



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



# VIETNAM SECTOR **OUTLOOK** **2018**

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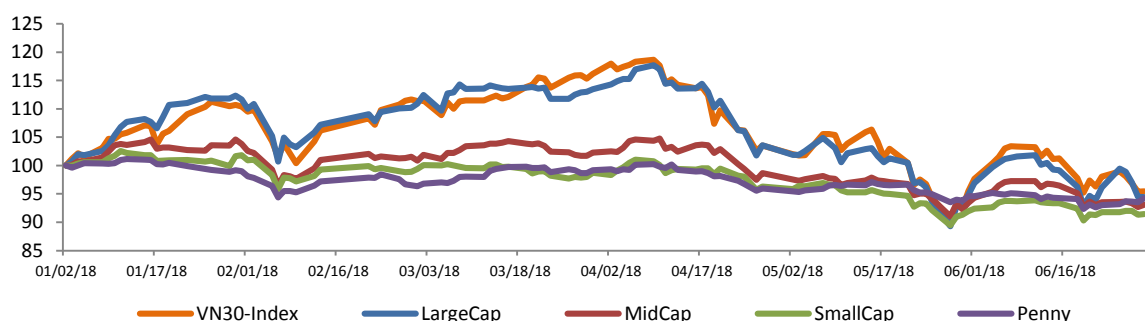
## Vietnam Stock Market in the first half of 2018

- **In terms of index.** Market indexes declined sharply in Q2/2018 due to strong selling pressure from big stocks in the finance and consumer groups. By the end of June, the VN-Index lost 23.46 points (-2.38% YTD) and the HNX-Index lost 10.69 points (-9.15% YTD). The VN index closed at 960.78 points.

**Market movements.** After a period of excitement in Q1/2018, VN-Index has fallen deeper in this quarter with the majority of stocks falling in the market. The market index was strongly influenced by the blue chip stocks. VN-Index supporters were VIC (50 points), HPG (4.8 points), VCB (4.7 points), VPB (4.5 points), BVH (4.5 points). In contrast, the biggest losers were ROS (down 22 points), VNM (down 20 points), PLX (down 6 points), VRE (down 5.1 points) and TCB (down 4.1 points).

- **Group of stocks.** By the end of June, returns of most sectors were negative. The small caps fell the most with a performance of -8.6%, followed by midcaps -6.9%, penny -5.8%, large caps -5.5% and VN30 index down -4.6%. In 1H2018, only 5/18 sectors increased. The strongest gainers included (1) real estate up by 30.1% thanks to VIC's contribution; (2) Tourism and recreation increased by 13.6% with HOT's contribution and (3) Insurance by 12.9% thanks to BVH. The biggest losers were Building & Materials - 40.5% with ROS and CTD down, Oil & Gas down -21% by GAS, PVS and IT down 14.2% by FPT.
- **An outlook on the information affected the VN Index and Q2/2018.** The stock market was strongly impacted by domestic and foreign macroeconomic factors. Macro factors include: (1) **US-China trade war**; (2) **Syria, North Korea Political Geography**; (3) **The 10-year US government bond yield rallied above 3%, the Fed raised interest rates and the appreciation of the US dollar**, the currencies of emerging-market countries and the regional markets has been depreciated. A number of internal factors affecting the market in 1H2018 include: (1) P/E and P/B VN-Index were high compared to the world, key stocks which have high valuations; (2) The market has been distorted by large recently listed stocks with high valuation. To provide investors with an insight into the ongoing hot issues, we published three reports [Trade War](#); [The impact of geopolitics on oil prices and the stock market](#) and the report of [Oil and Gas sector and Iran's nuclear deals](#).

- **Performance of stock groups**



(Source: Bloomberg, BSC Research)

## Events by timeline

Month	Date	Events
Jul-18	6	US imposes tax on China goods
	23	VN30 Review
	16-20	ETF VFM VN30 review
	30-31	BOJ meeting
	31-01/8	FED meeting
Aug-18	27-31	ETF Ishare MSCI review
Sep-18	13	ECB meeting
	10-21	ETF FTSE Vietnam review
	17-21	ETF VNM review
	18-19	BOJ meeting
	25 - 26	FED meeting
Oct-18	7 – 28	Brazil Election meeting
	19	VN30 Review
	25	ECB meeting
	30 - 31	BOJ meeting
Nov-18	6	Mid-term election in the US
	7-8	FED meeting
	26-30	ETF ishare MSCI review
	Whole month	National Assembly
	21	ETF FTSE Review
Dec-2018	3	OPEC Meeting
	13	ECB meeting
	10- 21	ETF FTSE Review
	17-21	ETF VNM review
	18 – 19	FED meeting
	19-20	BOJ meeting

(Source: BSC Research)

## Top highlighted stocks in 2Q2018

TOP 5 LEADERS OF VN - INDEX			
Stock	Price on 30/06/2018	Change in price in Q2 (%)	Index pt
VIC	107,500	10.99	11.55
VHM	112,400	1.72	1.75
LGC	25,050	36.14	0.45
HNG	10,200	15.25	0.3
TCH	21,750	5.07	0.27

TOP 5 LAGGARDS OF VN - INDEX			
Stock	Price on 30/06/2018	Change in price in 3M (%)	Index pt
GAS	88,500	-31.12	-12.41
BID	26,000	-40.09	-9.72
VNM	170,000	-15.53	-7.99
VCB	58,000	-17.73	-7.81
MSN	79,000	-30.4	-6.56

TOP 5 STRONGEST INCREASED STOCKS OF VN-INDEX			
Stock	Price on 01/04/2018	Price on 30/6/2018	%Chg
HCD	8,190	15,200	86%
SJF	15,150	24,800	64%
HRC	22,850	35,950	57%
TIX	28,677	45,000	57%
DTT	11,500	17,700	54%

TOP 5 STRONGEST DECREASED STOCKS OF VN-INDEX			
Stock	Price on 01/04/2018	Price on 30/6/2018	%Chg
ROS	112,507	43,000	-62%
HVG	5,150	2,600	-50%
TIE	11,899	6,240	-48%
VID	11,700	6,360	-46%
PXT	3,275	1,900	-42%

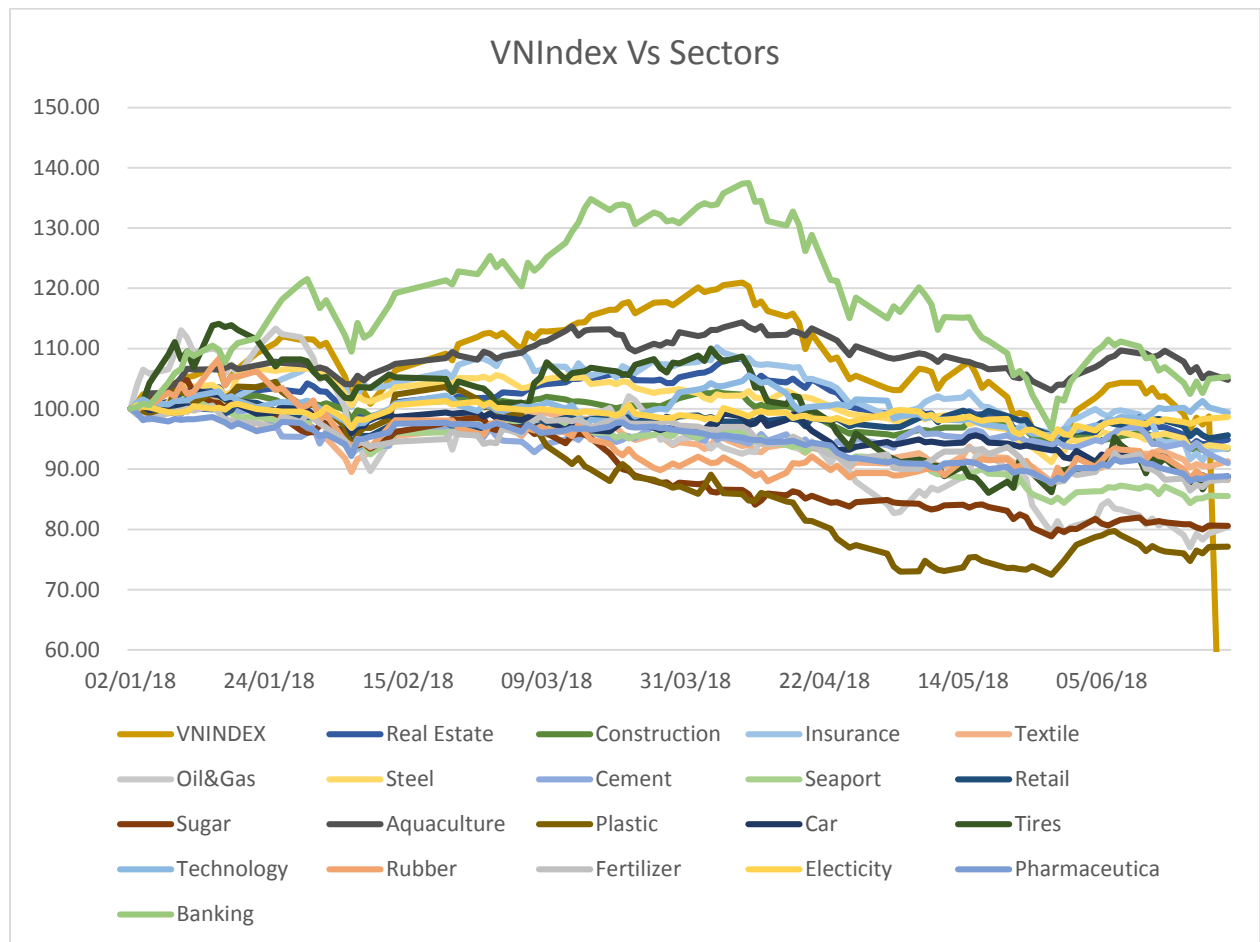
TOP 5 LEADERS OF HNX - INDEX			
Stock	Price on 30/06/2018	Change in price in Q2 (%)	Index pt
TTB	23,100	78.94	0.33
VPI	42,500	7.59	0.23
CAG	107,300	153.07	0.19
DNP	24,000	29.73	0.13
SGN	75,000	177.78	0.10

TOP 5 LAGGARDS HNX - INDEX			
Stock	Price on 30/06/2018	Change in price in 3M (%)	Index pt
ACB	35,600	-23.77	-9.29
SHB	8,200	-36.43	-5.22
VCS	78,300	-40.11	-1.14
PVS	17,300	-18.01	-0.92
SHS	13,500	-41.81	-0.90

TOP 5 STRONGEST INCREASED STOCKS OF HNX - INDEX			
Stock	Price on 01/04/2018	Price on 30/6/2018	%Chg
SGH	27,000	75,000	178%
CAG	42,399	107,300	153%
PCG	8,200	16,300	99%
TTB	12,909	23,100	79%
SDG	18,710	31,000	66%

TOP 5 STRONGEST DECREASED STOCKS OF HNX - INDEX			
Stock	Price on 01/04/2018	Price on 30/6/2018	%Chg
PIV	4,100	1,700	-59%
DS3	18,501	7,900	-57%
ALV	8,901	4,000	-55%
KSK	1,100	500	-55%
SPI	2,600	1,200	-54%

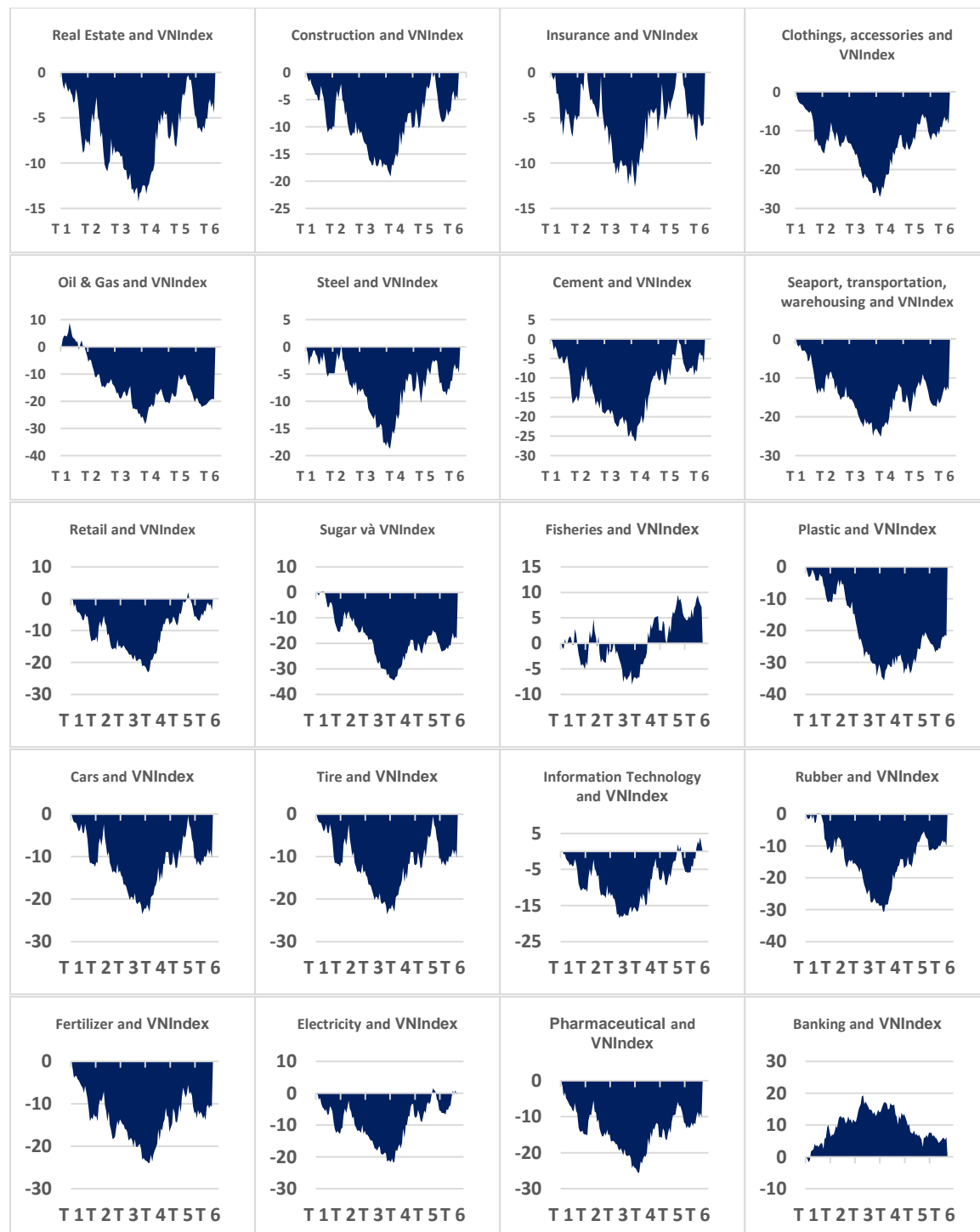
## Comparing sectors' growth vs. the VN-Index in 1H2018



(Source: Bloomberg, BSC research)

In general, all sectors had a strong decline after the peak in 1Q2018. Similar to 2017, most sectors were backward compared to the VN index, which slightly declined total capital at the end of the first 6 months. Of which the Banking sector is accompanied by two small sectors of fisheries and technology that have grown relatively to the VN index. In contrast, sugar, plastic, automobile industry, tires and tubes, fertilizers and seaports showed a lower decline than the VN index.

