanges



Source: Bloomberg, BSC Research

Chart 11

Vietnam's P/E ratio compared to other countries in the region



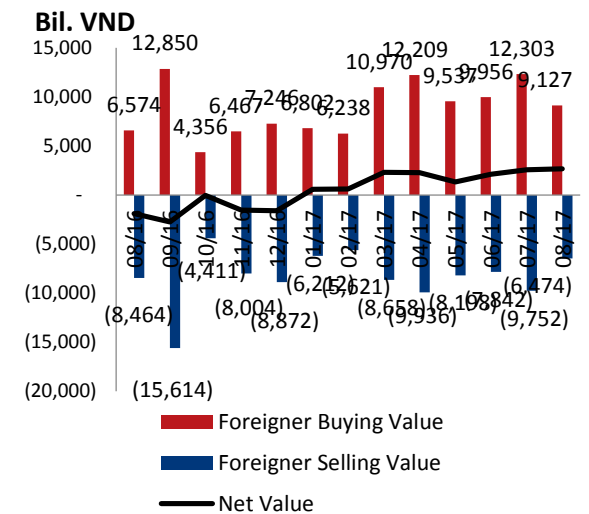
Source: Bloomberg, BSC Research

Foreign trading

In August, foreigners continued buying activities on both exchanges, of which PGD was strongly bought by foreigners in the month.

Chart 12

Foreigner transaction performances on both Exchanges



Source: BSC Research

As of 30/08, foreigners had net purchases of 2.653 billion dong on the HSX and 25 billion dong on the HNX.

Table 7

Top 10 stocks traded on the HSX in August

Symbol	Net value (VND Billion)	Symbol	Net value (VND Billion)
PGD	1271.47	SSI	-354.96
HPG	497.82	HSG	-254.51
BID	177.80	CTG	-139.81
DPM	172.10	MSN	-127.05
KDC	142.65	KBC	-97.52
GAS	140.42	AAA	-66.96
SAB	110.13	HT1	-58.85
CTD	96.46	BMP	-56.49
VCB	91.63	PPC	-48.35
HCM	81.21	SBT	-48.33

Source: BSC Research

On the HSX, foreigners bought PGD (VND1271.47 billion), HPG (VND 497.82 billion), BID (VND 177.80 billion), DPM (VND 172.10 billion), KDC (VND 142.65 billion) and sold SSI HSG (VND 254.51 billion), CTG (VND 139.81 billion). On the HNX, the group focused on buying VCS (VND 21.95 billion), VGC (VND 13.12 billion), HUT (VND 11.74 billion) and selling PVS (VND 170.14 billion) SHB (VND

150.61 billion).

Table 8

Top 10 net traded stocks on the HNX in August

Symbol	Net value (VND Billion)	Symbol	Net value (VND Billion)
VCS	21.95	PVS	-170.14
VGC	13.12	SHB	-150.61
HUT	11.74	ACB	-32.00
BVS	11.60	VCG	-9.15
DBC	7.45	DHT	-5.63
THB	6.00	SHS	-4.90
KVC	4.88	CEO	-3.62
TEG	4.85	NTP	-3.54
QNC	3.88	HOM	-2.68
NDN	3.70	TNG	-2.49

Market Outlook in September

In August, positive economic data from key countries such as Japan's second quarter GDP growth of 4%, sustaining for 6 consecutive quarters, USA's third quarter GDP growth of 3%, higher than the forecast of 2.7% and the previous period of 2.6%, motivating stock markets to stabilize amid the events of political tensions between the United States, Russia, the United States, terrorism in Barcelona, and President Donald Trump dissolving the third economic advisory council. Due to the risky fluctuations, cash flow has dispersed and in flowed to gold, pushing the gold's price to exceed \$ 1,300 / oz, the highest since October 2016. Investors also withdrew capital from the US stock market for 10 consecutive weeks and moved into emerging markets, Europe. This shift, however, is not uniform, which has led to a differentiation in the regional markets.

Table 9
Foreigners' net purchase/sale value in July

Country	August (USD million)	Year-to-date (USD million)
India	(1,801)	7,094
Indonesia	(482)	38
Japan	(8,110)	(1,582)
Malaysia	(57)	2,452
Philippines	50	496
Korea	(1,415)	7,215
Sri Lanka	11	180
Taiwan	(299)	8,747
Thailand	(125)	69
Pakistan	(75)	(451)
Vietnam	54	471

Source: Bloomberg, BSC Research

In Viet Nam, Policy reforms and removal of business barriers are being scrutinized and enforced by ministries. The Ministry of Finance has provided guidelines for the amendment of

some articles of the Laws on Value Added Tax (VAT), Corporate Income Tax (PIT), Personal Income Tax (PIT) and Natural Resource Tax. In the revised text, the VAT Law is controversial with 2 proposed options to increase VAT: (1) from 10% to 12% since 2019; (2) from 10% to 12% since 2018, 14% since 2021. In addition, there are 4 contents to remove difficulties for enterprises, of which the most concerned content is "fertilizer, machinery and equipment for agriculture, offshore fishing vessels are subject to VAT tax". The SBV also consulted on the draft Circular amending and supplementing some articles of Circular 36/2014 / TT-NHNN on limits and safety ratios in operations of CIs, branches of foreign banks. Specifically, the ratio of short-term capital to medium-term loans will be 45% in 2018 and 40% in 2019 for banks, foreign bank branches. If the draft is approved, the reduction of this ratio from 60% (2016) to 40% would be postponed for another year instead of January 1, 2018 in accordance with Circular 06. These changes aim to synchronize policies for the purpose of promoting short-term growth while also ensuring the stability and sustainability of revenues for the medium and long term amid Vietnam being subject to many tax cuts in the process of joining the bilateral and multilateral Agreements.

