BSC

Công ty Cổ phần chứng khoán
Ngân hàng Đầu tư và Phát triển Việt Nam

VIETNAM SECTOR OUTLOOK 2018

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SECTOR INVESTMENT STRATERGIES IN 2018

The global economy in 2018 is expected to continue to grow well, but growth rates may be more limited as the gap between actual output and economic potential is suffering. This is mainly due to the rapid recovery of the US economy. In the US, monetary policy will continue to tighten with the expected three times increase of 0.25% interest rate in 2018, and may be up to four times if the Fed fears loosening fiscal policy (reduction of income tax) will put pressure on inflation. Regarding to the Eurozone and Japan, the ECB and BOJ are expected to continue buying assets, implement easing monetary policy and maintain negative interest rates.

In the United States, in 2018, the US economy is expected to be optimistic with GDP growth of 2.5% (similar to 2017, better than the 2.1% in 2016), the unemployment rate is expected to fall to 3.9%, better than 4.1% in 2017 and 4.7% in 2016; Inflation has shown signs of rebound with a forecast of 1.9% for 2018 and 2% for 2019 (up from 1.7% in 2017), but still within the FED's 2% target. We noted that oil prices had a great impact on countries inflation's rate; the fact that oil prices remain stable and on the upward trend will have a positive impact on the inflation index in the next period.

In China, Xi Jinping's economic reform strategy aims to cut industrial production, clean up the environment, break speculation market, curb credit growth, and transform a production country to the service economy, which in part will increase the price of export goods. On the other side, import prices to the US and EU are showing signs of increasing due to the impact of rising commodity prices. Therefore, China's inflation rate is also a notable topic.

Emerging Market is expected to be the main attraction for 2018's market cashflow. In the circumstance of favorable conditions of the global stock market in 2017, economic reform and economic growth are taking place in many Asia emerging countries, stocks are in a correction period of which price level is higher than the previous period (2015 - 2016) and have strong growth prospects when comparing ROE of emerging countries (about 11.5%) with developed countries, while PB is only around 1.8 which is much lower than that of developed countries (about 2.45x).

Vietnam - The stock market is changing in terms of Quantity and Quality. Ending the 2017 vibrant year with VN-Index increased by 48% which is listed among the list composed of highest stock market growth rate, and also the highest growth rate in many years. With a return to the 10-year peak since 2007, BSC forecasts that the market would break its peak in 2018 in terms of both index and liquidity. The market also has a change in quality, accompanied with the amount of (1) the presence of leading enterprises after the IPO process, listing floor (upcom on HNX, HSX), (2) Divested state capital also makes a significant change in term of quality. Corporate capital affecting the VNIndex and VN30 will also see many changes, creating a new game to attract investors including both individual investors who are trapped in low interest rates, and institutional investors who are gradually being convinced by the growing potential of Vietnam. However, the market is not completely positive in 2018, the risk remains in many sectors of the market, and the excitement of individual investors may leads to higher uncertainty than 2017. As usual, we analyzed that the stock market would continue to diversify and opportunities only appear to investors who are well-prepared on investment topics of 2018.

1. Investment thesis in 2018

Similar to previous year, BSC usually offers investment topics, evaluating the overall opportunities, helping investors have more options throughout the year. For the year 2018, BSC maintained a positive view on the market in general and raised the following topics:

First, the opportunity from Equitization, the issuance of shares to the public and new listing. As of 11/2017 only 22/44 corporation are expected to be equitized in 2017, and thus, the number of equitized firms pushed through 2018 is relatively large. The government also promulgated a message stated that the equitization procedure would not be delayed until 2019-2020. According to Decision 991 / TTg-DMDN, in 2018, there will be large corporations participating in equitization namely MobiFone Telecom Corporation, Multimedia Corporation (VTC), Electricity Generating Corporation 1 and 2 , Saigon Jewelry Company - SJC, lighting companies, water supply and drainage companies of Hanoi ... Equitized companies will be the opportunity to attract large cash flow from domestic and foreign investors because the current Initial public offering of shares will be listed on Upcom for 90 days if qualified, creating liquidity for investors. In addition, public companies registered on Upcom or transferred from Upcom to HNX or the HSX continue to be an important trend. This group is main main the driving force behind the sustainable growth of the stock market in the future

IPO corporations that have not listed yet

#	Corporations	Note	Timeline
1	Song Da Corporation	Value of equitized enterprises: VND 18,502 billion, chartered capital of VND 4,500 billion, IPO 48.82% of charter capital, starting price of VND 11,000	IPO on 25/12/2017, but only sold 0.36% of the shares, the average winning price of 11,159 VND / share.
2	Investment and Industrial development corporation (Becamex)	Chartered capital is VND 13,170 billion, foreigners hold 51% of capital, IPO 23.63% with the starting price of 31,000 VND/share, 25% sold to the strategic partner, and 0.37% sold to employees. IPO on 1/12/2017 but only 6.1% of the shares are auctioned.	IPO on 1/12/2017 but only 6.1% of the shares are auctioned, average winning price was 31,008 VND share
3	Thanh Le General Import - Export Trading Corporation (THALEXIM)	Charter capital of 2,366 billion. IPO 5%, starting price was 10,600 VND / share; 45.55%sold to strategic investors	IPO on October 31, 2017, the average winning price was 14,823 VND/share

Corporations approves IPO plans which will equitize in 2018

#	Corporations	Note	Timeline

1	Binh Son Petrochemical Refinery Limited (BSR)	Chartered capital is VND 31,000 billion; IPO 7.79%, starting price 14,600, sold to strategic investors 49	IPO on 17/1/2018
2	Petrovietnam Oil Corporation (PV Oil)	Chartered capital: VND 10,342 billion; 44.72% of shares for strategic investors, 20% of IPO starting price 13,400 VND / share; sold to employees 0.18%.	IPO on 25/1/2018
3	Petrovietnam Power Corporation	The value of enterprises for equitization: VND 60,623 billion, chartered capital: 23,418 billion VND. IPO size is expected at 20%, starting price is 14,400 VND/share; sold to strategic colleges 29%.	IPO on 31/1/2018
4	Vietnam Rubber Group (VRG)	Charter capital of VND 40,000 billion. IPO 11.88% starting price 13,000 VND/share; sold to strategic investors 11.88%; ESOP 1.22% and sold to the trade union 0.02%.	IPO on 2/2/2018
5	Power Generation corporation 3	Chartered capital is 20,809 billion. IPO 12.83%, starting price 24,600 VND/share, sold to strategic shareholders 36%, ESOP 0.16%	IPO on 9/2/2018
6	Vinafood 2	Charter capital of 5,000 billion. IPO 22.97% starting price at 10,100 VND/share; sold to strategic colleges 25%, ESOP 0.99% and sold to union 0.04%	At most by the end of QI, or the start of QII/2018
7	Hanoi Trade Corporation)	Charter capital of VND 2,200 billion; 34.51% IPO, starting price 12,800 VND/share; sell to strategic investors 65%, remaining sold to employees.	Corporation expected IPO in three months since 5/12/2017

Source: BSC Research

Second, the opportunities from divested state capital leading enterprises. According to the Decision No. 1232 / QD-TTg, in 2018, some noteworthy divestments were PLX (expecting a minimum divested rate of 24.86%), ACV (a minimum divested rate of of 20%), DVN (a minimum divested rate of 29.98%), Lilama - LLM Vietnam Machinery Installation (a minimum divested rate of 46.88%), VGC (a minimum divested rate of 20.62%). In addition, SCIC's divestment portfolio will also attract major interests in DMC, BMI, VCG, NTP, BMP, FPT, and VGT.

In addition, BSC also noted that the State would reduce its stake in Vinachem to 51-65%, and Vinachem also plans to divest some of its subsidiaries. Fertilizer companies are BFC, SFG, VAF, DDV, DGC, PAC; Together with that, PVN plans to divest DPM and DCM down to 51% in 2018. With Fertilizer industry, besides information on divestment, VAT law consider converting from non-taxable objects to taxable objects, If approved, is expected to take effect on January 1, 1919, will also have a great impact on the stock price and business results of fertilizer companies.

List of SCIC's 2018 divestment

#	Corporations	Gov ownerhsip	Divestment rate	Divestment value (VND bil)
1	Domesco Medical Import Export JSC	34.71%	34.71%	1,393
2	Vietnam Plastic corporation	65.85%	NA	172
3	Bảo Minh corporation	51.00%	NA	1,644
4	Vinaconex corporation (*)	57.79%	N/A	
5	Hai Phong Thermal Power JSC	9.00%	NA	585
6	Quang Ninh Thermal Power JSC	11.00%	NA	432
7	Tien Phong Plastic JSC	37.10%	37.10%	2,318
8	Binh Minh Plastic JSC	29.51%	29.51%	2,068
9	Vietnam Electronics And Informatics JSC	88.00%	NA	242
10	FPT corporation	5.96%	5.96%	1,806
	Total			**10,660**

Source: BSC Research

(*) Conducted on 8/12/2017 but only sold sucessfully 5.6% and collected VND 137 billion.

Third, the change of orders in VN30. 2017 is the first year that the majority of investors fail to make their return rate equal equal or larger than the main indicators; causing new cash flow entered the index funds. This is a good opportunity for index funds, starting with the growth of fund services, when investors have started payting attention to this fund. Therefore, enterprises in the index baskets will actually attract tons of investment cash flow.

New listing / IPO / floor transfer of large leading industry enterprises the in the coming time will lead to a major disturbance in the order of VN30 basket in the evaluation period. The VN30 stocks are not only highly representative of market capitalization, liquidity, high free transfer rates, but are also capable of attracting domestic and international investors in 2018.In the 1st half of 2018, based on the regulations, BSC expected news VN30 stock to include **PLX, VJC, PNJ, HBC, PDR, DXG**; replacing **BVH, CTD, DHG, DPM, KDC, NT2** (Macro-economic Outlook 2018)

Fourth, the banking wave. In 2018, banking stock will continue to grow significantly and had a major effect on VNIndex. This trend has been supported by (1) The listing of a number of private commercial banks (Techcombank, OCB, HDbank, TPbank, Maritime Bank, Seabank, OCB, ABBank, Saigonbank, South Asia Bank, Viet A Bank) and (2) Continue raising chartered capital / issuance for domestic partners and (3) seek foreign strategic shareholders to meet Basel II capital requirements.

In addition, the change in substance includes (1) expectation to accelerate the process of dealing with bad debt and restructuring of weak CIs, (2) credit growth is forecast to grow by 17-19% in 2018 and (3) Circular 19/2017 / TT-NHNN on extending the use of medium and long term loans in 2018 from 40% to 45% expected to improve NIM in the short term, improved performance, boosting stock prices Banks created new peaks. We note the group of stocks: VCB, BID, CTG (State Bank); ACB, MBB, HDB, VPB (Retail Banking), OCB, Techcombank ... Banks are restructured EIB, STB

Large IPO corporations in 2018

STT	Corporations	Chartered capitals (USD mil)	Forcasted market cap (mil USD)
1	Techcombank	390	2,145
2	Maritimebank	517	517
3	HDBank	432	1,361
4	TP Bank	247	618
5	OCB	176	282
6	Seabank	241	289
7	ABBank	234	257
8	Saigonbank	135	88
9	NamA Bank	133	93
10	VietA Bank	154	154
11	Thaco	155	1,938
12	Becamex	580	1,797
13	VEAM	585	1,316
14	FPT retail	9	88
15	Viettel Global	988	1,778
	Total	**4,975**	**12,719**

Source: BSC Research

Fifth, real estate continues to grow in the middle segment and FDI inflows. Circular 19/2017/TT-NHNN creates more medium and long-term lending sources, and thus stimulates growth momentum for real estate and construction sector. BSC believes that the mid-end real estate segment will grow well, real estate business results will continue to improve thanks to (1) land prices uptrend, (2) The number of apartments delivered in 2018 is expected to increase by 27.9% compared to 2017.

In addition, total FDI registered to US $ 35.9 billion, up 44.4% yoy. Similarly, disbursed FDI recorded a historical high of USD 17.5 billion (+ 10% yoy), in 2018, Vietnam will continue to attract significant record of FDI inflows along with the influx of tourists. Besides the real estate industry, other sectors such as tourism, aviation, and infrastructure will also benefit from this trend. BSC believes that this is a positive sign for the growth of the industrial estate segment. We note the following stocks: VIC, VRE, DXG, NLG (Residential Real Estate); VGC, IDC, LHG and KBC (Industrial Real Estate).

Sixth, prices of basic commodities increased, such as oil and gas, steel, rubber. BSC forecasts oil prices will hardly fall sharply in 2018, instead, a stable and light uptrend of oil price should be supported by (1) crude oil demand has started to surpass supply from Q2/2017, (2) OPEC and 11 countries have signed a deal to cut production by 1.8 million barrels per day from January 2017, agreeing to extend the agreement until the end of 2018, (3) geopolitical tensions in Saudi Arabia. (4) IPO of the world's largest oil and gas company Saudi Aramco; and (5) the pipeline incident in Libya and the North Sea by the end of Decemberth 2017 interrupt short supply source.

Therefore, Petroleum stocks will be the suitable choice for 2018 with expectations from PVN restructuring and restart of potential projects (Red Dragonfish, Block B O Mon, Nam Con Son 2 - stage 2, Yellow Star, Green Whale. In addition, the policy of equitising PVN's state-owned enterprises will also speed up the improvement of business efficiency and increase the scale of the oil and gas industry on the listed market. Listed stocks: BSR, OIL, PVPower, GAS (Bluechip), PVD, PVS, PVI, PVT, PXS, PGS, PVC, PVB .

Steel price is also forecasted to be stable due to the influence of China's heavy industrial control policies. BSC maintained its outperform view with leading stocks such as HPG, HSG, and NKG. In addition, some basic commodities such as rubber, tungsten also are enjoying favorable price movements.

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2018's Sector outlook highlights

2018 will continue to be a successful year for the stock market. In the 2018's Sector Outlook, BSC made an assessment with 20 economic sectors and arranged in three categories: Outperform - Neutral - Underperform. As follows:

- We evaluated **Outperform** ranks for **Banking, Oil & Gas, Real Estate, Construction, Insurance, IT, Electricity, Steel and Fertilizer**. These are the sectors that have had a great impact on market capitalization, benefiting from the optimistic outlook of the macro economy and the rising trend of raw material prices.
- **Neutral** ranks for **Natural Rubber, Seaports, Tiles, Textiles, Cement, Plastics, Tires, and Pharmaceuticals.** These are industries affected by oversupply, or there are signs of slowdown in output / sales growth, and or mix between good and bad signals.
- Maintaining **Underperform** ranks for Sugar and Sugar cane, Marine and Aquaculture as the industry is highly competitive. As for the Marine sector, there have been positive signals from our Chinese counterparts recently, and we will be monitoring and updating the latest signals to investors in BSC's quarterly earnings reports.

Sector outlook summary

#	Sector	2018's outlook	Mid and Long-term recommendation	Tracking
1	Bank	Outperform	MBB, ACB, VPB, CTG, LPB	VCB, BID, HDB, STB
2	Oil and Gas	Outperform	GAS, PVS, PVD, BSR	PXS, PVB
3	Real estate	Outperform	DXG, NLG, KBC, HUT	
4	Construction	Outperform	CTD	HBC, CTI
5	Insurrance	Outperform	PVI, BMI, MIG	
6	IT	Outperform	FPT, CMG	
7	Electricity	Outperform	NT2, PPC	PV Power, REE
8	Steel	Outperform	HPG, NKG, HSG	
9	Fertilizer	Outperform	BFC, SFG, LAS	DPM
10	Natural rubber	Neutral	DRI, PHR, TRC	
11	Seaport	Neutral	VSC	GMD
12	Ceramic tiles	Neutral	VGC, CVT	
13	Textile	Neutral	TNG, VGG, TCM	VGT
14	Cement	Neutral		HT1, BCC
15	Plastic	Neutral	NTP	BMP, AAA
16	Tire and tube	Neutral	DRC, CSM	
17	Pharmacy	Neutral	PME, DBD	DHG, IMP
18	Sugar cane	Underpeform		SBT, LSS
19	Sea transportation	Underpeform		PVT, GSP
20	Marine	Underpeform		VHC, HVG

Source: BSC forecasted

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2. Policies and events affect economic sectors in 2018

Domestic and foreign macroeconomic news, new policy amendments and FTAs will have mixed impacts on the stock market in general, enterprises in particular. BSC has listed important policies and major milestones in 2018:

#	Policies and events	Effected date	Influence	Degree	Status as of 30/12/2017
International macroeconomics policy					
1	FED raise interest rate, USD rising		Negative	Very strong	Not affected yet
2	Brexit – GBP lost prices		Negative	Strong	affected
3	ECB easing monatry policy (EUR depreciate)		Possitive	Strong	affecting
4	Abenomics (JPY depreciate)		Possitive	Strong	Affected
5	Asia economies positive economic growths		Possitive	Strong	Affecting
6	China economic growth stably (RMB depreciate)		Negative	Very Strong	Affected
7	Material price level increase (oil price)		Mix	Very Strong	Affecting
8	Trump economic policy	20/01/2017	Mix	Very Strong	Affecting
9	Brexit negotiation process	31/03/2017	Negative	Average	Affecting
10	France economic policy	07/05/2017	Possitive	Strong	Affecting
11	German government	not formed	Negative	Average	Affecting
12	Russia election	03/2018	N/A	weak	Not affected yet
Domestic macroeconomics policy					
1	Bad debt Resolution 42	15/8/2017	Possitive	Strong	Affecting
2	Circular 19/2017/TT-NHNN	12/2/2018	Possitive	Strong	Not affected yet
3	Decision 3610a/QĐ-BCT	20/9/2017	Possitive	Very Strong	Affecting
4	WB raised VN business environment by 14 ranks	2017	Possitive	Strong	Affecting
5	Expectations of passing special economic administrativ zone regulations	2018	Possitive	Strong	Not affected yet
6	Decreasing VNĐ lending interest rate	2018	Possitive	Strong	Affecting
7	Stable USD/VND exchange rate		Possitive	Very Strong	Affected
8	High public debt		Negative	Strong	Affecting
9	Increasing state enterprise divestment		Neutral	Average	Affecting
10	Government corporation divestment (SCIC, Ministries)		Possitive	Very Strong	Affecting
11	Increasing GDP, FDI, PMI, foreign reserve, credit, Ex/Im		Possitive	Average	Affecting
12	124/2017/NĐ-CP Decree	01/01/2018	Possitive	Average	Not affected yet
13	125/2017/NĐ-CP Decree	01/01/2018	Possitive	Strong	Affecting
14	116/2017/NĐ-CP Decree	01/01/2018	Possitive	Very Strong	Affecting
Free trade agreements					
1	ACFTA – Circular 166/2014/TT-BTC	1/1/2015	TB	Strong	Affected
2	FTA Vietnam- Korea	20/12/2015	Possitive	Strong	Affecting

3	FTA Vietnam - Eurasian Economic Coalition	2016	Possitive	Average	Affecting
4	CPTPP (*)	2018	Negative	Strong	Not affected yet
5	FTA Vietnam - EU	2018	Possitive	Strong	Not affected yet
6	RCEP ASEAN + 6	Negotiating	Possitive	Strong	Not affected yet
7	ASEAN committee establishment (AEC)	31/12/2015	Possitive	Average	Affecting

Source: BSC Research, (*) CPTPP might be signed without Canada participation.

Events by timeline

Months	Date	International events
January	22 - 23	BOJ meeting
	25	ECB meeting
March	8	ECB meeting
	18	Russia election
	20 - 21	FED meeting
April	26	ECB meeting
	26 - 27	BOJ meeting
May		Italy election
June	12 - 13	FED meeting
	14	ECB meeting
	14	Soccer World Cup
July	1	Mexico election
	30 - 31	BOJ meeting
September	25 - 26	FED meeting
October	7 - 28	Brazil election
		UK leaves the EU
	30 - 31	BOJ meeting
November	6	U.S. mid-term election
December	18 - 19	Fed meeting

Source: BSC Research

3. Economic cycle and acceptance levels of sector valuation

In 2017, the rebound of Japan and Europe, together with the stable China economy, have had a very positive impact on the Vietnam economy. The current economic indicators of Vietnam show that we are still in the Early Upswing, typically because most of the signs are low inflation, good economic growth, long-term interest rates reached the bottom leve, short-term interest rates rose, stock prices rose while the state reduced their expansion econmic policies.

Economic cycles	Inflation	Economic policy	Market signals
Initial Recovery	Lower inflation rate	Stimulating	Low or decreasing short-term interest rate Long-term interest reached the bottom and peak of bonds Stock price starts increasing
Early Upswing	**Low inflation** **Good economic growth**	**Lower stimulation**	**Short-term interest rate increasing** **Long-term interest rates hit bottom or rose & bond prices started falling** **Stock price increases.**
Late Upswing	Inflation rises	Start tighenting	Short-term and long-term interest rates rise, bond prices fall Stock price flucutuated around the peak level
Slowdown	Inflation rises significantly	Lower tightening	Long and short term interest rate started reaching the peal level and started decreasing along with rising bond price. Stocks price is declining
Recession	Inflation reached the peak	Easing	Decreasing long and short term interest rate along with rising bond price Stocks witnessed rebounding stock price by the recession-end.

Source: BSC Research

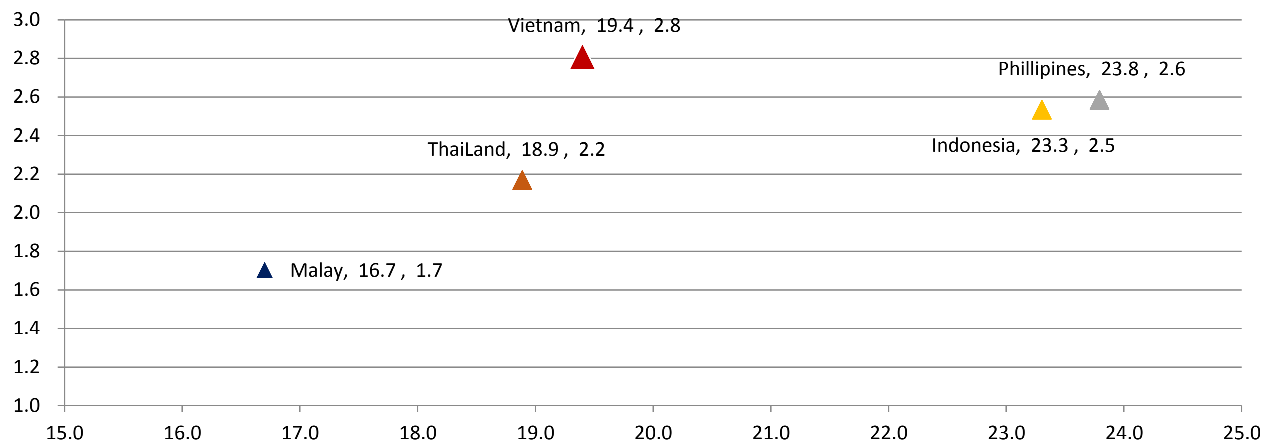
BSC forecasts that GDP growth in 2018 will be 6.6% (higher than the average 6.4% for 2014 - 2017). Exchange rate is forecasted to be stable thanks to (1) foreign exchange reserves at the end of 2017 reached a record level of USD 51.5 billion (including foreign currency from Sabeco divestment), (2) 2018 forecasts foreign reserves will continue to rise thanks to the IPO deals of four state-owned enterprises namely Binh Son Petrochemical Refining, PV Oil, PV Power and Genco 3, total IPO value and selling to strategic investors a total amount of VND 76,154 billion (approx. USD 3.3 billion, thus estimated foreign reserve increased to USD 1.5 - 2 billion), (3) estimated trade surplus of 2018 to be USD 4 billion (increased significantly compared to nearly $ 2.67 billion in 2017) and (4) Disbured FDI would remain possitive.

As a result of rising oil prices, electricity prices, food prices, and rising health and education services, 2018 inflation is forecast to rise 4.5% (2017 to 3.5%, 2016 to 4.7%). However, we still forecast that interest rates will be maintained at a low level mainly due to (1) State Treasury deposits at commercial banks remained high, up to November 2017, (2) The foreign exchange market is stable and (3) Circular 19/2017 / TT-NHNN extends the limit application roadmap Short term capital ratio for medium and long-term loans. Given the current macroeconomic situation in Vietnam and the world, BSC believes that the stock investment channel will continue to be an effective investment channel and a source of high profit for investors. The leading stocks that have good fundamentals, competitive advantages, outperform growth potentials are listed on the floor, along with large IPO stocks would continue to be the destination of domestic and foreign money flow.

Comparison with the regional stock market

In general, the valuation of Vietnam stock market is relatively reasonable compared to the region in term of PE and PB ratios. In addition, factoring the growth factor and acceleration of SOEs' equitization, Vietnam can be considered an attractive investment opportunity. However, in each sector, the discount rate varies. Vietnam's sectors, if compares to that of Asean's countries median such as Indonesia, Malaysia, the Philippines, and Thailand, are comparatively cheaper in terms of price.