## Compare each sector's growth vs. VN-Index in 1H2018



## Performance of highlighted stock portfolio

	Ticker	Price in 02/01/2018	Price in 30/03/2018	Price in 29/06/2018	Increase/ Decrease (HPR)	Avg Volume 6T2018
Banking	ACB	32,000	46,700	35,600	11.25%	4,708,701
	BID	22,900	43,400	26,000	13.54%	2,718,838
	CTG	21,900	34,600	24,250	10.73%	7,096,634
	HDB	34,300	44,280	36,150	5.39%	4,453,001
	LPB	10,364	15,001	11,212	8.18%	3,137,021
	MBB	23,900	34,700	26,200	9.62%	6,652,748
	STB	10,300	15,500	11,550	12.14%	12,487,217
	VCB	55,600	70,500	58,000	4.32%	2,939,460
	VPB	26,400	39,861	28,700	8.71%	4,945,163
Insurance	BMI	22,000	31,200	21,450	-2.50%	59,517
	MIG	12,861	13,377	13,278	3.24%	58,156
	PVI	28,000	37,063	29,000	3.57%	679,493
Oil & Gas	BSR	16,651	26,282	17,594	5.66%	1,732,896
	GAS	79,500	128,483	88,500	11.32%	811,746
	PVD	12,750	19,100	13,650	7.06%	2,061,976
	OIL	15,481	20,536	17,406	12.43%	1,119,274
	PVS	15,900	21,100	17,300	8.81%	6,172,467
Electricity	NT2	30,300	28,857	29,100	-3.96%	472,777
	PPC	17,350	17,869	17,600	1.44%	217,960
	POW	12,225	16,482	13,074	6.94%	2,405,665
	REE	30,000	37,700	31,900	6.33%	1,083,094
Real estate	DIG (*)		25,700	17,700	-31.13%	2,894,654
	DXG	24,900	32,210	27,150	-15.71%	3,998,979
	HDG (*)		49,000	34,500	-29.59%	173,585
	NLG	28,200	32,981	28,000	-15.10%	466,123
Construction	CTD	138,500	157,900	152,400	10.04%	283,422
	CTI	28,800	34,450	29,100	1.04%	459,902
	HBC	21,850	29,298	23,850	9.15%	1,580,404
	FCN (*)		21,250	16,950	-20.24%	650,612
Steel	HPG	37,100	43,144	38,400	3.50%	5,741,976
	HSG	10,650	20,031	12,100	13.62%	3,448,447
	NKG	14,400	22,643	15,600	8.33%	590,077
Tiles	CVT	24,500	38,054	27,900	13.88%	427,844
	VGC	20,500	24,700	20,600	0.49%	1,754,844
Cement	BCC	6,400	7,900	6,400	0.00%	96,076
	HT1	10,850	14,750	11,500	5.99%	285,461
Plastic	AAA	18,150	19,103	18,900	4.13%	1,294,744
	BMP	58,000	65,532	58,600	1.03%	413,266
	NTP	42,000	60,146	46,000	9.52%	33,798
Fertilizer	BFC	25,700	33,334	27,000	5.06%	117,166
	DPM	16,600	20,808	17,200	3.61%	991,238



	Ticker	Price in 02/01/2018	Price in 30/03/2018	Price in 29/06/2018	Increase/ Decrease (HPR)	Avg Volume 6T2018
<b>Rubber</b>	<b>LAS</b>	11,500	13,033	11,600	0.87%	90,854
	<b>SFG</b>	11,950	12,286	11,950	0.00%	43,883
	<b>CSM</b>	13,650	13,904	13,900	1.83%	327,526
	<b>DRI</b>	7,595	9,675	7,901	4.03%	134,477
	<b>DRC</b>	22,300	28,971	23,600	5.83%	523,659
	<b>TRC</b>	24,900	27,900	25,900	4.02%	38,285
<b>Tire</b>	<b>CSM</b>	13,650	13,904	13,900	1.83%	327,526
	<b>DRC</b>	22,300	28,971	23,600	5.83%	523,659
<b>Information Technology</b>	<b>CMG</b>	18,900	31,600	21,300	12.70%	190,841
	<b>FPT</b>	40,000	51,449	41,500	3.75%	2,202,167
<b>Textile</b>	<b>TCM</b>	18,000	23,096	19,800	10.00%	475,716
	<b>TNG</b>	10,100	11,918	10,400	2.97%	432,591
	<b>VGG</b>	51,200	53,203	51,128	-0.14%	10,944
<b>Pharmaceuticals</b>	<b>DBD</b>	41,550	48,347	42,000	1.08%	38,384
	<b>DHG</b>	99,900	110,512	102,000	2.10%	285,022
	<b>IMP</b>	52,300	54,785	52,500	0.38%	29,366
	<b>PME</b>	70,600	71,733	73,800	4.53%	30,169
<b>Sugar</b>	<b>LSS</b>	7,400	8,860	7,680	3.78%	122,288
	<b>SBT</b>	14,700	17,600	15,500	5.44%	5,632,761
<b>Seaport</b>	<b>GMD</b>	24,000	30,750	25,050	4.38%	1,158,785
	<b>VSC</b>	32,900	39,212	34,850	5.93%	238,684
<b>Transportation</b>	<b>GSP</b>	12,400	12,361	12,600	1.61%	10,798
	<b>PVT</b>	14,500	20,600	15,250	5.17%	682,528
<b>Aquaculture</b>	<b>HVG</b>	2,420	5,150	2,600	7.44%	563,322
	<b>VHC</b>	56,500	70,000	58,700	3.89%	351,220
	<b>FMC</b>		29,005	20,200	-30.36%	303,658

(\*) New stocks added to the list of notes in the sector Outlook report in Quarter 2/2018

Of the BSC's recommended stocks list in the Sector Outlook 2018, 56 out of 65 stocks grew in the first 6 months. The median price hike was 4.32%, which was higher than the VN Index (down 23.46 points, equivalent to -2.38% YTD) and the HNX-Index (down 10.69 point, equivalent to -9.15% YTD).

However, the overall performance of the portfolio in the 1H2018 was significantly lower than a 28-percent gain in Q1/2018. After a sharp drop in Q2/2018, most of the listed stocks failed to maintain its momentum. In particular, there were strong losers such as DIG, HDG, FCN and FMC.

## Policies and events affect economic sectors in 2018

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

No.	Policies and events	Effectuated date	Influence	Degree	Status as of 30/06/2018
Macroeconomic Policy and International Economics					
1	Fed raised interest rates, appreciation in dollar		Negative	Very strong	Affecting
2	Brexit (GBP lost prices)		Negative	Strong	Affecting
3	ECB easing monetary policy (EUR depreciate)		Negative	Average	Not affected yet
4	Abenomics (JPY depreciate)		Negative	Strong	Affected
5	Asia economies positive economic growths		Negative	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		Negative	Very strong	Affecting
Domestic macroeconomics policy					
1	Bad debt Resolution 42	15/8/2017	Positive	Strong	Affecting
2	Circular 19/2017/TT-NHNN	12/2/2018	Positive	Strong	Affecting
3	Decision 3610a/QĐ-BCT	20/9/2017	Positive	Very strong	Affecting
4	Circular 21/2017 of the SBV	02/04/2018	Positive	Average	Not affected yet
5	Laws of special economic administrative zones	2018	Mix	Strong	Not affected yet
6	Policy to reduce interest rates for loans in VND	2018	Positive	Strong	Affecting
7	Inflation may increase		Not affected	Strong	Not affected yet
8	Interest rates may increase		Not affected	Strong	Affecting
9	USD / VND exchange rate may increase		Positive	Strong	Affecting
10	Public debt is high		Not affected	Strong	Affecting
11	Increasing the equitization of SOEs		Neutral	Average	Affecting
12	State capital withdrawal (SCIC, ministry)		Neutral	Very strong	Affecting
13	GDP growth, FDI, PMI, foreign currency reserves, credit, import and export		Positive	Average	Affecting
14	Proposal to increase environmental protection tax on gasoline	01/07/2018	Not affected yet	Strong	Not affected yet
15	Decree 04/2018 / ND-CP	20/02/2018	Positive	Strong	Affecting
16	Circular 03/2018 tightening automobile import	01/03/2018	Positive	Strong	Affecting
17	Stock Market Derivatives		Mix	Strong	Affecting
Free trade agreements					
1	FTA Vietnam - Eurasian Economic Coalition	2016	Positive	Average	Affecting
2	CPTPP	2018	Mix	Average	Not affected yet
3	FTA Vietnam - EU	06/2018	Positive	Strong	Not affected yet
4	RCEP ASEAN + 6	Negotiating	Positive	Strong	Not affected yet
5	Trade war U.S-China	22/03/2018	Negative	Very strong	Affecting

(Source: BSC Research)

## **Investment Strategy for Q3/2018**

In the context of global economic growth slowing down by the risk of trade war escalation, countries with great economic openness are facing the risk from many sides. In addition, USA and EU tend to tighten their monetary policies. China's slowing growth, trade tensions have been negatively impacted on financial markets (securities, commodities, foreign currencies ...). Some critical issues worth noted in 2H2018 are discussed as follow:

### **Chinese Economy:**

The economy has recovered since 2016 thanks to global recovery, domestic monetary stimulus, restructuring industry and promoting consumer spending. However, there is the high probability that China's economy grows slowly in 2018, and possibly 2019, accompanied by slower manufacturing. The biggest turning point came from outside (1) trade war, and the general domestic policy was (2) tightening credit, reducing the leverage of state-owned enterprises and the household. Recently, due to the pressure from commercial war that the Chinese central bank loosened by reducing the required reserve ratio of commercial banks by 0.5% and lowering taxes for small and medium enterprises. Exports may still maintain growth in the short term, but it faces increasing medium-term uncertainty due to the shadow of a trade war. The devaluation risk of the RMB cannot be ignored.

### **Trade war:**

The threat of trade war has caused some tensions in the global financial market and could create significant global economic turbulence in the medium term. Despite the movement between the United States and its trading partners, the size of these taxation activities is not so great for American allies, but are currently large to China. Because of the huge gap in export between China and the US, the tools that China can use in response to the USA's actions are not much. This instrument may include: (1) taxation on imports, (2) non-tariff barriers, (3) currency devaluations, (4) selling the U.S.'s bonds, (5) business support ... but these measures have side effects and even when applied is still very little choice compared to the US. At the global level, trade wars, if escalated, would affect nations' economic growth and inflation. At the same time, investment assets such as securities, foreign currencies and commodities also experienced strong fluctuations. The impact of the trade war will also repeat following the taxation progress of the parties and will be too complicated to assess and forecast. It will have the mix effect on Vietnam, investors can refer more in the report BSC issued ([here](#))

### **Commodities and Inflation:**

In general, commodities have tended to appreciate in the last six months and declined at the end of Q2/2018. The price increase includes (1) the price of meat, (2) energy: oil, gas and coal, (3) cattle-feed, (4) some metals such as nickel and aluminum. Adversely, some commodities posed a sharp decline in selling prices such as (1) precious metals, (2) soybeans; (3) sugar and (4) cocoa. The sea transportation index also showed a sharp increase over the same period of 2017. In addition, recent events affecting commodity prices include (1) USD appreciation and (2) the risk of trade wars. In particular, oil prices have been rising for more than a year, which has had a major impact on national inflation, but oil prices uptrend may be limited by higher supply from Opec and shale oil. Trade war also caused the level of volatility in the commodity market stronger. The causes of tariff and non-tariff policies, when applied, will have an impact on the supply and demand in these markets, in many complex directions.

### Monetary Policy:

The new Fed's chairman raised interest rates for the second time in 2018, showing the intention to continue raising rates two more times in 2018 and about three times in 2019. Thus, Fed continues its tightening policy from December 2015, in the context of stable US economy, rising inflation and low rate of unemployment. In Europe, the ECB continues to narrow its current € 30bn bond-buying program to € 10 bil per month by December 2018. The ECB also pledged to keep low rates until mid-2019. The BOJ has kept its monetary policy easing, supporting economic growth and expecting inflation to reach target levels. The People's Bank of China (PBOC) aims to reduce leverage in the economy and maintain a prudent policy. But under the influence of the negative effects of the trade war, the PBOC has cut the required reserve ratio (RRR) for many commercial banks and foreign banks. With the decision, BoJ and PBOC have been on a different path to the United States and the European Union, which is slowly closing down the economic stimulus program enacted following the 2008 global financial crisis.

## Comparison vs. the regional stock markets

06/29/2018	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	13.72	1.41	<b>17.81</b>	<b>1.58</b>	40.3	3.3	15.61	1.26	17.67	1.89	17.96	1.25
Commodity	13.46	1.54	<b>19.65</b>	<b>2.50</b>	20.8	3.2	22.89	8.52	17.62	1.83	18.48	1.70
Industry	12.45	1.09	<b>16.81</b>	<b>2.07</b>	16.8	2.1	22.27	2.03	16.12	1.58	16.81	2.10
Oil & Gas	10.42	1.18	<b>23.19</b>	<b>1.49</b>	23.5	1.5	22.91	4.29	9.93	0.81	23.47	1.49
Consumer Service	12.28	2.28	<b>48.88</b>	<b>3.21</b>	69.6	2.9	19.00	4.80	28.12	3.54	69.63	2.89
Basic materials	16.42	0.86	<b>55.67</b>	<b>2.39</b>	91.7	2.0	19.60	3.16	9.97	2.78	91.73	2.00
Utilities	9.74	1.57	<b>13.76</b>	<b>1.93</b>	13.8	1.9	16.34	1.65	12.24	2.39	13.76	1.93
Technology	9.70	1.48	<b>38.97</b>	<b>3.34</b>	39.0	3.3	n/a	n/a	n/a	n/a	38.97	3.34
Health Care	16.27	2.03	<b>23.01</b>	<b>2.32</b>	23.0	4.1	100.00	2.32	n/a	n/a	16.81	2.10
Telecommunicationon	7.86	1.99	<b>42.89</b>	<b>3.31</b>	68.7	2.8	17.09	3.85	17.09	3.85	68.68	2.76

(Source: Bloomberg, BSC research)

(Note: Financial sector includes real estate, according to the Bloomberg classification)

## Investment theme for 2H2018

Located in the Asian region, and as a borderline market, indirectly affected by net withdrawing capital similar to neighbor markets in the first 6 months, Vietnam's stock market has fluctuated in sync with the emerging markets and Asian markets. Nevertheless, Vietnam's macroeconomic conditions are still well accompanied by attractive valuations (please refer to the Macro Economic report 3Q2018). After the sharp fall of the stock market in Q2/2018, in case the external factors are not too bad, the stock is likely to recover thanks to business results. The outlook for many sectors over the next 1-2 years is very different due to the impact of macro factors on a global scale, which will cause the stock market to diversify rather than just one-way fluctuations as in more than two last year

**Firstly, the adjustment from the new equitization and Listing.** From 2016 to Q2/2018, the market is consistently receiving large IPOs, private placements and listing of SOEs as well as private companies. Huge supply increases when valuing is at high level makes the market shortage of cash flow from investors. The adjustment of stock prices and IPO supply is gradually limited, will make the new shares closer to the value.

**Secondly, the opportunity from State Capital Divestment from leading firms.** Contrary to the 2017 diversion and IPO early in 2018, the transaction of divestment in the second half of the year will be more difficult. The reason is the increasing in risk and decreasing in expectation of stock market's growth. This also means that the divestment, if successful, will be at a more reasonable price than the previous stage, providing opportunities for investors. Some businesses should be noted such as PVI (insurance), CSM, DRC, CSV (chemicals), VGC (construction materials).

**Thirdly, the bank recovered thanks to business results.** Good Q1's results along with Q2 and 2018 in the same uptrend, banking sector will continue to have a good year of business growth. The majority of banks are also listed on the stock exchange and account for a large proportion. After a period of hot growth in share prices, the sharp fall of the second quarter of 2018 has brought many banks back into attractive valuations for long-term investors. However, we shouldn't expect that the valuation of banking sector to be as high as Q1/2018.

**Fourthly, real estate continues to grow.** The period from 2018 to 2019 will be the time to continue to record strong growth in business results. However, we also note that the new Property Tax Law proposed by the Ministry of Finance with the imposition of real estate tax valued at over VND 700 mn may change the Real estate sector in next 2-3 years. Investors tend to focus on mid-class more than in previous years. This sector will also be under pressure caused by tightened monetary policy, especially when CPI is not favorable.

**Fifthly, external instability and defensive sectors.** The turbulent Asian stock market was triggered by the Trade War and tightened monetary policy in big countries. After this period, investors may focus on high-defensive sectors, such as Electricity (POW, NT2), Retail (MWG, PNJ), F&B (VNM) ... Those sectors still benefit and maintain steady growth thanks to domestic demand.