Due to surrounding negative information, the market fell for the first two weeks and only recovered in the last two weeks of the month thanks to the rise of VN30 stocks, with the core group of banks. In August, VN Index dropped 0.1% to close at 782.76 points. The market movement is similar to our scenario, in which VN-Index is moving in the range of 760-800 points; however, the fluctuations are more complicated because of the psychological

effect from rumors. The derivative market has traded since August 10th and initially had positive movements with an average liquidity of more than VND 400 billion per session. However, the market has not attracted foreign investors and was not used by investors as tools for risk prevention.

In August, we updated and analyzed some stocks: CMG ([Link](#)), LAS ([Link](#)), MBB ([Link](#)), PHR ([Link](#)), QBS ([Link](#)), REE ([Link](#)), HDC ([Link](#)), FPT ([Link](#)). Stocks with positive developments included LAS, MBB, PHR, HDC.

Highlights in August:

Pursuing high economic growth targets with a focus on easing monetary policy will motivate growth not only in September but also in the rest of 2017.

At the regular government meeting on August 30th, the Prime Minister requested the State Bank of Vietnam to continue efforts to reduce lending rates by 0.5%, striving to reach a credit growth rate of 21% and pursuing higher interest rates and GDP growth of 6.8% concurrently. Credit of the economy increased by 10.06% over December 2016, up 9.01% over the same period. With the pre-mentioned target growth, credit growth rate will have to be two times higher and about VND 660 trillion will be injected into the economy in the last four months of the year. The State Bank of Vietnam is also preparing comprehensive solutions to boost credit growth, first of all, the resolution for bad debts, strengthening bad debts clearance capabilities for VAMC, safety ratios for the operations of the credit institutions in the Circular 36 simultaneously regulating actively on the open market operation. High credit growth is always positive news for investment channels including the stock market. Particularly for the stock market, enterprises have the opportunity to expand businesses to improve profit while abundant cash flow brings opportunities for short term investors.

The ETFs restructure portfolio, the opportunity to buy fundamental stocks to anticipate Q3 business results.

ETF FTSE VN added PLX with 5.4% of its portfolio equivalent to USD 12.5 million. This means that the fund will have to sell off some stocks. Similarly, VNM ETF is likely to add HBC or KBC during the restructuring period and reduce proportion in some stocks. ETFs FTSE VN and VNM will have two weeks and one week consecutively of portfolio restructuring and ended on September 15 session. The final trading session, as in the recent trading sessions, will be the opportunity to buy some falling stocks due to the difference between short-term supply and demand. The second half after September is also the time to buy to wait the business results of the third quarter of the year in advance as listed companies will also be announced early without auditing as reported in the second quarter.

Extensive investigation of domestic cases, the risk of tension creating political and economic confrontation in the world are potential risks.

The key economic cases continue to expand investigations; the latest is the move to prosecute many PVN leaders involved in the Oceanbank case. The effect of court cases on the market is not significant and diminishing the impact but these are the potential risks when indexes increase. Risks also arise when events that threaten conflicts in the world, such as the Sino-Indian tension and the North Korea, China intensifies control over the South China Sea. In addition, the US investigation of China's intellectual property is fueling trade sanctions and retaliation among the world's two largest economic powers.

Table 10
Factors affecting the market in September 2017:

Event	Impact on the stock market
In pursuit of high economic growth targets, easing monetary policy, credit growth rate from	Positive

18% to 21%.	
Resolution on handling bad debts of credit institutions, adjustment of safety ratios to ensure operation, high credit growth.	Positive, impact on the banking industry
Index future contract	Positive, limited
SCIC's divestment, shareholding and new listing	Dilution, expectation on foreigners
FED Policy meeting in September	No interest rate increase, FED year-end view is clearer
Political geopolitical issues: Russia's sabotage, Sino-Indian tensions, North Korea and China intensify operations in the South China Sea, creating a confrontation and retaliation among the great powers.	Risk not high, but unpredictable
Judging of serious economic cases, expanding with new cases.	Diminishing effects, potential for unexpected elements
The second quarter's profit growth led to a drop in P / E and P / B ratios of VN-Index, but remained high, with large margins..	Risks when psychology, cash flow changes

Source: BSC Research

On the basis of assessing market performances and market information in the short term, the price and volatility scenarios proposed in September are as follows: VN-Index continued accumulating in the point range of 760-800 points and opportunity to pass 800 points when the Blue chip stocks have a high consensus.

- Positive case, VN-Index continued to move towards new higher levels in the year with the leading of Blue chip stocks which focused on banking stocks. Movement between large stocks, ETFs trading helped liquidity improve. Foreigners were net buyers with a stable net-buying position, focusing on newly listed stocks.

- Negative case, negative information inside and outside the country makes VN-Index reverse to decline when falling below 760 points. This case, though, is unlikely to happen as the cash flow is still positive and will be supported by the easing monetary policy.

Investors can refer to a number of topics, and updated reports in the months:

- Industry sectors and stocks were positively evaluated by us in the Q3 FY2010 Sector Outlook ([Link](#));
- Banking-finance stocks were supported by high credit growth policy, bad debt handling and adjusting the ratio of operational safety;
- The group of divested stocks or full foreigner room is announced divestment plans or when the room is expanded;
- Leading stocks in the retail sector have high growth and dividend yields.
- Fertilizer stocks starts to catch the VAT Law amendment at the October National Assembly meeting.

In long term, BSC's recommended stock is included in the 2017 Sector Outlook, Q3 updated; stocks with good performance are recommended in the investment weekly report and Sector/Company Update Reports.

Disclosure

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