Comparision of Vietnam's PE and PB with SEA region



Source: Bloomberg, BSC Research

PE and PB of each economic sector in the SEA region

	Vietnam		Median		Indonesia		Malaysia		Phillipines		Thailand	
	P/E	P/B	**P/E**	**P/B**	P/E	P/B	P/E	P/B	P/E	P/B	P/E	P/B
Finance	23.63	1.72	**18.54**	**1.96**	16.1	3.2	16.92	1.32	24.2	2.41	20.15	1.51
Consumer goods	18.13	1.93	**21.02**	**3.06**	18.5	3.7	21.44	7.46	34.2	2.36	20.57	2.47
Industry	17.23	1.49	**17.35**	**2.25**	17.4	2.3	15.68	2.07	21.17	2.26	17.35	2.25
Oil and Gas	9.07	1.38	**27.58**	**1.65**	32.4	1.6	22.76	4.18	9.5	0.94	32.41	1.65
Consumer Service	18.08	2.65	**23.3**	**3.31**	23.3	2.4	15.5	7.9	33.79	4.24	23.3	2.38
Basic materials	15.43	1.04	**18.81**	**2.9**	18.8	2.7	19.22	3.14	12.37	3.54	18.81	2.66
Utilities	13.04	1.83	**15.59**	**1.63**	15.6	1.4	18.04	1.88	14.32	2.46	15.59	1.38
Technology	12.31	2.17	**17.98**	**3.18**	18	3.2	n/a	n/a			17.98	3.18
Health	22.95	2.64	**25.83**	**2.25**	25.8	5.1	60.02	2.18			17.35	2.25
Telecom	14.68	3.01	**23.49**	**4.2**	22.3	3.5	24.65	4.92	24.65	4.92	22.33	3.48

Source: Bloomberg, BSC Research

4. Highlighted stocks in 2018

Stocks	2018 Rev (VND bil)	2018 PAT (VND bil)	EPS 2018	PE 2018	PB 2018	ROE 2018	Last price 29/12/2017	Target price
VCB		11,793	3,851	14.10	3.60	21.34%	54,300	57,604
MBB		6,050	3,192	7.96	1.53	20.44%	25,400	34,100
ACB		3,250	3,245	11.37	2.46	18.20%	36,900	43,521
VPB		8,603	5,478	7.48	2.33	24.71%	41,000	57,000
CTG		8,402	1,870	12.94	1.45	12.76%	24,200	26,900
BID*			1,455	17.53	1.87	14.57%	25,500	N/A
LPB*			1,895	6.81	0.91	15.57%	12,900	20,571
HDB		3,972	2,866	N/A	2.58	17.80%	N/A	49,600
STB			N/A	N/A	1.02	N/A	12,850	N/A
GAS	69,304	8,799	4,338	22.45	4.40	20.22%	97,400	126,807
PVD	4,377	(139)	N/A	N/A	0.69	N/A	23,350	29,800
PVS	16,163	900	1,773	13.31	0.87	7.39%	23,600	29,160
BSR	102,217	8,341	2,690	5.43	1.21	24%	N/A	16,260
PVPower	34,940	2,625	775	18.58	1.68	10.46%	N/A	21,198
PV Oil	67,073	638	549	24.40	1.41	5.83%	N/A	19,000
CTD	33,485	1,898	21,651	10.30	1.70	19.20%	226,500	280,000
HBC	19,283	1,004	7,206	6.10	1.50	25.80%	44,000	N/A
CTI	995	163	2,540	12.00	1.30	10.60%	30,500	31,545
PVI	7,471	616	2,474	16.90	1.20	7.20%	32,000	41,751
BMI	4,165	243	2,600	16.60	1.50	8.40%	35,500	43,195
MIG	2,349	95	1,181	13.80	1.34	8.90%	12,000	16,396
FPT	20,775	2,956	4,457	12.81	2.11	20.53%	57,100	68,700
CMG	5,008	210,548	2,988	9.71	1.83	20.05%	29,000	37,825
NT2	8,132	1,371	4,333	7.73	2.06	20%	33,500	36,400
PPC	6,574	940	2,564	8.87	1.27	13%	22,750	24,150
REE	4,727	1,745	4,720	8.79	1.67	17%	41,500	43,200
HPG	54,634	8,516	5,583	8.63	1.79	20.80%	46,850	58,622
NKG	17,160	1,011	7,776	4.99	1.49	29.93%	38,800	51,318
HSG	31,065	1,605	4,587	5.34	1.23	26.30%	25,000	32,810
BFC	7,072	325	5,119	6.57	1.51	24.35%	33,650	41,000
SFG	2,720	102	1,975	6.08	0.95	17.38%	12,000	13,900
LAS	4,000	163	1,355	10.63	1.23	12.39%	14,400	16,200
DPM	10,350	824	1,845	11.65	0.98	9.94%	21,500	22,800
PHR	1,565	504	5,064	8.60	1.30	20.60%	43,350	48,448
TRC	484	135	3,705	7.80	0.50	8.12%	28,800	34,176
DRI	617	140	1,817	6.60	1.13	25%	12,000	16,062
GMD	3,981	587	1,835	21.88	1.88	7%	40,150	N/A
VSC	1,447	313	5,638	7.62	1.35	13%	43,000	54,463
CVT	1,515	250	8,400	8.00	3.00	39%	53,800	67,200
VGC	9,432	723	1,437	18.20	1.80	9.40%	26,200	32,000
VGG	9,168	476	8,930	6.20	1.30	28%	55,000	67,010
TNG	3,020	138	3,021	4.60	0.80	19%	13,800	18,130

TCM	3,535	218	3,763	7.60	1.40	23%	28,700	30,101
HT1	8,104	457	1,539	10.10	1.00	9%	15,550	17,661
BCC	3,871	13	109	69.70	0.40	-3%	7,600	N/A
NTP	4,941	516	5,319	13.16	2.99	21.96%	70,000	89,000
BMP	4,016	452	5,030	17.02	2.85	18.44%	85,600	N/A
AAA	5,500	330	3,861	8.57	1.60	22.49%	33,100	N/A
DRC	4,021	229	1,766	13.70	1.90	14%	24,200	31,954
CSM	3,826	166	1,519	10.30	1.32	14%	15,700	21,327
DHG	4,150	730	7,543	19.10	3.10	17%	115,000	110,000
IMP	1,447	173	3,115	21.20	2.10	13%	66,000	71,500
PME	1,859	335	5,135	16.30	2.60	19.80%	84,000	107,900
DBD	1,584	162	3,092	18.10	3.20	18%	54,500	61,800
SBT	8,659	576	1,084	19.20	1.80	11%	20,800	17,350
LSS	2,540	131	1,864	6.10	0.40	7%	11,400	13,450
PVT	7,645	556	1,780	11.09	1.00	15%	18,650	19,080
GSP	1,305	50	1,650	5.60	0.99	13%	14,000	15,200
HVG	16,830	92	414	15.3	0.57	8%	6,340	N/A
VHC	9,071	637	6,633	7.68	1.68	20%	51,000	N/A

Source: BSC forecast, * EPS 2017

Sector outlook 2018

Banking Sector [Outperform]

- Credit growth is projected to grow by 17-19% in 2018.
- Circular 19/2017/TT-NHNN amending and supplementing Circular 36/2017 / TT-NHNN, effective from 12/02/2018.
- Banks continue to increase charter capital/issue to foreign partners to meet the Basel II capital requirements
- Expectations of speeding up the process of dealing with bad debts and restructuring weak CIs.
- Many projected listed banks, including Techcombank, OCB, HDbank, TPbank, Maritime Bank, SeABank, OCB, ABBank, Saigonbank, Nam A Bank and Viet A Bank.

Credits are forecasted to grow 17-19% in 2018. Deputy Governor of State Bank of Vietnam said that credit growth in 2018 is expected to reach 17%. The Natioanl financial suprervision commission estimated the growth rate at 18-19%. We believe that the banking system could achieve this growth thanks to (1) expected economic growth of 6.5 - 6.8%, (2) raise the celling rate of short term funds used for long term loans from 40% to 45% in 2018. Consumer credit will increase to 59% in 2017 and it is forecasted to grow rapidly. This trend has not only come from the transformation of the business model from corporate to retail banking but also from the promotion of consumer finance in other commercial banks sush as VPBank, HDBank, MBB, and SHB.

FiinTech can change the traditional banking model. The commercial banks are now not only competing with each other but also with Fiintech who offer payment services, lending services, etc. In one side, competition with Fiintech reduces banks profitability and growth. In other sides, the competition pushes banks to constantly update its technology and services to serve the diverse needs of its customers. A strategy of cooperation or competition with Fiintech affects the business model and profitability of banks.

Circular No.19/2017/TT-NHNN amending and supplementing a number of articles of Circular No.36/2014/TT-NHNN takes effect from 12/02/2018. Circular extends the ratio of short-term capital used for medium and long-term loans in 2018 to 45% (from 40% based on Circular No.36). This rate will fall to 40% from 2019, effective on 01/01/2018. This will create more room for lending medium and long-loans. Real estate loans, construction, which bear higher interest rate will be the main borrowers from this expansion. Therefore, NIM can improve. Circular 19 replaces the ratio of purchase, investment in government bonds and Government-guaranteed bonds against the average total outstanding debts of the previous month. Accordingly, the maximum rate is 30% for commercial banks, foreign bank branches and 10% for non-bank credit institutions.

Increasing chartered capital, issuing to foreign partners to meet capital requirements under Basel II. As we mentioned in the previous report, the increase of chartered capital is required of banks. Thus, in 2018, except for state-owned banks, the remaining banks may continue to pay stock dividends. Many banks plan to raise capital through private placement to foreign partners. VCB pursue plans to raise capital for financial shareholders, GIC; BIDV is seeking strategic shareholders.

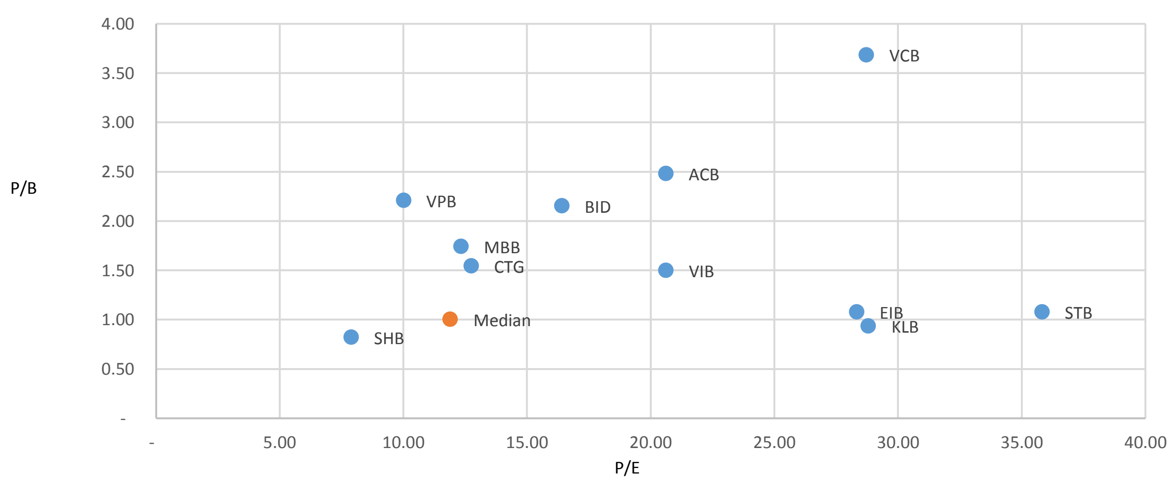
Healthier banking system. (1) The Resolution on Bad Debts and the Directive 06 has been approved which assist banks to deal with bad debts clearly and quickly. (2) The amended Law on Official Credit Institutions effective from 15/01/2018 helps detects and handles unhealthy banks in a timely manner, ensuring liquidity and soundness of the system. Legalization the bankcruptcy of the banks may raise concerns about systematic risk, however, we think that these steps will be carefully considered by the SBV. (3) The Basel II roadmap from 2020 aims at banks to lower risk activities, improving bank capital capacity.

Some banks intended to list including Techcombank (Charter capital of VND 8.879 billion), Maritime Bank (Charter capital of VND 11.750 billion), TPBC (Charter capital of VND 5.842 billion), Seabank (Charter capital of VND 5.466 billion), OCB (Charter capital of VND 4,000 billion), ABBbank (Charter capital of VND 5,319 billion), Saigonbank (Charter capital of VND 380 billion), Nam A Bank (Charter capital of VND 321 billion) and Viet A Bank (Charter capital of VND 3,500 billion).

INVESTMENT RECOMMENDATION

We maintain a **Positive** recommendation for bank stocks. (1) Core business results are expected to continue to grow thanks to economic growth and the promotion of non-interest income. (2) Dealing with bad debts and restructuring weak financial institutions. The bank's operations are healthier, adhering to more stringent regulations of the world. (3) Capital expansion increase the size and weight of banking stocks in the basket of market indexes. (4) Many banks plan to list in 2018.

Compared to the region, the valuation of banking stocks was relatively high. The P/E and P/B ratios of the banking group in Vietnam are respectively 20.62x and 1.54x, while the corresponding indexes in Asia Pacific are 11.9x and 1x respectively.



Source: Bloomberg

VCB - TRACKING - Target price of 57,600 VND/share- Upside 6%

VCB is our favorite bank thanks to its healthy operations, high profitability and growth. The bank pursues a 10% private placement plan for GIC and Mizuho Bank. This will increase the capital size and financial capacity of the bank.

- **Business results and forecasts.** Pretax profit of parent bank was VND 11,018 billion (+ 32.9% YoY, exceeding 14% of the plan). Of which, operating income before provisions was up 11% YoY. We forecast that NPAT in 2018 will be VND11,793 billion (+ 34% YoY) with assumptions: (1) lending growth rate is 18% YoY; (2) LDR rate is 80%; (3) Provision for bad debts is VND 5,547 billion, loan loss coverage ratio is 170%; (4) divestment of MBB and EIB in 2018 at current price will record pre-tax profit of VND 2,691 billion.
- **Higher profitability thanks to retail banking segment.** ROA and ROE were 0.98% and 15.80%, respectively, behind only VPB and TCB. NIM is high, reaching 2.65% of 3Q2017 due to a large number of demand deposits, accounting for 27% of total deposits.
- **Good asset quality, 1.15% of bad debt ratio.** The bank made full provision of VAMC bonds in 2016. The bad debt provisions ratio is highest among listed banks, gaining 165% in the third quarter of 2017. As a result, the provision cost for bad debt is forecasted to fall sharply from 2018.

MBB - BUY - Target price of 34,100 VND/share - Upside 34%

We maintain our BUY recommendation on MBB with a target price of VND 34,100 based on an adjusted P/B approach. Good asset quality, high profitability, and importance, banks are currently priced lower than listed banks at P/B of 1.90x and P/B of 1.53x. Therefore, MBB is suitable for medium and long-term investment.

- **NPAT increased sharply.** NPAT 2017 reached VND 4,294 billion (+ 44% YoY). Profitability was high compared to listed banks, NIM was 4.15%, ROA was 1.46% and ROE was 14.63%. Business results are positive thanks to the strong performance of both profit and non-interest income. By 9M2017, NPAT reached VND 3,192 billion, up 43% YoY thanks to higher interest income and non-interest income of 40% and 84% YoY, respectively. BSC expects the bank earnings will continue to improve thanks to the expansion of its business operations, the development of MCredit, and good asset quality. We forecast NPAT of 2018 will be VND 6,050 billion (+ 43% YoY), equivalent to EPS of VND 3,192, based on assumptions (1) Lending growth rate is 18%, (2) LDR is 80%; (3) risk provision decrease sharply to VND 1,792 billion (-34% YoY), loan loss coverage ratio is 100%.
- **Banks actively deal with bad debts.** Total bad debt by 3Q2017 of the bank was VND 2,343 billion, up 18% YoY. MBB's bad debt ratio is 1.33%. If including bad debt sold to VAMC, it will be 1.91% (down from 2.71% at the end of 2016). Total bad debt reserve fund used in 9M2017 was VND 1.024 billion, while the whole year 2016 is 700 billion. Recovery of off-balance sheet bad debt reached VND 582 billion, compared with VND 390 billion in the same period in 2016. The value of VAMC bonds after deducting the risk reserve decreased sharply to VND 1,043 billion, compared with the balance of VND 2,156 billion at the end of 2016. We estimate that total doubtful assets are VND 18,822 billion, equivalent to 66% of equity, much lower than listed banks. However, the bank's loans losss coverage ratio reduced from 103% in 2016 to 87% in the quarter. Interest receivable rising from VND 2,929 billion to VND 3,378 billion (1.92% of the total loan). The 2

above elements indicates that MBB should pay attention to bad debt management and increase risk reserve. However, if we add back used bad debt reserve, the loan loss coverage ratio is up to 131%. The bank expects to make full provision of VAMC bonds mid-2018.

- In addition, **Mcredit** has been officially operated since May 2017 and is expected to make a significant contribution to the bank's business results in the coming years along with the development of the consumer finance sector in Vietnam. MBB sold 49% of Mcredit to its foreign counterparts, the expected divestment income is recorded in equity, thereby increasing the book value of the bank (about VND 490 billion). In addition, the bank plans to divest MBland, reducing its stake from 65.29% to 11%.

ACB - BUY - Target price of 43,521 VND/share, upside 18%

ACB is our most favorite bank with positive business results, good asset quality, along with the expectation of banks finalizing bad debt of the G6, regarding Duc Kien's case in 2017.

- **Loan growth of 12.9% in 9M2017.** SBV approved the celling credit growth of 20% in 2017. Net operating profit before provisions increased by 93.45% in 9M2017. BSC forecasts that after-tax profit in 2017 and 2018 will be VND 2,310 billion (+74% YoY) and VND 4,094 billion (+77% YoY) respectively, equivalent to 2018 EPS of 4,102 VND /share. Assumptions: (1) lending growth are 20% and 19% respectively; (2) LDR rate is 80%; (3) NPLs ratio are 105% and 120% respectively, provision expenses are VND 2,173 billion and VND 2,254 billion, respectively.
- **Strict risk management, good asset quality.** The bad debt ratio at the end of Q3/2017 was 1.04%, the total doubtful assets based on BSC estimation was VND 9,733 billion, equivalent to 63.1% of the bank's equity. The loan loss coverage ratio stood at 151%. Without G6, this ratio was 110%.
- **The G6 Group provisions are expected to be completed in 2017,** sooner than a year. The total value of remaining debts of group G6 as of 30/6/2017 was VND 3,527 billion. The bank has recovered about VND 388 billion. The total value of remaining debts of group G6 after provisions was VND 558 billion. This is the largerst amount of provision ACB must record in the last 6 month of 2017. Meanwhile, the total value of collateral for G6 debts reached VND 3,568 billion, of which VND 1,237 billion was the value of listed companies ordered by third party (VND 416 billion of deposit), VND 25 billion VND is deposit at other banks. Therefore, we believe that ACB will be able to recognize provision reversals when dealing with the asset block.

VPB - BUY - Target price of 57,000 VND / share, upside 40%.

We recommend buying VPB stock with a target price of VND 57,000 per share based on the P/B method. On 29/12/2017, VPB shares traded at 40,800 VND/share, equivalent to P/B 2017 of 1.98x and P/B 2018 of 1.72x, which is relatively attractive compared to listed banks in Viet Nam.

- **Fast growth rate.** Total assets increased by an average of 21% per year, outstanding loans increased by 37% per year, EAT increased on average by 58% per year from 2012-2017. In 9M2017, bank loans increased by 15.9% YTD, FEcredit was up 28% YTD. EAT increased by 72% YoY in 9M2017. BSC forecasts FY2018's NPAT will come in at VND 8,603 billion, + 35% YoY and EPS of VND 5,478 per share.

- **The highest profitability among listed banks.** NIM reached 8.76% in 9M2017, low CIR, reaching 35.96%. ROA and ROE were high at 2.48% and 28.61% respectively in 9M2017.
- **The bank focuses on the retail segment and develops the consumer finance business model.** Retail lending accounts for 80-82% of the loan portfolio of the consolidated bank, of which FEcredit contributes about 25% of the portfolio. VPB plans to further expand its retail banking segment with the expansion of the FEcredit model, developing and becoming a leader in the small business credit segment. The bank targets retail credit growth of 25% in coming years.
- **FEcredit contributed 56% of net interest income to the consolidated bank.** FEcredit ranks the number 1 in the consumer credit segment in Vietnam with a 48% of market share, with particular advantages in the segment of cash loans. Credit growth of 60% per year, interest income increased by an average of 88% per year from 2014-2017. Compared with the traditional banking sector, FECredit's generated a high NIM of around 24.4%. We believe that with the pioneering advantage in the consumer credit segment, FEcredit will continue to grow strongly in the near future. FEcredit's bad debt ratio is 4.45% in 9M2017, which is lower than the world's accepted consumption finance model (13-15%). With an average loan size of VND 20-40 million, we believe that FEcredit's bad debt risk is well diversified.
- **VPB is locking FOL at 25% (current holding ratio is 22.34%).** VPB plans to make private placement of 5% for IFC in the purpose of conversion of bonds.

CTG – BUY – Target price of 26,900 VND/share- upside 11%.

CTG is one of the largest banks in terms of network, loan size, and mobilization. It is also attractive with an adjusted P/B of 2.3x and P/B of 1.45x.

- **Growth.** Outstanding loans increased by 15.28%, deposits from customers increased by 10.68% YTD in 9M2017. EAT is VND 5,855 billion, up 13% YoY. The high pure LDR ratio was 105% at the end of 3Q2017, CAR was at 10.4%, full foreign investor room, thus, it is difficult to raise capital. Therefore, CTG's loan growth may slow down in the near future. BSC forecasts that EPS of 2017 and 2018 will be VND7,293 billion (+ 6.66%) and VND 8,402 billion (+ 15.21% YoY) respectively, equivalent to EPS in 2018 of VND1,870.
- **Profitability.** NIM was 2.62%, ROA and ROE were 0.74% and 12.26% respectively in 9M2017, slightly lower than the listed banks (0.92% and 12.82% respectively).
- **Asset quality.** Bad debt ratio was 1.21%. If iclduing VAMC bonds, the ratio increases to 2.05%. Loan loss coverage ratio reached 101% by the end of Q3/2017. However, high-interest income reached VND15,425 billion, accounting for 2.02% of total loans; CTG has a lot of concentrated credit, disbursement for corporations, large enterprises. According to BSC, in 2018, the bank will accelerate the handling of bad debts, especially after Resolution 42 takes effect. Total doubtful assets according to our calculation are VND 42,440 billion, the total value of collateral assets up to VND 1,395,070 billion.
- **Catalysts**: (1) Open rooms for foreign investors. The foreign ownership ratio at CTG is 30%, equal to the maximum allowed by the SBV. (2) Accelerate the handling of bad debts, provisioning VAMC bonds.

BID – TRACKING

BIDV is the largest bank in Vietnam, with a large network of branches and assets, covering almost all provinces and cities. On 29/12/2017, BID shares were traded at 25,500 VND / share, equivalent to P/B of 2.x.

- **Growth.** Outstanding loan growth of 14.41%, deposits increased by 13.37% in 9M2017. Similar to CTG, BID's pure LDR ratio is high at 100% at the end of Q3/2017, with low CAR (over 9%), suggesting that BID's loan growth may slow. EAT 9M2017 reached VND 4,211 billion (-8.86%). EBT in 2017 is forecasted at VND 8,800 billion (+ 14% YoY) and EPS of VND 1,643 / share.
- **Asset quality.** The bad debt ratio is 2.08%. If including VAMC bonds, it increases to 3.69%. Loan loss coverage ratio is 84% at the end of Q3/2017. BID has a lot of concentrated credit, loans to corporations, large enterprises. The total doubtful assets under our calculation is VND 67,394 billion. As such, we believe that provision expenses may be higher in the coming years. In 2018, the bank will accelerate the handling of bad debts, especially after Resolution 42 takes effect. The total collateral value of the bank was VND 954,707 billion at the end of Q2/2017.
- **Profitability.** As of the end of Q3 FY2017, NIM was 2.93%, ROA was 0.54% and ROE was 12.48%, lower than in 2016.
- **Catalysts:** BIDV is actively pursuing plans to raise capital for strategic shareholders; if success, this will not only improve financial capacity, increase book value but also expand the bank's growth potential.

LPB - BUY - Target price of VND 20,571/share, upside 59%

On 29/12/2017, LPB was traded at VND 12,900/share, equivalent to a P/E of 5.96x and a P/B of 0.91x, which is quite attractive compared to the valuation of Vietnamese listed banks.

- **High growth rate and still having room for growth.** Total outstanding loans grew by 19%, deposits increased by 10%, LDR was low, reaching 77% in 9M2017 (below the 80% SBV ceiling). EAT is VND 1,126 billion in 9M2017, up 61% YoY thanks to the rapid increase in credit, improved NIM and low repo rate. EBT 2017 is estimated at VND 1700 billion, + 26% YoY and EPS of 2017 is 1,895 VND/share.
- **Profitability.** NIM increased sharply from 3.5% in 2016 to 3.68% in Q3 FY2017, higher than many listed banks (3.31% on average) thanks to high non-term deposits (up 31%). ROA rose from 0.85% to 1.04% and ROE increased from 13.34% to 17.24%, higher than the average of listed banks.
- **Asset quality.** The bad debt ratio was 1.19%. If it included VAMC bonds, the bad debt ratio would increase to 2.4%. LPB has high loan loss coverage ratio, reaching 105%. However, high-interest rates, accounting for 3.22% of total outstanding loans; high receivables which related to construction activities, long-term office lease, land purchase, land lease up to VND 1,981 billion (2.09% of outstanding loans). Our estimated total doutful assets are VND 8,487 billion, equivalent to 93% of equity.
- **Increasing capital.** LPB would issue 104 million shares, of which 38.76 million would be 6% dividend, 32.95 million shares would offer to existing shareholders (5.1%, the price of VND

10,000/ share) and 32.29 million shares would be ESOP's issue, priced at 10,000 dongs per share (5%). Total charter capital increased to VND 7,500 billion. In the long term, the bank plans to issue 25% of its capital to foreign partners.

HDBank - Tracking - Target price of 49,582 VND

On 12/01/2017, HDB stock was traded at VND 45,450/ share, equivalent to P/E of 15.86x and P/B of 2.58x.

- **Expanding size.** Chartered capital as of 31/12/2017 is VND 9,810 billion. In 2017, HDB issued 73 million shares to pay dividends and bonus shares. At the same time, the bank issued 98.1 million shares at the price of VND 32,000/ share. This will not only bring the HDB's CAR to 14.4% but also increase the book value of a stock to VND16,000. BSC estimated that HDB's equity at the end of 2017 is VND14,320 billion and is forecast to reach VND17,452 billion by the end of 2018, equivalent to book value of VND16,704 and VND19,833.
- **Fast growth.** HDB has highest growth rate of deposits and loans among listed banks, CAGR in the period of 2012-2016 reached 31.8% and 40.4%, respectively. Operating profit growth averaged by 37% per year from 2012-2016, just behind VPB. In 9M2017, EAT is VND 1,538 billion, EPS is VND 1,583/ share. In 2017, the bank targets to gain after-tax profit of VND 2,372 billion (+ 107% YoY) and VND 3,972 billion (+ 65.3% YoY) in 2018.
- **HDSaison,** a subsidiary of HDBank, is the third largest consumer finance company in Vietnam with a market share of 12.15%, focusing on motorbike loan. Loan growth is 73% per annum for the period 2013-2016 and reached 12% in 9M2017. In 9M2017, HDSaison contributed around VND2,082 billion (equivalent to 45% of HDB's consolidated results).
- **Asset quality.** Group 2's outstanding debt was VND 1,719 billion. The total bad debt was VND 1,587 billion (1.64%), of which VND 538 billion was from HDSaison (NPL ratio of 6%). The net worth of VAMC bonds is VND 1.180 billion, Group 5's bonds are VND 300 billion, interest and fee receivables are VND 3,427 billion in 9M2017, other assets are VND 2,230 billion. Total doubtful assets were VND 14,053 billion, equivalent to 124% of equity. HDB has VND 5.609 billion of bonds of large enterprises, equivalent to 5.8% outstanding loans.

STB - Tracking

On 29/12/2017, STB shares were traded at VND 12,850/ share, equivalent to P/B of 1.02x.

- **Large scale.** STB is a joint-stock commercial bank with a strong retail position with relatively large scale compared to retail banks in Vietnam. Banks has the larger capital size than MBB, ACB, SHB, EIB, TCB, VPB, HDB, LPB. Total chartered capital is VND 18,852 billion, outstanding loans of VND 223 trillion and total deposits of VND 312 trillion in 9M2017.
- **Growth:** In 2017, total outstanding loans increased by 12.5% YoY and deposits increased by 11.5%. Operating profit increased by 33% to VND 8,200 billion thanks to high NIM, credit growth and good service income. High profit create the basis for bad debt recovery and improvement of STB.
- **NPLs handling.**

- **The STB restructuring plan was approved by SBV in May 2017.** The plan indicates that at the end of 2016, STB recorded VND 13 trillion of bad debt, VND 37 trillion of VAMC bonds, VND 21 trillion of frozen interest, VND 9.5 trillion of bad debts and 6 trillion restructured debt. Total doubtful assets were estimated at VND 86 trillion. SBV allows STB to handle these bad debts within 10 years. Management expects to complete this bad debt within 3-5 years.
- **Dealing with bad debts.** As of the end of Q3 /2017, the bank could hardly handle the bad debts. Total doubtful assets are estimated at VND 87 trillion. STB recovered only VND1.5 trillion of bad debt on the balance sheet (much lower than the same period of 2016 of VND27.9 billion). By the end of 2017, Chairman Duong Cong Minh said STB has processed VND 19,000 billion of bad debt, of which VND 2.8 trillion from liquidation of collateral, VND 2.6 trillion from selling bad debt for VAMC at market price and VND14.2 trillion from recovering bad debts and receivables.

	EPS 2018F	**BV**	**Adjusted BV**	**ROA 2018**	**ROE 2018**	**P/B**	**Adjusted P/B**	**Price at 29/12/17**	**Target price**
VCB	3,851	15,078	14,070	1.38%	21.34%	3.6	3.86	54,300	57,604
MBB	3,192	16,619	13,340	1.94%	20.44%	1.53	1.9	25,400	34,100
ACB	3,245	15,013	11,738	1.08%	18.20%	2.46	3.14	36,900	43,521
VPB	5,478	17,588	10,883	2.98%	24.71%	2.33	3.77	41,000	57,000
CTG	1,870	16,727	10,506	0.74%	12.76%	1.45	2.3	24,200	26,900
BID	1,455	13,612	4,781	0.60%	14.57%	1.87	5.33	25,500	N/A
LPB	1,895	14,150	5,053	0.94%	15.57%	0.91	2.55	12,900	20,571
HDB	2,866	17,635	8,920	1.35%	17.80%	2.58	4.13	N/A	49,600
STB	N/A	12,632		N/A	N/A	1.02		12,850	N/A

Oil & Gas Sector [Outperform]

- Demand for crude oil has started to surpass Supply, predicting that the trend will continue in the coming years.
- Oil price is forecasted to slightly increase in 2018 - 2019.
- Vietnam Oil and Gas Industry has received some large projects.
- Continuing IPO of leading businesses.

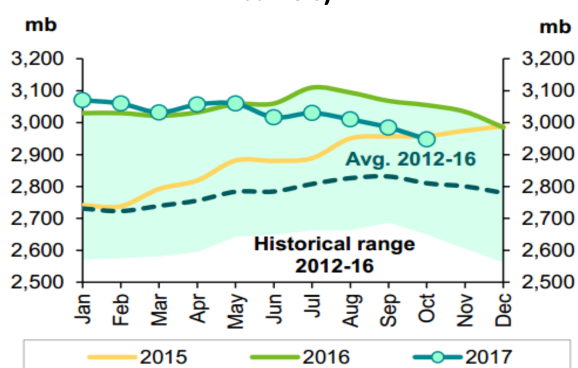
The Demand for crude oil has started to surpass the Supply, predicting the trend will continue in the coming years. According to OPEC's report in 12/2017, crude oil Demand has started to surpass Supply since Q2/2017. On average, demand for crude oil was 97.7 million barrels/day in Q3 / 2017, while Supply was only 96.6 million barrels/day, down 1.1 million barrels/day. HSBC predicted 2017 global crude oil Demand at 97.9 million barrels/day, Supply at 97.3 million barrels/day, and inventory drop to 2.3 million barrels/day by 2021.