## Influence of macroeconomic factors on sectors

Factors	Trade war	Oil recovery	FED hike	USD appreciation	EU economy slow down / Brexit / EUR depreciation	JPY appreciation	Domestic interest rate increase	Chinese economy slow down	Un-successful TPP	Other FTAs
Marine transportation	(+/-)	(+/-)		(-)	(+)	(-)	(-)		(-)	(+)
Real estate							(-)			
Construction							(-)			
Cement				(-)	(+)		(-)			
Textile	(+/-)	(-)		(+)	(-)	(+)	(-)		(-)	(+)
Electricity		(+)		(-)	(+)	(-)	(-)			
Pharmaceutical				(-)	(+)		(-)			
Plastic		(-)		(-)			(-)			
Tires	(+)	(-)		(+)		(-)		(+)		
Banking	(-)								(-)	(+)
Steel	(-)						(-)	(-)		
Aquaculture	(+)			(+)			(-)	(-)		
Sugar							(-)	(-)		
Oil & gas		(+/-)		(-)			(-)			
Fertilizer		(-)		(-)			(-)	(+)		
Natural rubber		(+)		(+)		(-)		(-)		
Ceramic Tiles		(-)					(-)			
Technology		(-)								(+)
Seaport	(+/-)			(-)			(-)			
Automobile										
Insurance	(-)						(-)			
Milk				(+)			(-)		(-)	(+/-)

(Source: BSC Research)

## Sector Outlook for Q3/2018 and FY2018

- We maintain an **OUTPERFORM** rating for **Banking, Oil & Gas, Electricity, Technology, Non-Life Insurance, and Real Estate** based on firm macroeconomic factors, internal and external divestment / capital raising / listing.
- We rate **NEUTRAL** with the following sectors: **Construction, Pharmaceuticals, Steel, Plastics, Tiles, Textiles, Seaports, Marine Transportation, Rubber, Tires, Fertilizers, and Fisheries**. In general, this group does not have enough favorable factors, mixes well and badly, so chances will not come to the whole stock.
- For the sectors in **UNDERPERFORM**, we believe the **Cement and Sugar** sectors will still face many difficulties in 2018. We are not pessimistic, but we believe that investors are interested in these sectors should patiently wait, and we will update our view as new signals appear.

No	Sector	Q3/2018 Review	Medium and Long-term Recommendation	Notice
1	Banking	Outperform	ACB, MBB, LPB, TCB, CTG	VCB, VPB, HDB, STB, BID
2	Oil & Gas	Outperform	GAS, PVS, PVB	PVD, BSR, OIL
3	Electricity	Outperform		NT12, PPC
4	Technology	Outperform	FPT, CMG	
5	Real Estate	Outperform	DXG, NLG	KDH, KBC
6	Non-Life Insurance	Outperform	PVI, BMI, MIG	
7	Construction	Neutral	CTD, HBC, LCG	FCN
8	Pharmaceutical	Neutral		DHG, DBD
9	Steel	Neutral	HPG	NKG, HSG
10	Tiles	Neutral	VGC	CVT
11	Plastic	Neutral		NTP, BMP, AAA
12	Textile	Neutral	VGG, TNG	TCM, VGT
13	Seaport	Neutral	GMC, VSC	
14	Marine transportation	Neutral	PVT	
15	Rubber	Neutral	PHR, DRI	DPR
16	Tire	Neutral	DRC	CSM
17	Fertilizer	Neutral	BFC, LAS	DPM
18	Fisheries	Neutral		VHC, FMC
19	Cement	Underperform		HT1
20	Sugar	Underperform		SBT, LSS

(Source: BSC research)

### **BANKING SECTOR - OUTPERFORM**

We maintain our OUTPERFORM rating on bank stocks. By the end of June, there were a total of 17 listed banks on the three exchanges with a total cap of VND 795 trillion, of which 10 listed on the HOSE were VND 706 trillion, accounting for 23.12% of VN-index. (1) Core business results are expected to continue growing thanks to economic growth and the promotion of non-interest income, the potential market that Vietnamese banks have not fully cultivated. (2) Handling of bad debts and restructure weak CIs. The bank's operations are healthier, adhering to the stringent regulations of the world. Many banks are expected to record lower risk provision costs in 2018 and collect provision or other income from NPLs such as VCB, ACB, MBB and TCB. (3) Raising capital in accordance with Basel II, in order to increase the size and weight of banking stocks in the market indexes. In contrast, most bank shares have risen sharply since 2016 and are currently priced higher than the world average. The average P/B of Vietnamese banks is 1.83x while the average is 1.46x globally and 1.3x in the emerging Asia Pacific.

We recommend BUY: ACB, MBB, LPB, TCB, CTG.

### **OIL AND GAS SECTOR - OUTPERFORM**

BSC maintains an OUTPERFORM rating on Oil & Gas Sector in Q2/2018. Rising oil prices are one of the factors that make oil stocks has recovered, especially upstream oil companies. However, the delay of some projects such as Ca Rong Do negatively affect oil & gas firms. Hence, we assess that the recovery of Vietnam oil & gas sector has a lag to the global. PVN continues to explore three major projects in 2018: Nam Con Son Project Phase 2, Su Tu Trang Project, and Block B O Mon Project. If those projects are on schedule, oil & gas companies will benefit. We suggest to consider oil stocks in 2018 such as GAS, PVD, PVS, PVB, BSR, PLX, and OIL.

We recommend BUY: GAS.

### **ELECTRICITY SECTOR - OUTPERFORM**

We maintain an OUTPERFORM view on electricity sector. The high stability of the electricity business and low beta of this sector cause most stocks to be defensive investment. Rising demand for electricity and increasing price will be the key drivers for firms in the coming time. Especially, thermal power companies will benefit in the end of 2018 when the price of oil and gas are expected to stable, with hydropower companies facing difficulties due to weather conditions. In addition to, some electricity-related companies are worth to be mentioned such as GEX, REE, PC1.

### **TECHNOLOGY SECTOR - OUTPERFORM**

We maintain an OUTPERFORM rating on technology sector. The information technology market worldwide is forecast to reach \$ 3.7 trillion (+ 6.2% yoy) by 2018, according to Gartner's latest forecast. This is the highest annual growth Gartner has forecasted since 2007 and will be a sign of a new IT development cycle. In particular, the software-enterprise market is forecast to reach the highest level in 2018 with an increase of 11.1%. Software export is the key growth driver for Vietnamese technology companies which help them to maintain positive business results.

We recommend BUY: FPT, CMG



### **REAL ESTATE SECTOR- OUTPERFORM**

We rate OUTPERFORM for real estate sector in the second half of 2018 thanks to the fact that this is time to hand-over apartments and recognize profit. (1) Rising new supply of apartments in 2H2018 and the number of flats sold in 2017 can help real estate firms to secure its revenue and profit in the next few years not to mention that sales continue to maintain at positive level. (2) Average selling prices of secondary market in Ho Chi Minh City and Hanoi continued to increase slightly. Specifically, its price in Q2/2018 in Ho Chi Minh City (+ 0.89% QoQ and 3.6% YoY) and Hanoi (1.2% QoQ and 2.1% YoY) 3) The tendency to move from high-end to the mid-end/affordable segments will be the main trend in the following year thanks to a large and real demand. However, we also note that the long-term risks of the real estate market may affect the sector's performance. Firstly, the increase of interest rates and tightening lending on real estate may cause a plunge in liquidity (b) in the scenario of downtrend in real estate market, the effectiveness of the sale will mainly depend on the location, facilities and legal status of the project and the reputation of the investor.

We recommend BUY: DXG, NLG

### **NON- LIFE INSURANCE SECTOR - OUTPERFORM**

We assess OUTPERFORM for the non-life insurance sector. This sector has continued to increase by over 10% annually, especially health and financial insurance with a growth rate of over 20% thanks to high economic growth rate. Insurance companies are trading at relatively cheap prices (now trading at or below the book value). The divestment of government capital and the FOL raising in leading companies such as PVI and BMI are expected to be implemented, which will also be the driving force for the price surge of insurance companies in the future.

We recommend buying stocks: PVI, BMI, MIG.

### **CONSTRUCTION SECTOR- NEUTRAL.**

We downgrade the rating from OUTPERFORM to NEUTRAL for the construction sector due to the fact that the construction cycle has gone through the highest growth period and has slowed down: (1) The value of new contracts is expected to pose a flat growth, (2) gross profit margin of the industry witnessed a decline due to increasing competition, the tendency to move from high-end to the mid-end/affordable segments; the rise of raw material prices. (3) The increase of interest rates will have a significant negative impact on firms which has a high debt/equity ratio. (4) The shift in structure of construction contracts from residential to infrastructure, industrial parks, office, and resort. The current average P/E of construction sector is 8.8x.

We recommend BUY: CTD, LCG and FCN

### **PHARMACEUTICALS SECTOR - NEUTRAL**

We maintain our NEUTRAL rating for pharmaceutical sector. Stocks are trading at P/E of 17.66, P/B of 2.17; close to the median of the region (P/E = 18.3, P/B = 2.1). BSC comments that (1) pharmaceutical market still has room for growth of 9.1% in the period of 2018 – 2021 and (2) foreign investors

continue to increase their ownership in local corporates, encouraging the transfer of knowledge, technology and know – how.

We recommend to BUY: PME

#### **STEEL SECTOR - NEUTRAL**

We maintain NEUTRAL view as consumption continues to grow well but competition in the industry continues to increase especially for galvanized steel companies. Profit of businesses is expected to continue to fluctuate as the output price of steel and materials can highly vary in the coming time due to the impact of global trade war.

We recommend buying stocks: HPG

#### **TILES SECTOR - NEUTRAL**

We maintain a NEUTRAL rating with prospects of tiles industry for following reasons: (1) consumption in the last months of the year is expected to be better thanks to construction demand, but (2) Profit margin is forecasted to decrease as fuel prices (coal and gas) are rising while selling prices are difficult to adjust proportionally due to oversupply. For 2019, demand is expected to be strong thanks to the growth of the property market in 2018, but intense competition and rising fuel prices will continue to hit the profit of firms.

We recommend HOLD: VGC, CVT

#### **PLASTIC SECTOR – NEUTRAL**

We believe intense competition in the plastics building materials market along with the slow-down growth of the construction sector will make the consumption more difficult and will force firms to rise discount and promotions to promote sales. In contrast, plastic packaging consumption is forecasted to grow well thanks to consumption demand of households and F&B businesses. However, rising price of plastic resin will negatively affect the profit margin. Our view on plastics sector remains NEUTRAL.

#### **TEXTILE SECTOR – NEUTRAL**

In our opinion, the textile and apparel industry will experience a period of strong growth thanks to (i) rising orders from both traditional and new markets; (ii) production capacity is expanded, delivery time is shortened; (iii) The EVFTA is being urged to finalize approvals in 2018. However, textile firms have to cope with up-trends of input prices such as raw materials and labor cost while order prices hardly increase at the corresponding pace as many enterprises have currently do simple CMT orders. Besides, the USA-China trade war implies many opportunities and threats for Vietnamese textile industry, which is worth for tracking in long term. For listed firms, BSC assessed that despite significant sales growth, the internal factors of the industry were not attractive enough for investors in comparison with other opportunities in the market (low added value, eroding low labor cost competitiveness and high dependence on foreign market). Hence, we maintain **NEUTRAL** view on textile sector. We recommend BUY: VGG, TNG

### **SEAPORT SECTOR - NEUTRAL**

New-signed FTAs are motivated to boost demand for import and export of goods through seaports. In addition, US-China trade war may have mixed impact on this sector due to declining bilateral trade between the two countries as a result of Vietnam's protectionist policies. In general, seaports in Hai Phong area will continue to face difficulties due to high competition, especially after Lach Huyen Seaport with the capacity of 1 million TEUs operating from May 2018 and Gemadept's South Dinh Vu Phase 1 with the capacity of 500,000 TEUs going to run in Q1/2018. The oversupply is estimated to be 40% of the total demand. Cai Mep - Thi Vai deep-water seaports will benefit from the trend of increasing shipping load, then serving exceed goods in Ho Chi Minh region such as Cat Lai because this seaport system had no room left for growth. Therefore, we maintain a **NEUTRAL** rating with the seaport industry at P/E TTM of 5.6x, ROA of 4.03% and ROE of 11.85%.

We recommend BUY: GMD

### **MARINE TRANSPORTATION SECTOR - NEUTRAL**

BSC maintains a **NEUTRAL** rating on the prospect of marine transportation. For liquid transport companies, they are running stably thanks to currently coming into operation oil refinery projects. However, for bulk transportation, there are still many difficulties such as decreasing services prices to compete, not well quality services of local companies compared to the other international marine transport companies which combined with logistics services.

We recommend BUY: PVT

### **RUBBER SECTOR - NEUTRAL**

Most of the companies in the rubber industry have a high rate of dividend (40% -50%). However, business results of the sector depend mainly on the price of rubber and the export situation, especially for China. We think rubber price has bottomed out and it is hard to reduce in long term. Exports in recent years have grown from 10% -20% due to China's great demand from the manufacture of tires and tubes. In addition, some companies in the industry have a large source of wood from liquidation as DPR, PHR which ensures profit for businesses in the next 1-2 years.

We recommend BUY: PHR, DRI.

### **TIRE SECTOR - NEUTRAL**

In 2H2018, we expect tire business will have a resurgence in earnings as rubber prices has declined compared to that of 2017 and the potential for growth comes from the consumption of radial tires. However, with the current volatility of input material prices, the trend of automobile in Vietnam is not clear and the valuation is high, we maintain the NEUTRAL opinion on the prospect of the tire industry. In addition, investors should also put the attention on the consumption of radial tires in the country and export.

We recommend BUY: DRC.

#### **FERTILIZER SECTOR - NEUTRAL**

We maintain NEUTRAL recommendation for fertilizer stocks with high expectations of changes in tax policy and plans for divestment from PVN and Vinachem. However, the fertilizer market is highly competitive, the oversupplied situation is still happening and the demand is grown slowly. Therefore, the consumption and selling prices of enterprises might be affected.

We recommend BUY: BFC, LAS.

#### **AQUACULTURE SECTOR – NEUTRAL**

We upgrade our NEUTRAL rating on aquaculture sector. BSC comments that (1) abnormal weather conditions and (2) commercial barriers in traditional exporting markets are still the problems for seafood companies. However, the sector is witnessing fundamental change. Shifting to new exporting markets (China, Japan) is bright spot in the overall picture, a growth engine in the next 1 – 2 years. Additionally, the US – China trade war is expected to bring more opportunities for Vietnamese aquaculture.

We recommend HOLD: VHC

#### **CEMENT SECTOR - UNDERPERFORM**

We estimate cement sales will be better in the second half of 2018 thanks to growing construction demand. However, the uptrend of coal and electricity prices will negatively affect the profitability of companies in the industry while selling prices can not rise correspondingly due to intense competition. Our view on Cement industry is UNDERPERFORM.

#### **SUGAR SECTOR – UNDERPERFORM**

We maintain our UNDERPERFORM rating on sugar sector. BSC argues that (1) supply surplus will continue to adversely affect business performance. Surplus supply in 2017/2018 is expected to reach 560 thousand tons. At the same time, (2) world and domestic sugar prices continue to decline and (3) slow consumption due to the movement to China's liquid sugar and moderate manufacturing of F&B consumers. However, the application of quota on sugar to the end of 2019 will facilitate sugar firms due to higher domestic price than the global (50% higher), reducing the extreme effects when the sugar price is at the trough.