Crude oil inventories of the OECD group may be considered as representative of the world's inventory, which is also on a downward trend. As of Q3/2017, the OECD's inventory was 4.56 billion barrels (in which commercial block was 2.99 billion and SPR's government was 1.58 billion barrels), with 47.7 million barrels/day (48.82% of global demand). The number of days to consume will be 95.7 days, down from 97.6 days in 2015.

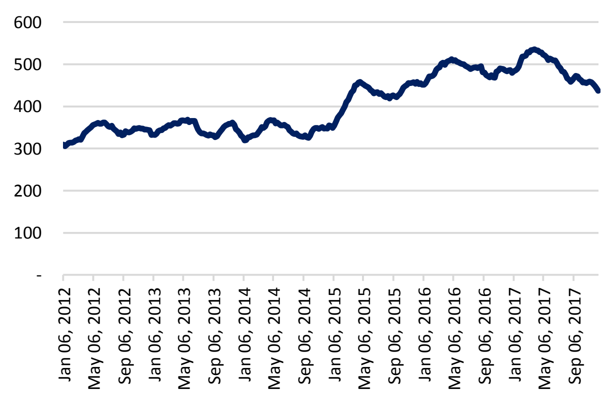
USA is the world's largest oil stockpile, as of December 15, 2017, commercial inventory was 436 million barrels, down 10% from early 2016.

In China, the world's second-largest oil stockpile, by October 2017, commercial inventories were 349 million barrels, down 17 million barrels from the same period in 2016 (crude oil down 21.5 million barrels and finished product up 4.5 million barrels).

OECD Commercial Oil Inventories (million barrels)



US commercial inventory (million barrels)



Source: OPEC, EIA

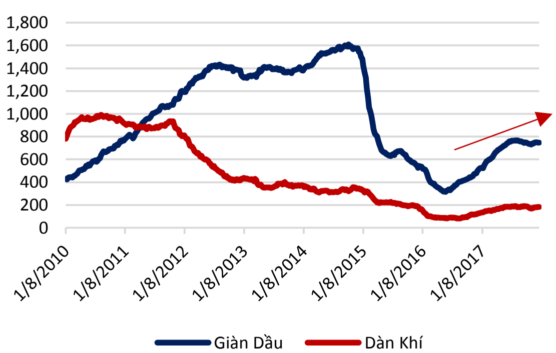
Oil price is forecast to increase slightly in 2018 - 2019. In addition to the imbalance of Supply - Demand and declining oil inventory, oil price continue to increase supported by **(1)** OPEC and 11 countries signed an agreement to cut 1.8 million barrels/day of exploited production from 1/2017 - 31/3/2018. At 11/2017 meeting, the parties agreed to extend the agreement until the end of 2018; **(2)** The geopolitical tensions in Saudi Arabia, where accounting for 21.9% of the world's oil reserves, have not been completely resolved; **(3)** In 12/2017, in Libya, oil pipeline explosion reduced output of about 70,000 - 100,000 barrels/day and in the North Sea Forties, pipeline system with a capacity of 450,000 barrels/day was suspended to repair a crack (Forties is the largest pipeline system in the 5 pipelines of the North Sea, which is the basis for determining the Brent price). Both pipelines are expected to operate stably in January 2018.

We also note that oil price volatility may decrease because of fears of an increase in shale oil output as oil prices hit USD 60, triggering a return to activity. Currently, Drilled but uncompleted wells (DUC) reached 7,354 in 11/2017, for a number of reasons, these wells have not been exploited so when the oil price rises, using DUC will take less time than the deployment of new wells but is a potential oil price risk.

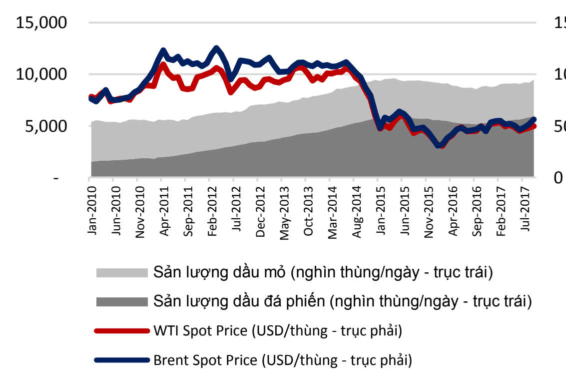
	2016	01/17	02/17	03/17	04/17	05/17	06/17	07/17	08/17	09/17	10/17	11/17
DUC	5,289	5,352	5,534	5,534	5,770	5,877	6,851	6,817	7,091	7,204	7,260	7,354
changed		63	182		236	107	974	(34)	274	113	56	94

Source: EIA

Number of rigs operating in USA



US oil production and oil price movements



Source: Baker Hughes, EIA

According to Bloomberg, oil prices in 2018 will be around 58 USD/barrel and 2019 at 60 USD/barrel. According to a report by HSBC, Brent crude oil prices averaged at 65 USD/barrel in 2018 and increased to 70 USD/barrel in 2019, similar to average of WTI at 63 USD/barrel in 2018 and up to 68 USD/barrel in 2019.

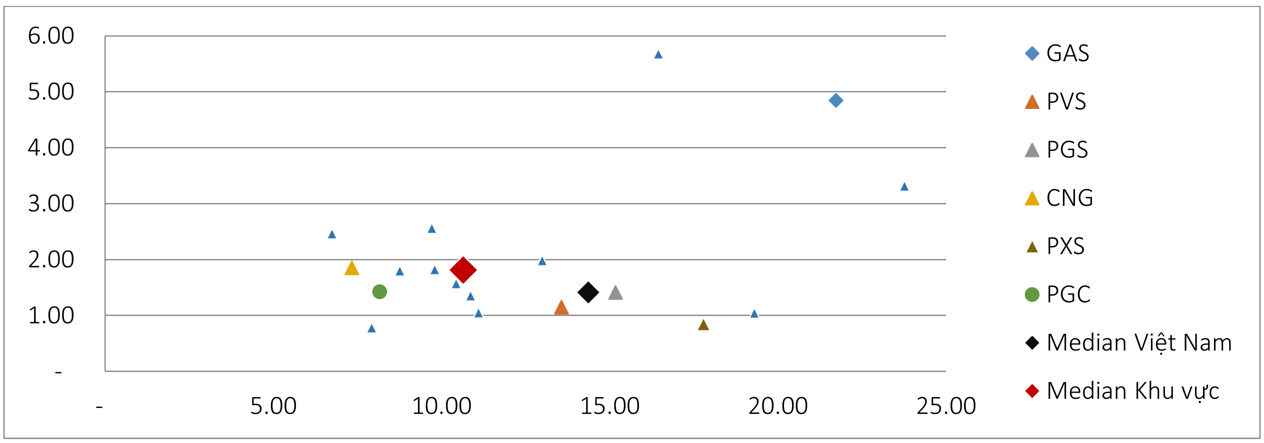
The Vietnam Oil and Gas industry has received some large projects. The restructuring of senior staff of PVN is gradually completed and expected to help Oil and gas industry to operate more efficient, along with a number of major projects delayed may start in 2018 - 2019. Projects to be implemented in 2018 are (1) Long Son Oil Refinery, total investment of USD 5.4 billion invested by SCG, of which PVS and PXS participate in the package and (2) Red dragon fish project, 2018 with the participation of PVS, PXS, in 2019

PVB will cover the pipe and rig 5 of PVD will drill. In addition, the major projects expected to be implemented in the coming years are (1) O Mon Block B, (2) Nam Con Son 2 - Phase 2, (3) Blue Whale.

Continuing the IPO of leading businesses. Binh Son Oil Refinery (BSR) and PV Oil are expected to be IPO in January 2018. Starting prices of 14,600 and 13,400, capitalization of BSR and PV Oil accounted for 1.74% and 0.53% of market capitalization of VNIndex on 29/12/2017.

INVESTMENT OUTLOOK

BSC maintained a positive outlook for the oil and gas sector in 2018 thanks to the recovery of oil prices and the refinement of PVN's leadership, expect more efficient operation and delayed projects will soon be accelerated. The stocks that we note in 2018 are GAS, PVD, PVS, BSR, PXS, PVB.



Source: Bloomberg, BSC Research

GAS - Target Price VND 126,800

Business performance in 2017 has improved positively thanks to the recovery of oil prices. Of which, gross profit improved the most from LPG and gas transportation. Estimated to 31/12/2017, the performance of GAS is as follows: Moisture intake 9.83 billion m3 (-6.41% yoy), dry gas production and supply of 9.61 billion m3 (-6.71% yoy) Condensate production and supply of 78.7 thousand tons (+ 12.43% yoy), LPG production and supply of 1,349.4 thousand tons (+ 6.84% yoy).

We forecast that FY2017 sales will reach VND 66,004 billion (+11.73% yoy) and the EAT 2017 will be VND 8,084 billion (+15.5% yoy). In 2018 with forecasted oil price increase slightly and stable, BSC forecasts revenue reachs VND 69.304 billion and EAT is VND 8.799 billion (+6.21% yoy). The stock price movements of GAS in 2018 will not only be affected by the business results of the company but also the information related to the restructuring of PVN and the plan to divest of PVN at GAS to 65% (currently PVN holds 95.8%).

PVD – Target price VND 29,800

All drilling rigs (except Rig 5) are in operation, generating cash flow for the business. (Rig1 is operating in Thailand for KrisEnergy, Rig 2 is in Vietnam for Vietsovpetro, Rig 3 and 6 is operating in Malaysia for

Petronas and Lundin, Rig 6 at the end of January 2018 will work for Rosneft, Rig 11 works stable in Algeria. Rig 5 is waiting for work, the end of 2019 will serve the project Red Dragon fish.

Renting for Rigs 1,2,3,6 are 50-55k USD/day each rig. They are all operating below cost of capital. Expected 65k USD/day will breakeven (in 2019).

In 2018 PVD said it will have more work, but the price fluctuation from 50 to 55k USD/day, is expected to get loss but create cash flow for business. Expecting oil prices above USD 60 over long periods of time will attract the contractor. In addition, debt with PVEP outstanding loans ~ VND 1000 billion temporarily difficult to recover. In 2016, the provision was VND 180 billion, 2017 was about VND 170 billion, so VND 350 billion can be re-entered. Otherwise, PVD will have to extract over VND 600 billion in 2018.

PVS – Target price VND 29,160

Outlook for 2018:

- EPC: Expected total revenue of VND 6,000 billion. Of which the Red Dragon Fish Project recorded about USD 200 million, the rest will come from Long Phu Thermal Power Plant and other small projects. Plan revenue does not include revenue from Gold Star, due to uncertainty about performance.
- Oil & Gas Technical Services: Forecasts will remain difficult, and similar to 2017
- FSO / FPSO: revenue decreased due to contract renewal with reduced unit price. With Lam Son FPSO, customers terminate the contract before term, PVS will receive contract compensation of about VND 5,000 billion, PVS will use to repay debt. Extraordinary profit may be USD 3-4 million (possibly in 2018).
- Survey services will continue to suffer losses.
- Port service: relatively good, may grow slightly compared to 2017
- O&M forecasts are not volatileng

Seasonal issuance: Issuing 142,944,134 additional shares in Q1 / 2018, which will simultaneously issue 7% share dividend of 31,269,029 shares and issue 111,675,105 shares of VND 10,000 to invest VND 1,116.75 billion for FPSO. The company has completed the procedure and submitted to the Ministry of Industry and Trade for approval in Q1 / 2018

The transfer of exchange will be suspended waiting for the issuance of complete, stable number of shares, shareholders structure.

BSR – Target price from VND 14,822 to 16,260 VND/share

We recommend buying BSR shares with a target price of 14,822 to 16,260 VND/share based on the FCFF method and comparing P/E and EV/EBITDA. With starting IPO price of VND 14,600/share, EV/EBITDA of 2018 and P/E of FW 2018 are 5.42x and 5.43x respectively, which is relatively attractive compared to peers.

- Vietnam continues to be a net importer of oil products in the next five years. According to a report by Mackenzie in 2015, from 2019-2021, Vietnam will still have to import 30-33% of the demand for petroleum products and 33-42% in 2022-2025.
- Advantage of BSR: (1) The selling price of the product which is not subject to regulated rate from 1/1/2017 brings about VND 3,312 billion profit before tax in 2017. (2) Advantage of transportation cost, insurance costs compared to imports. According to a Nexant report, from 2005 to Q1/2017, the cost of transportation from Quang Ngai to Ho Chi Minh City is 33-51 USD/ton for LPG, from 1-2 USD/barrel for each gasoline product, Jet A1 and DO. (3) The relationship with the main distributors in the domestic market such as PLX, PVoil accounts for 70% of the national gasoline market share. (4) CIT incentives will be extended to 2040. CIT is 10% for 30 years, tax exemption for the first 4 years and 50% reduction for the next 9 years from the first year of taxable income.
- The company continues to cut costs, improve operational efficiency. The use of crude oil to produce one tonne of BSR products has continued to decline from 1,092 tonnes of crude oil in 12/2014 to 1,087 tonnes by the end of 2015 and to 1,081 tonnes in 8/2017. Assuming a Brent oil price of 60 USD/barrel, the plant operates at 110% capacity (equivalent to 7.15 million tons of crude oil), the cost of crude oil saved in a year is estimated at VND 400 billion. The cost of materials and other repair costs are also thorough savings.
- Plant Extension (NCMR): BSR plans to invest about USD 1.8 billion for the NCMR project, a 30% increase to 8.5 million tons of crude oil per year, scheduled for operation by the end of 2021. After extensive upgrades, BSR can diversify its crude oil supply, petroleum products meet Euro V emission requirements and increase output.

Investment risk. (1) Crack spread decreased due to excess oil supply. (2) Operational risk of new plant after extensive upgrading. (3) Exchange rate fluctuation; (4) Interest rate risk; (5) the risk of recovering the deposit at Oceanbank; (6) Risk of BSR-BF continued losses.

PXS – Tracking

Good prospects for 2018. BSC estimated that EAT is about VND 71.89 billion (assuming only a provision reversal of around VND 21.26 billion), EPS of VND 1,174 (a bonus fund of 2%).

In first 6M of 2018, PXS had Thai Binh 2 thermal power plant and Song Hau 1 thermal power plant. By the fourth quarter there will be more work from Long Son Thermal Power. In details:

- Thai Binh 2 project is expected to reach VND 200 billion in 2018
- Song Hau 1 project with a total value of VND 340 billion, recorded VND 40 billion, the remaining VND 300 billion recorded in 2018
- Sao Vang Dai Nguyet Project (with PVS General Contractor), total value of PXS work package is USD 20 million, expected to be completed in 1 year.
- Participating a part of the Red Dragon Fish Project

- From Q4/2018 onwards, it will be Positive due to the project from Long Son petrochemical refinery project: This is a USD 5.4 billion petrochemical refinery project invested by SCG (Thailand). The first PXS package is A2, which is a USD 500 million integrated package, joint venture with Posco. PXS's part is valued at USD 110 million (about USD 2.5 billion), while the USD 390 million left will be done by Posco. After signing the contract will be immediately advance USD 200 billion, divided in two times of USD 100 billion. Expected after 9 months will have revenue because the construction of structural steel need to wait for the work of the infrastructure group. Long Son's revenue in 2018 is estimated at VND 80-90 billion. Profit before tax will fluctuate around 10%.

In 2018, PXS is not expected to have large investment plans, only small-scale investment for the project. Prospects from 2019 will continue to be optimistic due to the Long Son project (total construction time is 45 months), PXS continues to send bids for 4-5 other packages of Long Son projects. Besides there may be other projects such as Block B O Mon, NT3, NT4.

According to the company, the total provision is VND 57.34 billion. Expected to 31/5/2018 will be 24 months warranty period, so will be fully re-launched on 30/6/2018. (The enterprise deducts 3% of revenue; the warranty period is usually 24 months). To be careful, BSC temporarily calculated the reimbursement will be VND 21.26 billion. Major shareholders, Mepcom, has a close relationship with PXS, contributing insignificantly but very useful in helping review the price, contract conditions with partners before signing, support marketing for businesses.

PVB – Tracking

2017 operates in moderation because there is no job. In 2018, PVB will have more pipeline projects, which are waiting for official approval. The project consists of 2 packages:

- • There was result of bidding for oil packaged, signed in 12/2017, value of over VND 80 billion, construction in 2 months and Q1 / 2018 can be recorded.
- Gas packages are re-dicussed, expected value over 90 billion.

In order to break even, it is estimated that VND 170 billion (pipe covered) for one year, so BSC expects PVB's core business to see positive changes in 2018.

In terms of pipe capacity: one can cover 80 tubes x 12m / pipe = 960m (usually operating one shifts, maximum can operate 3 shifts). Covering work will focus on Q4 and Q1 which are windy season, and will hand over the pipe to be sprayed May 5-6 (calm sea season).

PVB expects to build Block B O Mon and Nam Con Son 2 - Dung 2 due to high volume of work.

In addition, PVB has signed a contract with Nippon Steel (a pipeline unit for port investors), in which PVB's work is anti-corrosion paint for the piers pile standard). Value is not large but creates cash flow and work for workers.

PV Power – Target price VND 21,198
Highlights

- **Demand for electricity will continue to increase, especially in the South, while Supply is not enough.** In the South, electricity consumption in 2015 is only 4.5 million kWh and is estimated at 14.5 million kWh by 2020. Meanwhile, in the period 2016-2020, total installed capacity may increase by 54 GW, CAGR = 7% lower than growth in consumption.
- **PVP is one of the companies that have the lowest investment per MW.** PVPower invested about 16.9 billion VND/MW, while Genco 1 was 21.2 billion VND/MW, Genco 2 was 19 billion VND/MW, Genco 3 was 17.6 billion VND/MW and Vinacomin was 19.1 billion VND/MW. This creates an advantage for PVP in terms of productivity and increase of sales volume in the competitive wholesale market that is expected to be officially launched in 2019.
- **• PVP power plants are mainly built in the South, increasing efficiency.** Most of the gas turbine plants are NT1, NT2, and Ca Mau 1, 2 located in the South, where the supply shortage the most. In 2018, growth in power generation came from: (1) NT2 completed the overhaul and increased its capacity from 750 MW to 774 MW, generating 5.5 million kWh in 2018, (2) Vung Ang 1 operated stabilize and generate 5.1 million kWh (+9% yoy). Other factories such as Ca Mau 1, 2, Hua Na, Dakrinh are forecasted to be stable.

Investment risk

- Increased input gas prices, which reduced PVPower's gross profit.
- Exchange rate fluctuation: As of 30/6/2017, PVPower had debts of USD 890 million and EUR 72 million. We estimate that the USD/VND exchange rate will rise by 1%, PVP will lose VND 173 billion and 1% EUR/VND, it will lose VND16 billion.
- Operator error

PV Oil – Target price VND 19,000
Highlights:

- Being the only company authorized to import and export crude oil (entrusted to export crude oil of PVN and import crude oil for Dung Quat oil refinery). This business has been relatively stable over the past few years, earning around VND 150 billion per annum for PV Oil.
- The second largest petroleum trading company in Vietnam after PLX. Distribution capacity is about 3.11 million m3 / ton by 2017, accounting for 20-22% of the market demand. The main products distributed by PV Oil are gas, DO, FO, LPG
- Producing, mixing A92, A95 and E5 have the advantage of domestic condensate from PV GAS. The volume of A92 petrol currently accounts for 15-20% of total sales volume of PV Oil.
- Distribution agents (the lowest margin segment) accounted for 60% of sales, industrial customers and retail customers accounted for 20% each. While for PLX, retail sales (the segment with the highest margin in petroleum business) accounted for 53-58%. Therefore, PV Oil has room for growth

- Retail Growth by M & A: With about 540 petrol stations owned, while Petrolimex owns 2,400 self-owned petrol stations, PV Oil has grown rapidly through M & A (2008-2016, owned stations have increased from 82 to 540 current stations, mainly through M & A)

Investment risk

- Foreign exchange risk;
- The risk of not recovering deposits at Oceanbank;
- Risk of commitment to continue buying products from Nghi Son and Binh Son petrochemical refineries for at least 10 years after equitization, reducing corporate profit margin
- Risks of effective operation of the expansion

Stock	Rev 2018	EAT 2018	EPS 2018	PE 2018	PB 2018	ROE 2018	Closed price 29/12/2017	Target price
GAS	69,304	8,799	4,338	22.45	4.40	20.22%	97,400	126,807
PVD	4,377	-139	N/A	N/A	0.69	N/A	23,350	29,800
PVS	16,163	900	1,773	13.31	0.87	7.39%	23,600	29,160
BSR	102,217	8,341	2,690	5.43	1.21	24%	N/A	16,260
PV Power	34,940	2,625	775	18.58	1.68	10.46%	N/A	21,198
PV Oil	67,073	638	549	24.4	1.41	5.83%	N/A	19,000

Source: BSC Research

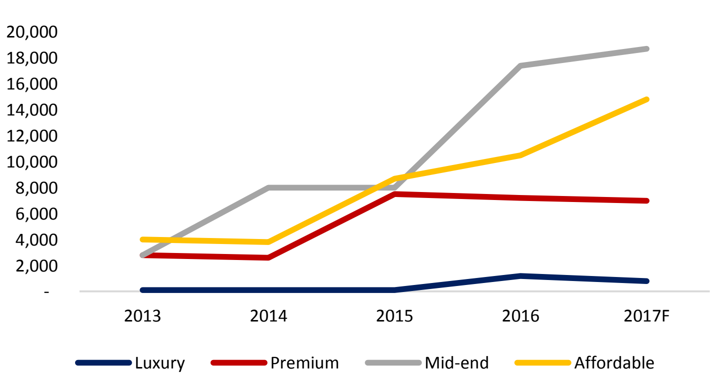
Real estate sector [Outperform]

- Industrial estate is expected to benefit from record FDI inflows, with Japan surpassing Korea as the country with the largest share of 25.4% in FDI inflows.
- Real estate firms in the mid-end segment are expected to grow better than the high-end segment due to a gradual shift towards the mid-end segment.
- Real estate business prospects will continue to improve thanks to (1) rising land prices, (2) the number of apartments delivered in 2018 is expected to increase by 27.9% In 2017, however, it will be very differentiated based on the oriented segment of real estate businesses.

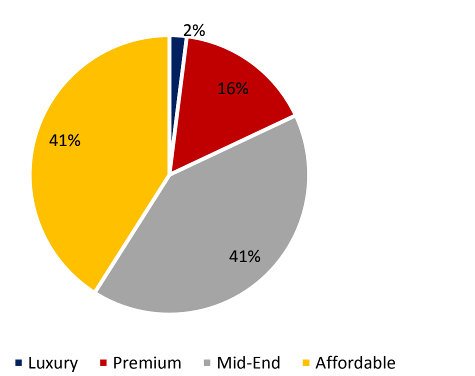
Industrial estate is expected to benefit from record FDI inflows, with Japan surpassing Korea as the country with the largest share of 25.4% in FDI inflows. According to the Department of Foreign Investment, the total registered FDI as of December 20, 2017 reached $ 35.9 billion, up 44.4% over last year, similarly, disbursed FDI recorded a result of $ 17.5 billion (+ 10% yoy). As a result, the demand for land leasing in industrial zones will be maintained in 2018 because the government has many preferential policies to improve the investment environment. As a result, the occupancy rate will continue to improve to a higher level. We believe that the main focus is on areas such as Dong Nai in the south and Bac Ninh, Hung Yen and Vinh Phuc in the north due to (1) The occupancy rate is still lower than the regional average and (2) The rental price is maintained at a level comparable to the average. (3) The geographical location and transportation infrastructure are favorable. The companies have large land fund and the area for rent expansion is VGC, IDC, LHG and KBC.

Real estate mid-level real estate businesses are expected to grow better than the high-end segment due to a gradual shift towards the middle segment. According to data from JLL, the mid-end segments are accounting for about 82% of the total number of products sold by Q3/2017 in HCM City. In addition, the development of the middle-income group is also experiencing relatively good growth, while the high-end segment tends to decrease due to strong demand from 2016. We expect Real estate firms focusing on the mid-end segment such as DXG, NLG will benefit from this trend when (1) prices match the income level and (2) product quality is gradually improving. In fact, the benefit from this trend has begun to reflect from Q2.2017 when the real estate market began to be more exciting through the results of real estate business segment average - average increase significantly for the same period of 2016.

HCM 's open sales apartment in segments (Source: JLL, BSC Research)



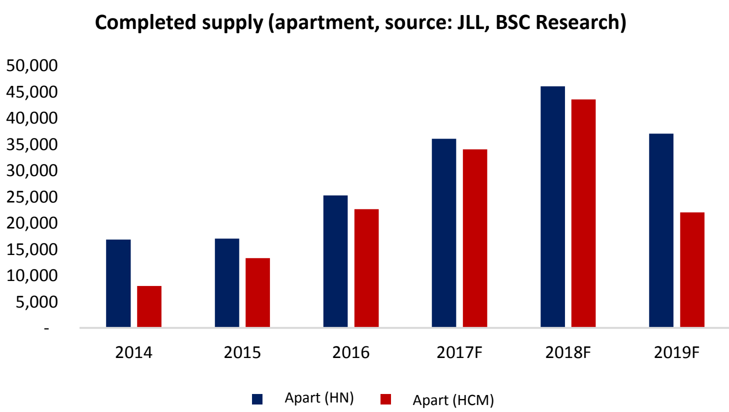
Open sales apartments in segments of 3Q2017 at HCM (Source: JLL, BSC Research)

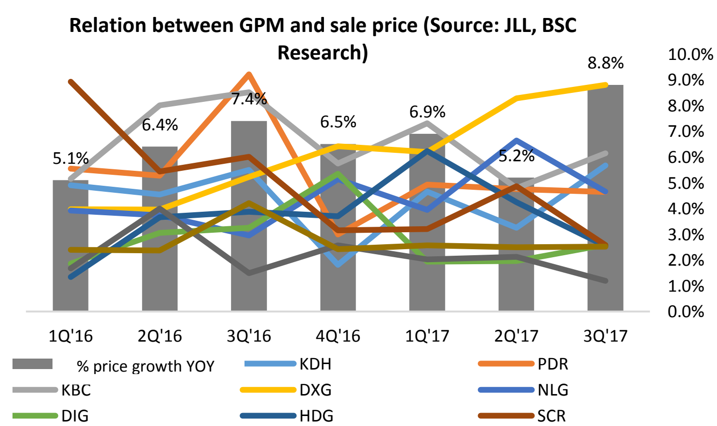


Real estate business prospects will continue to improve thanks to (1) rising land prices, (2) the number of apartments delivered in 2018 is expected to increase by 27.9% In 2017, however, it will be very differentiated based on the oriented segment of real estate businesses. With real estate sales significantly depent on the handover times, we think that the number of apartments supplying to be completed is a close indicator to estimate the growth potential of the real estate sector. According to JLL's estimate, the growth in the number of supply sources that are due to be completed in 2018F is expected to increase by 27.7%, over the expected completion supply in 2017. Thanks to the sale price increase in 2016-2017, we note that for companies with low cost and clean land fund and the availability of hand-over products for the period 2017-2018 will benefit greatly, so the gross profit margin of these companies will improve significantly (DXG, NLG, and KDH). **We estimate real estate sector growth will remain above 20% so real estate sector performance in 2018 will be quite good.**

INVESTMENT OUTLOOK

We rated **OUTPERFORM** rank for real-estate secotor. In 2017-2018, the business results of real estate firms are likely to improve due to the revenue cycle, with new sales progress maintaining Outperform rank. We recommend the following stocks: DXG, NLG, HUT, KBC.





DXG (29/12/2017): 21,550 VND – BUY – Target price of 28,000 VND – Upside +30% – P/E FW 5.9x, P/B FW 1.1x.

DXG is a reputable broker with a market share of 20%. The company is rapidly becoming an investor focused on the mid-range segment to capitalize on the brokerage experience and the attractive location of the projects. We expect the 2017 earnings to outperform the company's target of 779 billion dong (+ 67.6% yoy) thanks to (1) the secondary market activity was exciting in 9M17, (2) Gross-profit of the secondary activity's improved significantly (3) Hand over Lux City and Opal Riverside projects (45%). We expect the 2018 result to growth highly thanks to (1) Expectation to receive and deliver 5 projects including Opal Riverside, Lux Garden, Opal Garden, Lux Riverview, Opal Skyview, (2) Brokerage Business Secondary market is still expected to maintain a 25% growth thanks to the B/C segment continuing to maintain good absorption. In addition, we note that in the annual shareholder meeting of 2018, DXG has no plan to issue more shares to raise capital, we rate this decision as a positive factor of shareholders' interest. We forecast DXG's revenue to be VND 5,276 billion (+ 84% yoy), followed by a shareholders' equity of VND 1,085 billion (+ 36.0% yoy), and EPS of 3,701 VND/share.