## Stock picking in 2018

Ticker	Sales 2018 (VND bn)	NPAT 2018(VND bn)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
ACB	13,420	4,875	4,449	8.00	1.85	1.58%	26.43%	35,600	42,702
MBB	15,780	5,469	2,433	9.05	1.48	1.65%	17.74%	22,017	25,653
LPB	5,721	1,536	1,962	5.71	0.83	0.88%	15.72%	11,200	13,536
TCB*	17,712	7,872	2,251	13.55	2.06	2.65%	20.03%	30,500	32,812
VCB	35,028	12,349	2,979	19.47	3.46	1.15%	21.87%	58,000	N/A
CTG	31,968	8,402	1,870	12.97	1.33	0.74%	12.76%	24,250	27,400
VPB	30,075	8,640	5,501	5.22	1.44	2.91%	28.36%	28,700	N/A
HDB	12,803	3,137	2,866	12.61	2.05	1.35%	17.80%	36,150	N/A
STB		1,212	571	20.23	0.86	0.71%	5.18%	11,550	N/A
GAS	70,329	10,735	5,347	16.55	4.01	16.33%	23.03%	88,500	133,670
PVD	4,085	(322)	N/A	N/A	0.4	0.20%	0.34%	13,650	N/A
PVS	17,039	879	1,809	9.56	0.66	3.24%	6.78%	17,300	23,155
BSR	108,407	7,456	2,405	7.48	1.53	12%	23.01%	18,000	N/A
OIL	66,267	510	493	33.47	1.51	2.39%	4.91%	16,500	N/A
PPC	6,613	877	2,688	10.82	0.99	11.46%	15.90%	17,600	21,202
NT2	8,071	849	2,958	9.83	1.61	7.74%	14.80%	29,100	30,200
FPT	22,095	3,042	4,593	11.49	1.83	11.72%	22.40%	41,500	52,819
CMG	5,008	205	2,853	9.47	1.23	12.28%	20.10%	21,300	27,103
DXG	5,027	1,314	3,919	6.6	1.3	24%	10%	27,200	39,800
NLG	4,384	615	3,253	11.3	1.6	14.30%	6.70%	28,000	37,700
KDH	3,854	742	1,915	16.2	1.62	8.11%	5.17%	31,000	N/A
CTD	27,537	1,496	17,061	8.6	1.3	17%	9%	152,400	185,000
HBC	19,900	953	4,526	6.2	2.51	30%	6%	23,850	NA
FCN	3,500	250	2,808	7.6	1	12%	4.30%	16,950	N/A
LCG	2,487	95	954	7.6	0.71	6.90%	2.20%	9,340	10,900
DHG	4,150	730	5,583	18.27	4.75	17.60%	22.80%	102,000	N/A
PME	1,859	335	5,135	14.3	2.86	17.60%	19.50%	73,800	83,915
DBD	1,584	162	3,092	13.51	2.7	10.40%	20.40%	42,000	N/A
PVI	7,471	617	2,632	11.01	0.95	3%	8.33%	29,000	37,830
BMI	4,165	243	2,098	10.22	0.89	4.42%	9.21%	21.45	31,332
MIG	2,349	95	1,181	10.5	1.09	2.10%	8.60%	12,400	16,393
HPG	54,634	9,382	4,419	8.68	1.69	15.10%	24.70%	38,400	44,192
NKG	17,160	573	3,165	4.92	0.92	5.58%	18.05%	15,600	N/A
HSG	31,065	909	2,367	5.11	0.84	3.99%	14.53%	12,100	N/A
VGC	9,415	680	1,353	15.3	1.43	4.26%	10.00%	20,700	18,400
CVT	1,460	197	5,091	5.48	1.47	14.91%	32.40%	27,900	30,500
NTP	4,788	436	4,400	10.46	1.93	10.30%	19.00%	46,000	58,800
BMP	4,072	438	4,872	12.02	1.89	14.40%	17.90%	58,600	N/A

**BSC RESEARCH**  
**Vietnam Sector Outlook 3Q2018**

<b>Ticker</b>	<b>Sales 2018 (VND bn)</b>	<b>NPAT 2018(VND bn)</b>	<b>EPS 2018 (VND)</b>	<b>P/E fw</b>	<b>P/B</b>	<b>ROA 2018</b>	<b>ROE 2018</b>	<b>Closing price 29/06/18</b>	<b>Target price</b>
<b>AAA</b>	6,000	330	2,632	7.18	1.3	N/A	N/A	18,900	N/A
<b>BFC</b>	6,574	252	3,915	5.44	1.25	8.00%	23.56%	27,800	34,763
<b>VGG</b>	9,873	408	6,825	8.34	1.56	8.70%	26.10%	56,900	63,000
<b>TNG</b>	3,103	120	2,030	5.13	0.66	4.80%	14.80%	10,400	13,120
<b>TCM</b>	3,373	194	3,198	6.19	0.94	6.30%	15.70%	19,800	N/A
<b>GMD</b>	3,981	585	2,031	12.33	2.16	5.21%	6.25%	25,050	31,000
<b>VSC</b>	1,382	274	4,422	7.92	1.03	10.70%	15.10%	34,200	40,491
<b>PVT</b>	6,404	562	1,796	8.49	0.88	6.29%	11.77%	15,250	20,645
<b>PHR</b>	1,389	549	3,589	6.7x	1.2x	12.90%	13.03%	24,100	27,473
<b>DPR</b>	946	216	4,553	8.82x	0.72x	6.10%	7.90%	39,200	40,997
<b>DRI</b>	604	102	1,324	6x	0.6x	6.94%	10.98%	7,900	9,837
<b>DRC</b>	4,437	145	1,111	21.9x	2.0x	5.20%	9.75%	23,600	27,022
<b>LAS</b>	4,000	163	1,355	8.5	0.98	5.20%	12.39%	11,500	13,200
<b>DPM</b>	8,577	371	948	18.1	1.07	6.90%	9.94%	17,200	22,800
<b>IMP</b>	1,447	173	3,115	16.73	1.61	6%	10.00%	52,500	71,500
<b>HT1</b>	8,721	481	1,259	9.13	0.83	4.52%	8.53%	11,500	14,500
<b>VHC</b>	9,000	600	6,500	9.02	1.77	12.50%	19.70%	58,700	67,350
<b>FMC</b>	3,700	151	3,756	9.31	1.36	7.50%	24.10%	20,200	N/A
<b>SBT</b>	8,659	576	1,084	14.22	1.51	2.30%	11.20%	15,500	17,350

(Source: BSC research)

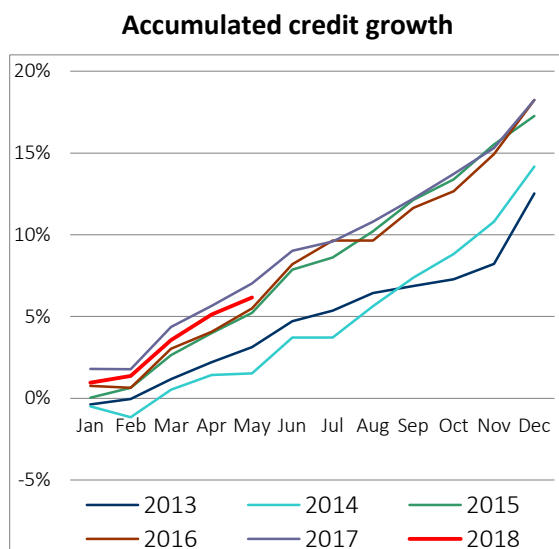
## Banking [Outperform]

- Credit grew by 6.35% in 1H2018, lower than the rate of 7.54% in 1H2017
- Deposit increased by 7.78% in 1H2018, higher than the rate of 5.89% in 1H2017
- NPL ratio decreased from 2.7% in 2017 to 2.3% in May, 2018
- Lending rate is stable while deposit rate down
- Interbank interest rate is much lower than the same period in 2017. Overnight rate was 0.65% at the end of Jun, 2018.
- Total NPAT of 16 listed banks rose by 56.12% yoy.

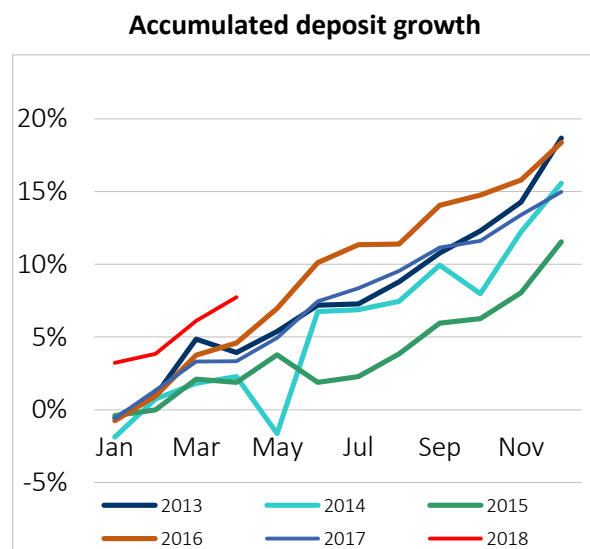
### 2Q2018 reviews

**Credit grew by 6.35% in 1H2018, lower than the rate of 7.54% in 1H2017** (General Statistic office of Vietnam). According to SBV, credit increased by 6.16% in 5M2018. In which, outstanding loans for agricultural, forestry and fishery products rose by 6.8%, industrial and construction loans increased by 6.83%, commercial loans expanded by 5.7%, loans for high technology enterprises climbed by 6.29%, loans for SMEs up 2.61%, etc. The proportion of real estate loans decreased to 6.5%.

**Deposit increased by 7.78% in 1H2018, higher than the rate of 5.89% in 1H2017.** Then, LDR down from 89.72% in 4M2017 to 88.05% in 4M2018



(Sources: SBV)



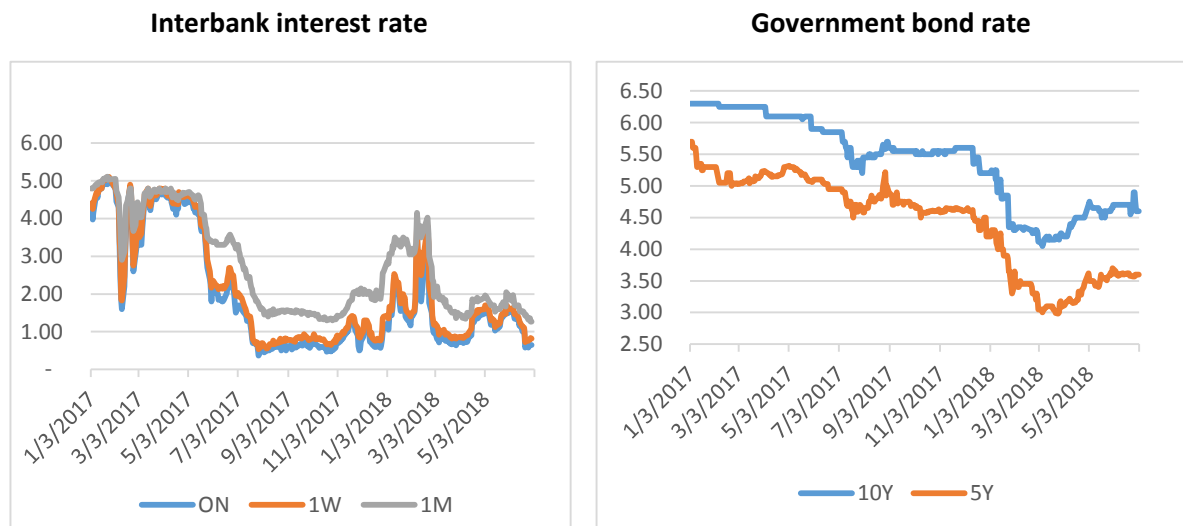
(Sources: SBV)

**NPL ratio in balance sheet decreased from 2.15% in 2017 to 2.3% at the end of May 2018.** In 4M2018, Credit institution (CIs) solved more than VND 20 trillion of bad debts. In which, CIs wrote off balance sheet 62.9% of NPLs, debtors paid 28.8%, and CIs sold 4.3% NPLs to VAMC, CIs made collaterals liquidation to collect 1.9% NPLs.

**Some banks lowered deposit rate while keeping stable lending rate.** MBB reduced deposit rate by 0 term to 5.5%. VPBank also dropped deposit rate by 0.2% for terms of less than 6 months and 12-36 mon.2% for the six- month ths, down 0.3% for 6-7 month term and down 0.4% for 8-11 month term. Compared to January 2018, VIB cut back deposit rate by 0.3-0.5% for 1-3 month term to 5-5.1%, by

0.2-0.4% for 6-month term to 6-6.3%. At Vietinbank, deposit rate for 1-3 month term were 4.1%, 4-5 month term were 4.6%, 6-month term was 5.1% and 6-11 month term to 5.1%. On 2/7/2018, TCB decreased deposit rate by 0.2 for all terms.

**Interbank interest rate and Government bond rate is still low.** The average overnight rate of the second quarter 2018 was 1.16%, much lower than the rate of 3.34% in the same period 2017. Similarly, interbank interest rates for one-week and one-month terms declined from 3.51% 1.27% and 4.04% to 1.65%. This partly reflects the abundant cash flow in the system while the pace of credit disbursement is slowing over the same period.



(Sources: Bloomberg)

**The story of banks' strategic shareholders.** As we stated in previous reports, raising capital is essential need of banks. VCB pursuit its private issuance plan which was passed by Government to maximum of 10 foreigner investors. BIDV make effort to find strategic partners.

**Some banks plan to list in the stock exchange** including OCB (charter capital was VND 4,000 billion), Maritimebank (VND 11,750 billion), Seabank (VND 5,466 billion), ABBbank (VND 5,319 billion), Saigonbank (VND 3,080 billion), Nam A Bank (VND 3,021 billion), Viet A Bank (VND 3,500 billion).

**1Q2018 results.** Total NPAT of 16 listed banks was VND 18,266 bn, up by 56.12% yoy. Some banks recorded high growth rate, including: VIB (+228.57%), HDB (+183.52%), TPB (+138.6%), ACB (+139.33%), TCB (+93.48%, excluding profit from divestment Techcombank Finance, EBT rose by 72.6% yoy), STB (+88.15% yoy), MBB (+74.04%), SHB (+64.08%) và VCB (+58.84%). NPAT of VPB rose by 35.91%, excluding one off profit from exclusive contract with AIA, EBT down by 8.1% yoy. Similarly, NPAT of EIB gain by 228.57%, excluding divestment profit, EBT fell by 79.24% yoy. We believe that a large number of banks will maintain positive results in 2018, in which, we forecast NPAT of ACB grew by 130% yoy, MBB up by 57% yoy, VCB up by 35.48% yoy and TCB up by 22% yoy.



**BSC RESEARCH**  
**Vietnam Sector Outlook 3Q2018**

	CTG	VCB	BID	MBB	STB	TCB	VPB	ACB	HDB	LPB	TPB	VIB
<b>Scale</b>												
Chartered capital (VND bn)	37,234	35,978	34,187	18,155	18,852	11,655	15,706	10,273	9,810	7,500	5,842	5,644
Equity (VND bn)	66,172	56,066	50,803	31,030	23,670	37,616	31,635	17,177	15,779	9,658	7,278	9,157
Total Asset (VND bnl)	1,114,095	1,003,906	1,226,943	316,345	381,252	273,153	284,388	299,855	190,374	169,797	121,214	136,026
Total Equity/Total Asset	5.94%	5.58%	4.14%	9.81%	6.21%	13.77%	11.12%	5.73%	8.29%	5.69%	6.00%	6.73%
<b>Growth (ytd)</b>												
Asset growth	1.74%	-3.03%	2.05%	0.79%	3.47%	1.40%	2.39%	5.47%	0.55%	3.89%	-2.34%	10.45%
Loans growth	4.51%	6.29%	1.37%	5.19%	2.91%	1.93%	3.53%	6.63%	10.90%	7.47%	10.05%	5.51%
Customer deposit growth	4.83%	3.17%	5.82%	3.11%	6.06%	6.09%	7.17%	6.98%	-2.68%	12.53%	4.02%	8.60%
CASA	14.45%	29.20%	17.02%	33.01%	14.81%	21.25%	12.09%	15.44%	9.96%	21.66%	11.85%	15.01%
Loan/Deposit	104.70%	79.02%	96.56%	85.34%	67.63%	90.38%	132.14%	81.96%	98.79%	74.91%	95.44%	113.48%
<b>Asset Quality</b>												
NPL ratio	1.25%	1.37%	1.62%	1.41%	4.01%	1.87%	4.15%	0.70%	1.63%	1.07%	1.15%	2.54%
NPL ratio including VAMC's debt	1.25%	1.37%	2.70%	1.41%	18.61%	1.87%	5.63%	0.70%	2.44%	1.89%	2.01%	3.44%
Bad debt provision/total debt	1.22%	1.66%	1.30%	1.28%	1.24%	1.43%	1.84%	0.94%	1.05%	1.12%	1.06%	1.17%
NPL coverage ratio	98%	121%	81%	91%	31%	76%	44%	135%	64%	105%	93%	46%
Interest, fee receivable/Total loan	1.78%	1.11%	1.27%	1.35%	10.54%	2.68%	2.07%	1.27%	3.21%	2.88%	1.91%	1.65%
Doubtful Asset	38,718	17,634	64,533	25,394	97,029	15,981	37,133	7,196	12,032	9,358	7,990	5,229
% Total Asset	3.48%	1.76%	5.26%	8.03%	25.45%	5.85%	13.06%	2.40%	6.32%	5.51%	6.59%	3.84%
% Owner's Equity	58.51%	31.45%	127.03%	81.84%	409.92%	42.48%	117.38%	41.89%	76.25%	96.89%	109.78%	57.10%
<b>Business effectiveness (ytd)</b>												
% net interest income	2,429	3,504	1,978	1,549	397	2,049	2,089	1,144	757	417	513	414
Profit before credit provision (VND bn)	19.54%	58.84%	8.44%	74.04%	88.15%	93.48%	35.91%	139.33%	183.52%	18.80%	138.60%	228.57%
% yoy	2.74%	2.50%	2.98%	4.34%	1.91%	4.05%	8.82%	3.35%	4.06%	3.50%	3.11%	3.19%
Credit provision expense (VND bn)	39.12%	40.98%	24.64%	38.33%	75.03%	27.19%	31.19%	50.83%	43.81%	52.74%	51.18%	50.92%
% profit before provision	0.73%	1.10%	0.61%	1.37%	0.37%	2.95%	2.63%	0.99%	1.24%	0.92%	0.98%	1.15%
Profit after tax (VND bn)	12.40%	19.19%	14.52%	14.15%	5.90%	28.13%	25.78%	17.54%	17.25%	15.92%	17.68%	15.89%
% yoy	2,103	2,887	1,985	2,278	753	8,897	4,671	2,062	2,450	2,118	1,999	2,559
NIM (TTM)	2,103	2,887	1,985	2,278	753	8,897	4,671	1,822	2,450	2,118	1,999	2,559
CIR (TTM)	17,690	15,558	13,444	16,226	13,124	32,274	21,127	15,839	15,157	12,878	12,588	17,259
<b>Valuation</b>												
P/E	11.53	20.09	13.10	11.50	15.34	10.31	6.14	17.26	14.76	5.29	13.76	10.55
P/B	1.37	3.73	1.93	1.61	0.88	2.84	1.36	2.25	2.39	0.87	2.18	1.56

Sources: BSC research

## **Investment Outlook – Outperform**

We keep our **OUTPERFORM** view on Banking stocks. (1) Core business is expected to maintain strong growth due to economy grew by more than 6% and the banks boost non- interest income. (2) SBV and banking system focus on solving NPLs and restructuring weak CIs. Banks obey more strictly regulation therefore, they are healthier. We project that some banks will make lower provision expense while record reversal of provision or other profit from recovery off balance sheet NPLs. (3) Raising capital as required by Basel II will increase the weight of banks in VNindex. (4) Some banks listed/ is going to list in 2018.

**ACB – BUY – Target price: VND 42,700/share- Upside: +20%**

**ACB is our favorite bank thanks to positive growth and good asset quality.**

- **ACB completed provision for G6 debt and VAMC bonds in 2017.** Total provision expenses for above debts was VND 2,569 billion will be not recorded in 2018. It means that the banks save about VND 1,895 per share.
- **ACB highly records reversal of provision** from G6 debts, VAMC bonds and other off balance sheet NPLs recovery. Total off balance sheet of G6 was VND 2,800 billion.
- **Good asset quality requires lower provision expenses since 2018.** At the end of the first quarter 2018, NPLs was VND 1,478 billion, up by 6.35% ytd, NPL ratio was low at 0.7%. NPL coverage ratio was 135%. Total doubtful assets was VND 7,196 billion, equal to 41.89% of equity, much lower than the proportion of 79.05% of the average of 16 listed banks.

**NPAT grew by 139.33% to VND 1,144 billion in the first quarter 2018.** Profit before provision was VND 1,624 billion, up by 35% yoy, provision expense down by 78% yoy. Loans rose by 6.63%, customer deposit increased by 6.98%, CASA is stable at 15.44%.

**BSC forecasts** that operating income will be VND 13,420 bn, up 7%, NPAT will be VND 4,875 bn, up 130% yoy. We assume that loans advance by 16% yoy, off balance sheet NPLs recovery is VND 725 bn. Then, BVPS will be VND 19,235 in 2018 and up to VND 25,408 in 2019.

**Risks.** Conflict of interest among large group of shareholders.

**MBB – BUY – Target price: VND 25,700/share- Upside: +17%.**

We recommend **BUY** MBB with target price of VND 25,700 per share under P/B valuation. MBB has good asset quality, high profitability while low valuation with P/B of 1.6x.

- **NPAT up by 74.04% to VND 1,549 bn in 1Q2018** thanks to strong growth both in interest income and non-interest income. Loans rose by 5.19%. NIM improved from 4.03% (1Q2017) to 4.54% (1Q2018) due to (1) loans /deposit increased from 82.99% to 85.34%, (2) individual loans rose from 31.55% to 33.52%. Services income grew by 36% yoy, foreign exchange and gold trading up 150% yoy, security trading climbed by 234%.
- **High profitability.** Trailing NIM was 4.34%, much higher than average of listed banks of 3.05%. This figure was supported by (1) highest CASA among listed banks at 33.01%, (2) high proportion of retail banking which accounted for about 75% loans portfolio. CIR was 38.33%, lower than average of listed banks of 45.48%. ROA and ROE was 1.37% and 14.15%, higher than the average of listed banks of 0.89% and 13.28%, respectively.

- **MBB completed VAMC bonds provision in 2017, one year earlier than its plan.** 2017 provision expenses for VAMC bonds was VND 1,322 billion will be saved in 2018. NPL ratio was low at 1.41%, NPL coverage ratio was 91%.
- **BSC forecast that 2018 NPAT will be VND 5,469 billion, up 57% yoy and will be VND 6,745 billion in 2019, up 23% yoy.** 2018 EPS will be VND 2,433/share (minus 6% NPAT for bonus and welfare fund). BVPS will be VND 14,838/share in 2018 and be VND 17,102/share in 2019.
- **Risks.** (1) NPLs may increase due to sale pressure and M-Credit loans. NPL was 1.41% in 1Q2018, higher than the rate of 1.2% at the end of 2017. Receivable account expanded sharply from VND 8,973 billion (2017) to VND 18,644 billion in 1Q2018. (2) VCB and Northern Vietnam Helicopter Company plan to divest from MBB.

**LPB – BUY – Target price: VND 13,500/share – Upside: +21%.**

On 29<sup>th</sup> June, 2018, LPB was traded at VND 11,200/share, equal to P/B of 0.87x, much lower than median of listed banks of 1.59x. We recommend **BUY** for LPB with target price of VND 13,500/share, equal to 2018 P/B of LPB of 1x. LPB locked 5% room for foreign investors and will open to 30% when they have strategic partnership.

- **Loans increased by 7.47%,** loans/deposit was low at 74.91% in 1Q2018. LPB has room for loans growth.
- **NPAT up 18.8% to VND 417 billion** in 1Q2018 thanks to lower provision expense from VND 233 billion to VND 61 billion. Profit before provision almost unchanged, at VND 1,294 billion in 1Q2018.
- **LPB has high CASA at 21.66%, only behind MBB and VCB.** The advantage is due to LPB associated with post offices throughout the country, received deposits from organizations such as Vietlott, Social Insurance, Hanoi Electricity and General Department of Customs. Therefore, NIM was 3.5%, better than the average of listed banks of 3.05%. However, ROA and ROE was at the median of listed banks of 0.93% and 15.92% respectively.
- **LPB has deep network nationwide, wider than VCB, BID.** Some post offices are going to transfer to bank transaction offices (expected to be 185 offices in 2018). LPB can boost banking services through these offices.
- **NPL ratio was low at 1.07%,** NPL ratio including VAMC bonds up to 1.89%. NPL coverage ratio was 105%. Total doubtful assets as our calculation was VND 9,358 billion, equal to 96.89% equity.
- **LPB plans to raise its chartered capital to VND 10,369 billion in 2019.** At the end of 2017, total chartered capital was VND 6,460 billion. The bank issued new shares to current shareholders and issued ESOP in the early of 2017, therefore, chartered capital rose by 16% to VND 7,500 billion. In 2018, the bank is going to issue new shares to current shareholders and pay 5% stock dividend to raise capital to VND 9,875 billion. In 2019, LPB continue to issue ESOP, after that, chartered capital will be VND 10,369 billion.
- **Risks.** (1) Loans for real estate and construction accounted for large proportion of loans (43.64%). LPB owns VND 1,160 billion of other assets which related to real estate companies. Therefore, we believe that provision expenses will expanse in coming years. (2) Interbank interest rate and repo rate go up will reduced profit from Government bond trading and repo trading of LPB.

**TCB - BUY - Target price: VND 32,800/share – Upside: +8%**

We recommend **BUY** TCB with target price of VND 32,800/share in next 12 month base on its solid fundamental and strong potential growth.

- **Customers are central.** TCB focuses on affluent and mass affluent customers. The bank builds and utilizes more than 7 ecosystems which include companies and individual customers in value chains of large corporation. Not only do these ecosystems create income stream but also effective risk management thanks to close relationship with customers.
- **TCB has large number of active customers.** Up to the end of 2017, the bank owns 1.5 active individual customers which accounted for about 30% of total personal customers; 16,000 active SMEs, and 298 active large corporations. 38% customers has been with TCB for more than 3 years, 26% customers has transacted with TCB for more than 5 years and 91% of active customers uses more than 2 products offered by TCB.
- **TCB occupies 42% market share of corporate bond advisory, 82% market share of corporate bond brokerage on HOSE.** Investment banking which has room to grow thank to early penetration, brings VND 1,061 bn, equal to 6.6% TOI in 2017.
- **TCB accounted for about 26.2% market share of bancassurance in 6M2017.** In 2017, the bank signed 15-year exclusive contract with Manulife who ranks number 3rd in term of market share (12.5%) in Vietnam. Annual premium equivalent (APE) grew by 22.71% per year during 2008-2017 and up 28% in 1Q2018. TCB targets to get VND 10,000 bn of APE in next 5 years. Currently, the number of active customers who buy insurance from TCB occupies 2%. The rate is expected to be 15-20% in the coming years.
- Total investment in next 3 years is USD 300 million, in which **TCB invest USD 30 mn in banking transaction.** These services contribute VND 1,188 billion, equal to 7.4% TOI in 2017. They are key driver of TCB to attract and serve customers better and better as one-stop solution. Therefore, CASA and income will follow.
- **TCB is the one of the leaders in term of profitability both in Vietnam and region.** NIM was 4.05%, behind VPB, HDB who own consumer finance, and behind MBB. ROA and ROE was 2.95% and 28.13%, respectively. NPAT grew by 100% in 2 consecutive years 2016 and 2017 and up 93.48% in 1Q2018. If excluding VND 894 billion profit from divestment Techcombank finance company, EBT increased by 72.69% yoy thanks to 35% decrease in provision expenses.
- **NPL ratio was 1.87%** at the end the first quarter 2018. TCB completed provision for VAMC bonds. NPL coverage ratio was 76%, the same as median of listed banks. Total doubtful asset which including receivable account from deferred payment L/C, receivable account from debt sold up to VND 3,334 billion, while accumulated provision was VND 522 billion.
- **BSC forecasts** that 2018 NPAT will be VND 7,872 billion (+22% yoy) including VND 894 billion from divestment TCB Finance. Then, 2018 EPS will be VND 2,251/share, core EPS will be VND 2,022/share. 2018 BVPS will be VND 14,780/share. We project that 2019 NPAT will be VND 8,674 billion (+10% yoy), 2019 EPS will be VND 2,468 /share and BVPS will be VND 17,248/share.

**VCB - HOLD**

We love VCB thanks to healthy position, strong profitability and high growth rate. VCB will make private placement to maximum of 10% to foreign investors. If success, bank's size and CAR will improve. It means that VCB has more room to grow in future.

- **VCB' core business is solid and grow positively.** Till the end of June 2018, credit rose by 11% ytd while the ceiling growth rate applied by SBV was 15%. We suppose that, similar to previous years, VCB continue to give proposal to SBV for more than credit growth. EBT of parent bank up 52.7% yoy to VND 7,722 billion. Due to (1) other income from off balance sheet recovery of VND 1,586 billion in 1Q2018, (2) NIM improve to 2.76% in 6M2018, higher than the rate of 2.5% trailing 12 month till 1Q2018 and 2.65% in the same period 2017.
- **VCB has good asset quality, therefore, provision expense is expected to be lower.** VCB completed provision for VAMC bonds in 2016. NPL ratio up to 1.37% in 1Q2018 from 1.14% at the end 2017. NPL coverage ratio was high at 121%, however lower than the rate of 131% at the end 2017. Total off balance sheet NPLs was more than VND 20,000 billion. Therefore, we project that provision expense will decrease and the bank may record other income from off balance sheet NPLs recovery.
- **VCB plans to divest other CIs.** According to VCB chairman, the bank will record about VND 1,000 billion profit from this activities. We assume that if VCB divest MBB from 8% to 5% at the price of VND 20,000/share and divest EIB at the price of VND 10,000/share, VCB's EBT will be added VND 889 billion. In 6M2018, the divestment of 7.6 million shares HVN and 6.67 million share OCB brought VND 240 billion and VND 123 billion of EBT, respectively.
- **BSC forecasts that 2018 EBT will be VND 15,461 bn, up 36.33% yoy** including VND 3,890 billion EBT from divestment and off balance sheet NPLs recovery. 2018 EPS after excluding bonus and welfare fund is VND 2,979/share, core EPS is VND 2,460/share. 2018 BVPS is VND 16,781/share. We project that 2019 EBT will be VND 16,933 billion up 9.52% yoy, EPS is VND 3,260/share and BVPS is VND 19,234/share.

**CTG - BUY - Target price: VND 27,400/share – Upside: +13%.**

On 29th June 2018, CTG was traded at VND 24,250/share, equal to P/B of 1.37x, much lower than median of listed banks at 1.59x.

- **EBT up 25% to VND 5,200 billion in 1H2018.** Till 1Q2018, EBT was VND 2,714 billion, EAT was VND 2,429 billion (+19.54% yoy). Loans increased by 4.51% ytd, customers deposit rose by 4.83% ytd. Loans to deposit was high at 104.7%. CTG is full room for foreign investors then hardly to raise capital. Therefore, we suppose that credit growth of the bank may be slower in coming years.
- **BSC forecasts** that 2018 EAT will be VND 8,402 billion up 13.05% yoy, EPS will be VND 1,870/share, BVPS will be VND 18,275/share.
- **Profitability.** NIM was 2.74%, ROA and ROE was 0.73% and 12.4% in 1Q2018, respectively, while median of listed banks was 0.96% and 15.21%, respectively.
- **Asset quality.** NPL was low at 1.25%. The bank completed provision for VAMC bonds in the first quarter 2018. NPL coverage ratio was 98%. However, CTG has large amount of loans to large corporation while some of them loss of profit or lack of liquidity. BSC believe that in 2018 CTG will boost NPLs solution which is supported strongly by Decision No. 42. Total

doubtful assets as our calculation was VND 38,718 billion, equal to 58.51% equity. Total collateral was VND 1,754,427 billion.

- **Catalysts:** (1) Open room for foreign investors (the current foreign ownership at CTG is 30%, equal to the limit required by SBV) (2) CTG boost handling NPLs and assets quality improve.

#### **VPB – Tracking**

VPB keep its strong growth, EAT increased by 59% annual during 2013-2017, in which FEcredit contributed about 50% of profit. However, investors should monitor closely VPB's asset quality and loans process.