NLG (29/12/2017): 30,100 VND – Buy – Target price: 37,700 – Upside +25.4% – P/E FW 9.2x, P/B FW 1.3x

NLG is one of the real estate companies with a large land fund of 485 hectares. A wide range of products is also one of the strong points of NLG as businesses can flexibly develop projects based on market demand including: (1) Ehome - popular segmentation, (2) Flora - intermediate segment and (3) Valora - villas - luxury segment. In 2018, it is expected that NLG will recognize a profit from the revaluation of the project to contribute to the joint venture and thereby, reducing its Nguyen Son project ownership from 100% to 50% similar. According to our estimates, the total re-estimated value of the project is estimated at VND 900 billion, which is expected to record in the range VND 200-300 billion of gross profit in 2018. In addition, collection of NLG real estate of the will come from the projects (1) Camelia Gardern, (2) Fuji Residence, (3) Kikyo Residencen, (4) Daila Garden, (5) Mizuki Park & Male, (7) Thao Nguyen. Thanks to the strong sales volume of apartments sold in 2017 and the possibility of profit from the revaluation of Hoang Nam, we forecast that NLG's 2018 sales will come to VND 4,384 billion (+ 27% yoy) and after-tax profit is estimated at VND615 billion (+ 20.5% yoy), EPS of 2018F = 3,253 (assuming NLG has successfully issued 31 million shares to existing shareholders).

KBC (29/12/2017) –13,400 VND– Buy – TP: 37,700- Upside 27% – P/E FW 7.2x, P/B FW 0.6x

KBC is the leading company in the field of real estate industry with the advantage of land fund accounting for 8% of the total land area of the industrial zone along with the cost of cheap land clearance. KBC is also one of the leading real estate investment companies on the floor. The total area of 5,174 hectares of industrial zone (IZ) accounts for 6% of the tota nationall industrial zone area and 1,063 hectares of urban area (KDT).

In 2017, BSC estimated that the EAT of KBC's parent company this year will be around VND 872 billion (+ 56% yoy), EPS forward 2017 = 1,857 VND/share, implying a forward P/E of 7.2% due to recognition a financial income amount of VND 355 billion from the transfer of capital of Hoa Sen Hotel Development Company Limited. Looking at the core business, the company only achieved a profit of around VND606 billion (+ 9% yoy), equivalent to EPS of 2017 = 1,292 VND/share, implying a forward P/E of 10.4x.

In 2018, we estimate the EAT for KBC's parent company will come to VND 789 billion (+ 30% yoy), EPS forward 2018 = VND 1,681 per share, implying forward P/E of 8.0x. We evaluated KBC as a great investment opporutnity thanks to a strong uptrend of FDI inflows into Vietnam, of which: (1) Main revenue comes from Quang Chau Industrial Park (Bac Giang) and Phuc Ninh Urban Area (2) Trang Due Industrial Zone 2 (Hai Phong), Nam Son Hap Linh Industrial Zone (Bac Ninh), Que Vo Industrial Zone and Trang Due Urban Area will start contributing to revenue from 2018.

HUT (29/12/2017) – VND 10,800 – Buy – TP: 14,100 - Upside 31% – P/E FW 7.6x, P/B FW 0.7x

HUT is one of the leading companies in the field of traffic infrastructure construction in the North. Currently, HUT is active in the areas of Real Estate, Transportation, Construction and Sales. In particular, real estate and transportation fees are two main activities contributed revenue and cash flow to HUT.

In FY2017, PAT targets VND 386 billion (-4.3% yoy), EPS forward 2017 = 5,537 VND/share, implying a forward P/E of 7.6x. In 2017, the company focused on developing the ETC toll collection system at BOT stations and completed real estate projects such as Xuan Phuong Foressa villa, Xuan Phuong Residence and Phap Van South Building generating revenue of 1,200 billion and gross profit of 305 billion in Q4.

In 2018, we estimate that EAT for HUT's parent company will record a profit of VND 475 billion (+ 23% yoy), EPS forward 2018 = 1,894 VND/share, implying a forward P/E of 5.7x. Sources of revenue and profit growth will mainly come from the sale of the My Dinh Foresea project in Q3 - estimated revenue of VND 5,300 billion with a gross profit margin of 30%, and continued accounting of the Profit sources Xuan Phuong Residence project. In the long-term, stable revenue came from VND750 billion of BOT stations, ETC lanes and other real estate projects such as 48 Tran Duy Hung (VND700 billion) It will contribute to improvment of company's growth potential.

Stock	Rev2018	PAT2018	EPS2018	P/E FW	P/B FW	ROE (2018)	Closed price (29/12/2017)	Target price
DXG	6,153	1,119	3,717	5.9	1.1x	21%	21,550	28,000
NLG	4,384	615	3,253	9.2	1.3x	11%	30,100	37,700
KBC	2,085	789	1,681	8.0	0.6x	8.6%	13,400	17,100
HUT	3,292	475	1,894	5.7	0.7x	15.5%	10,800	14,100

Construction sector [Outperform]

- Infrastructure construction market is forecasted to continue growing well thanks to the expected rising FDI inflows.
- This sector growth rate is forecasted to maintain the Outperform rank in 2018, but the growth rate would start slowing down.
- Existing listed construction firms are still marking Outperform growth in 2018 thanks to the high backlog of 2017 ... However; profit margins are on the decreasing trend.
- Recommend buying for CTD, and tracking with HBC, CTI

Infrastructure construction market is forecasted to continue growing well thanks to the expected rising FDI inflows. As of November 2017, foreign investment registered a strong increase of USD 27.8 billion (+ 52% yoy). We expect that in 2018, the construction sector will benefit greatly from FDI, which will continue to grow thanks to: (1) Vietnam remains a low-cost country in the region. (2) Government support following the success of the APEC agreement. We noted that FDI in 2008 recorded the highest amount of more than USD 64 billion, more than three times the size of that in 2007 APEC meeting. Some of the firms specializing in industrial construction are currently listed: FCN, LCG, LM8, L10, SDT, SD5, C32.

This sector growth rate is forecasted to maintain the Outperform rank in 2018, but the growth rate would start slowing down. BMI forecasts that the construction sector will maintain a real growth rate of 9.63% in 2018 and reach an average of 7.8% in 2018-2021, largely driven by private sector and investment growth of private and foreign. We believe the private construction market will slow down in comparison to 2018 as the growth rate of the real estate sector, especially residential real estate, will slow down compared to 2017.

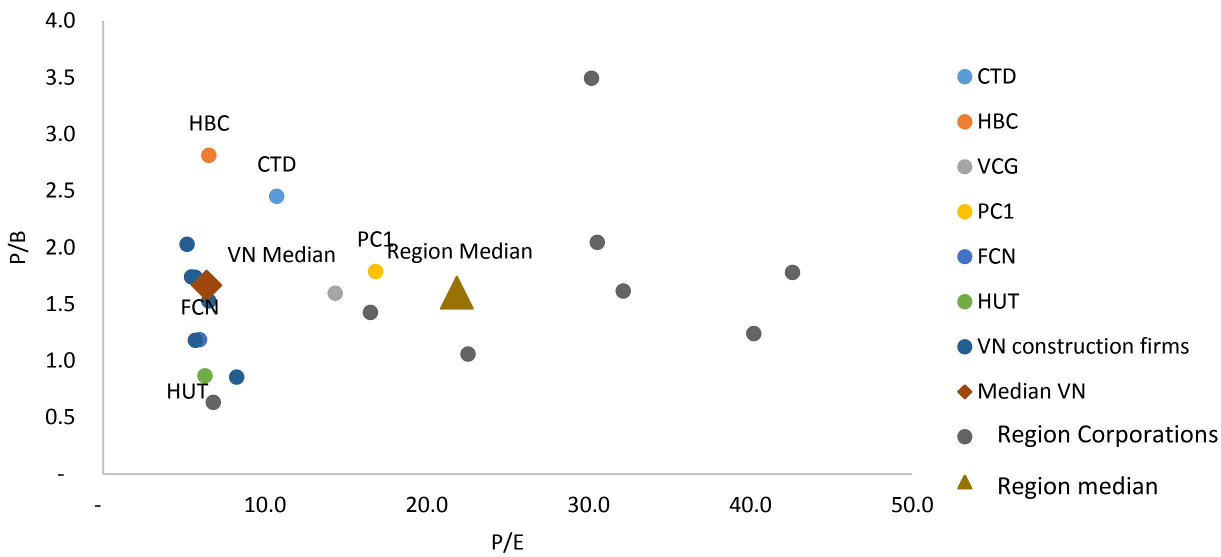
Existing listed construction firms are still marking Outperform growth in 2018 thanks to the high backlog of 2017 We expect the FY2018 resulto to maintain a double digit rates thanks largely to the high backlog of 2017. In particular, the backlog volume expected by 2017 of two representative industry firms CTD and HBC respectively saw VND 25,408 billion (+ 13% yoy) and VND 20,267 billion (+ 17% yoy).

….. **However, profit margins are on a downward trend.** BSC found that the gross profit margin of construction sector has been gradually decreasing since Q2/2017 (except for CII and CTI due to the effect of a proportion from other business segments). We deducted that it is very unlikely for these corporations to achieve high profit margin as the period 2016. As a result, we expect the construction sector in 2018 will be lower than the average profit margin in 2017 mainly due to the following factors: (1) fireced competitions when high-end apartment sale confronted difficulty when large corporations such as CTD and HBC will have to shift to the medium and low end segment and compete with other contractors such as An Phong,…. (2) The prices of raw materials of iron, steel, sand ... tend to increase strongly in the past, (3) The trend has to push up the proportion in the middle-class housing segment and industrial factory have a lower profit-margin.

INVESTMENT OUTLOOK

We rated **OUTPERFORM** ranks for construction sector on the following factors: (1) civil construction enterprises with the contract signed for 2018 remain high, (2) stable increasing demand for infrastructure construction in the long term and (3) Vietnam's FDI inflow is expected to increase strongly in 2018. According to statistics from Bloomberg, construction companies in Vietnam are being priced relatively attractive, the average P/E and P/B of Vietnam sector were 6.5 and 1.7 compared to 21.9 and 1.6 of the region. Only P/B of the top two corporations CTDs (P/B = 2.4) and HBC (P/B = 2.8) are higher than the median of the region.

Average P/E & P/B of construction sector in Asia



Source: Bloomberg, BSC Research

CTD – (29/12/2017): 226,500 VND – Buy– Target price: VND 280,000– Upside +23.6% – P/E FW 10.3x, P/B FW 1.7, FO: 49%

CTD is the largest construction company in terms of both market capitalization and listed value. CTD's core business is civil engineering and industrial construction, accounting for 94% of total revenue. Especially, civil construction when CTD is considered the number 1 contractor in terms of capacity, construction speed and major partner of large real estate corporations such as Vingroup. CTD maintains a double-digit growth backlog. Forward contract value as of 30/09/2017 reached VND 25,567 billion (+ 20% yoy). We expect the new contracts in 2017 to reach VND 33,320 billion and the forward value at the end of 2017 will increase 21% yoy to VND 27,207 billion. The value of new contracts signed in 2018 is forecasted to increase by 13% to VND 37,372 billion. We project that CTD's 2018 revenue is estimated at VND 33,485 billion (+ 17.6% yoy), EAT is estimated at VND 1,898 billion (+ 6.6% yoy) and EPS of VND 21,651.

HBC – (29/12/2017): VND 44,400–Tracking– P/E FW 6.1, P/B FW 1.5

HBC is also one of the industry leaders in terms of scale second to CTD in civil engineering. 2017 saw a strong growth in both earnings and par value. In 9M2017, HBC recorded a respective revenue and net profit of VND 10,975 billion (+ 56.7% yoy) and VND 618.4 billion (+ 93.3% yoy).

However, we still pay particular attention to HBC's receivables and leverage risks. At the end of Q3 / 2017, short-term payables and short-term payables/total assets and HBC's debt/equity ratio were about 30% and 1.92 times respectively (up from 1.72 times in early 2017). We expect HBC will continue to grow thanks to the possitive industry, forecasting new contracts in 2017 is estimated at 19,242 billion and transfer value at the end of 2017 increased 17% yoy to VND 20,267 billion. The value of new contracts signed in 2018 is forecast to increase by 12% to VND 21,551 billion. We forecast HBC's 2018 sales would come to VND 19,283 bil (+ 15.2% yoy) and EAT was estimated at VND 1,004 bil (+ 7.0% yoy) and EPS of 7,206 VND/share.

CTI – (29/12/2017): 30,500 VND –Tracking – Tarrget price 31,545 VND – P/E FW 12.0x – P/B FW 1.31x

CTI is an invested and cultivated a number of BOT projects in Dong Nai province and other provinces and cities in the South East. The company is implementing the project of Interchange 319 and Ho Chi Minh City - Long Thanh expressway (VND 700 billion), social housing project in Tam Hoa ward (325 billion) and some other projects. The company also owns 3 large quarries in Dong Nai with the remaining value estimated at about VND 4,078 billion (about 37 million m^3 and long exploitation time). In this year 2018, CTI is expected to boost its mining operations, contributing mainly to CTI's growth apart from BOT. CTI's targets in this segment include (1) achieving a profit of more than VND 100 billion in 2018 (2.2x compared to 2017) and (2) improving gross profit margins thanks to completed plots cover. As for sewer segments, CTI has depreciated all of its machinery so we expect this segment to improve thanks to water supply and drainage projects in Dong Nai and Binh Duong. CTI's BOT net premiums remained high at VND 354 billion (+ 17% yoy) compared to CII (VND 547 billion) and HUT (VND 138 billion). We think that with Long Thanh Airport expected to be completed land compensation in 2018, we expect that these infrastructure projects and residential areas will boost CTI's revenue and profit. We note that the most significant risk to CTI is mainly a change in charge policy, specifically a 20% reduction in National Highway 1A charges from Q4/2017 and the possibility of a reduction in National Highway 91 rates. CTI's revenue is estimated at VND 995 billion (-28.8% yoy), EAT is estimated at VND 162.5 billion (-1.5% yoy) and EPS of 2,540 VND per share.

Stock	Rev2018	PAT2018	EPS2018	P/E FW	P/B FW	ROE (2018)	Closed price (29/12/2017)	Target price
CTD	33,485	1,898	21,651	10.3	1.7x	19.2%	226,500	280,000
HBC	19,283	1,004	7,206	6.1	1.5x	25.8%	44,000	N/A
CTI	995	162.5	2,540	12.0	1.3x	10.6%	30,500	31,545

Non life Insurance sector [Outperform]

- Gross written premium grew at 10%-13% yoy.
- Claim ratio in 2018 is expected to decrease.
- Divestment is a story having significant impacts on Insurance companies in 2018.
- Interest rate is expected to increase in 2018, supporting investment activities.

Gross written premium is expected to grow at 10% -13% yoy. In the 5th session of the National Assembly, the Law on Special Economic Zones is expected to pass in order to facilitate investment activities in 2018, which will facilitate the growth of the insurance sectors of property, construction and installation - currently accounting for about 15% of total premium revenue. Additionally, according to VAMA's statistics, the car retail market reached 226.7 thousand vehicles for 11M2017, down 9.3% over the same period of 2016, mainly due to waiting psychology for a strong discount for cars' price in 2018, when the car import tax from ASEAN will decrease to 0% under the ATF Agreement. From 1/1/2018, there will be new policies including: (1) Decree 116/2017 regulating the conditions for importation and trading of automobiles; (2) Decree 125/2017 / ND-CP on Preferential Import-Export Tariffs. We expect that the automotive retail market will recover in 2018 as car prices reached the bottomed, driving motor vehicle insurance sector's growth - currently accountting for more than 30% of total premium revenue.

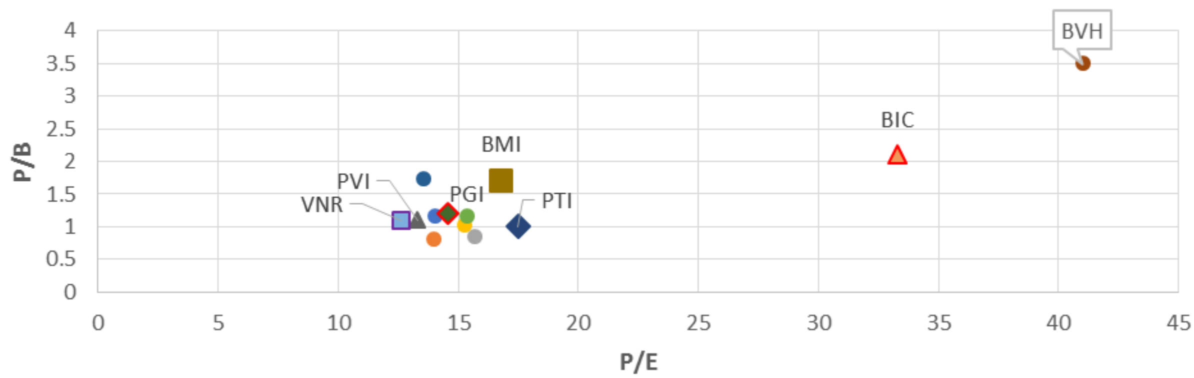
Claim ratio is expected to decrease. In 2018, insurance companies will accelerate the application of information technology to business management, especially the development of compensation claims system. Additionally, the Government also issued Circular No. 50/2017 / TT-BTC supplementing the principle of approving the registration of motor vehicle insurance products in order to reduce the phenomenon of unfair competition such as lowering fees, loosening insurance terms which will affect negatively to the financial safety of the companies; as well as ensuring the interests of customers because the product must be approved by the Ministry of Finance before issuance and the product's premium must be the premium rate allowed by the Ministry of Finance. We expect that the claim ratio of the auto insurance sector in particular and overall insurance industry will improve in 2018.

Expectations from the divestment of PVN in PVI and SCIC in BMI. Specifically, in addition to the PVN's plan to withdraw all 35% capital in PVI in 2018, PVI also increased the foreign ownership limited to 100%. Additionally, SCIC will also sell 51% stake in BMI in 2018. The change in ownership structure is expected to lead to more differentiated directions for large firms, with good fundamentals and solid foundations in the insurance industry.

The return on investment is expected to improve. We forecast that the deposit rates in the first 6 months of 2018 will be relatively stable and will increase in the 2H2018. For non-life insurance companies, with around 70% of their investment in deposits, BSC estimates that a 1% increase in interest rates would increase the pretax profit by 10-13%.

INVESTMENT OUTLOOK

With a positive assessment of the outlook for 2018, we still maintain **"Outperform"** opinion for the non-life insurance sector due to: (1) rising interest rates, (2) supportive policies, (2) growth of vehicle and property insurance sectors. However, we note that: the current growth rate of the industry is not good and the prospects for insurance companies only improve dramatically when the events of divesting and increasing FOL happen.



Source: Bloomberg, BSC research

PVI - Buy - Target price 41,751 - Upside 30.4% - PE/FW: 16.9; PB/FW: 1.2

PVI is currently the largest player in the non-life insurance industry, particularly in terms of asset damage. In FY2017, PVI is estimated to achieve VND 8,953 billion consolidated revenue (-2.3%yoy) and VND 700 billion pre-tax profit (-2%yoy).

We expect the positive movements of oil prices and the IPOs of three big Oil&Gas companies including BSR, PV Power and PV Oil, which will boost the performance of the companies of PVN group. In 2018-2019, the company will book approximately VND 2,400 billion revenue from the Embassy Garden real estate project. At present, almost project has been sold and it is expected to be delivered in Q3/2018. Additionally, PVI also plans to sell its PVI tower in 2018. In 2018, PVN will divest all 35% capital from PVI, and HDI Global - which provides insurance services in more than 130 countries (a member of Talanx, one of Europe's largest financial groups, now managing more than EUR 100 billion assets) – wants to increase its stake in PVI. If the plan to sell PVI's shares to HDI Global is successful, PVI will benefit from a large financial base, extensive insurance network and experience from HDI-Global. We estimate PVI will book VND 7,471 billion premium revenue and VND616 billion in profit after tax. With expected improvement in book value and general advantages of the oil & gas industry, we recommend to Buy PVI shares at 41,751 VND /share.

BMI - Buy - Target price 43.195 - Upside 21.6% - P/EFW: 16.6; P/BFW: 1.5

After a period of being slower than expected market growth, BMI has found a new growth engine in 2017 through collaboration with financial institutions to exploit a health & accident insurance. We expect this segment will continue to help BMI grow well in 2018. So far, BMI has completed a provision for inefficient investments, which will help the investment rate from 2018 to be positive, due to no pressure from the cost of provisioning anymore. The value of investments has increased significantly such as MBB, VNR,.. but still recorded at cost. In 2018, we expect SCIC's divestment will help BMI make positive changes in its business strategy, especially if SCIC's shares are sold to a long-term foreign partner working in insurance sector. We expect the company to book VND 4,165 billion premium revenue (+12.4%yoy) and VND243.3bn EAT (+15%yoy). Accordingly, the EPS of 2018 is estimated at 2,600 VND and the BVPS of 2018 is estimated at 28,228 VND, equivalent to forward P/E of 16.6 and forward P/B of 1.5. Therefore, BSC recommend to BUY BMI with target price of VND 43,195 for 1 year.

MIG - Buy - Target price 16,396 - Upside 36.6% - P/EFW: 13.8; P/BFW: 1.34

MIG is in the top6 non-life insurance companies and has the best performance in the insurance market. Specifically, the company has the lowest compensation rate in the market and is continuously profitable in the insurance business. In 9M2017, the gross written premium increased by 13% as the second highest in the top six, above the industry growth of 12%, and the compensation rate was 38% as the lowest among top 6 insurance companiese. MIG has a wide distribution network with 54 member companies, behind only BVH with 78 member companies. MIG has a major advantage in insurance segments related to military sectors. Unlike other insurance companies managing their investment portfolios by themselves, MIG does its investment activities through the MB Capital. We think this is a good step forward for MIG. At present, MIG owns 5 million shares of Techcombank which will be IPO in 2018 with the cost of 10,000 VND/share, and the current price of Techcombank shares on OTC is about 58,800 VND/share. We expect the company to book VND 2,349 billion premium revenue (+ 24%yoy) and VND95 billion EAT (+14%yoy), excluding the abnormal financial profit and real estate projects. Accordingly, EPS 2018 is estimated at 1,181 VND and BVPS 2018 is estimated at 12,221 VND, equivalent to forward P/E of 13.8 and forward P/B of 1.34. Therefore, BSC recommends to BUY MIG with a target price of 16,396 for 1 year.

Ticker	Rev 2018F	PAT 2018F	EPS 2018	P/E FW	P/B FW	ROE (2017)	Price on 29/12/2017	Target price
PVI	7,471	616	2,474	16.9	1.2	7.2%	32,000	41,751
BMI	4,165	243	2,600	16.6	1.5	8.4%	35,500	43,195
MIG	2,349	95	1,181	13.8	1.34	8.9%	12,000	16,396

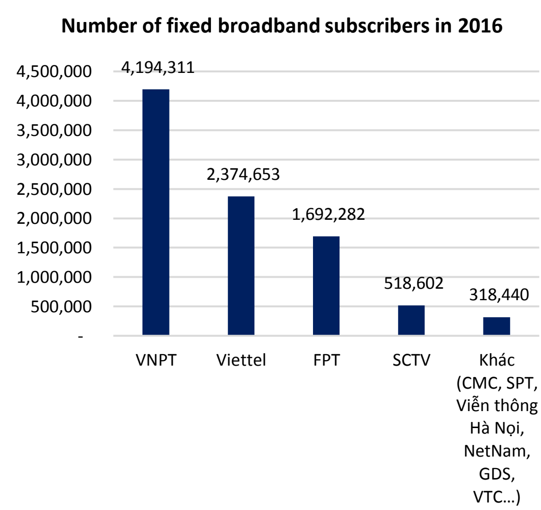
Information Technology sector [Outperform]

- IT applications will continue to be promoted in the operation of state agencies and businesses.
- 4G race in Vietnam has started.
- Benefit from the recovery of the economy.
- We recommend FPT and CMG due to positive changes in core business as well as restructuring process..

We estimate the IT sector will continue to outperform in 2018 based on the following opportunities:

Vietnam continues to be the leading provider of outsourcing services. According to 2017 Glodbal Services Location Index report of A.T.Kearney, Vietnam is ranked 6th (up 5 place on 2016), reflecting the growth of Business Process Outsourcing (BPO) services in Vietnam, with BPO revenues reach USD 2 billion in 2015 and grows to 20-25% annually in a decade, Japan is the biggest customer of Vietnam. In addition, the cost of labor in Vietnam is comparatively cheap, only half of the number in India and China (1st level city), and the English proficiency team is also attractive. of the software outsourcing industry in Vietnam.

IT outsourcing per hour	Low level (USD)	Medium (USD)	High level (USD)
Vietnam	14	17	20
India	17	21	26
China	20	24	31
Philippines	21	28	37
Russia	25	32	42
Malaysia	26	34	46
Ukraine	30	36	47
Poland	31	37	50
Mexico	33	40	52
Argentina	34	41	53
Czech	35	41	54
Brazil	41	46	56
Colombia	41	45	58
Romania	33	42	58



Source: Agileengine, Sách trắng CNTT 2017

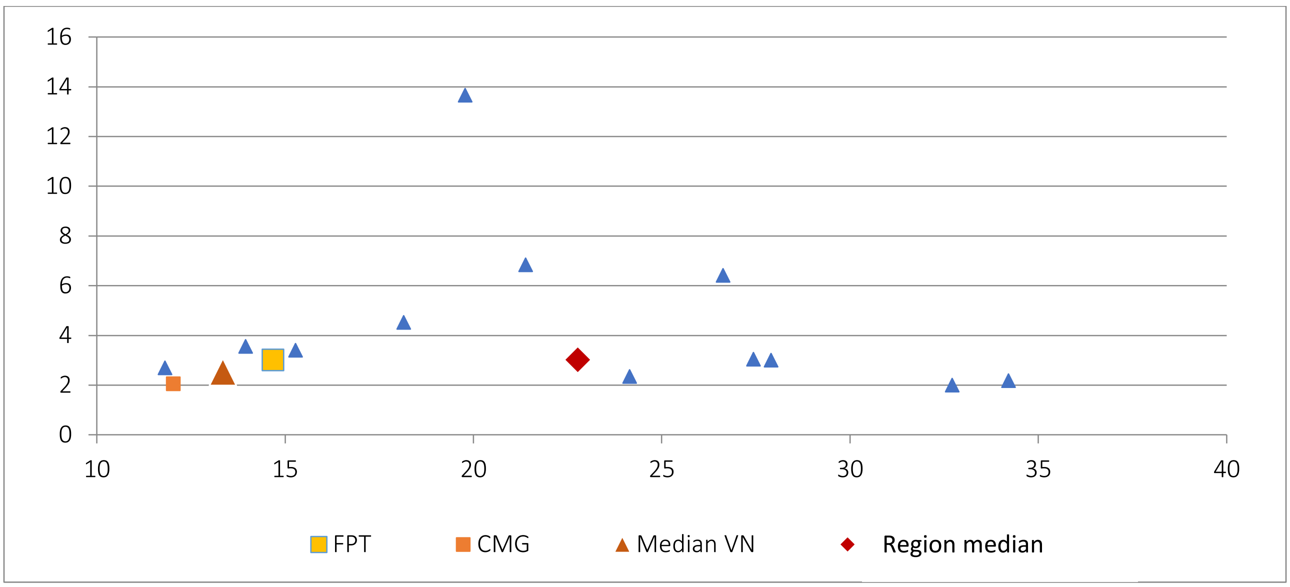
Broadband Fixed Internet Market is competing increasingly fierce, In terms of market share of fixed broadband subscribers, in 2013, VNPT and FPT had market share of 56.25% and 26.8%, while Viettel will only account for 9.74%. In 2016, Viettel's market share reached 26.10%, VNPT and FPT were 46.10% and 18.6% respectively. However, the result was still good due to the relatively high market size, with a fixed broadband subscriber in 2013 - 2016 increased, reaching CAGR of 20.87%. In 6M2017 fixed broadband subscriber additions were 937,754 subscribers, up 12.92% over the increase in 6M201.

BSC believed that the Internet market in Vietnam will continue to grow well due to the urbanization rate and the level of Internet penetration in Vietnam which is lower than the average group of ASEAN countries. However, the competition will be fierce in fixed broadband Internet as the current trend of mobile Internet is increasingly broadened and developed with 4G technology.