- **FEcredit, a subsidiary of VPB is the leader in consumer finance** with about 50% market share. The company contributed 25% of consolidated loans but accounted for about 52% consolidated EBT in 2017 and 35% consolidated EBT in 1Q2018 due to sharply expansion in provision expense.
- **1Q2018 results.** Loans rose by 3.53% in which parent bank grew by 3.36% and FEcredit climbed by 4.06%. Consolidated EAT VND 2,089 bn, up 35.91% yoy. Excluding upfront profit received from AIA, consolidated EAT plunged by 8.1% yoy due to 57% yoy increase of provision expense to VND 2,652 billion in 1Q2018, in which provision expense of FEcredit was VND 1,717 billion
- **VPB is the leader in term of profitability** thanks to lending rate for consumer finance may up to 43.9%. Consolidated NIM was 8.82%. CIR was low at 31.19%, only higher than the rate of 28.13% of TCB. ROA and ROE was 2.63% and 25.78%, respectively, much better than the median of listed banks (0.96% and 15.21%, respectively).
- **VPB targets to get VND 10,800 billion EBT, up 33% yoy.** The bank also plans to get 29% increase in total asset, 24% increase in credit, under 3% NPLs. Then, 2018 EPS will be VND 3,566/share, BVPS will be VND 15,761/share with the assumption that the outstanding share is 2,423 million.
- **However, asset quality need to be monitored.** (1) Due to sale pressure, quickly loans process and mobile credit assessment, consumer finance is showing a lot of loops. (2) 35% loan portfolio is unsecured loans, the rate of FEcredit was 80%. (3) NPL ratio was hiked to 4.15% in 1Q2018. If including VAMC bonds, NPL ratio up to 5.63%. NPL ratio of parent bank was 3.58% in 1Q2018. (4) NPL coverage ratio was low at 46.6% of consolidated and only 40.45% of FEcredit in 1Q2018. (5) There is high probability that special mention loans of FEcredit become NPLs. Therefore, we believe that VPB and FEcredit continue to make higher provision in coming years.

#### **BID – Tracking**

BIDV has largest scale in term of total assets and credit in Vietnam. The bank owns deep nationwide network. On 29th June 2018, BID stock was traded at VND 26,000/share, equal to P/B of 1.93x.

- **1Q2018 results.** Loans increased slowly by 1.37% ytd, customers deposit rose by 5.82% in 1Q2018. Similar to CTG, loans to deposit was high at 96.56%, CAR was low, more than 9%. Therefore, we believe that loans and asset will grow slowly in coming years. NPAT was VND



1,978 billion, up 8.44% yoy. NIM was 2.98%, ROA was 0.61% and ROE was 14.52%, lower than median of listed banks (ROA was 0.96% and ROE was 15.21%).

- **BIDV set its target** of maximum of 17% credit growth, 17% deposit expansion in 2018 and 7% improvement of EBT to VND 9,300 billion.
- **Asset quality.** NPL ratio was 1.62% and up to 2.7% if including VAMC bonds. NPL coverage ratio was 81% at the end of the first quarter 2018. Similar to CTG, BID has a large number of loans disbursed to big corporations which has got trouble in cash flow. Total doubtful asset as our calculation was VND 64,533 billion, equal to 127.03% equity. Therefore, we believe that the bank continues to boost provision expense, NPLs solution and NPL management in coming years especially after Decision No 42 come into effect. Total collateral assets was VND 1,207,190 billion.
- **Catalysts.** BIDV pursues its plan to make private placement to strategic partnership which is expected to improve financial position, book value and, more important, bring future growth for the bank.

#### **HDBank – Tracking.**

On 29th June, 2018, HDB stock was traded at VND 36,150/share, equal to P/B of 2.39x, relatively high compared to listed banks.

- **Loans increased by 10.9% ytd** to VND 116 trillion. HDSaison loans is relatively small compared to parent bank, accounted for about 8.5% of consolidated loans, up 4.94% ytd but contributed 41% consolidated net interest income.
- **EAT was VND 757 billion, up 183.52% yoy in 1Q2018.** This figure was supported by strong operation of parent bank and slower provision expense (+20%yoy), which was quite different to VPB. Net interest income of parent bank rose by 62% yoy to VND 1,077 billion, securities trading gained VND 243 billion, increased 5.8x compared to the same period 2017.
- **Asset quality.** NPL was 1.63%, and up to 2.44% if including VAMC bonds. NPL coverage ratio was 64%. Expanding HDSaison may jump NPLs. We suppose that HDB should boost provision expenses, risk management and NPL solution to ensure healthy position.

#### **STB - Tracking**

On 29<sup>th</sup> June 2018, STB stock was traded at VND 11,550/share, equal to P/B of 0.88x, much lower than median of listed banks (1.59x). However, the reliability of NPLs solution may be a key question for investors.

- **Large scale compared to listed banks in Vietnam.** STB built and therefore, has its advantage in retail banking. Chartered capital is bigger than other banks as MBB, ACB, SHB, EIB, TCB, VPB, HDB, LPB. Total chartered capital was VND 18,852 billion, total loans was VND 229 trillion, customers deposit was VND 339 trillion at the end of 1Q2018.
- **1Q2018 results.** Loans grew by 2.91% ytd, deposit rose by 6.06% ytd. Operating profit was VND 585 billion, up 89.94% yoy, mainly due to (1) net interest income up 59% yoy to VND 1,672 billion, (2) NIM improve to 1.91%. The expansion in both credit and services is a good fundamental to NPLs solution and then, turnaround.
- **STB focus on NPL handling in 2017.**

**The STB restructuring proposal was approved by SBV in May, 2017.** The content show that at the end 2016, STB recorded VND 13 trillion NPLs, VND 37 trillion VAMC bonds, VND 21 trillion interest receivable value, 9.5 trillion foreclosed assets, and 6 trillion restructured NPLs. Total doubtful asset up to VND 86 trillion. SBV permitted STB to clear up all above accounts in 10 years, however, more positive, STB management expect to fix these in 3 or 5 years.

- **NPLs solution.** At the end 2017, STB's chairman Duong Cong Minh said that the bank solved VND 19,600 billion NPLs and doubtful assets in 2017, in which there was more than VND 15,600 billion of bad assets stated in the restructuring project. In detail, VND2 trillion collected from liquidation of collateral, VND2.6 trillion from bad debt sold to VAMC at market price and VND14.2 trillion from recovering bad debt and receivables. However, we concern about the reliability of NPLs solution. In some cases, for example, the collateral liquidation of Duc Hoa industrial park (Long An), STB has not collected cash. Total value of liquidation under contract was VND 9,200 billion, however, the partners made deferred payment up to 90% of total value, the payment is made in 7 years, with grace period of 2 years, interest rate of 7.5% annual.

Ticker	2018 Rev (VND bn)	2018 NPAT (VND bn)	EPS 2018	P/E FW	P/B	ROA 2018	ROE 2018	Price as of 29/6/2018	Target price
ACB	13,420	4,875	4,449	8.00	1.85	1.58%	26.43%	35,600	42,702
MBB*	15,780	5,469	2,433	9.05	1.48	1.65%	17.74%	22,020	25,653
LPB	5,721	1,536	1,962	5.71	0.83	0.88%	15.72%	11,200	13,536
TCB*	17,712	7,872	2,251	13.55	2.06	2.65%	20.03%	30,560	32,812
VCB	35,028	12,349	2,979	19.47	3.46	1.15%	21.87%	58,000	N/A
CTG	31,968	8,402	1,870	12.97	1.33	0.74%	12.76%	24,250	27,413
VPB	30,075	8,640	3,566	8.05	1.82	2.91%	28.36%	28,700	N/A
HDB	12,803	3,137	2,866	12.61	2.05	1.35%	17.80%	36,150	N/A
STB		1,212	571	20.23	0.86	0.71%	5.18%	11,550	N/A

(Sources: BSC research)

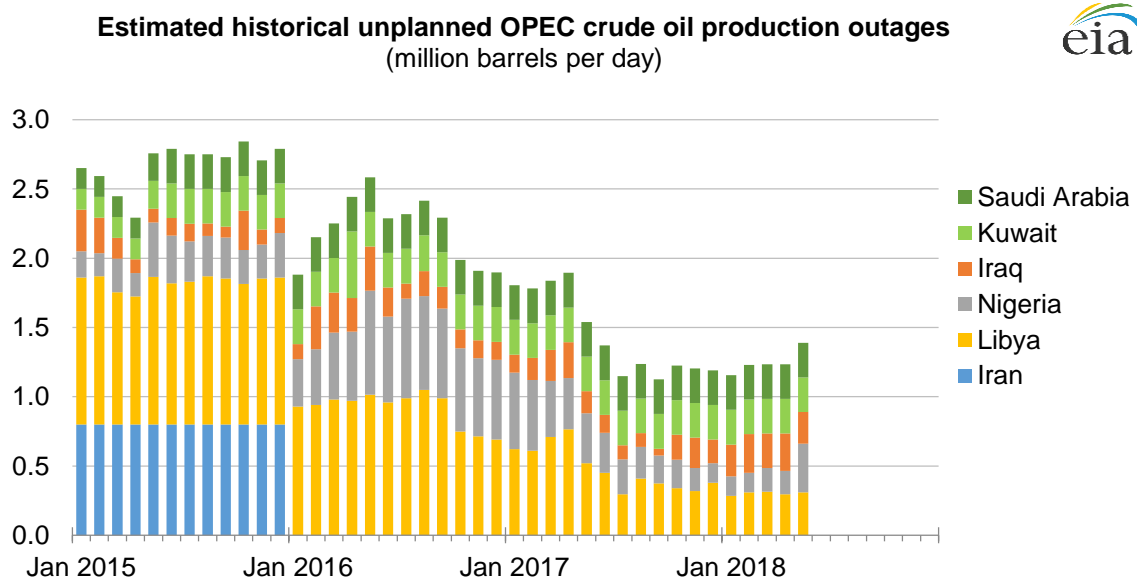
(MBB, TCB price after stock dividend and stock bonus)



## Oil & Gas [Outperform]

- Crude Oil price increases due to political conflict between US and Iran, so it supports global but Vietnam oil & gas performance still delay. By the end of August 2018, Brent crude oil increased to \$77.1 per barrel (+60.79% yoy), WTI crude oil increases to \$73.97 per barrel (+63.07% yoy).
- United States (U.S.) continues to encourage its supply power to global.
- Oil & gas companies' revenue improve thank to rising oil price. GAS and PVB recognized rising revenue 20.3% and 423.8%. However, PVD and PVS continue to face difficult situation due to highly competition.
- Investment outlook: Outperform, we recommend buy GAS.

**Crude oil price rose due to political conflict between US and Iran in the first half of 2018.** In May 2018, Donald Trump government withdrew from Iran nuclear deal and highly possibility that Iran's oil exports would decline sharply cause of new sanctions. US allies will cut Iran's oil import to zero from November 4<sup>th</sup> 2018, in hopes of forcing Iran to negotiate a follow-up deal on its nuclear program. Those actions from the Trump administration increased WTI oil price to \$73.97/barrel (+69.07% yoy) and Brent crude oil to \$77.1/barrel (+60.79% yoy).



(Source: EIA, Short- Term Energy Outlook, June 2018)

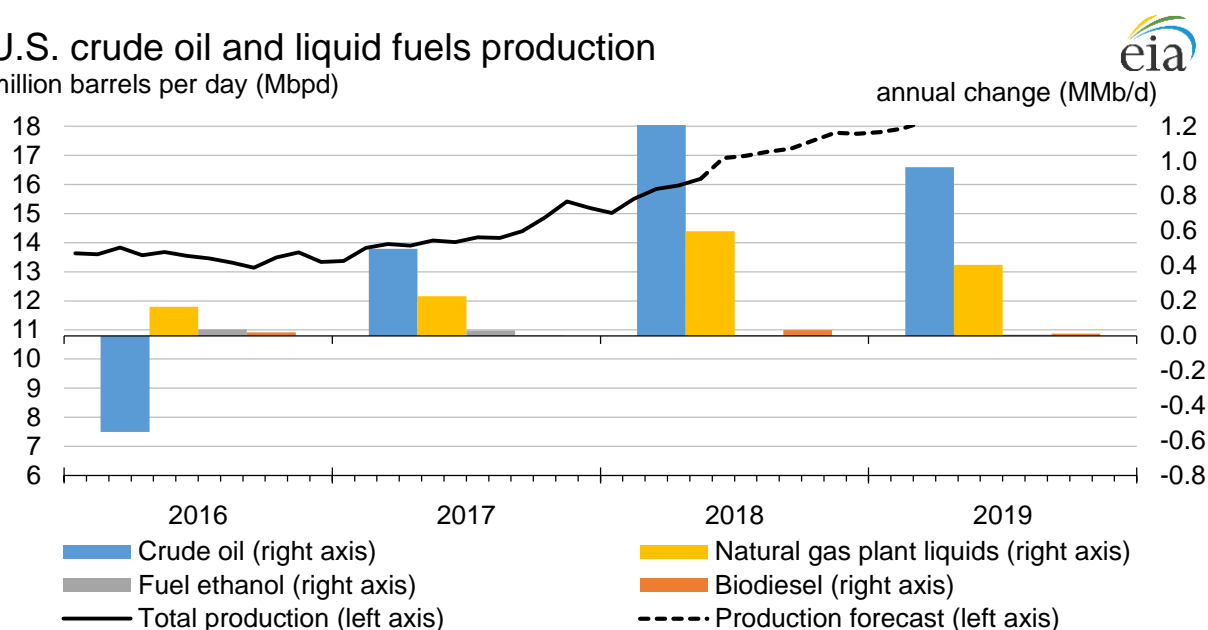
**Global oil demand will rise significantly but at a slower pace from 2023.** EIA forecasts that global oil demand will rise up to 104.7 million barrels per day (mbpd) with a CAGR of 6.9% by 2023, accounting for 50% from China and India. However, global output would be drop by 1 mbpd (-0.95% yoy) from 2023 due to increasing of fuel efficiency program in the U.S., trend of using vehicles running by electric and natural gas in China.

**U.S. continues to encourage its supply power to global.** U.S. crude oil output will reach 17 mbpd by 2023 with a CAGR of 2.8% (~3.7 mbpd), with shale oil production accounting for 47% of total

production, approximately 8 mbpd. We believe that the U.S. continue to be one of top oil producers in the world and thus meet domestic demand and reduce dependence on the OPEC. Hence, the EIA forecasts that the supply will exceed demand from Q2/2018 and world oil surplus fluctuates from 0.08 to 0.79 mbpd making oil prices tend to fall in 2019.

## U.S. crude oil and liquid fuels production

million barrels per day (Mbpd)



Source: Short-Term Energy Outlook, June 2018.

**Business performance Q1/2018: O&G companies' revenue improved thank to crude oil prices showing signal of recovery compared to the same period last year.** GAS's revenue reached VND 18,162 billion (+11.7% yoy) and PVB's revenue is up to VND 68 billion (+44.9% yoy). However, PVD and PVS are still facing many difficulties due to fierce competition from many oilfield service foreign companies which have great potential in terms of facilities, equipment's and experiences. Therefore, they are willing to offer a lower cost of service compared to local companies. At the present, the happening of supply surplus usually makes customers put pressure on the oilfield local companies.

Ticker	Main Product	Sale	%YoY	Gross	Gross	Net income	%YoY
		1Q2018 (VND bn)		Profit 1Q2018	Profit 1Q2017	1Q2018 (VND bn)	
<b>GAS</b>	Natural Gas	18,162	11.7%	22.0%	20.9%	2665	20.3%
<b>PVS</b>	O&G Technical Services	3,328	-1.4%	9.6%	8.5%	189	-31.2%
<b>PVD</b>	Drilling Oil	1,106	119.8%	-4.0%	-1.5%	-253	18.1%
<b>PVB</b>	O&G Technical Services	68	44.9%	37.5%	-10.2%	18	423.8%
<b>BSR</b>	Petroleum Refineries	24,091	N/A	N/A	N/A	1,293	N/A
<b>OIL</b>	Petroleum Wholesaler	13,696	N/A	5.1%	N/A	194	N/A

(Source: FiinPro, BSC research)

## Investment Outlook - Outperform

BSC maintains an **OUTPERFORM** rating with O&G in Q2/2018. Rising oil prices are one of the factors that make O&G stocks recovery, especially upstream oil companies. PVN continues to explore three major projects in 2018: Nam Con Son Project Phase 2, Su Tu Trang Project, and Block B O Mon Project.

However, Ca Rong Do Project has been delayed because of conflict in South Vietnam Sea. If those projects are on schedule, upstream oil companies such as PVD, PVS, PXS will be beneficial. We suggest to consider O&G stocks in 2018 such as GAS, PVD, PVS, PVB, BSR, PLX, and OIL.

**GAS - BUY - Target price: VND 106,940/share - Upside: + 20.84%**

- In Q1/2018, GAS's revenue reached VND 18,162 billion (+11.7% yoy), NPAT reached VND 2,665 billion (+19.85% yoy), EPS = VND 1,274. Business performance improved mainly thank to the average oil price in the first quarter of 2018 rose up to \$66.59/barrel (+ 17.29% yoy). Thus, GAS's revenue and NPAT have completed 32.5% and 41.4% of target plan 2018. GAS expects to pay 30% of dividend in 2018. Besides, GAS has still faced some risks such as the crude oil price expected to fluctuate frequently in 2H2018, so it will make gas price more expensive.
- Prospect of upstream companies 2018-2019 will come from newly O&G projects. O Mon Block B will be implemented in Q4/2018 to increase gas output capacity up to 6.4 billion m<sup>3</sup>/year. Su Tu Trang: GAS is responsible for transporting gas from Bach Ho oilfield along 117km Bach Ho pipeline. We estimate that the gas output capacity will be about 1.5 billion m<sup>3</sup>/year, which is expected to start from 2020 to 2035.
- Hence, we forecast that FY2018 GAS revenue will reach VND 70,329 billion (+ 9% yoy), NPAT will be VND 10,735 billion (+8% yoy), and EPS will be VND 5,347. The prospect continue to be bullish supported by the oil price rising up to \$77/barrel (+ 38% yoy) in Q2/2018. PVN holding a 95.76% stake of GAS at the present will divest to 65% in 2019, which will increase the attractiveness of GAS.

**PVS - BUY - Target price: VND 23,155/share - Upside: +33.84%**

- PVT business performance in Q1/2018 continue to be difficult. According to FS Q1/2018, sales was only VND 3,328 billion (-1.4% yoy), gross profit margin improved slightly to 5% from 4.7% of Q1/2017 thank to COGS decreased by nearly 2.6%. NPAT Q1/2018 was just VND 189.4 billion (-31.22% yoy) because loss in geologic examination and profit of other joint venture companies which operating and chartering FSO/FPSO have decreased significantly. In addition, we believe that current chartering rate is also lower than previous in long-term chartering contract, make NPAT decrease relatively.
- We predict that PVS's revenue FY2018 approximate VND 17,039 billion (+1.35% yoy), NPAT will be VND 898 billion (+12.2% yoy), EPS FW = 1,809 (assuming that 10% of the bonus and welfare fund as same previous). On 29/06/2018, PVS traded at VND 17,300/share, would be equivalent to P/E 2018 = 9.56x which exclude the revenue of Ca Rong Do Project in 2018. Therefore, PVS's NPAT 2018 will be down to VND 791 billion (-1.2% yoy), P/E 2018 = 9.78x, P/B 2018 = 0.64x.
- Issuance of additional share is still awaiting for approval of PVN. Probably, PVS will issue 142,944,134 new shares in 2018, including 7% dividend by shares and 111,675,105 shares for investing in Ca Rong Do FPSO. PVT has completed procedure and submitted to the ministry for approval. Changing stock exchange to HSX is postponed due to concentrate on the issuance.

**PVD - TRACKING**

- Q1/2018, PVD Revenue was VND 555 billion (+10.3% yoy) but NPAT dropped by VND 175 billion (-4% yoy) due to COGS of drilling service rapidly increase to VND 634 billion (+24.3%

yoy). In fact, the number of jackup rig were more raising , oppositely, chartering rate was quite low and fixed cost of rig was high (depreciation increased due to operation of rig was running frequently). In addition, interest expenses maintained highly up to VND 40.5 billion and AG&M expenses were raising to VND 114 billion made PVD loss.

- We forecast that difficulties will continue in 2H18, while drilling rigs I, II, III, VI are operating. The chartering rate is USD 55,000–60,000/day (break-even price at USD 65,000–70,000/day). Rig V is expected to operate for Ca Rong Do project, the break-even price of the rig V is USD 80,000-90,000/day.
- BSC forecasts that PVD may loss ~VND 322 billion in FY2018 (excluding provision recovery and extra provision for bad debts of PVEP). The recovery for 2018 may be only VND 100 billion (in 2017, science and technology development fund was VND 627 billion).

**PVB - BUY - Target price: 19,600 VND / share - Upside 36.11%**

- In Q1/2018, PVB revenue was VND 68.13 billion (+44.9% yoy) while NPAT rose to VND 18,146 billion significantly (+423% yoy due to VND -5.6 billion loss in Q1/2017). We expect that PVB's outlook will be positive when PVB finish CTC1-RP2 pipeline package for Vietsovpetro's Ca Tam Project which PVB will recognize VND 160 billion of revenue. In addition, PVB completed the coating contract for GAS and Gaslift pipeline on time and has transfer coated pipes of this project to investor.
- Therefore, we believe that PVB's core business is going positive as its 2018 pipeline revenue is expected to be VND 240 billion and the remaining revenue from the anti-corrosion paint project Approximately 50 billion VND corresponding to the construction volume of 140,000m<sup>2</sup>. In addition, the projects in 2H18-2023 will contribute significantly to PVB's revenue: (1) Block B O Mon Project, (2) Nam Con Son 2 Phase 2 in 2019-2023, (3) Su Tu Trang Project with coating pipeline 70km long in 2019, (4) 30km long coating pipeline of Sao Vang Dai Nguyet Project in 2020 and (5) Exxon Mobil Ca Voi Xanh Project.
- We predict that PVB's revenue and NPAT FY2018 will be VND 207 billion and VND 20 billion respectively, EPS FW 2018=VND 935 and BVPS =VND 19,639. On 29/06/2018, closing price of PVB is 15,400, would be equivalent to P/E FW 2018=16.47x and P/B FW 2018=0.78x.

**BSR - HOLD**

- In 6M2018, total consumption capacity rose at 3.6 million tons, total production estimated at ~3.5 million tons, total revenue and NAPT estimated at VND 53,919 billion (69% target 2018) and VND 2,699 billion (77.6% of 2018's target plan).
- BSR targets to consume 6.3 million tons of refined oil products, VND 78,365 billion of revenue (-3.5% yoy) and VND 3,706 billion of EBT (-54% yoy).
- BSC forecasts that BSR's revenue and NPAT FY2018 will increase to VND 108.407 billion (+33% yoy) and VND 7,456 billion (-3.3% yoy). Based on (1) Production and consumption will rise nearly 7 million tons of refined oil products thank to the factory completed its 52-day upgrading in 2017. (2) Operating capacity will surpass 109%. (3) Crude oil price will continue to climb, reaching above \$65/barrel, according to Bloomberg. (4) Crack spread for gasoline and diesel expect to decrease to \$10.46/barrel and \$11.44/barrel respectively.

**OIL - TRACKING**

- PV Oil is the second larger petroleum trading company in Vietnam after PLX. Revenue 2017 was rose up to VND 59.742 billion (+52% YoY) rapidly, but EAT was only VND 488.5 bn (-14.2% YoY), equivalent to EPS = VND 414/share. The revenue and profit scale in 2017 is satisfactory thank to the recovery of crude oil price, according to which retail price of petroleum is adjusted (according to BSC research, the average petrol price of PV Oil in 2017 increased by 12% - 14% compared to 2016, DO oil price rose over 20% YoY).
- First 4 month of 2018, net sales were VND 16,500 billion (equivalent to the same period), consolidated EBT was VND 215 billion, completed 40% and 63% of target plan in 2018. Petroleum trading volume reached 1.060 thousand m<sup>3</sup>, completed 34% of target plan. Binh Phuoc Bioenergy Plant (PVL's affiliates) is expected to operate again in May 2018 after repairing.
- Prospects of potential growth in petroleum trading business thank to: (i) consumption of petroleum products predict to grow by + 3.5% - 5.5% YoY by 2020 (according to Wood Mackenzie); (ii) PV Oil has the second largest expansion gap (22% market share - relatively large compared to the 50% threshold of the Competition Law), especially through M&A strategy of petrol retailers (about 2,400 DO stores are owned by private distributors outside of top 5).
- PV Oil has stopped its selling stake to strategic investors. Government has rejected a proposal to extend the time to complete selling 462.5 million shares (equivalent to 44.7%) to strategic investors. According to PV Oil, the most important mission now is holding a general meeting, marking its time of transfer from an SOE to a joint stock company (expected to occur in August 2018). We believe that the divestment is necessary for PV Oil because the participation of strategic investors will give a hand in improving PV Oil's performance as its foreign partners are experienced in operating and doing business in oil sector, as well as Sovico is able to support Oil in finance and development in jet fuel costs through its relationship with VietJet Air.
- BSC forecasts that net sales FY2018 will be approximately VND 66,267 billion (+ 11% YoY), NPAT will be rising up to VND 510 billion (+ 19.3% YoY), equivalent to EPS = VND 493/share, P/E fw = 41.5x.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
<b>GAS</b>	70,329	10,735	5,347	16.55	4.01	16.33%	23.03%	88,500	106,940
<b>PVD</b>	4,085	-322	N/A	N/A	0.40	0.20%	0.34%	13,650	N/A
<b>PVS</b>	17039	879	1,809	9.56	0.66	3.24%	6.78%	17,300	23,155
<b>PVB</b>	207	20	935	16.47	0.78	4.6%	4.9%	15,400	19,600
<b>BSR</b>	108407	7,456	2,405	7.48	1.53	12%	23.01%	18,000	N/A
<b>OIL</b>	66267	510	493	33.47	1.51	2.39%	4.91%	16,500	N/A

(Source: BSC Research)

## Electricity [Outperform]

- Electricity output in April and May reached 32.08 billion kWh, up 10.2% yoy.
- Electricity transmission safety is concerned when the government approves the 500kV transmission system to be included in the list of national security-related projects.
- Operations of hydropower companies are expected to face difficulties in Q3/2018
- Net revenue grew well with the average increase recorded in the industry of 33.8% yoy

**Electricity output in April and May 2018 reached 32.08 billion kWh, up 10.2% over the same period in 2017.** In the first five months, commercial electricity output is estimated at 74.42 billion kWh, up 10.56% yoy. Industrial sector consumption rose by 10.98%, continuing to account for the bulk of the load structure (55.1%) while the agricultural sector consumption increased by 25.3%.

**Electricity transmission security is concerned when the government approves the 500kV transmission system to be included in the list of national security-related projects.** In upcoming time, a series of 500kV transmission lines will be constructed such as 500kV lines: Vinh Tan - Song May - Re Tan Uyen, Duyen Hai - My Tho - Duc Hoa, Long Phu - O Mon, Song Hau - Duc Hoa; Nho Quan - Thuong Tin, Thuong Tin - Tay Ha Noi, especially 500kV Quang Trach - Doc Soi - Pleiku 500kV line. The 500kV transmission system is considered as the backbone of the national power grid, ensuring the supply of electricity to the South for economic development, especially in the context of the slowdown in southern power generation.

**Operations of hydropower companies are expected to encounter difficulties in Q3/2018.** Rainfall in the 3<sup>rd</sup> quarter is expected to be approximately the 3rd quarter of 2017. However, the source of water and river flow is expected to be 10-20% short of average over the years. In addition, the state of transition to El Nino from October with a probability of 50-60% will also affect the performance of hydropower companies, which will lead to the possibility of electricity generated from thermal power plants will increase in the coming time.

**Business results.** Most of the power companies in Q1/2018 had good revenue growth (average +33.8%) except CHP (overhaul in Q1) and SHP (Dambri factory did not enter the market in the 1<sup>st</sup> quarter). Revenues from hydropower companies continue to benefit from a steady supply of water; High prices of raw materials (gas, coal) also pushed the contracted electricity prices of thermal power companies.

Ticker	Main product	Sale 1Q2018 (VND bn)	%YoY	Gross Profit 1Q2018	Gross Profit 1Q2017	Net income 1Q2018 (VND bn)	%YoY
POW	Thermal	8,356	12.0%	16.1%	14.8%	780	30.6%
NT2	Thermal	2,021	14.3%	18.0%	22.0%	235	-11.7%
PPC	Thermal	1,801	22.1%	14.8%	16.8%	191	34.2%
BTP	Thermal	630	273.8%	23.5%	-1.0%	109	- 339.0%
NBP	Thermal	165	4.0%	5.7%	7.0%	3	104.9%

Ticker	Main product	Sale 1Q2018 (VND bn)	%YoY	Gross Profit 1Q2018	Gross Profit 1Q2017	Net income 1Q2018 (VND bn)	%YoY
VSH	Hydroelectric	237	23.0%	74.8%	70.8%	155	25.0%
TMP	Hydroelectric	165	23.9%	56.6%	51.7%	68	40.9%
TBC	Hydroelectric	134	80.6%	74.1%	63.1%	79	105.8%
SEB	Hydroelectric	105	4.4%	75.1%	76.1%	67	7.1%
SBA	Hydroelectric	81	-3.0%	74.6%	70.3%	39	7.6%
SJD	Hydroelectric	78	18.9%	57.9%	56.0%	33	32.8%
SHP	Hydroelectric	62	-19.3%	-1.0%	20.4%	-27	121.0%
HJS	Hydroelectric	34	-3.5%	39.3%	39.5%	7	-0.3%
PIC	Hydroelectric	33	22.3%	67.0%	74.0%	16	-10.7%
CHP	Hydroelectric	0	-100.0%	-152	70.8%	-74	- 153.3%

(Sources: FiinPro, BSC research)

## Investment Outlook – Outperform

We maintain an **OUTPERFORM** outlook for electricity sector. Electric enterprises are defensive stocks with high stability, high dividend yield, and low beta. Demand for electricity continues to increase, electricity prices will be improved will be the main growth drivers of electricity companies in the coming time. Especially, thermal power companies will benefit in the end of 2018 when oil prices and gas prices are expected to stabilize, with hydropower companies facing difficulties due to weather conditions. In addition to the shares of the power generation companies, investors may also be interested in related companies such as GEX, REE, PC1.

### NT2 - HOLD - Target price 30,100 VND / share -upside + 3.4%

In 2017, NT2 has completed its medium-term maintenance plan, raising capacity to 774 MW and ensuring stable operation in the next three years. The main factor affecting the profitability of NT2 in recent years is the exchange rate as NT2 currently has outstanding debt of USD 78 million and EUR 70 million. However, with the dollar exchange rate from the beginning of the year so far less volatile and the euro weakening will be a positive factor in the business results of NT2 in 2018. Currently, electricity sector face the shortage of supply of gas due to declining mining output, but the Nhon Trach 2 factory which is located in a relatively good load area (located in the center of Southeast economic region) will be provided with sufficient gas to maintain production. We forecast that annual output of NT2 will grow steadily by 3% per year, in 2018 will be at 4.8 billion kWh, profits will reach 849 billion (in terms of USD and EUR exchange rate increase 2%), equivalent to EPS of 2,958 dong / share.

In the first quarter of 2018, electricity production of NT2 reached 1.330 million kWh, revenue reached 2,021 billion and profit after tax reached 235 billion, reaching 29% and 31% of the year plan respectively.