The equitized enterprise in 2018. According to the document No. 991 / TTg-DMDN on approving the list of SOEs to be equitized in 2017-2020. In 2018, the Ministry of Information and Communications will equitize two companies, namely MobiFone and General Corporation Multimedia Company. The equitisation of Mobifone will be a special feature of the stock market in 2018 (if implemented) as it is a mobile network operator, accounting for 26.1% of the market share of mobile land subscribers (2017 white paper).

INVESTMENT OUTLOOK

We maintain our Positive Perspective with the IT sector in 2017. We continue to be optimistic with the prospect of FPT, CMG, and pessimistic with ITD due to continuous BOT traffic incident happened recently.



Source: Bloomberg, BSC Research

FPT – Target price VND 68,700

Completing the divestment in Distribution - Retail, concentrating resources in IT - Telecommunications, we forecast that in FY2017, FPT will recognize financial income of around VND 1,125 billion from reducing its stake in FRT. and VND 192 billion from the divestment of FPT Trading, EPS 2017 core = VND 4,219 and EPS of 2017 totaling VND 6,204.

Software Outsourcing continues to be the driving force for FPT growth in 2018. In the first 11 months of 2017, Software Outsourcing's revenue reached VND 5,514 billion (+18% yoy) and EBT was VND 889 billion (+21% yoy, accounting for 42% of pre-tax profit of 2 sectors which are IT and Telecommunication). In particular, Japan is the main market, accounting for 58% of total revenue of Software Outsourcing and there are many growth opportunities.

The FRT listing on the HSX in 2018 and SCIC's divestment plan at FPT will also have a significant impact on FPT's stock price in the near future.

CMG – Target price VND 37,800

It is estimated that after the deduction of 6% of the bonus fund, the parent company's EAT is VND 210.55 billion (+45% yoy), EPS 2017/2018 = 2,988 VND. We believe that CMG's business is improving, not necessarily accelerating in 2017/2018. Gross profit margin is improving with System Integration and Telecommunications.

System Integration backlog (value of contract signed but not yet implemented) as of 11/2017 is VND 2,600 - 2,700 billion, usually within 3 - 6 months the backlog will be deployed. We assess the current backlog is relatively good.

Telecommunication North-South telecommunication has been in operation since 12/2017. We estimated the depreciation of the North-South axis is VND 2.2 billion per month, while the cost of renting out the transmission line is VND 3.5 - 4 billion per month. Therefore, the depreciation expense will be over VND 1 billion per month after North-South axis comes into operation. Besides, CMG is also looking for partners to lease back the excess capacity.

The APG network also enabled CMG to reduce the cost of outsourcing and bring profit from leasing out other partners. The enterprise has not extracted the specific gains.

Demand for capital increase CMG estimated that it would require additional capital of VND 1,103 billion (of which VND 350 billion for new complex, VND 572 billion for telecom infrastructure development and VND 100-200 billion for IT). Therefore, CMG will issue a capital increase of 12-25% in the form of individual issuance, currently looking for partners.

Stock	Revenue 2018	EAT 2018	EPS 2018	PE 2018	PB 2018	ROE 2018	Closed price 29/12/2017	Target price
FPT	20,775	2,956	4,457	12.81	2.11	20.53%	57,100	68,700
CMG	5,008	210,548	2,988	9.71	1.83	20.05%	29,000	37,825

Source: Bloomberg, BSC incorporated

Electricity Sector [Outperform]

- Divestment is a story throughout 2018
- The South may lack 2.7 billion kWh in 2018
- Gas and DO prices can recover sharply in 2018, negatively affecting the gross profit margin of gas-fired thermal power companies.

Divestment will be the story throughout 2018. In the period of 2016 to 2018, the power sector will equitize the generators of Electricity of Vietnam (EVN), Petrovietnam (PVN), Vietnam Coal and Mineral Industries Group (Vinacomin) under the plan approved by the Prime Minister. GCs continue to belong to corporations and are held by corporations holding at least 51% of the shares. One of the companies that will be divested in 2018 that we have updated is PV Power and Genco 1, Genco 2 and Genco 3 (IPO is about 12.8%, starting at 24,600 and sold to strategic shareholders 36%). PV Power's divestment could be a driving force to improve the price level for its listed subsidiaries such as NT2.

Electricity may be lacking in the south. According to the Ministry of Industry and Trade, in 2018 the South lacks 2.7 billion kWh. This situation occurs in the whole year, especially in March, April and May. By 2019, the shortfall is 1.1 billion kWh. We believe that existing power utilities in the region such as NT2, BTP and SHP will benefit from this trend, increasing their mobilized capacity, especially after the Nam Con Son mine has completed regular repairs (5 years) that help ensuring the supply of raw materials for the thermal power plants in the area.

Thermoelectricity will be an important source of energy for Vietnam until 2020. According to the coal development project VII (adjusted), along with the development of clean energy, in order to ensure domestic energy security, coal fired power generation could be increased to 49.3% by 2020, 55% in 2025 and 53.2% in 2030.

	2015	2020	2025	2030
Number of factories	19	31	47	52
MW capacity	13,157	25,787	45,152	55,252
Share of coal thermal power in total installed capacity	33.40%	42.70%	49.30%	42.60%
Total electricity production (million kWh)	56,400	130,932	220,165	304,478
Proportion in total electricity production	34.30%	49.30%	55%	53.20%

Source: Ministry of Industry and Trade

Potential from renewable energy sources. Up to now, there are about 160MW of wind power, 15MW of solar power, 10MW of biomass power (excluding the capacity of cogeneration in sugar mills of nearly 200MW). This is a modest amount compared to the potential of this power source. We analyse in term of medium trend, together with the government's supportive policies, the tendency to invest in wind and solar energy sources will increase.

Gas, DO oil prices can recover strongly in 2018. Although the price of electricity produced by the gas thermal power companies is adjusted to the input fuel price fluctuations, the price increase (follow the upward trend of oil prices) will affect the gas thermal power companies (NT2 , BTP, PV power) in the following directions: (1) Reducing electricity output in the competitive electricity market. (2) reduce the gross profit margin.

INVESTMENT OUTLOOK

We maintain a **outperform** view with the electricity sector. Although commercial output in 8M2017 recorded slower growth compared to 2016, electricity is still an important energy source for economic development, so we think electricity demand will continue to grow at two digits number in 2018. For the hydropower companies, 2018 will be difficult to reach high growth rate as sudden as 2017. The business results of these businesses are forecasted to remain positive in the first months of 2018. On the other hand, thermal power plants (coal and gas) can record good growth thanks to internal factors such as completion of major repairs, prepayment of foreign currency loans , ... However, due to the special characteristics of thermal power has large foreign currency debt, exchange rate movements will be important factors to determine the after-tax profits of these enterprises.

NT2- HOLD- Target price is 36,400 VND/share

Accumulating 9M2017, NT2 sales reached VND 4,687 billion (+5% yoy). Electricity output of 9M2017 reached 3.036 million kWh (-25% yoy) due to the increase in hydroelectric reservoirs and the reduction of electricity generated from thermal power. Average gasoline price in 9/2017 was 6.05 USD/mil.BTU (average was 4.25 USD/mil.BTU in 9/2016), which helped the revenue growth, but decreased in gross profit margin from 24.8% to 20.3% and gross profit only reached VND 951 billion (-14% yoy). In addition, financial expenses surged to VND 411 billion (in the same period of 2016 was VND 203 billion) mainly because EUR/VND increased sharply by 11% compared to the beginning of the year. In the fourth quarter, NT2 completed a major repairs five days ahead of schedule (the next repairs carried out in 2023) to increase the capacity of 24 MW to 774 MW.

In 2018, we forecast NT2 to record sales of VND 8,132 billion (+25% yoy), EAT of VND 1,371 billion (+102% yoy), equivalent to EPS of VND 4,333, based on the following assumptions: (1) produced electricity at about 5.5 million kWh due to the lack of major repairs and the capacity has been increased by 24 MW. (2) average selling price at 1,478 VND/kWh due to gas price is projected to increase 5% compared to October 2017 average. (3) The EUR/VND exchange rate will only increase by about 2% in 2018, which will help recording financial expenses in 2018 are about VND 322 billion.

In addition, the PV Power IPO in 2018 could have a positive effect on NT2's share price

In the long term, NT2 is working on a feasibility study (FS) for the expansion Nhon Trach 2 plant, which is expected to add two gas turbine plants with capacity of 1,800MW, of which Phase 1 is a gas turbine plant with a capacity of 850MW, 100MW more than current capacity. The plant will use imported LNG and is expected to come into operation in 2021

PPC- BUY- Target price 24,150 VND / share.

In 9M2017, PPC's biggest highlight was the restructuring of its debt by JPY, which reduced its financial expenses from USD 771 billion in 9M2016 to USD 91 billion. In addition, the total electricity output of 9M2017 reached 3.435 billion kWh (+14.26% yoy). In 9M2017, PL1 sold 1.055 million kWh (about 98% sold in Qc), PL2 sold 2.379 million kWh (about 91% sold in Qc)

Currently, PPC owes about JPY 6 billion. In 2018, PPC plans to pay half of the outstanding debt, so we believe the risk of exchange rate fluctuations with PPC's earnings will not be significant in 2018. However, the sudden growth of PPC in 2018 is quite difficult to happen.

In 2018, we forecast PPC's revenue will come to VND 6,574 billion, after-tax profit of VND 929 billion (+2% yoy), corresponding to EPS of 2,564 VND/share.

PV Power- Tracking.

PV Power is the second largest company in Vietnam with a total capacity of 4,208 MW, of which 64.2% is gas, 28.5% is coal, and 7.3% is hydropower. On 31/1/2018, PV power will carry out an IPO of 468 million shares corresponding to 20% of charter capital, starting price is 14,400 VND/share. PV power will also divest 28.882% for strategic shareholders, equivalent to 676 million shares.

Preliminary analysis, PV power is an electricity business with stable cash flow and healthy capital structure (60% of loan/40% of equity). Gas-fired power generators have a great advantage of generating electricity and have less environmental impact than coal-fired thermal power plants. Therefore, their capacity is mobilized high and stable. However, PV power also faces some risks: (1) exchange rate fluctuations, (2) high input gas price, which reduces gross profit margin. (3) Operational risk, especially when two plants NT3 and NT4 go into operation.

REE- HOLD- Target price 43,200 VND/share

Real estate: In the fourth quarter of 2017, REE will book over VND 700 billion in revenue from real estate thanks to the handover 2 projects which are STD Tower and Ngoc Bao Vien. Estimated profit is about VND 200 billion. Over the next two years, REE will have additional projects: (1) VIID has a 70% equity stake in a land development project in Duc Giang, Hanoi, scheduled for 2018 and 2019. (2) development in Quang Ngai however the details have not been disclosed

M & E core business: Accumulated contract value of 10M2017 reached VND 5.5 trillion, up sharply from our forecast of about VND 4 trillion.

Office for lease: has completed the E-Tower Central at 11 Doan Van Bo. The registered occupancy rate is about 30%. REE said that the occupancy rate will be 100% in 2018, with a rent of about $ 28 / sq m.

Stock	Revenue 2018	EAT 2018	EPS 2018	P/E fw	P/B	ROE 2018	Price on 29/12/2017	Target price
NT2	8,132	1,371	4,333	7.73	2.06	20%	33,500	36,400
PPC	6,574	940	2,564	8.87	1.27	13%	22,750	24,150
REE	4,727	1,745	4,720	8.79	1.67	17%	41,500	43,200

Source: BSC estimated

Steel Sector [Outperform]

- Input prices will generally be more stable
- Steel prices are expected to remain high at the beginning of the year
- Steel consumption will continue to grow well.
- Capacity of enterprises is expected to grow strongly

Raw material prices will generally be more stable. (1) Iron ore in 2018, China's demand for steel in both the real estate and property investment sectors will be less positive, but with China cutting production, tightening the supply caused the steel price to rise, helping to raise the price of iron ore. According to Credit Suisse, iron ore prices will remain at $ 70 per ton in the first half of 2018 and fall to $ 55-60 per tonne at the end of the year for high quality ore (62% Fe) as China lifts restrictions on steel production in winter. For iron ore of lower quality (58% Fe), the price will be lower by 12-15%. (2) Coke: The price of carbon held will decrease as the supply comes back to normal when mining in Australia returns to normal after the decline in 2017 due to weather effects.

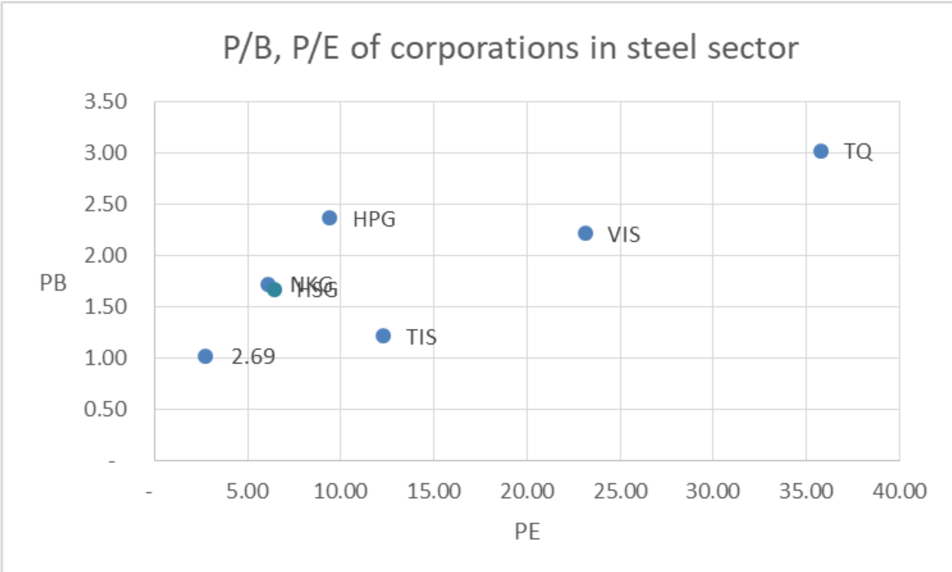
Steel prices are expected to remain high at the beginning of the year. China's winter production cut policy will continue until March 2018, helping steel prices continue to be high in the early part of the year. It is expected that in 2018, China will continue to cut output, but this output will be offset by the increase in capacity of Asian countries (especially South East Asian countries), the price World steel is expected to fall slightly in the second half of 2018

Consumption of steel will continue to grow well. In 2018, the major steel consuming construction sector is expected to continue to grow thanks to: (1) the construction of public transport infrastructure and facilities in two major cities Ha Noi and Ho Chi Minh City (2) Housing and commercial development continues to be supported by foreign investment, our country remains an attractive destination thanks to its low cost and higher development level than other countries in the region.

Capacity of enterprises is expected to increase sharply. Many projects of enterprises will start operating in 2018. HPG: galvanizing factory project, phase 1 Dung Quat steel complex; NKG: Nam Kim 3 factory; Lotus: Phase 1 Yen Bai factory, Formosa Ha Tinh phase 1.

Investment Outlook

BSC assess **OUTPERFORM** the steel industry. With leading companies such as HPG, HSG and NKG, BSC maintains a medium and long-term BUY recommendation as a leading industry player, expanding the capacity and performance of businesses.



Sources:Bloomberg

HPG – Target price of 58,622 VND/share (+25.12%)

Market share leader and consumption continue to grow. Consumption is expected to increase 19.5%, reaching 2.15 million tons of construction steel and 572 thousand tons of steel pipes, construction steel market share of 23.79%, pipe market share reached 26.64% .In 2018, revenue from steel segment expected to over 50 trillion and gross profit is approximately 11 trillion.

Galvanizing factory and 1st phase of the Dung Quat factory project are the growth motivation for 2018. The 400,000 tons/year galvanized steel factory is expected to be put into operation in early 2018, and 1st phase of the Dung Quat project with a capacity of 2 million tons of steel per year, will help HPG's capacity increase nearly double compared to the current time, is expected to be operational from August 2018.

Profits from real estate. HPG will record revenue from the Mandarin Garden 2 project by the end of 2017. HPG may record over VND 4.4 trillion in sales and around VND400 billion in gross profit.

NKG – Target price of 51.318 VND/share (+32.26%)

Strong growth in capacity and improved profit margin: 1Q2018 the NOF galvanized steel sheet will be in operation, capacity of 350,000 tons/yr, improve total capacity of NKG to 1.2 million tons, increase sharply but still only half the capacity of HSG.

Expanding advertising campaign to improve brandname.

Cheap HRC supply comes from the domestic market (Formosa Ha Tinh), about 30% of NKG's HRC demand, minimizing exchange rate risk.

HSG – Target price 32,810 VND/share (+33.92%)

The second largest steel industry and the leading galvanised industry. HSG's galvanized steel sheet consumption now stands at 1.2 million tonnes, market share of HSG in 2017 is 33.5%, leading the market with more than 340 retail branches (opened more than 100 branches this year).

Plastic pipe sector will contribute to HSG's earnings in the coming time. Although HSG has started to produce plastic pipes, the current market share of HSG is about 8%; Taking advantage of the advantages of distribution system and discount policy, HSG has been able to compete with big players in the industry such as BMP and NTP

Similar to other galvanizing companies such as NKG, HSG also benefited from low domestic HRC supply from Formosa and Dung Quat steel project in Hoa Phat.

Stock	Revenue 2018	EAT 2018	EPS 2018	P/E fw	P/B fw	ROE 2017	Closed price 29/12/2017	Target price
HPG	54,634	8,516	5,583	8.63	1.79	20.80%	46,850	58,622
NKG	17,160	1,011	7,776	4.99	1.49	29.93%	38,800	51,318
HSG	31,065	1,605	4,587	5.34	1.23	26.3%	25,000	32,810

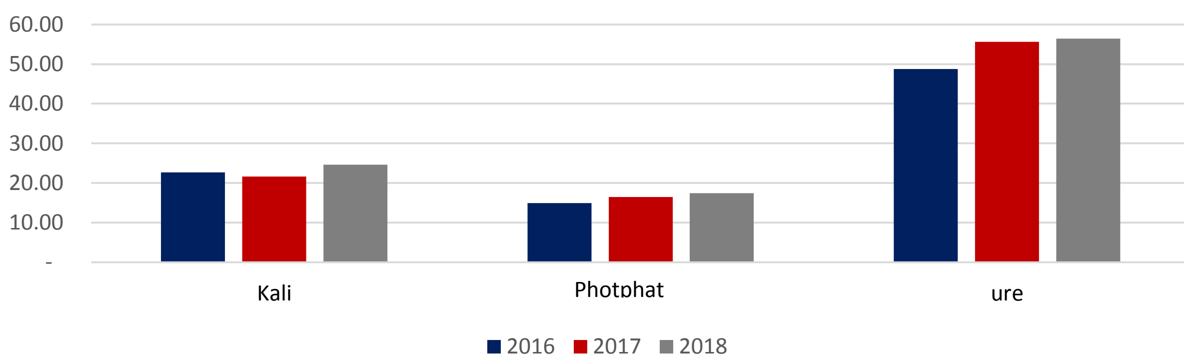
Source: BSC Research

Fertilizer sector [Outperform]

- Fertilizer market is forecasted to continue oversupply globally
- Fertilizer price is projected to maintain at low level
- Gas price is anticipated at high level along with oil price
- Proposing that fertilizers is VAT subjected products
- Divestiture plan from Vinachem and PVN

The global fertilizer market continues to oversupply. This is collected data from the forecasts of major organizations in the world such as FAO, WB and collected data from Bloomberg. Particularly, urea supply is projected to continue to increase in countries that own cheap natural gas such as Iran, Malaysia, Nigeria and the United States. DAP production capacity continues to increase in some countries such as Morocco, Saudi Arabia..

Oversupply of global fertilizer market 2016-2018



Source: Bloomberg

Fertilizer price is expected to remain low due to global oversupply. Australia's 2018 coal price is projected to fall by 15% to an average of USD 70 per ton, which could might stimulate China's urea-producing companies to increase output again, thereby pressure to reduce global fertilizer prices. However, the price of oil, coal, H_2SO_4 is forecasted to be high, and stricter regulations on dealing with environmental violations in China may reduce urea exports to Vietnam, and slower global urea supply growth. It also reduce fertilizer prices and profit margins of urea producers such as DPM.

Input material prices are forecasted to remain high. FO price highly correlated with oil price. Many international institutions have raised their average oil price projection to over 60 USD per barrel.

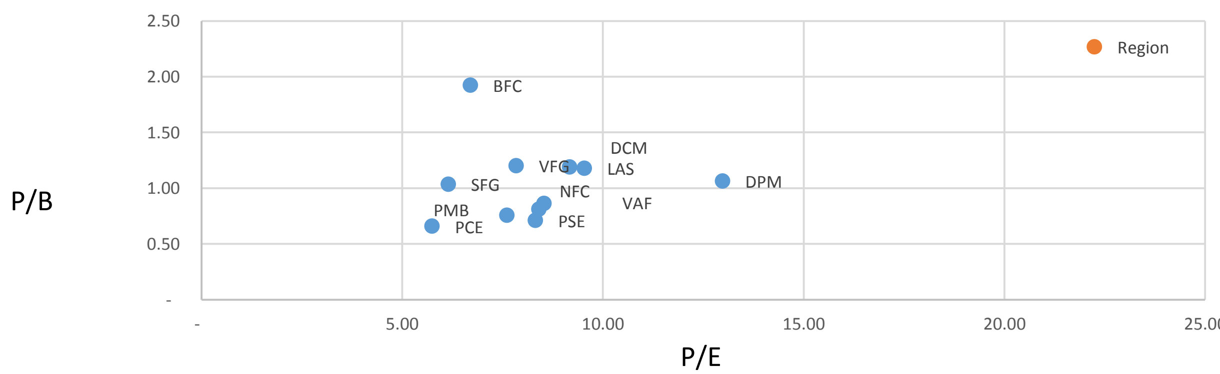
Fertilizers subject to VAT taxable products under the draft amendments and supplements to tax policies. Accordingly, the fertilizers are considered to be transferred from a non-value added tax (VAT) products to one of two options: (1) 5% VAT; or (2) liable to 10% VAT, in which the Ministry of Finance proposes Option 1. With this provision, the enterprises producing the single nutrient fertilizer will be entitled deduct to VAT of input materials, reducing cost pressure. We estimate the deductible VAT of VND

300 billion for DPM, VND 100 billion for LAS and VND 138 billion for DDV. If adopted, the provisions of the law are expected to take effect on January 1, 2019.

Divestiture plan from PVN and Vinachem. According to the plan, PVN projected to divest DPM and DCM to 51% in 2018. Under the Restructuring Scheme for the period 2017-2020, the Government will reduce its ownership in Vinachem to 51-65%. There are plans to divest some companies in the group, including BFC, SFG, VAF, DDV (DAP - Vinachem), DAP No 2 - Vinachem….

INVESTMENT OUTLOOK

We maintain **outperform** expectation to fertilizer sector. Better consumption prospects thanks to favorable weather and expected change in VAT policy towards taxable products are expected to improve profitability for the group of single nutrient fertilizer producers such as LAS, DPM and DDV. Compared to peers in the region, domestic firms are currently priced relatively attractive. Average P/E and P/B are 8.32x and 1.04x, respectively, lower than the region's (22.25x and 2.27x) respectively.



Source: Bloomberg

BFC – BUY – Target price 41,000 VND/share, upside 20%

Being the best sales abilities fertilizer company with the brand "Buffalo Head". Earnings growth was good in 2017, net revenue increased 6% yoy and after tax profit increased to 9.6% yoy thanks to the development of high margin products and contribution from Binh Dien Ninh Binh subsidiary. We expect 2017 results to remain good thanks to (1) rising demand; (2) rising agricultural prices increase the demand for cultivation and use of fertilizers. BSC forecasts net revenues and after tax profits of shareholders of parent companies will reach VND 6,595 billion and VND 287 billion, net sales and net profits in 2018 will come to VND 7,072 billion and VND 325 billion (+ 13 % yoy), equivalent to EPS of 2018 (after bonus and welfare fund) is 5,119 VND / share. Compared to listed companies, BFC is trading at a P/E of 6.57x, below the median of listed companies (8.41x).

SFG – BUY – Target price 13,900 VND/share, upside 15%

We expect the earnings trend of the company will continue to be good in the future thanks to better consumption growth after the price of many industrial crops (the main users of the company) to recover. , the weather is more favorable. BSC forecasts net sales and net profit will come to VND 2,591 billion and VND 99 billion respectively in 2017 and VND 2,020 billion in 2010 and VND 210 billion respectively in 2018, EPS is 1,975 VND / share. On December 29, 2017, SFG traded at VND 12,000, equivalent to P/E of 6.07x, which is relatively attractive compared to peers.

LAS – BUY – Target price 16,200 VND/share, upside 12%

The stock has been neglected by many investors due to difficulties in the industry and business results are continuously reduced from middle to end of 2016. Thanks to the favourable weather, the agricultural sector is more favorable and the price of fertilizer increased again, the consumption in LAS has improved. In addition, the VAT policy, if changed, will contribute about VND 100 billion in pre-tax profits to the LAS (expected from 2019). We forecast that revenues and profits after tax in 2017 will reach VND 4,000 billion and VND 163 billion respectively, equivalent to EPS of VND 1,355 per share. If the VAT policy is passed, we expect the company's after tax profits will increase to VND 243 billion, equivalent to a new EPS of VND 2,021 per share.

DPM – Tracking – Target price 22,800 VND/share

DPM is attracting attention thanks to the recovery of fertilizer price and the expected change in value-added tax policy and divestiture plan from PVN 51% in 2018. In 2017, due to the price of fertilizer the growth urea price was smaller than the gas and H2SO4 price, and the company's after tax profits fell sharply to VND 696 billion (-39% yoy). BSC forecasts that net revenue and net profit will come to VND 10,350 billion (+ 22% yoy) and VND 824 billion (+ 20% yoy) respectively, and EPS of VND 1,845 per share.

At the same time, if the fertilizer becomes the product subject to the tax rate of 0%, the company's profits before tax is estimated to increase by more than VND 200 billion. We are concerned about the risk that GAS will change its gas pricing policy for DPM and that the payment on behalf of PVTEX in 2017 will negatively affect the company's earnings in 2017. Investors interested in DPM should notice the progress of the DPM project implementation and consumption, including: UFC 85 and NH3, especially in the context of the urea and nitrogenous fertilizer plants Ninh Binh is operating under capacity; NH3-NPK plant with NH3 capacity increased by 90,000 tons, NPK high capacity 400,000 tons, investment of VND 5,000 billion and the weather, urea price and input gas price.

Ticker	Revenues 2018 (bil. VND)	Profits 2018 (bil. VND)	EPS 2018	P/E FW	P/B	ROE 2018	Closed price 29/12/17	Target price
BFC	7,072	325	5,119	6.57	1.51	24.35%	33,650	41,000
SFG	2,720	102	1,975	6.08	0.95	17.38%	12,000	13,900
LAS	4,000	163	1,355	10.63	1.23	12.39%	14,400	16,200
DPM	10,350	824	1,845	11.65	0.98	9.94%	21,500	22,800

Source: BSC Research.

Rubber sector [Neutral]

- Demand for natural rubber is forecasted to grow at an average of 3% in the period 2018 - 2025.
- Rubber prices are forecasted to fall from 5% to 8% in 2018
- Domestic rubber price is strongly influenced by global rubber price fluctuations, and the demand in direct exporting countries.
- VRG's IPO in 2018. The total value of the deal is nearly 6,200 billion VND.

According to forecasts by the International Rubber Study Group (IRSG), demand for natural rubber is expected to grow at an average of 3% between 2018 and 2025. According to BSC, surplus supply situation will continue in the next few years and then gradually decrease, specifically:

- **Supply:** Supply is forecasted to continue to exceed demand as new rubber plantations expansion over the period 2010 - 2012. In 2018, countries in the IRTC include Thailand, Indonesia and Malaysia reduced exports of 350,000 tonnes of rubber until the end of Q1. However, the cuts were unsustainable in the long run.
- **Demand:** China remains the largest natural rubber consumer in the world (≈40% of total demand). In the period 2018 - 2015, China's natural rubber demand is expected to increase sharply due to the expectation of strong growth in the automotive sector as well as the tire industry as the United States removes anti-dumping duties and taxes for trucks and buses with China. In addition, the market for developing countries in Asia-Pacific is forecasted to be the main source of consumption of natural rubber as demand for cars rises.

Rubber prices are forecasted to fall from 5% to 8% in 2018. The World Bank forecasted that rubber prices in 2018 will be $ 2.08 / kg on average (-4.7% YoY) while the EIU forecasted rubber prices will fall by 8.5% over 2017 prices due to oversupply. The high oil prices in 2018, together with the situation that three countries including Thailand, Malaysia, and Indonesia agree to cut 350,000 tons in 2018Q1 will cease the decreasing trend of the price of rubber.

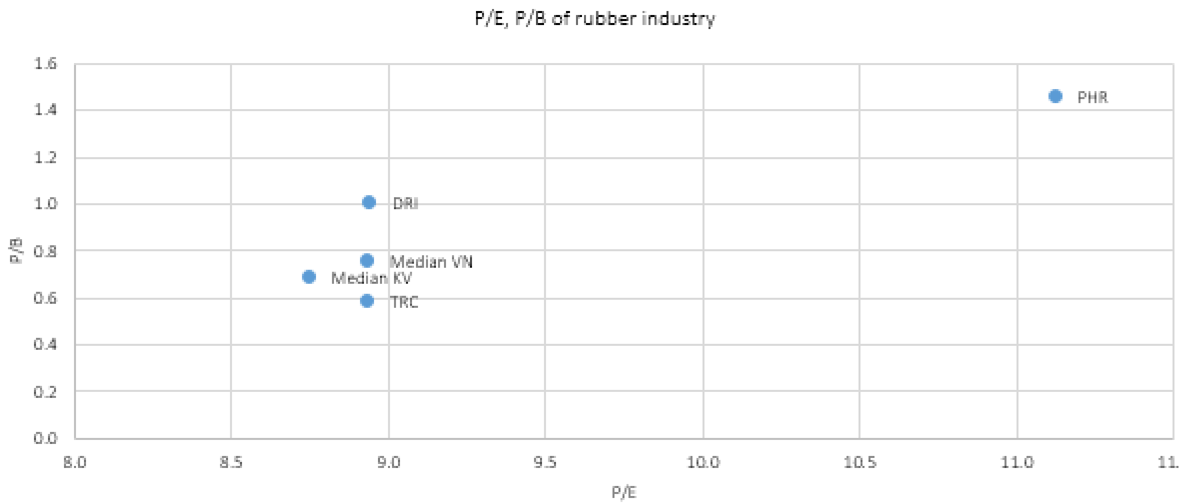
Domestic rubber price is strongly influenced by global rubber price fluctuations, and the demand in direct exporting countries. Domestic rubber price usually has a lag of 1-2 months compared to the international rubber price, as analyzed in our rubber industry report. In addition, the Vietnam market is directly influenced by rubber consumption conditions of large countries such as China and India.

To rubber companies, we expect their business results in 2018 to be stable. Expectations come from large demand for rubber from China and other Asian countries. Although rubber price is forecasted to fall slightly, there would be not much change compared to 2017.

VRG's IPO in 2018. According to the government's plan, the VRG's IPO is expected to take place in 1Q2018. VRG is expected to issue 475 million shares, accounting for 11.88% of charter capital. The total value of the deal is nearly 6,200 billion VND.

INVESTMENT OUTLOOK

Based on developments and the outlook for rubber prices, we maintain our recommendation of the rubber sector which is NEUTRAL in 2018. At 22/12/2017, rubber stocks are trading at P / B of 0.69x and the median P / E of 8.74x. The rubber price is expected to remain at the current price level and there are not many significant changes in the coming years. BSC recommends that investors should closely monitor the movement of rubber prices as well as supply and demand of the world.



PHR – BUY – Target price 48,448 VND/share – Upside 11.76%

PHR is the leading corporation of the rubber industry in term of scale, and one of the corporations that can maintain its production capability. The company has brought the Kamthong Pong project in Cambodia to harvest in 2017, which is expected to have a stable yield in 2020. In addition, PHR is currently disposing of about 4,000 hectares of rubber in the period 2017-2019. Although this will affect the productivity of the company in the next few years, PHR expects to have a stable profit of VND100-150 billion per year, helping businesses maintain stable revenue to finance the project in Cambodia. In term of real estate business, compensation from VSIP project with estimation of VND1-1.5 billion per hectare will help PHR to record revenue in the coming years. Assuming rubber price in the coming period is not too volatile, the compensation from VSIP project will start from 2018, we estimate that the revenue of PHR would be VND1,566.6 billion (+ 0.02% YoY) and VND 503.9 billion of NPAT (+ 62.6% YoY), equivalent to EPS2018 of 5,064 VND. As of 22/12/2017, PHR is trading at forward P / E of 8.2x, which is quite low compared to the sector.

TRC - BUY - Target price 34,176 VND / share - Upside 18.67%

Tay Ninh Rubber Joint Stock Company (TRC) is an enterprise with good fundamentals and effective cost management. The company has the leading capacity of the industry, the structure of young gardens, along with 65% of products are Latex and CV 50,60 which are high prices and not dependent on the tire production. In 9M2017, TRC recorded a profit of VND 106 billion, up 143% YoY. The main development prospect of TRC is the project of Tay Ninh Siem Riep which would be put into operation in 2019 (7,600 ha).

We estimate that in FY2018, TRC would record VND484.2 billion in revenue (+ 7.7% YoY) and VND 135 billion in EAT (+ 6.4% YoY), equivalent to EPS of VND 3,705 / share. As of 22/12/2017, TRC share was traded at 28,350 VND / share, corresponding to forward P / E of 7.7x.

DRI – Buy – Target price of VND 16,062/share – Upside 33.9%

DRI is a new stock in the market this year, with (1) The second largest scale of the industry in terms of rubber area (7,775 ha) and chartered capital (VND 732 billion) - just behind PHR. (2) Young gardens - the average age of exploitation is 5 years, the yield is high (1.99 tons/ha) and will continue to improve significantly in the coming years according to age of trees. (3) Cheap labor cost advantage from Laos helps businesses save costs. (4) Average rubber price in 2017 is about 25% higher than the same period, helping enterprises improve their business results. Assuming rubber price is not much fluctuated, BSC forecast DRI can reach 617 billion dongs of revenue (+ 7.8% YoY), EAT is estimated to be 140 billion dongs (+23.9% YoY), equivalent to EPS of 2018, equivalent to 1,817 VND / share. (Minus 5% of the bonus and welfare fund).

Stocks	REV 2018 E (VND bil)	PAT2018 E (VND bil)	EPS 2018 (VND/share)	P/E F 2018	P/B F 2018	ROE (2018)	Closed price 29/12/2017	Target price
PHR	1,565	504	5,064	8.6x	1.3x	20.6%	43,350	48,448
TRC	484	135	3,705	7.8x	0.5x	8.12%	28,800	34,176
DRI	617	140	1,817	6.6x	1.13x	25%	12,000	16,062

Source: BSC forecasted

Seaport Sector [Neutral]

- Container deliveries surplus will continue in 2018
- 20% discount on imported goods in Hai Phong.
- Supply in Hai Phong continued to increase as the Nam Dinh Vu port come into operation.
- The Ministry of Industry and Trade cut some business operating conditions with logistics enterprises.

Container ship deliveries surplus will still be possible in 2018. Based on current orders, newbuilding vessels are expected to add 1.6 million TEUs to global container shipping capacity by 2018. Global container shipping will grow 5.9% in 2018, significantly higher than the 4.7% demand forecast. As a result, global trade demand growth will have to accelerate to 6.0%, or the additional capacity of the fleet and newbuilding vessels to be postponed about 3% until 2019 to keep demand and supply of global container on balance.

However, 2019 will be a more favorable year for the global container shipping industry as it expects capacity growth to fall to 2.0%, well below expected growth of demands, which is 4.1% (Crucial Perspective, October 23, 2017).

Container shipments excess supply is forecasted to continue in 2018, making the outlook of shipping companies quite gloomy. As a result, Vietnam's ports may continue to lower sea port services to share difficulties with the shipping companies and increase the competitiveness of the business.

More open mechanism for logistics enterprises. The Ministry of Industry and Commerce cut down the business operating conditions of the logistics service sector, including: (1) Being an enterprise with legal business registration in accordance with Vietnamese law. (2) Having sufficient means, equipment and tools to ensure safety and technical standards and having staffs to meet the requirements. (3) Being enterprises having lawful business registration under Vietnamese law. (4) Compliance with the conditions for transport business in accordance with the law of Vietnam.

The more liberal mechanism helps legal entities and individuals to easily participate in the domestic supply chain, while reducing costs and enhancing competitiveness in the context of increased integration.

Discount 20% on import / export fee from 1/1/2018. Hai Phong city will amend the resolution on the rates, the regime of collection, remittance, management and use of infrastructure works, public works and facilities in the area of Hai Phong seaport. Specifically, the rates of charges for the use of works, infrastructures, service works and public facilities in the Hai Phong port border area will be applied to liquid and bulk goods imported and exported via Hai Phong seaport and will be adjusted down from 20,000 VND / ton to 16,000 VND / ton (down 20%). The change will come in to effect from 1 January 2018.

Hai Phong - supply continued to increase. It is expected that in the early of 2018, GMD will put into operation the first phase of Nam Dinh Vu port with expected capacity of 500,000 TEU / year. The two berths in Lach Huyen will also operate in 2018, boosting the competitiveness of ports in the lower Cam River area.

INVESTMENT OUTLOOK

With regards to demand, international shipping companies generally cannot recover in 2018. In addition, supply continues to increase, especially from the lower Cam River. Therefore, the rates of loading and unloading in Hai Phong may not increase, even continue the downward trend.

Regarding logistics businesses, we believe that the outsourcing trend will continue to be strengthened (currently our logistics services outsource account for only about 35% -40%, the government targets this rate to reach 50- 60%) thanks to the improvement of state policy. So the warehouse, ICD, DC businesses are benefiting from this trend.

We keep the **Neutral** recommendation for the seaport industry due to concerns that the cost of loading and unloading services in Hai Phong may continue to decline. Ports upstream of the Cam River will remain difficult due to lack of supply. These ports can be transformed into ICD or DC and outsourced to large ports outside of Bach Dang Bridge. However, this trend needs more time to implement.

GMD- Tracking

GMD's share prices have increased sharply thanks to the plan to sell some of its assets, focus on core businesses and Korean shareholders. However, at the moment GMD has traded at a PE of more than 20 times, almost double the industry average. Therefore, we only make recommendations for GMD Tracking. In the coming time, GMD's main activities have some potential: (1) the logistics sector is growing positively thanks to the Mekong Logistics operation. (2) Nam Dinh Vu Port was put into operation with a capacity of 500,000 TEUs / year. However, since it wasn't put into operation until May 2017, we assume that this port only reaches about 30% of design capacity. This port located at the head of Dinh Vu peninsula, the low level of water near the shore so the wharf should be built at a distance at the cost of double those of other ports. Therefore, gross profit margin of this port is not as high as Nam Hai Dinh Vu or Vip-green. (2) SCS's affiliates companies continue to grow well, contributing about VND 100 billion to GMD's pre-tax profit in 2018.

VSC- Buy Recommendation- Target price 54,463 VND/share

In November, Vip green received one additional crane with a range of up to 14 containers in order to serve the larger cargo ships of the Maserk Line. Total investment is 60 billion. At present, Vip Green is serving eight ships a week, including five from Evergreen, two from Maserk Line and one from OOCL. Meanwhile, the Port of Green Port serves about 10-11 times everyweek, mainly small ships, less than 1,000 Teus. In addition, VSC has set up a wholly owned subsidiary (holding 67% of shares, 33% of employees) to manage 5 ha of VSC landings at the beginning of the year (which will increase to 8 ha in Q4) for container cargo through Vip-Green port.

In 9M2017, gross profit margin narrowed to about 32%. In our view, in 2018, gross profit margin will recover to around 35% due to: (1) Vip-green port capacity will increase to 550,000 TEUs, depreciating the depreciation charges on the container. In addition, interest expense is also projected to fall to about VND 45 billion by 2018. (2) The government of Hai Phong has cut 20% of import fees from January 1.

Stock	REV 2018	PAT 2018	EPS F	P/E Fw	P/B Fw	ROE	Closed price 29/12/17	Target Price
GMD	3,981	587	1,835	21.88	1.88	7%	40,150	N/A
VSC	1,447	313	5,638	7.62	1.35	13%	43,000	54,463

Tiles Sector [Neutral]

- From 2018 to 2020, the capacity of tiles industry continues to increase.
- The demand for tiles is expected to remain positive in 2018.
- Trends in consumption have shifted, focusing on aesthetics and quality, preferring domestic products.
- Our view for this sector in 2018 is NEUTRAL.

In the period 2018-2020, the capacity of tiles industry will continue to increase, mainly in granite and porcelain tiles. This trend is in line with the strategy of building materials industry that encourages businesses to invest more in granite to expand the capacity from 80 million m2 to 140 million m2 in 2020. Additional supply is forecasted to cause severe competitiveness in the industry but it will not ramp up in 2018 as newly invested factories need from 3 to 6 months of trial run before they can operate stably. Large companies with familiar brand can take advantage of this time to take up more market share and raise product's identification level while small-scale producers, whose products are not very different, will certainly have to find other ways to avoid the risk of being eliminated.

Company	Invest time	Capacity (m2/year)	Product type
Viglacera Ha Noi	2017-2018	2.5 mil	N/A
Viglacera Thang Long	2017-2019	6 mil	Ceramic
Viglacera Tien Son	2018-2019	3 mil	Granite
Thang Cuong	2017-2018	5 mil	Granite
Vitto Phu Loc	2017-2018	7.2 mil	Granite
Tasa	2018-2020	12 mil	Granite
	After 2020	12 mil	Granite
CMC (CVT)	2018	1.5 mil	Granite
Viglacera Ha Long	2017-2018	30 mil tiles	Tiles

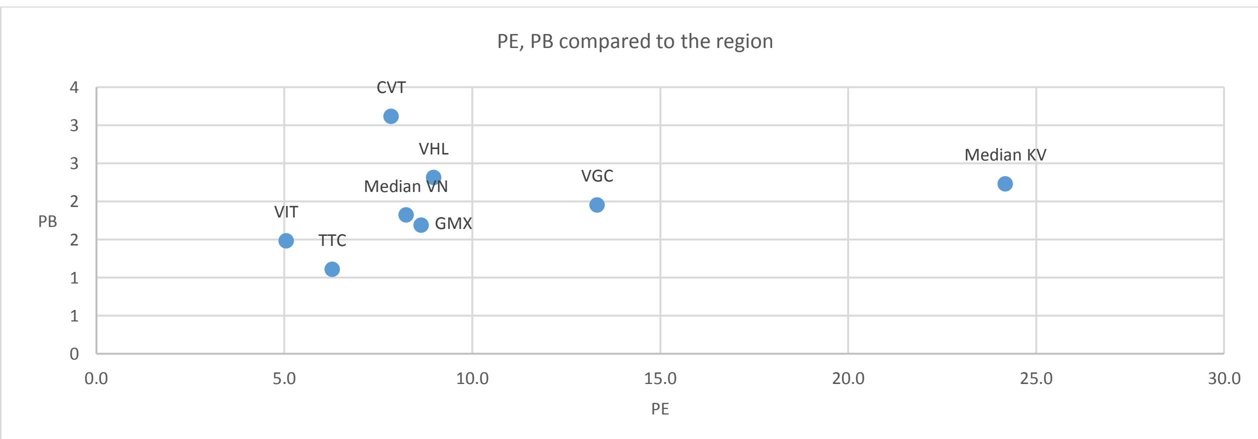
(Source: Vietnam Building Ceramics Association, BSC research)

Demand for tiles continues to pose positive growth in 2018. According to JLL, supply of unfinished apartments in Ho Chi Minh City and Hanoi at the end of Q3/2017 were 86,000 units (+ 34% YoY) and 57,000 units (-3% YoY) respectively. It is expected that the number of flats completed in Q4 / 2017 in these 2 cities will be 27,400 and the number for 2018 will be 93,000 units, supported by the prospect of real estate market. This additional supply is expected to be the driving force for tiles demand in the next year.

Trends in consumption have shifted, focusing on aesthetics and quality, preferring domestic products. Prior to 2010, the Vietnamese tiles market was mostly a playground for imported products from China (mainly compete by price), the USA, and Italy (compete in term of quality and design). However, up to present, domestic products have met both requirement of scale, design and quality and became superior to the imported ones. Currently, imported tiles are subjected to import tax rate of 15 to 35%, so its market share has plundge from 80% in 2010 to 35%. Competitive advantage in the coming time will belong to enterprises with flexible production, wide range of product with high quality that can fully meet the needs of consumers.

INVESTMENT OUTLOOK

We believe that the tiles industry will experience more difficulties in 2018 due to increasing capacity that widens the gap between supply and demand, causing pressure on price. Therefore, potential growth of firms mainly relies on capacity expansion and flexibility in production to maintain high profit margin. We have a **Neutral** view on the tiles sector, yet recommend to invest in some firms with clear competitive advantage that are expected to see good results next year due to increased capacity.



(Source: Bloomberg)

VGC – BUY– Target price: VND 32,000 (upside: 22.1%)

Updated operation results in 2017: In 10M2017, net sales of VGC was VND 6,452 bn (+12% YoY), with PBT of VND 855 bn (+59.4% YoY). It is estimated that VGC will achieve its target in 2017 with net sales of VND 8,589 bn (+4.7% YoY), and VND 642.6 bn net profit attributed for parent company shareholders (+25.1% YoY), EPS 2017E = VND 1,561 per share, equivalent to PE = 16.8x.

Investment highlights

- **Industrial parks is expected to pose high growth rate in 2018**: It is estimated that about 120 ha of VGC's unoccupied area will be leased in 2018, mainly in Yen Phong Phase 2, Dong Van, Phu Ha…, which is supported by the prospect of FDI inflows into Vietnam as well as Samsung commitment to rent 100 ha, which is projected to be allocated in the period from 2017 to 2019.

- **Revenue of building material sector is likely to experience a slight rise thanks to ongoing expansion projects**. In 2018, VGC's porcelain sanitary ware will expand its capacity by 60% when My Xuan factory goes into operation. Tiles segment capacity is going to rise by 2.5 million m2 in Viglacera Ha Noi.
- **Estimated business results in 2018.** In 2018, Viglacera's revenue is estimated to grow by 9.8% YoY to VND 9,432 bn with the net income of VND 723 bn (+12.5% YoY). The projected EPS is about VND 1,437 per share; PE fw = 18.2x (assume that VGC will allocate 9% of net income for bonus and welfare fund).

Catalyst:

- **Prospect from state-owned capital divestment schedule**: According to the government's plan, ownership ratio of the Ministry of Construction (MOC) at Viglacera will drop from 54% (after the issuance of ESOP) to 36% in 2018. The divestment is expected to take place in Q2/2018 and we have to notice that if VGC choose to issue new share to reduce the ownership of MOC as it did in 2017, dilution risk is really significant.

CVT – BUY – Target price: VND 67,200 (upside: 25%)

Breakthrough in 2017: The year 2017 could be considered as a breakthrough year for CVT when its market price has risen sharply from the range of VND 26-27,000 to above VND 50,000 thanks to positive business results as well as decision to listed in HOSE instead of HNX in October 2017. BSC estimates that revenue and net profit of CVT in FY2017 will be VND 1,236bn (+10.6% YoY) and VND 182.2bn (+19.9% YoY) respectively, equivalent to EPS of VND 7,700; P/E fw = 7.37 x

The salt melting granite production line with the capacity of 3 million m2 that was completed in Q4/2017 will be the key growth factor for 2018. In the first year, the plant is expected to produce about 1 million m2 of salt melting granite to test the market demand and the remaining 2 million m2 will be normal granite tiles. Salt melting granite is produced from porcelain base with high durability, current supply mainly comes from import. With expected prices of 20-35% lower than the same imported products, BSC believes that new products will be welcomed by consumers soon and CVT can raise the output of this product in the coming years.

2018 outlook: We estimate CVT's FY2018 net sales of VND 1,515 bn (+ 22.6% YoY), with GPM of 25.3% thanks to an increase in the proportion of higher price products. Net income in 2018 is projected to be VND 201 bn (+36.9% YoY), equivalent to EPS 2018 of VND 8,400 per share and P/E fw of 6.4x, relatively lower than the sector's valuation (P/E of 8.9x).

Ticker	Net sales 2018F (VND bn)	Net income 2018F (VND bn)	EPS 2018F (VND bn)	P/E fw	P/B fw	ROE 2017	Closing price 29/12/2017	Target price (VND)
CVT	1,515	250	8,400	8.0	3.0	39%	53,800	67,200
VGC	9,432	723	1,437	18.2	1.8	9.4%	26,200	32,000

(*Source: BSC Research)*

Textile Sector [Neutral]

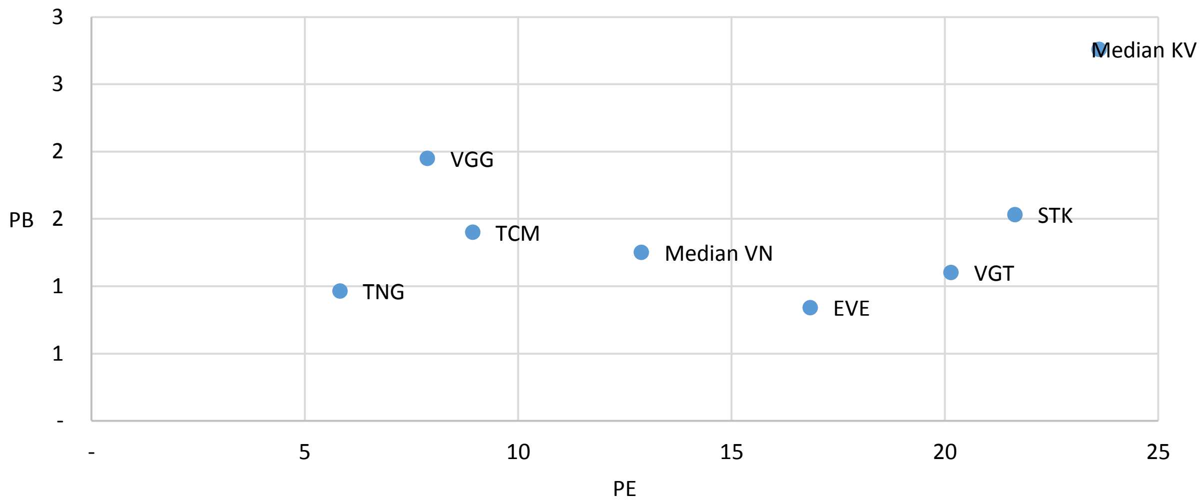
- Textile and apparel exports in 2018 continue to be positive with forecasted value of USD 33.5-34 billion (+ 7% YoY).
- The Eu-Vietnam Free Trade Agreement (EVFTA) is expected to be officially signed and come into effect in 2018, which will create a long-term momentum for the textile and apparel industry.
- Material prices and labor expenses increase, affecting the profit margin of textile firms.
- We have NEUTRAL view on textile stocks.

Positive outlook for textile and apparel exports in 2018 with the forecasted value of USD 33.5-34 billion (+ 7% YoY). The outlook given by Vietnam Textile and Apparel Association based on positive export growth in 2017 despite the withdrawal of the USA from TPP and slowing down in apparel demand of traditional import markets. This optimistic expectation comes from the fundamental improvements that textile and garment enterprises are undertaking, such as rising investment in machinery and technology; enhancing the skills and productivity of employees instead of relying too much on cheap labor costs to compete as before. Looking at the USA - the largest market of Vietnamese textiles and apparel export, it is obvious that its import turnover from countries that always considered having cheap labor cost such as Bangladesh, Malaysia experienced significant reduction whereas imports from Vietnam still maintained pretty good growth (~ 7%). In addition, prosperity of the USA ecomony, together with the stable exchange rate will also support Vietnamese textile export.

The EU-Vietnam Free Trade Agreement (EVFTA) is expected to be officially signed and come into effect in 2018, which is expected to create a long-term momentum for the textile and apparel industry. The EU is currently the second largest import market of Vietnamese textile and garment, comprising about 14% of the export value. Under EVFTA commitments, textile industry will benefit most as taxes on many types of yarns and garments classified into Group A, which meet the requirement of originating products will be erased immediately. Compared to the TPP, EVFTA's rules of origin are considered more open because the requirement is "from fabric on" instead of "from fiber on" and it also accept fiber from countries having FTA with both Vietnam and EU (eg: Korea) in calculating cumulation of origin. For some years, Vietnamese textile companies have invested remarkably in upstream value chain such as producing yarns, fabrics ... as well as raising the localization rate in order to meet the requirements of TPP, so they will be ready to join in EVFTA.

Material prices and labor expenses increase, affecting the profit margin of textile firms. The price of cotton up to the end of 2017 has increased sharply for the reason that demand went up faster than expected. However, cotton supply is expected to grow at higher rate than that of demand (12.5% vs. 4%). Inspite of rising cotton price at the begining of the harvest year due to declining inventory, price is expected to remain stable in the next few months before any correction can happen. In addition, oil prices are recovering, supported by a 1.4% increase in forecasted global demand, together with output cut down commitment signed by Russia and OPEC, which will also affect resin prices used in the production of synthetic yarn. Since yarn is the essential input of the process, influencing prices of following products, a high level of cotton and oil prices will casue cost burden on textile firms. Moreover, the increase in minimum wage by 6.1 to 7% in 2018 is going to have negative impact on such labor-intensive industry as textile.

PE, PB compared to the region



(Source: Bloomberg)

INVESTMENT OUTLOOK

We expect the growth of the textile and apparel industry in 2018 will remain positive. The competitiveness of enterprises depends largely on the investment in machinery and improving labor productivity. Risks for firms in the industry come from fluctuations in input material prices, rising wages as well as high dependence on export markets, especially at the time of turmoil and imminent geopolitical tensions worldwide. Therefore, we have a **Neutral** view on apparel stocks, but give recommendation for some companies having received positive signals from the market for 2018.

TNG – BUY – Target price: VND 18,130 (upside: 31.4%)

Large production capacity with 10 garment factories for export (making up 98% of total sales) and 1 apparel plan for its local retail brand (TNG fashion, newly contributing revenue from 2016). With its huge capacity, TNG is now the partner of many well-known fashion brands such as Decathlon, TCP, Columbia, Mango, Levy ..., of which, Decathlon is the biggest partner that accounts for 36-40% of TNG's order value.

Positive prospect for 2018 comes from the fact that order value estimated for the next year has basically filled up the production capacity. Up to now, the value of received orders allocated for 2018 is USD 81 million (~ VND 1,800 billion), of which up to 50% are from Decathlon and TCP.

Operating results estimates: TNG's net sales in 9M2017 surged impressively by 27.3% YoY and by the end of November 2017, the company basically completed its revenue target for 2017. Estimated revenue of TNG in 2017 will be VND 2,422 billion (+ 27% YoY), EAT of 116.9 billion (+ 40% YoY), equivalent to EPS 2017 = VND 2,560 per share (assuming that TNG allocates 10% of the net income into bonus and welfare fund).

In FY2018, net sales is estimated to be VND 3,020 billion (+ 24.7% YoY), gross margins is going to improved slightly thanks to increasing portion of domestic garment as well as FOB orders. Forecasted net income is VND 138 billion (+18% YoY), equivalent to EPS 2018 = VND 3,021 per share (assuming that allocating rate for bonus and welfare fund remains stable at 10%), P/E fw = 4.6x - an attractive valuation compared to industry median P/E of 7.9x.

VGG – BUY – Target price: VND 67,010 (upside: 21.8%)

Most of revenue comes from exports (80%) and the rest derives from the domestic market with the brand Viet Tien. VGG's main export markets include Japan (32%), the USA (22%), and the EU (18%), all of which posted positive growth this year.

Healthy financial status: Since the bond conversion in 2016, VGG has not incurred more long-term loans. Short-term debt remained low at about 3.5% of total assets, generating only small amount of interest. The turnovers of account receivables and payables are kept stable.

Operating results in 2017: In Q1/2017, low number of orders causes revenue of VGG was almost flat compared to the same period of 2016. However, in the next two quarters, export orders of VGG grew rapidly, resulting in sales growth rate of 12% YoY and 21% YoY respectively in Q2 and Q3. Accumulating in the first 9 months of 2017, sales increased by 12% on average, higher than the growth rate of textile industry export value.

Estimated sales for 2017 is VND 8,378 billion (+11.3% YoY), net income of VND 408 billion (+8.3% YoY), EPS 2017 = VND 7,210 per share (assuming a 20% allocation for bonus and welfare fund), P / E fw = 7.6 x.

Forecast for 2018: Exporting demand for textile indutries, keeping the positive rate from last year, is forecasted to grow at 9.5% yoy; domestic demand is also expected to improve in line with the overall economic growth thanks to the brand Viet Tien. In 2018, VGG's net sales is projected to be VND 9,168 billion (+9.4% YoY), net income of VND 476 billion (+16.7% YoY), EPS 2018= VND 8,930 per share with P/E fw of 6.2x.

VGT – TRACKING

The largest corporation, representing Vietnam textile industry. On 30/09/2017, VGT invested in 51 subsidiaries and 32 affiliates, including many leading textile enterprises such as Phong Phu, Viet Tien, Nha Be, Duc Giang, May 10 ... VGT's members complete the supply chain from cotton, yarns to textiles and garments with production capacity of 144,216 tons of yarn, 14,200 tons of knitted fabric, 155.4 million meters of woven fabric and about 307 million garments per year.

2017 business results. VGT's sales growth in 2017 was satisfactory compared to the industry average, remaining the stable rate of 16% YoY, of which about 80% comes from exportation. However, due to rising material prices and wages, the gross profit margin of VGT decreased from 11.4%(2016) to 9.4%. Based on results revealed recently, VGT is likely to complete the revenue and profit target for 2017 of VND 15,999 billion and VND 749 billion respectively.

Divestment schedule. VGT is on the Ministry of Industry and Trade's divestment list in 2018 (currently state ownership rate of 53.5%).

Ticker	Net sales 2018F (VND bn)	Net income 2018F (VND bn)	EPS 2018F (VND/ share)	P/E fw	P/B fw	ROE 2017	Closing price 29/12/2017	Target price
VGG	9,168	476	8,930	6.2	1.3	28%	55,000	67,010
TNG	3,020	138	3,021	4.6	0.8	19%	13,800	18,130
TCM	3,535	218	3,763	7.6	1.4	23%	28,700	30,101

(*Source: BSC Research)*

Cement Sector [Neutral]

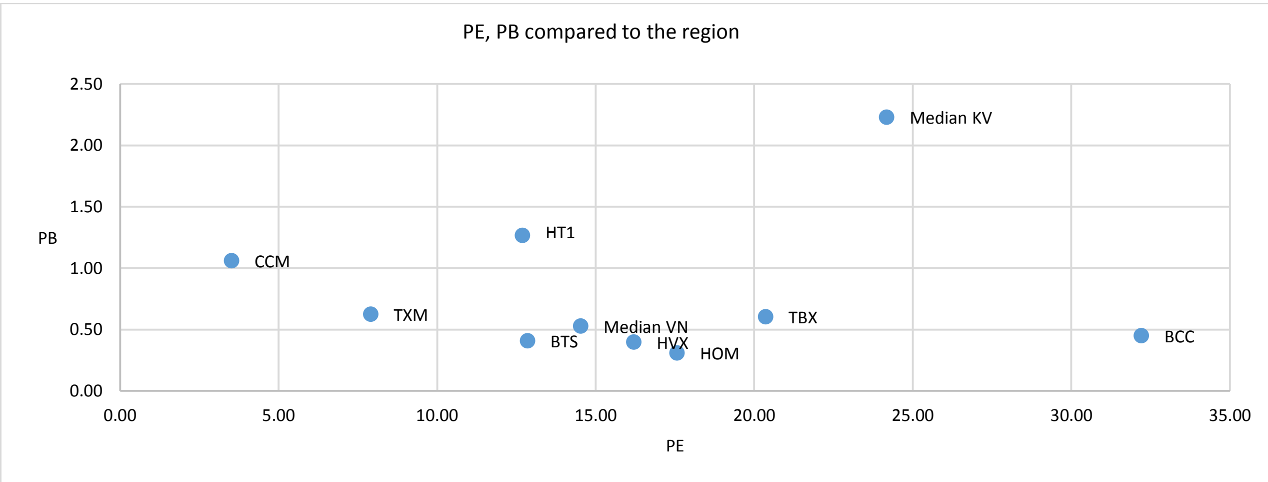
- Supply surplus will continue with the forecasted gap between supply and demand in 2018 of 26.5 million tons.
- Decree 146/2017/ND-CP and Draft Decree amending Decree 122/2016/ND-CP are expected to support export activities.
- Profit margin is likely to witness a decline due to rising input costs and foreign exchange rate pressure on financial costs.
- VICEM's equitisation process is likely to accelerate in 2018.
- We maintain our NEUTRAL view on the cement sector.

Supply surplus will continue in 2018 as supply is expected to exceed demand by 26.5 million tons. In 2018, the Ministry of Construction estimates that the total demand for cement is about 83-85 million tons (+4 - 6% YoY), of which domestic consumption is 66-67 million tons (equivalent to 72% of total supply) and the rest of 17-18 million tons is for exportation. According to statistic data of Vietnam Cement Association, the total capacity of the industry could reach 120-130 million tonnes in 2020, while the forecasted domestic demand would only increase at a CAGR of 8.2% per year and reach 82 million tons by 2020, inferring a surplus of 36-37 million tons.

Decree 146/2017/ND-CP effective from 1/2/2018 and the Draft Decree amending Decree 122/2016 /ND-CP under discussion is expected to support export activities. New Decree 146/2017/ND-CP issued on 15/12/2017 has specific guidelines on the VAT rates applicable to export products that have equivalent to or more than 51% of total cost in the form of natural resources, minerals and energy. Accordingly, transportation expense will not be included in the calculation of mineral resources costs. In addition, due to the process of cement processing, natural resources are crushed into clinker and then processed into new products, so the VAT rate stated in the new Decree will be 0%. The introduction of Decree 146 will actively support the exportation of cement, reducing the export expense from USD 3 - 5 per ton and increasing the competitiveness of Vietnam cement in the threat of rising export output of Thailand's and China's. Earlier in August, the Ministry of Finance also announced the Draft Decree on the promulgation of the export tariff, the preferential import tariff, the list of goods and absolute tariffs, mixed taxes and out-of-quota import taxes, and if approved, cement and clinker products will be removed from the 5% export duty list, which is currently add up USD 1.5-2.5 per ton.

Profit margin is likely to witness a decline due to rising input costs and foreign exchange rate pressure on financial expense. Global coal prices are still on the rise since July 2017 and there is no signal of adjustment. If coal prices continue upward momentum, profit margin of cement firms will diminish, especially when raising output prices is nearly impossible due to severe suplus. Foreign exchange rates in the coming year are forecasted to increase due to the favorable American economic outlook and FED's lifting interest rate. However, the fluctuation range will not be as great as this year thanks to abundant foreign exchange reserves of the SBV.

Vicem's equitization process is likely to accelerate in 2018. According to the SOEs equitization plan for 2017-2020, Vicem is scheduled to be equitized in 2017 but the process was delayed with only the roadmap being approved. The valuation and building equitization plan is still in progress. Under the pressure to speed up SOEs equitization and with the support from the government, such as the promulgation of Decree 126/2017/ND-CP (effective from 1/1/2018), corporations in the government restructuring plan will be urged to complete equitization soon. As the largest player in domestic cement industry, the equitisation of Vicem is expected to bring about significant changes in the operations of its members as well as the structure cement sector.



(Source: Bloomberg)

INVESTMENT OUTLOOK

Cement industry in the coming year will continue to face serious oversupply and the problem can only be solved by boosting exports. Changes in tax policy for export together with the prospect from the equitization of Vicem in 2018 will support businesses. However, the fluctuation of raw materials prices and foreign exchange rates may negatively affect the operating results. Therefore, we maintain our **Neutral** rating on the prospects of cement industry in the next year.

HT1 – Tracking – Target price: VND 17,661 (upside: 13.6%)

The consumption in 2017 is relatively good compared to the sector's stagnation. Cement output of HT1 in 9M2017 increased slightly by 2% while domestic consumption slightly decreased by 3.5%. However, due to a 3-4% decrease in selling price, HT1's revenue is marginally lower than that of the same period last year. **Outstanding debt in foreign currency.** It is estimated that HT1's debt at the end of 2017 comprises around 37 million in EUR and 12 million in USD. In 2017, the EUR was appreciatied by 8% YTD, causing HT1 to suffer a huge foreign exchange loss (of VND 90 billion in 1H2017).

Phu Huu BOT project. Conclusion of the Government Inspectorate in 2017 pointed out some mismanagement in the BOT project of a road connecting Nguyen Duy Trinh to Phu Huu IP invested by HT1. According to the explanation of the company, these problems will not affect its operation expenses. As this project has not implemented fee collection yet, and revenue generated is relatively small compared to HT1's total sales, we did not include cash flow from this project in our estimate.

Operating results: HT1's net sales for 2017 is estimated at VND 8,103 billion (-1.6% YoY), gross margin will down to 16.6% due to rising portion of clinker outsourced at Ha Long Grinding Station. With the EUR/VND exchange rate at the end of the year, it is expected that HT1 will record VND 70 billion of foreign exchange loss this year. EAT is estimated at VND 457 billion (-43.5% YoY), EPS 2017= VND 1,200; P/E fw = 13x, quite cheaper than the median of 15x of same-size cement companies in the region.

Prospects 2018: The consumption in 2018 is forecasted to pose significant growth thanks to the demand from investment in infrastructure, transportation line and the prospects of property market as well as export, which will ease the competitive pressure in domestic market. HT1 benifits from operating in the south region, where there are few factories but has the highest demand. Hence, output growth is forecasted to be at least equal to the growth of the industry at 4-6%. Additionally, the exchange rate in 2018 is expected to be stable, which will limit the foreign exchange loss of HT1.

BCC – Tracking

Declining consumption in 2017. In 2017, BCC's outputs decreased significantly due to continuing surplus supply, especially in the northern central region as new factories are all allocated here. The redistribution of business region among Vicem's companies in accordance with Official Letter No. 459 / VICEM-QLTT&TH also had negative influence in consumption of BCC.

New investment in Bim Son grinding station in replacement for Dai Viet (Quang Ngai). In 2017, Bim Son invested in the second phase of Bim Son grinding station with the capacity of 1.2 million tons per year that requires total investment of VND 800 billion (of which 80% is debt). As projected, this griding station will come onstream in 2018, helping BCC to overcome difficulties when Dai Viet grinding station is still unable to operate causing the firm to rely on outsourcing. The benefits of this project in short run are obscure as the estimated cost savings are barely enough to cover interest expense. However, in the long run, when the number of new cement plants would not increase significantly and the government would only approve grinding stations built in association with the clinker furnace, this investment can help BCC to be more active in production.

Estimated 2017 operating results. Net sales of BCC is estimated to be VND 3,504 billion (-18.1% YoY), with COGS and SG&A costs decline 8% and 26% but still cannot offset the decrease in sales. Along with interest expense incurred during the period, these expenses hit the income and cause a loss of 56 billion for BCC. It is also notable that in 2017 the company completed the payment of the debt in EUR so next year it will suffer less pressure from exchange rate fluctuations.

Ticker	Net sales 2018F (VND bn)	EAT 2018F (VND bn)	EPS 2018F (VND)	P/E fw	P/B fw	ROE 2017	Closing price 29/12/17	Target price
HT1	8,104	457	1,539	10.1	1.0	9%	15,550	17,661
BCC	3,871	13	109	69.7	0.4	-3%	7,600	NA

(*Source: BSC Research)*

Plastic Sector [Neutral]

- Production and consumption of plastic products continued to increase
- Plastic resin prices are expected to increase in 2018
- SCIC's divestment plan

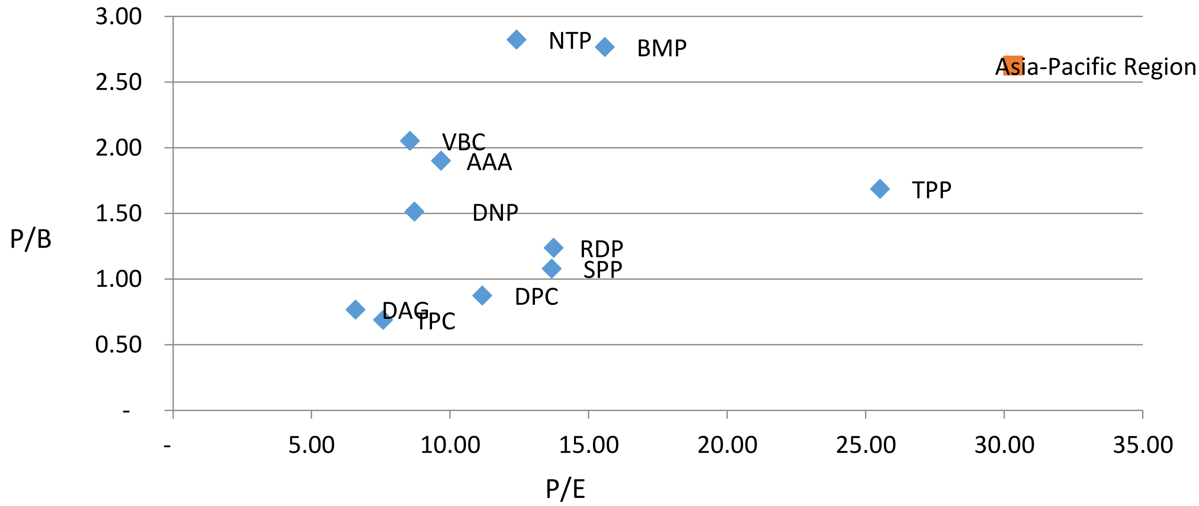
Production and consumption of plastic products is forecasted to continue rising. (1) The growth rate of construction plastic pipe consumption is expected to reach 10% in 2018, however, it will still be a highly competitive segment. (2) Growth in the construction plastics industry is projected to rise due to the demand for home repair, finishing, mid-grade real estate development, and lower price of plastic products compared to substitutes made from wood, metal. (3) The plastic packaging industry is anticipated to grow significantly thanks to the increase in domestic demand (according to Stoxplus, the average growth rate of Vietnam's instant coffee industry in 2011-2016 was 12.2 %, spice sauces 7.7%, confectionery 9%, skin care 15.1%, laundry 13%, surface hygiene 12.2%) and global consumption demand growth. Note that Vietnam's export demand for plastic bags may be adversely affected as global consumers tend to use more environmentally-friendly products.

Plastic resin price may continue to be high in 2018. Most resins are made from petroleum or gas, so plastic resin price are closely linked to oil prices. In 2018, many world organizations predict that oil prices may continue to stay high, about $ 60 per barrel. This has led to an increase in the prices of plastic resins, increasing the cost of production, reducing the profit margins of enterprises, especially the construction plastic enterprises. However, we think that the price increase of HDPE and PP may be slower than that of global oil supply.

SCIC plans to withdraw all 29.51% and 37.1% respectively in BMP and NTP. SCIC has now found an auction advisor and is completing procedures for divesting the two companies, which are expected to begin in 2018. Like other state divestments, two leading plastic companies are expected to attract the attention of many domestic and foreign investors. We think that after the divestment, NTP's earnings have improved sharply thanks to a change in distribution policy for clients.

INVESTMENT OUTLOOK

We maintain our **neutral** view on the plastic sector. Business results of plastic pipe producers may be affected by high competition (HSG, Tan A Dai Thanh, etc) joining the industry), and increasing of PVC resin prices. Opportunities may come from the SCIC divestment of BMP and NTP, in which we expect NTP's net profit to improve sharply thanks to a change in distribution policy. Stocks of packaging, including AAA, are expected to maintain a high growth rate in 2017.



Sources: Bloomberg

NTP – Buy – Target price of 89,000 VND/share

NTP is the largest plastic pipe manufacturer in the country, the design capacity is up to 171,000 tons/year (capacity of BMP 150,000 tons/year), accounting for 70% of the northern market and 29% of the market share in the country. 9M2017, the consumption of NTP reached 64 thousand tons of tubes, the equivalent of BMP. However, NTP's profitability was always lower than BMP, net operating margin of NTP was 11.17% while BMP's was 16.81%. This is mainly due to differences in product distribution policies. NTP's distributors cost VND236 billion (11.5% net sales) in 6M2017 while pre-tax profit was VND232 billion. The discount rate of NTP is up to 30%, twice the BMP's.

Business plan. NTP plans to distribute and combine a number of product lines with its major shareholder, Sekuisu. The company also submits the shareholders' meeting to approve the investment plan in the water sector. These enterprises not only bring stable profit thanks to the stable cash flow but also the consumption channel of Tien Phong plastic products. In 2018, the company targets to sell 97,000 tonnes of pipes and spare parts, revenue of VND4,900 billion (+ 8% yoy), and pre-tax profit of VND465 billion (+ 8% yoy).

Changing shareholder structure. By the end of October, 2017, Nawaplastic had withdrawn more than 21 million shares of NTP (23.84%). Sekuisu Chemical (Japan) holds 15% of chartered capital, Tien Phong Plastic JSC and NTP management, raising its ownership to over 40%. NTP's shareholder structure is expected to continue to change. In 2018, SCIC plans to withdraw all 25.77% stake in NTP.

We expect that with the change in shareholder structure, the financial picture of NTP will change sharply. BSC has two scenarios for profit forecasting with NTP. In case 1, the company maintains discount policy with distributors, then profit in 2017 and 2018 is forecasted to reach 473 billion and 483 billion respectively. Case 2, after SCIC's divestment, the company's and distributor's earnings distribution are more balanced, assuming the cost per distributor / revenue remains unchanged in 2017 and decreases to 6% in 2018, NTP's after tax profit will come to VND631 billion in 2018, up 33% yoy or EPS of VND6,507 per share.

BMP – Tracking

BMP is the largest plastic pipe manufacturer in the country (150,000 tons/year). We prefer BMP due to its healthy financial status, high profitability (net operating profit margin of 16.81% in 9M2017) and management's enthusiasm. Business results in 2017 are less positive with net profit after tax of 9M2017 reaching 348 billion dong (-36% yoy). Due to (1) fierce competition, the company had to increase its 4% discount rate in Q2 FY2007 and 4% on the company's 40th anniversary, while sales volume growth slowed, expected to increase by 10% in 2017; (2) average price of plastic resin increased by 15%, bringing the gross margin down from 32.05% in 2016 to 24.4% in 9M2017. We believe that the business results in 2018 continue to be negative as resin prices are forecasted to remain high. BSC forecasts that after-tax profit in 2017 and 2018 will be VND442 and VND452 billion respectively, EPS of VND 5,030 per share.

We note that the SCIC divestment of BMP in 2018, together with the interest of foreign shareholders in a healthy business such as BMP in the context of the company has 100% room for foreign investors. This may be a factor supporting BMP share price in 2018.

AAA- Tracking

AAA is the largest plastic bag manufacturer in South East Asia with total capacity of 96,000 tons per year. In 2017, the total production output is expected to reach 79.4 thousand tons, of which, factories number 1,2,4,5 reached 95% capacity (45.8 thousand tons/year). The company estimates that total revenue and profit after tax are VND 3,630 billion and VND 220 billion respectively, equivalent to EPS of VND 3,530 per share.

n 2018, with the production expansion at 2 factories No.6 and No.7, the consumption output is estimated at 140,000 tons, up 76% yoy, revenue and profit after tax estimated at 5,500 billion copper and VND330 billion, cash dividend of 20-30%, EPS of 2018 is VND3,861 (the company completed conversion of bonds into shares).

Shareholder structure: On 8/12/2017, AAA issued more than 24 million shares to be issued in the third tranche of 2017 (diluted 41%). An Phat holdings converted more than 12 million shares and bought nearly 1.7 million shares of AAA raising the holding ratio to 31.87%. At the same time, on November 14, 1977, Nguyen Le Trung, general director of the company also registered to buy 2 million AAA shares.

Plan to increase stake in HII. AAA is currently the largest shareholder, holding 4.8 million shares of HII, equivalent to 35.29% and plans to increase its stake to 51%. Note, AAA still holds the dominant position, the right to appoint General Director of HII, that is, HII is still a wholly-owned subsidiary of AAA. Therefore, the increase in the ownership ratio as mentioned above does not generate profit due to the revaluation of investment in HII.

Stock	Revenue (bil)	Profit (bil	EPS 2018	P/E FW	P/B	ROE 2018	Expected Dividend	Closed price 29/12/2017	Target price
NTP	4,941	516	5,319	13.16	2.99	21.96%	20% cash	70,000	89,000
BMP	4,016	452	5,030	17.02	2.85	18.44%	20% TM	85,600	N/A
AAA	5,500	330	3,861	8.57	1.60	22.49%	20-30%	33,100	N/A

Tire Sector [Neutral]

- Demand for automobilie tires nationwide is forecasted to increase 9% YoY
- Competition continues at a high level
- Rubber price is forecasted to fall by 5-8% in 2018
- Business results of tires companies have not changed significantly. The expectation is from Vinachem's divestment and the prospect of Radial tires consumption.

Demand for tires in the industry is forecasted to continue to grow. BSC estimates that although the market for bicycles and motorcycles is saturated, the growth rate of these two markets is still good. Demand for automobile tires is forecast to reach 7,908 thousand tires in 2018, up 9% YoY. Our forecast is based on (1) 75% of tire consumption comes from replacement; (2) automobile sales declined 8.6% but were expected to recover in 2018 due to a drop in car import taxes to 0% in the Asian region; (3) domestic assembled consumption is expected to increase in 2018 due to component taxes of 0%. In the longer term, tire consumption is expected to continue to grow thanks to the growth of domestic car sales.

Rubber price is forecasted to fall by 5-8% in 2018. This will be a support point for the recovery of corporate profits when 50% of tire prices come from rubber.

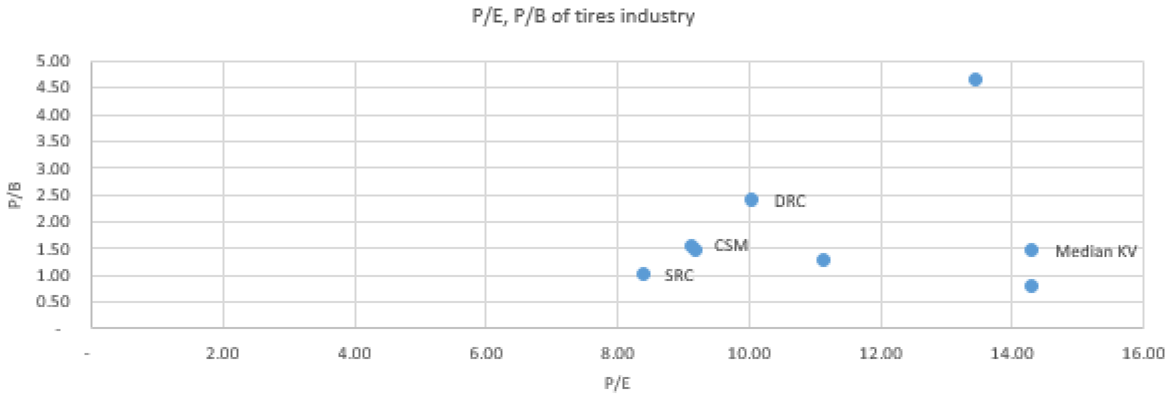
Competition continues at a high level. (1) Reducing competition with China as the US is expected to lift anti-dumping duties and subsidize truck tires and bus tires. (2) Domestic enterprises continue to expand their production and business and will likely push up the competition. DRC plans to increase its total capacity to 600,000 tires per year (as twice as the current capacity) and put into operation in the fourth quarter of 2018. CSM also plans to expand its investment in the Radial steel plant on the existing Radial plant. (3) Foreign companies expanding their production, although mainly export, will also push up the competition.

The business results of the tire companies will not have sudden changes due to: (1) DRC and CSM tire sales volume is expected to grow by 10%, in line with the expected growth of cars in 2018. Radial tire consumption is forecasted to grow well in the coming period due to the trend to use radial tires. CSM is forecasted to sell well because of the steel Radial tires contract with Tireco in the US. In 2017, Tireco agreed to import more than 100,000 Radial tires of CSM and intend to spend 1.5 million tires in the long run if CSM meets the criteria. (2) Rubber price is expected to decrease in 2018. (3) Tire enterprises are highly competitive with not only foreign companies but also domestic products.

Vinachem intends to divest its capital from DRC. This information attracted a lot of attention from investors.

INVESTMENT OUTLOOK

We maintain **NEUTRAL** view for tires stocks. The business results are not expected to experience significant changes. The rubber price has fallen compared to the average level in 2017. However, this sector is highly competitive with domestic and foreign products. In 2018, there are not many bright spots for business results. In addition, it is expected that Vinachem will divest the tire companies in 2018. With its leading position, attractive growth prospects and relatively attractive valuations, tires stocks Attractive for medium and long-term investment purpose.



Source: Bloomberg

DRC - Tracking - Target price 31,954 VND/share, upside 31.5%

DRC is a leading tires manufacturer with good sales potential. The company has the advantage of producing heavy trucks, industrial tires and many customers are domestic automobile assemblers. Domestic automobile assembly output is expected to increase with high demand. DRC currently operates 100% of the Radial plant (~ 50% of its exports) while the CSM is operating at ~ 25% capacity. In the fourth quarter of 2018, DRC plans to put into operation the second phase of the Radial plant to increase radial production to 0.6 million tires a year. This helped DRC catch up with the world's radial tires trend with a lower capital investment of VND 704 billion. However, the export price is currently 50% lower than the domestic price, Radial tires haven't contributed much to the business for the company. In addition, Vinachem is expected to divest its capital at DRC in 2018. With expectations of a decline in rubber prices, the Radial plant will come into operation and divest, although there are no significant changes in business results in 2018, DRC stock is suitable for long-term investors. On 29/12/2017, DRC shares were traded at VND 24,200 per share, equivalent to P / E FW, P / B of 13.7x and 1.9x respectively. We note that investors should closely track the price movement of rubber and the consumption of DRC Radial tires.

CSM - Tracking - Target price 21,733 VND/share - Upside 38.43%

Together with DRC, CSM is one of the two largest tires manufacturers in Vietnam and has an advantage in the segment of motorcycle tires and automobile tires. CSM is now expanding its exports to its products. In 2018, the main driver of growth was the sale of radial steel tires in the United States. In 2017, Tireco has signed a contract to buy steel radial tires from CSM and CSM has sold more than 100,000 tires to Tireco. However, Tireco's demand is huge compared to the capacity of CSM (1.5 million tires per year), so if the consumption is good, CSM will expand its radial steel plant on the existing Radial plant. On 29/12/2017, CSM was traded at VND 15,700 / share, P / E FW, P / B of 14.3x and 1.2x, respectively. We note that investors should closely track the price movement of rubber and the consumption of radial tires of CSM.

Stock	Rev2018 E	PAT 2018 E	EPS 2018	P/E F	P/B F	ROE	Close price	Target	Link

	(Bil. VND)	(Bil VND)	(VND/share)	2018	2018	(2018)	at 29/12/2017	price	
DRC	4,021	229	1,766	13.7x	1.9x	14%	24,200	31,954	link
CSM	3,826	166	1,519	10.3x	1.32x	14%	15,700	21,327	link

Source: BSC Research

Pharmaceuticals sector [Neutral]

- Growth potential for the pharmaceutical sector remains.
- The ability of businesses to grow will depend on quality of the products instead of quantity.
- M & A trend of foreign pharmaceutical corporations and the involvement of retailers in the distribution of pharmaceuticals.

Growth potential for the pharmaceutical sector remains thanks to (1) the growth rate remains 2 digits, (2) the population structure of Viet Nam starts to move to the elderly population, (3) drug spending per capita is still low.

(1) Growth rate remained at 2 digits. According to the BMI report, the value of Vietnam's pharmaceutical market is expected to reach $ 5.2 billion in 2010 (+10.2% yoy). Average annual growth rate of CAGR in the period of 2017-2021 is expected to reach 10.4%, estimated capacity of the pharmaceutical market to 2021 is USD 7.7 billion.

(2) Vietnam's population structure began to shift to the old population so we expect more demand for medicines. According to World Bank estimates, after the 2009-2017 period was the golden population structure, by 2050 the proportion of the old population will gradually increase to 21% of the population structure so we expect to spend on health pharmaceuticals and pharmaceuticals will continue to grow

(3) Drug spending per capita is still low. According to the BMI report, drug spending per capita in Vietnam is at 54.5 USD/person. The average CAGR of the period 2017F - 2021F is expected to remain at 9.4%. It is expected that by 2021, per capita spending will reach about $ 78. Accordingly, if we compare medicine spending per capita of emerging markets (117 USD/person/year), we realise that the per capita drug spending in Vietnam is still not equal to the rate GDP growth and current economic status.

The growth potential of businesses will depend on quality of profucts instead of quantity. With the listing of DBD and PME on the exchange, these two companies have international standard production systems such as PIC/S-GMP or EU-GMP, the competition in bidding between the Listed companies will become more fierce. We believe the trends of investment to upgrade factory standards are a core for business growth. By upgrading the factory standards to EU-GMP and PIC/s-GMP to qualify for group 2 bidding, and as a prerequisite for group 1 bidding, these groups have higher bid and gross profit margin.

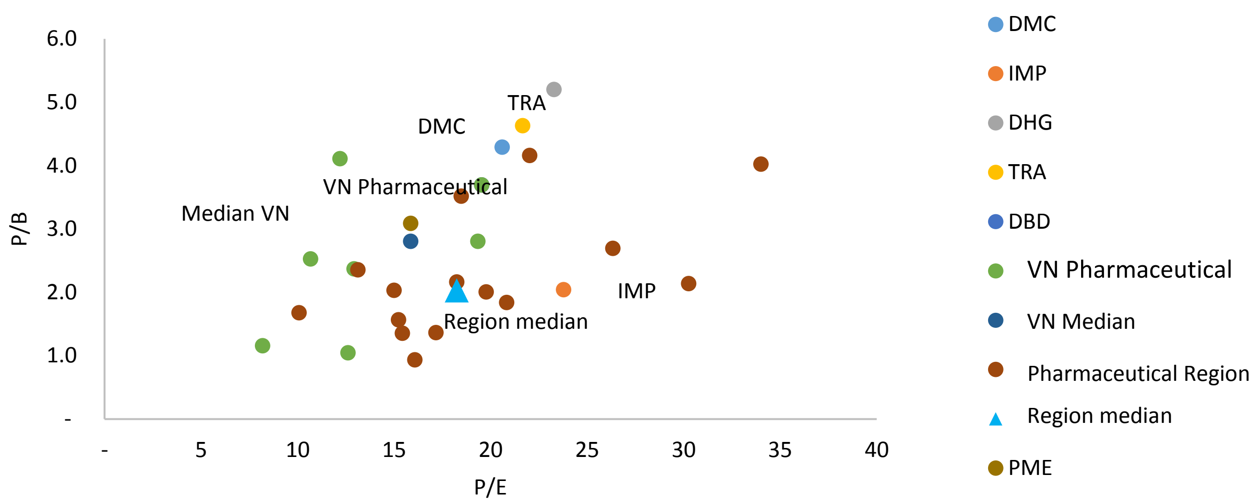
M & A trend of foreign pharmaceutical corporations and the involvement of big retailers in the pharmaceutical distribution chain. With the advantages of (1) high growth potential, (2) low cost of production, (3) availability of facilities, the Vietnamese pharmaceutical industry is still regarded as a potentail field for foreign investors, however, the act of investing in this sector is facing many barriers because this is a conditional business. However, as DMC has room for foreigers for the first time, we expect more businesses to be able to do the same and this will continue to be a trend in the future.

BSC

INVESTMENT OUTLOOK

We maintain a **NEUTRAL** rating on pharmaceutical stocks. Pharmaceutical stocks have experienced strong growth in 2017 due to: (1) positive effects of divestment and M & A by foreign investors, raising room for investors (2) positive business results from growth in sales and good control of production costs which have helped improving gross profit margin. Although stocks in this sector are currently trading at relatively high levels (P/E = 15.7, P/B = 2.8), close to the median of the region (P/E = 18.3, P/B = 2.1). Pharmaceutical stocks are highly defensive, suitable for medium and long term investment. We recommend buying on PME, DBD and tracking stocks for DHG, IMP, DMC.

P/B & P/E of Pharmaceutical sector in Asia region



DHG - (Price on 29/12/2017): VND 115,000 - Tracking - target price VND 110,000/share, upside 16%. P / E FW 19.1x, P / B FW 3.1x

DHG is a leading company among listed companies in Vietnam stock market both in terms of capitalization, revenue and production & distribution system. DHG's core product is Hapacol analgesic, which accounts for 23% of DHG's sales. Thanks to the favorable tax incentives, DHG has been able to maintain a higher profit growth than revenue. The current opening of DHG's room is still quite slow, after being approved at the extraordinary shareholders' meeting in 7/2017, none of up-to-date information on this plan is available. We expect DHG will complete opening room in 2018, and Taisho likely wants to increase their stake in DHG. We forecast that DHG's 2017 revenue will reach VND 4,150 billion (+10.6% YoY) and profit after tax will increase by 12% YoY to VND 730 billion thanks to tax incentives at new plants. Approximately EPS 2017 = VND 7,543 (excluding bonus and welfare fund 10%), P/E forward 2017 = 19.1x.

IMP - (Price on 29/12/2017): VND 66,000 - Tracking - Target price VND 71,500, upside 8.3% P / E FW 21.2x, P / B FW 2.1x

Unlike most domestic pharmacies that focus on the cheap products segment, IMP chooses to produce high quality drugs at reasonable prices compared to imported drugs. IMP's competitive advantage mostly comes from the EU-GMP technological line. Currently, IMP is operating two EU-GMP plants and is in the process of completing two other plants with similar standards. In addition, IMP also applies for export visa to ICH participating countries for some antibiotic drugs in order to be able to participate in bidding packages No.1, No.2, with preferential cost of production and orientation of new policy circulars which aimed to promote internal medicine. We expect IMP will continue to grow strongly in 2018 thanks to the contribution from the EU-GMP line. EAT is estimated at VND 173 billion (+ 42% YoY), equivalent to EPS of VND 3,115 (already minus 12% of bonus and welfare fund), P / E 2017 forward = 21.2x

PME - (Price on 29/12/2017): VND 84,000 - Buy - Price target VND 107.900, 26.3% upside, P / E FW 16.3x, P / B FW 2.6x

In the listed pharmaceutical companies, PME is the second largest player after DHG in terms of revenue and 1st place in term of performance. Net profit margin from trading activities in 9M/2017 was 22.5%, which is the highest in the listed pharmaceutical companies group. PME's main competitive advantage comes mainly from (1) GMP-EU standard drug production line (Cephalosporin antibiotic tablets), (2) high quality drug list (thuốc tương đương sinh học). PME is also planning to build and put into operation a Non-Betalactam factory with a capacity of 1.2 billion tablets with GMP-EU standardized by 2019. We believe that the main catalysts of PME include (1) Long-term growth potential from the expansion of the injector workshop capacity from 2018 and the new Non-betalactam factory. (2) The company's growth target is stable at 15%, (3) The revised version of Circular No. 11/2016 / TT-BYT is in force and the bidding is done by social insurance. (4) Ability to change exchange and expanding room of PME for foreign investors. We forecast 2018F revenue will reach VND 5859.2 billion (+15% yoy) and profit after tax will be VND 315 billion (+15% yoy). EPS 2018 FW = 5,135 VND / share. P / E FW 2017 = 16.3x

DBD - (Price on 29/12//2017): VND 54.500 - Buy - Target price VND 61.800, 13.4% upside, P / E FW 18.1x, P / B FW 3.2x

Bidiphar is one of the top 3 pharmaceutical companies in terms of revenue scale (after DHG and PME). Currently, Bidiphar is running a GMP-WHO standardized factory. The DBD's drug portfolio is quite diversified, especially its potential for cancer treatment, because there are no domestic competitors in this field. DBD also plans to increase the proportion of OTC. DBD's growth will continue to increase its share in the OTC segment to around 50% of total revenue. We believe that the main catalysts of DBD include (1) Deploying factory producing drugs for cancer victims and non-betalactam tablets which are qualified GMP-PIC / S standards. (2) Potential from the cancer drug market. BSC noted in the beginning of December 2017, DBD has carried out procedures to change to HOSE exchange, expected to complete the transfer procedure in 2018. In addition, investors should also consider about the possibility of opening room for foreig investors. We forecast FY2018 sales will be VND 1,584 billion (+5.6% yoy) and net profit will reach VND 162 billion (+10% yoy). EPS 2018 FW = 3,092 VND / share. P / E FW 2017 = 18.1x

Stock	Rev 2018	EAT 2018	EPS2018	P/E FW	P/B FW	ROE (2018)	Closed price	Target price
DHG	4,150	730	7,543	19.1x	3.1x	17%	115,000	110,000
IMP	1,447	173	3,115	21.2x	2.1x	13%	66,000	71,500
PME	1859.2	335	5,135	16.3x	2.6x	19.8%	84,000	107,900
DBD	1,584	162	3,092	18.1x	3.2x	18%	54,500	61,800

Source: BSC forecasted

Sugar sector [Underperform]

- The 2017/2018 world sugar industry is forecasted to be in surplus of 10.7 million tons.
- Thailand is forecast to have a favorable harvesting season with a series of policy changes.
- The ATIGA is coming into effect, putting pressure on the domestic sugar industry.
- Domestic production is projected at 1.35-1.39 million tons (+ 10-14% YoY).
- Domestic demand is forecasted to increase slightly by 0.6%, causing severe competitiveness.
- Sugar price this harvest year is forecasted to remain at low level but less likely to plunge.
- We have an Underperform rating on stocks of sugar companies in this year.

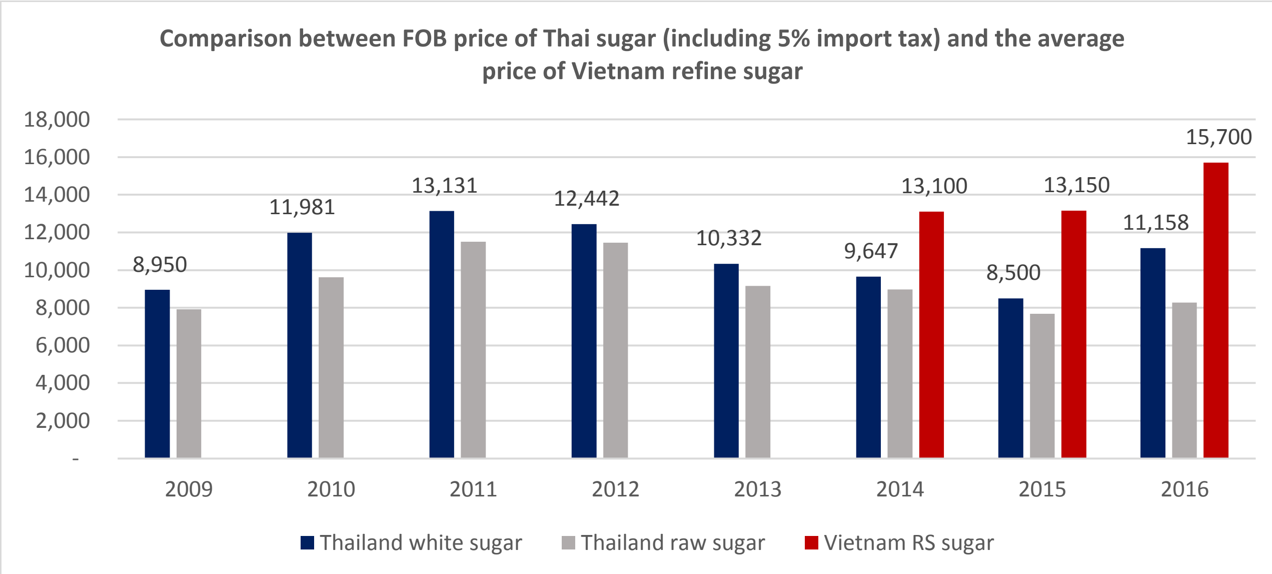
World sugar market

World sugar market in 2017/2018 is forecasted to be in surplus of 10.7 million tons due to an 8-percent increase in supply while demand poses the same growth rate as in 2016/2017 at 1.5%. Sugar output is expected to reach a record high of 185 million tons (20 million higher than the trough in 2015) with increasing output in Brazil, India and Thailand due to favorable weather conditions, in EU countries when production quotas is removed and in China thanks to expanding area of sugarcane**.**

Thailand is also expected to have a favorable harvest year with a series of policy changes. According to USDA forecast, sugar production in Thailand will recover significantly after 2 years of drought, reaching 11.2 million tons thanks to sugarcanes are in good growing period. At the same time, domestic demand will decrease slightly as beverage manufacturers (accounting for nearly 50% of total consumption) need to adjust to the new tax policy on sugar beverages. In terms of policy, the 2017/2018 season will witness many changes as the Thai government is planning to cancel sugar price subsidies program as well as domestic price and trading control.

Vietnam market

Commitment of the ATIGA is going to be effective, putting pressure on the domestic industry. As committed in ASEAN Free Trade Agreement (ATIGA), 2018 is the deadline for Vietnam to abolish sugar import quotas from other ASEAN countries. To be more detail, sugar imports from countries in the region will not be subjected to quotas and the tax rate will be 5% from now until 2020 before reducing to 0%. Being effective from 1/1/2018, it will make the road for sugar from neighbor countries, especially Thailand to flow into Vietnam thanks to lower price even when added up import taxes. Sugar imported from Thailand into Vietnam in 2016/2017 was estimated at 250,000 tons (not fully include smuggling volume), equivalent to 1/5 of domestic consumption, mainly in the form of raw and RS sugar. As a result, there may be two main trends when removing quotas: (1) Sugar refining companies will imported more raw sugar to refine as it is cheaper than producing from sugarcane, affecting mainly the efficiency and sustainability of the material area; (2) Some industrial customers do not require high quality sugar is probably switch to directly import RS, affecting the consumption of domestic sugar manufacturer.

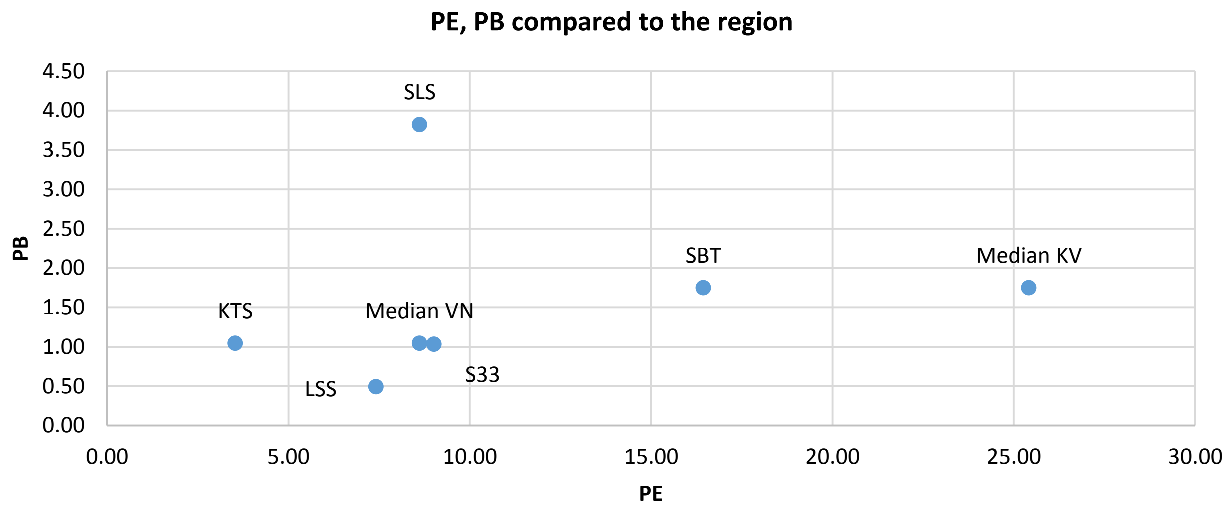


(Source: USDA, Bureau of Price Control, Department of Agro-Forestry and Fishery Processing and Salt Industry, Thai Ministry of Industry, BSC Research)

Sugar production is expected to be 1.35-1.39 million tonnes (+10-14% YoY). According to estimate by Vietnam Sugar Association at the beginning of the harvest year, sugarcane planting area in 2017/2018 is about 255,354 ha with the yield of 63.33 tons per ha, and the average CCS of 9.8, equivalent to sugar output of 1.42-1.47 million tons. However, recently consecutive floods in the Southern Central Coast and Central Highlands somehow affected the harvest and production of sugar in 2017/2018. Specifically, sugarcane area was estimated to decline by 0.7%, average yield down 0.65%, sugarcane output down 1.2%, sugar output down 4.8%, and some factories have to postpone the squeezing time. Rain and floods affecting the quality of sugarcanes will reduce the price of sugarcane material to the average of VND 830 - 1,150 per kg in the field.

Domestic demand is expected to increase slightly by 0.6%, causing a tense supply and demand situation. According to the OECD-FAO forecast for agricultural sector, growth of demand for sugar in Vietnam will slow down after reaching only 2.8% in 2016/2017. The latest sugar market outlook of USDA also estimated that Vietnam domestic consumption would pose slight rise of 0.6%. The OECD estimates of domestic consumption will reach 1.73 million tons, approximately 170,000 tons less than the sum of estimated production and begining inventory, not including imports.

Sugar price this year is expected to remain low but less likely to fall further. Sugar price has been continuously decreasing from the beginning of the crop to VND 13,000-14,000 per kg for wholesale RS and VND 15,000-16,000 per kg for RE sugar, nearly fall into the record trough in 2013/2014. In the world market, after fluctuating below 14 cents/lb in mid-December, sugar price has rebounded. Hence, BSC believe price in the next few months may continue to fall slightly before remaining at a low price level.



(Source: Bloomberg)

INVESTMENT OUTLOOK

We believe that the 2017-2018 season will be a difficult year for sugar manufacturers for some possible reasons: (1) world sugar prices continue to decline as production is expected to climb, helping the relation between supply and demand to shift from deficit to surplus; (2) from 1/1/2018, sugar import quotas from ASEAN countries will be removed; (3) erratic floods continue to affect production. In addition, one of the significant changes in sugar industry this year was the merger of two leading sugar companies: SBT and BHS with a combined market share of 35% (refined sugar market share of 62.5 %), is expected to create a large-scale advantage to increase the competitiveness of the product. We have an **Underperform** view on sugar industry in 2017/2018, but recommend Tracking for SBT due to its position of leading company with dominant market share.

SBT- Tracking

2017/2018 is the first harvest year after BHS was merged into SBT. In Q1, SBT's net revenue was VND 1,562 billion, fulfilling 15.8% of its target, lower than the 20% completion rate in the first quarter of 2016/2017. Net income in Q1 was VND 87.2 billion, net income margin was only 5.6% as compared to 8.4% in the same period of last year. According to the explanation of the company, Q1 results were not good due to (i) export sugar price (contributing 19% of revenue in 2016) decreased 15%; (ii) cost of raw sugar imported increased 10%.

Strengths of SBT: (1) Leading position after merger with 35% market share in sugar industry and dominant position in refined sugar market; (2) Large scale with total capacity of 48,600 TMN, equivalent to 1/3 of the industry capacity; (3) Stable source of raw materials comes from 52,300 ha area of sugarcane with the average yield of 65 tons per ha along with raw sugar imported from Laos at low price after raising the ownership in Hoang Anh Gia Lai Sugar (now TTC Attapeu) to 100%; (4) Completed B2B and B2C customers network.

SBT's operating activities in this crop are forecasted to face many difficulties related to (1) stabilizing and rearranging production and consumption after merger; (2) low global sugar price; (3) competitive pressure comes from imported sugar; (4) significant financial burden due to high debt ratios coupled with new bond issued in the previous year. Estimated output this crop will reach 523,686 tons, equivalent to 102% of the plan and net sales is expected to be VND 8,659 billion (completing 87% its target).

Furthermore, in 2018, SBT has a plan of selling all 24.5 million shares of Thanh Thanh Cong Industrial Park Joint Stock Company by the end of 1H2018. Assuming that the transaction is made at the minimum price of VND 25,000, SBT will gain VND 612.5 and after subtracting the book value of VND 215 billion (as of 30/09/2017), SBT will have approximately VND 367 billion in profit.

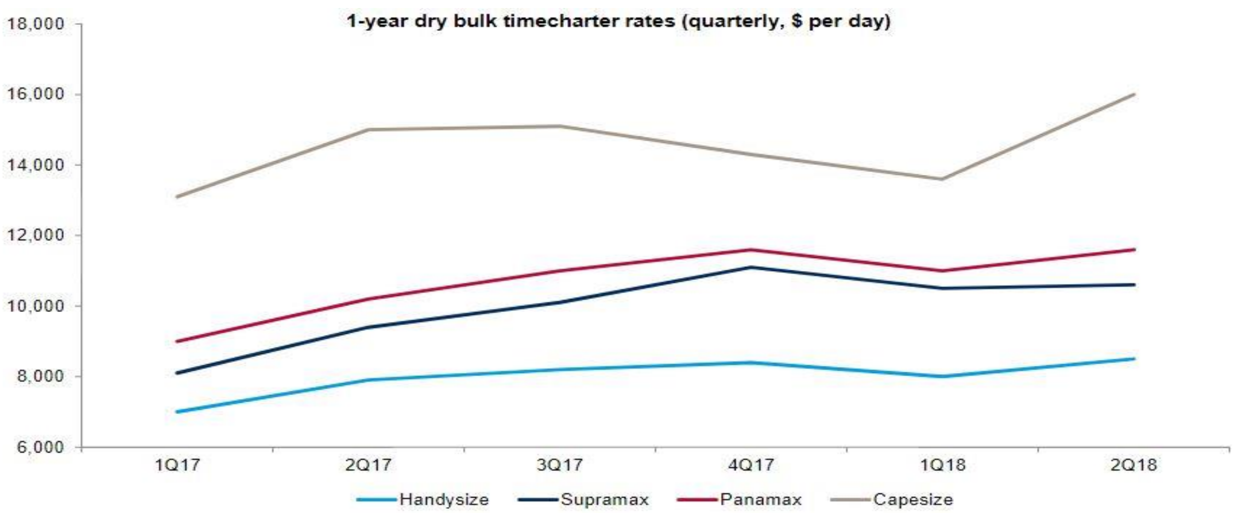
Ticker	Net sales 2018F (VND bn)	Net income 2018F (VND bn)	EPS 2018F (VND)	P/E fw	P/B fw	ROE 2017	Closing price 29/12/17	Target price
SBT	8,659	576	1,084	19.2	1.8	11%	20,800	17,350
LSS	2,540	131	1,864	6.1	0.4	7%	11,400	13,450

(Source: BSC research)

Sea transportation sector [Underperform]

- BDI index may rebound in the first half of 2018 thanks to demand from China.
- liquid finished cargo companies will face difficulties since 2018 due to reduced demand for imported petroleum.
- Binh Son Refinery completed maintenance, Nghi Son has been put into operation since 2018.
- Outlook: Underperform. PVT is the only bright spot in the industry.

BDI may continue to recover in the first half of 2018. Drewry forecasts dry bulk shipping rate will recover from Q2 of 2018 due to rising demand for iron ore in Asia. In the medium and long term, Drewry said that China's steel production is expected to accelerate at the end of winter, in the second half of next year, due to limited production. Infrastructure and construction activities will increase steel consumption. Meanwhile, the Chinese government is closing down factories that are not efficient and polluting; this will pave the way for efficient production plants to produce high-grade steel, boosting the demand for high-grade ores.



Source: Drewry's Dry Bulk Forecaster

Liquid transporters such as VIP, VTO and PJT may experience difficulties since 2018, when the Nghi Son refinery becomes commercially viable, thus reducing the demand for import finished goods. Ships of these companies may have to go out on charter flights, with much lower operating efficiency than those leased by Petrolimex. However, PJT may be the exception when the fleet that it owns has a small load capacity, convenient to enter the liquid cargo ports in Vietnam and is occupying an overwhelming market share on the waterway.

Binh Son Oil Refinery maintenance has been completed; Nghi Son went into commercial operation. Binh Son Refinery completed major turnaround in July 2017, and after maintenance, the operating capacity increased to about 109% of its designed capacity. In addition, Nghi Son will also be officially put into operation in 2018 with a capacity of 6.5 million tons of crude oil per year (designed capacity of 10 million tons of crude oil per year). This has positively impacted on PVT since companies is the exclusive crude oil carrier in Vietnam and the oil transport business such as VTO, VIP, and PJT.

INVESTMENT OUTLOOK

Despite a strong recovery in September, 1974, the BDI index is still far behind the nearest peak, which has been established in 2014. Therefore, bulk carriers such as VOS, NOS, VNA can hardly make expectation in the last quarter and in 2018. In the worst case, some companies in the bulk transport industry may be delisted. For liquid transport enterprises, the official operation of Nghi Son oil refinery will help Vietnam achieve about 80% of domestic demand for finished products, thus reducing the import demand and negative impact to the member companies of Petrolimex such as VTO, VIP, PJT. The only bright spot in the shipping industry is PVT, with its monopoly position in crude oil transport, 90% of LPG market share and additional coal shipping contracts for power plants of PVN and EVN. For the above reasons, we issue **UNDERPERFORM** recommendation with the shipping industry in general.

PVT- HOLD RECOMENDATION - target price of VND 19,080.

The business result of 9T2017 was 17% lower than that of 9T2016, mainly due to Dung Quat refinery, which was repaired for a period of 51 days (one day ahead of schedule). We forecast that, IN 2018, PVT will report revenue of VND 7,645bn (+ 20% yoy) and net profit of VND 556bn (+ 46% yoy), equivalent to EPS of VND 1,780. This forecast is based on the following assumptions:

(1) Crude oil output for Binh Son Refinery reached 7.2 million tons with expectation that after maintenance, BSR will operate at maximum capacity, transport costs will remain stable compared to 2017. In addition, according to the information from PVT, PVT is likely to account for about 50% of Nghi Son crude oil demand (which will come into operation in 2018), however, in our forecast model we assume only 20% of overall demand.

(2) Oil transport: Due to the unavailability of maintenance, the output of finished oil for Binh Son Shipping in 2018 is forecast at 1.6 million tonnes (25% of total BSR production), transport for Nghi Son 20% of total products. From a conservative point of view, we keep the same freight rates as in 2017.

(3) Transportation of coal. As the commercial operation time of Thai Binh 2 thermal power plant is still unclear, so we do not reflect the transport volume for this plant in 2018. Total coal output transported in 2018 is forecasted to be at 1.9 million tons

(4) FSO / FPSO uptake rate will remain at 100% in 2018, mainly due to fluctuation of USD / VND exchange rate (assuming 2% increase compared to 2017).

Tickers	Sale	NI	EPS F	P/E F	P/B F	ROE F	Price (VND/share) 29/12/2017	Target Price (VND/share)
	2018 (VNDbil)	2018(VNDbil)	2018	2018	2018	2018		
PVT	7,645	556	1,780	11.09	1.00	15%	18,650	19,080
GSP	1,305	49.5	1,650	5.60	0.99	13%	14,000	15,200

Source: BSC forcecasted

Aquaculture sector [Underperform]

- World Aquaculture sector is forecast to grow 3%-4% in 2018.
- Asian markets such as China, South Korea and Japan continue to grow strongly.
- USA increases the anti-dumping duty POR 13 by 3 times compared to POR 12

The World Aquaculture sector is forecast to grow a d3-4% (according to Rabobank). China's aquaculture output is expected to decline due to the challenges of health and climate-related issues. The growth in markets of Southeast Asia, Africa and especially India is expected to increase, offsetting the decrease in the China's output.

Asian markets continue to grow strongly. Asia is the main import market for seafood, with Japan still maintaining its demand for seafood. While Korea is a growing importer of seafood, China is considered as a potential market for seafood exporters. While the shrimp consumption in EU and US increased by 3% -3.5% per year; these figures in Japan, South Korea, and China were 5%, 7%, and 14% respectively, noticeably the China's local production only increased by 4%. China is advocating reducing fishing from the wild to protect the fishery resources. The Aquaculture in China is also facing difficulties in labor, land, disease, and so on. Therefore, to meet the domestic demand and raw materials for exported-seafood processing factory, the Chinese Government has policies to encourage seafood imports. This is also a favorable condition for exporting Vietnamese seafood to China.

USA increased the anti-dumping duty by 3 times compared to the previous one. The USA Department of Commerce (DOC) has decided to impose anti-dumping tax on Vietnamese pangasius up to 2.39 USD/ kg. The 13th anti-dumping duty review will affect all Vietnamese pangasius exporting companies to the US for the period from 1 August 2015 to 31 July 2016. However, Vinh Hoan and Bien Dong will retain the Por 12 tariff.

INVESTMENT RECOMMENDATION

We maintain an **Underperform** rating on the Aquaculture sector. BSC believes that the USA market plays an important role in the growth of this industry. It will take more time for the domestic aquaculture industry to find a suitably potential market. The shift to other Asian countries such as India, China and Taiwan has helped increase output, but the value is not as high as the fastidious markets such as USA, Japan or EU. Additionally, these markets are very uncertain about government policies and selling prices.

We recommend **Tracking** for a leading stock VHC.

VHC - Tracking

The export turnover of 10M2017 reached USD 245 million (+7.6% yoy), including USD 211 million (+1.7% yoy) from pangasius, the sales revenue of other products such as collagen & gelatin, by-products and others increased strongly by 732% yoy. Some comments from BSC: (1) Expansion of capacity by 57% by the end of 2018 to help VHC to actively source raw materials and avoid risks of input prices. (2) Pangasius's price is tending to increase strongly due to supply shortage (VHC also plans to increase the autonomy of material areas to 80%), (3) Diversify products and value-added products

Ticker	Rev 2018(bil)	EAT 2018(bil)	EPS 2018	P/E 2018F	P/B 2018F	ROE 2018F	Closing price 23/12/2017	Target price
HVG	16,830	92	414	15.3	0.57	8%	6,340	N/A
VHC	9,071	637	6,633	7.68	1.68	20%	51,000	N/A

Source: BSC forecast

Disclosure

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