**PPC - HOLD - Target price 19,200 VND / share - upside + 9.09%**

In 2018, PPC will complete its JPY debt restructuring, which will help PPC's business become more stable as it is no longer affected by exchange rate risk. PPC's annual output tends to decrease relative to PPC's factories have been operating for a long time, the efficiency is not high. We expect the output in 2018 to fall to 4.5 billion kWh. In addition, the investment in QTP which PPC has taken for the current provision has been operate stable and profitable since 2016, we forecasted that PPC will be able to reverse this provision in 2018. PPC's revenue is estimated at VND 6,613 billion, after-tax profit of VND 877 billion, equivalent to EPS of VND 2,688 per share. In the first quarter, PPC's revenue reached nearly VND 1,801 billion (+22% yoy), generating 1.43 billion kWh (+ 21% yoy), EAT was nearly VND 191 billion, up 34.2%.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
PPC	6,613	877	2,688	10.82	0.99	11.46%	15.90%	17,600	21,202
NT2	8,071	849	2,958	9.83	1.61	7.74%	14.80%	29,100	30,200

(Source: BSC research)



## Technology [Outperform]

- The worldwide IT market is forecast to reach USD 3.7 trillion (+ 6.2% yoy) by 2018,,
- Telecommunication revenue rose by 5.1% yoy in 6M2018 due to reduction of unregistered SIM card.
- Positive business result: FPT had a 5M2018 PAT of VND 936 billion (+ 34% yoy); CMG has an PAT of VND 133.8 billion (+ 9% yoy) for the period 2017 -2018..

**IT market worldwide is projected to reach USD 3.7 trillion (+6.2% yoy) by 2018, according to Gartner's latest forecast.** This is the highest annual growth rate Gartner has forecasted since 2007. It is a sign of a new IT development cycle. In particular, the software-enterprise market is forecast to reach the highest level in 2018 with an increase of 11.1%. The software industry will continue to capitalize on the development of digital business. The software application market is expected to continue to grow in 2019 and infrastructure software continues growing, reinforced by modernization initiatives.

**Telecom revenue grew 5.1% yoy in 6M2018,** estimated at 188.3 trillion VND. Plans to cut unregistered Sim reduce the growth momentum of this business segment. By the end of June 2018, the total number of telephone subscribers was estimated at 126.9 million, up 0.3% over the same period last year, of which 119.4 million were mobile subscribers, equivalent to the same period of last year. Subscribers growth in the telecom market is moving in a sideways trend that are continuing to be excluded. Fixed broadband subscribers were estimated at 12.6 million, up 25.4%.

## Investment Outlook - Outperform

**BSC maintained OUTPEFORM rating for technology sector.** We are positive about the future of FPT and CMG thanks to positive business results and software exporting market continue maintaining impressive growth rate.

**FPT – BUY – Target price of 52,819 VND/share– upside 27.27%**

**Positive 5M2018 business result:** Revenue grew by 21%, PAT grew 34%. Overseas market continues to be an important growth engine for FPT in 5M2018. Specifically, revenue from overseas market increased by 25% yoy. PBT from foreign markets increased 35% YoY, accounting for 35% of consolidated EBT. In particular, software exports recorded revenue reached VND 2,869 billion, up 27% YoY. EBT was VND 441 billion, up 27%. Japan continues to be the most important foreign market of FPT, contributing 59% of software export revenue with a total of VND 1,697 billion, up 26% over the same period.

**Technology segment spearheaded growth rate:** In May, FPT signed two business contracts on digital convergence in Japan with a total value of over USD 30 million. Specifically, FPT will apply new technologies to intelligent egg production facilities of ISE Foods Group. FPT also provides IT training and BPO training services to Toppan Printing. In addition, FPT IS has won two packages including: Upgrading operating system to Windows 7 and upgrading Solid Core Suite system for ATM; IT asset procurement is network equipment. We estimate these contracts will have a positive impact on FPT's revenue streams this year.

**Business result forecast.** FPT estimate to record net revenue of VND 21,900 billion (+ 11% yoy), pretax profit of VND 3,484 billion (+ 18% yoy), of which PBT is expected to be VND 1,460 billion (+ 29% yoy). BSC forecasts that FPT 2018's revenue will be VND 22,095 billion, EBT 2018 will reach VND 3,492 billion, EAT of 2018 will reach VND 3,042 billion, EAT is VND 2,439 billion g for FPT shareholders and an EPS of 3,994 dong.

**CMG – BUY –Target price of 27,103 VND/share – upside 27.24%**

**Business result of 2017 increased slightly:** Revenue reached VND 4,869 bn (+11% yoy), EBT was VND 426 bn (+20% yoy) and after tax profit of parent company was VND 138.8 bn (+9% yoy). Of which, IT and telecom services segment reached VND 3,093 billion (+28%) and VND 43 billion (+51% yoy); telecommunication reached VND 1,445 billion (+15% yoy) and VND 174 billion (+40% yoy), and other segments were VND 796 billion (-65% yoy) and VND 35 billion (-72% yoy). PAT of CMG's other segment dropped sharply as they include CMG's distribution and retail sales segments. The company is implementing its strategic divestiture of this segment so that the corporation can gradually transform this segment to hardware warranty and repair.

**Technology and Software segment:** CMC Global has signed a business deal with a Korean corporation -CJ Group and CMC Japan has signed a strategic cooperation agreement with SAMSUNG SGS. Regarding security and information, NRI Security has also approached CMG and expressed interest in CMG technology solutions. In addition, the government's passage of strong security laws requiring businesses to host cloud data sources in the country will also create more favorable conditions for CMG in data storage services.

**Telecommunication:** CMG now owns three main cable links, including the North-South Vietnam optical cable line, the Hanoi-Lang Son cable network, the Ho Chi Minh-Moc Bai cable line, and connected to three international cable links in the sea including IA, AAG and APG. North-South optical fiber cable using 96FO is the most advanced available technology with 100Gbps per wavelength. Besides competitive advantage from this fiber optic cable, CMG also save more than 1 billion per month of depreciation and the corporation can also expands to the telecommunication market surrounding this cable axis.

**BSC forecasts EAT in 2018 to be** around VND 205 bn (+ 43% yoy), EPS 2017/2018 = VND 2,853 dong after allocating 6% for bonus and welfare fund. We believe that CMG's business is improving, not necessarily accelerating in 2017/2018. Gross-profit margin of CMG is improving in the System Integration segment and Telecommunications segment.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
FPT	22,095	3,042	3,994	13.22	2.37	11.72%	22.4%	41,500	52,819
CMG	5,008	205	2,853	9.47	1.23	12.28%	20.1%	21,300	27,103

(Source: BSC research)

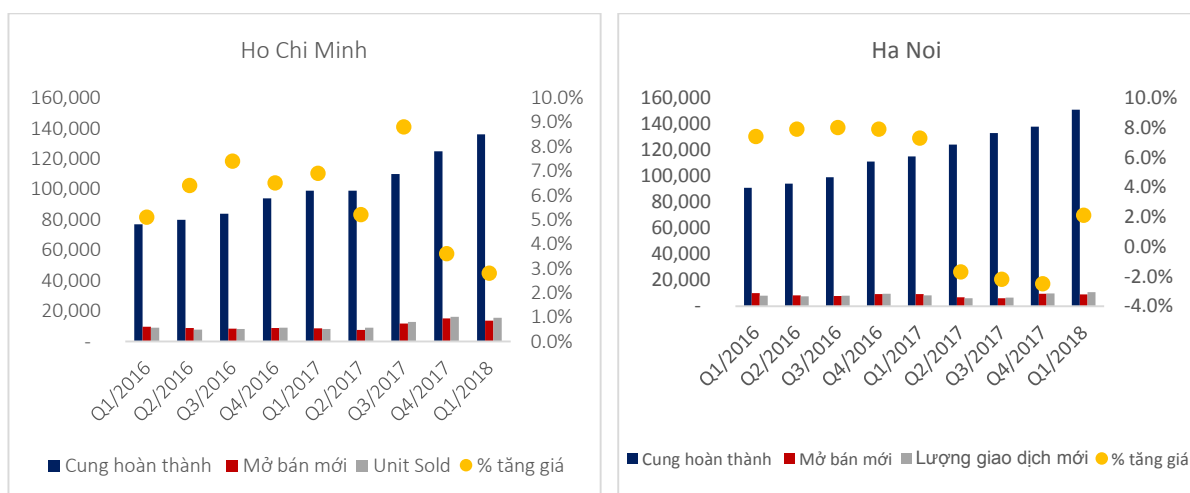
## Real Estate [Outperform]

- The demand remains at high level but the supply decreased. In Ho Chi Minh City, the number of unit sold in Q1 / 2018 reached 15,586 units (+ 91% yoy) and in Hanoi reached 10,600 units (+ 30% yoy and + 8% yoy). New supply in Q1 / 2018 in Ho Chi Minh City is 13,647 units (-10% yoy), in Hanoi is 9,000 units (-4.2% yoy).
- The average selling price of the secondary market in Ho Chi Minh increased 2.8% yoy and Hanoi 2.1% yoy.
- Project supply to the market is expected to increase sharply, real estate land will continue to create fever in early 2018.
- Q1 / 2018 business results. Net revenue increased by 79% yoy, EAT increased 120.5% yoy.
- We rated **Outperform** for the real estate sector.

**The demand remains at high level but the supply decreased.** According to JLL data, in Ho Chi Minh City, the number of unit sold in Q12018 reached 15,586 units (+ 91% yoy and -4% QoQ), while in Hanoi, its number reached 10,600 units (+ 30% yoy and + 8% yoy). The supply in Q12018 are limited because there are not many projects open for sale, specifically in Ho Chi Minh City is 13,647 units (-10% yoy), in HN is 9,000 units (-4.2% yoy). Although the supply of units opened for sale was rather limited in Q12018, however, we noticed that the number of units sold was still higher than the new openings for sales showing that demand for housing is still very high, especially concentrated in the mid-end/affordable segment occupied 62% in HCM and 67% in HN.

**The real estate market in Hanoi started to be more active** in terms of both selling price and number of unit sold compared to previous quiet periods, mainly due to new projects being launched (mainly in Hoang Mai, Thanh xuan, Nam Tu Liem, Ha Dong District).

**Average selling prices of secondary markets in Ho Chi Minh City and Hanoi continued to increase slightly.** Specifically, the prices of primary units in Ho Chi Minh City (+0.9% QoQ and 2.8% YoY) and Hanoi (1.2% QoQ and 2.1% YoY) were slightly higher.

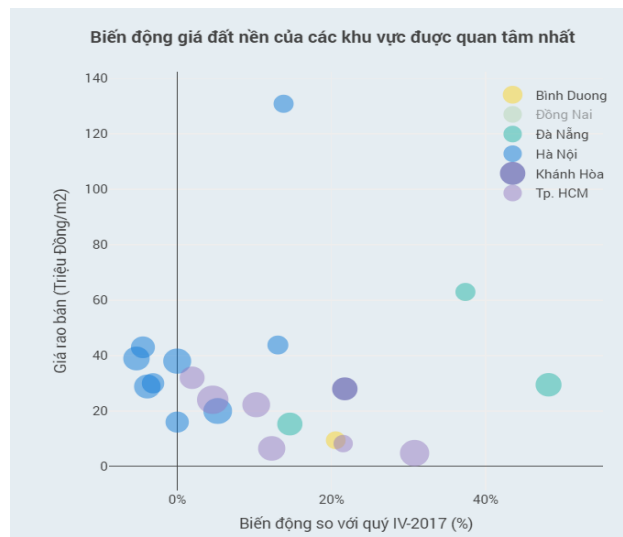


(Source: JLL, BSC Research)

**The supply for the market is expected to increase sharply.** After the Carina apartment fire, developers also actively rescheduled the sale of projects to re-examine the demand of the market. According to estimates by JLL, the market expects to have an additional 32,000-35,000 units, concentrated mainly

in the mid-end/affordable segment. We expect the mid-end/affordable segment to continue to be a major trend in the future due to (1) real demand and financial criteria due to the recent sharp rise in land prices, (2) The infrastructure is being improved. Some big projects are expected to be open in Q3-Q4 / 2018 such as Vincity (estimated at 90 million square meters), Gem Riverside, Opal Premium (DXG), Waterpoint (NLG), Sapphier, Corona Cit, KDC Tan Tao, Phong Phu 2 (KDH), Sun Avenue Residence, Sunrise Cityview, Riverside (NVL), Vinhomes Gallery (VHM), Hinode City Plaza...

**Real estate land continues to create fever in early 2018.** After the land fever in late 2017, in the beginning of 2018, the market continues to witness another land fever, but only mainly focus on Ho Chi Minh City, Hanoi and other planned specialties like Bac Van Phong, Van Don and Phu Quoc. According to preliminary statistics from batdongsan.com.vn, the increase in price level in Q1/2018 averages of about 5% -10% compared to Q42017, in addition there are some areas recorded hot as the suburban in HCM (Hoc Mon +21.8% QoQ), Cu Chi +30.79% QoQ), Nha Trang (+21.8% QoQ), Ngu Hanh Son (+48.2% QoQ). We estimate that financially constrained clients will move demand from land to affordable and mid-end apartments as land prices are maintaining a high level, so we believe that the mid-end segment will continue to be the highlight of the real estate sector in 2018 and beyond.



(Source: batdongsan.com)

**Q12018's real estate business results continued to record an impressive growth of 79.0% yoy in revenue and 120.5% yoy in EAT respectively.** According to our statistics, total revenue of the industry in 2017 is VND 24,916 trillion (+79.0% yoy) and EAT is VND 6.0 trillion (+ 120.5% yoy). We note that VIC has been excluded and added VRE and VHM to the real estate sector as VIC is a multidisciplinary group that includes the retail segment. The strong performance of the real estate sector is supported by VHM, which accounted for 42.2% of revenue and 64.8% of profit. Excluding VHM and VIC-related groups, revenue and EAT growth of the sector remained positive and showed a more reasonable level of growth. Specifically, revenues and EAT were VND 12,764 bn (+ 39.5% yoy) and VND 1,577 billion (+ 40.8% yoy) respectively.

**Real estate gains continue to focus on large businesses (1) Reputation and (2) Scale.** Diversification in the industry continued to shrink when 41 out of 65 companies which has their business performance increase over the same period accounted for 63%. According to BSC estimates, large cap companies (VRE, VHM, DXG, KDH, PDR, NLG, SCR) and reputable brands accounted for 84% of the sector's profit.

We assess that these companies will continue to benefit from the trend of choosing transparent legal and reputable real estate projects in terms of progress and quality of construction.

Ticker	Rev Q1/2018 (VND bn)	Rev Q1/ 2017 (VND bn)	% YoY	EAT Q1/2018 (VND bn)	EAT Q1/2017 (VND bn)	% YoY	Inventory (VND bn)	Pay in advance (VND bn)	Pay in advance/ Inventory
VHM	10,054	3,377	197%	3,906	915	326%	26,117	16,991	65%
NVL	411	641	-36%	106	110	-4%	28,605	10,401	36%
KDH	411	641	-36%	106	110.1	-4%	4,953	1,258	25%
PDR	382	205	86%	153	45	241%	6,322	619	10%
KBC	651	435	50%	209	177	18%	8,218	416	5%
DXG	1,184	586	102%	319	152	110%	3,097	1,284	41%
NLG	539	256	111%	32	21	50%	3,822	884	23%
DIG	352	249	42%	9	(16)	-156%	3,757	1,263	34%
HDG	225	166	35%	18	1	3299%	3,205	317	10%
SCR	809	276	193%	8	6	29%	4,115	2,721	66%
TDH	551	244	126%	29	41	-30%	551.2	50	9%
ITC	79	77	2%	9	9	-3%	2,769	442	16%

(Source: FiinPro, BSC research)

## Investment Outlook – Outperform

We rate **OUTPERFORM** with stocks in the real estate industry in the second half of 2018. New housing supply surges in 2018 could help real estate firms secure revenue and profitability in the coming years meanwhile the sales will continue to be satisfactory. BSC continues to evaluate positively with the owners of quality products and good sales progress, prestige such as VIC, KDH, DXG, NLG, HDG ... In addition, BSC also monitored many new real estate codes that are new or upcoming such as VHM, VPI, Cenland, HPX...

### DXG - BUY – Target price: 34,650 VND/share – Upside: +27.3%

We expect that 2018's earnings will witness a strong growth due to (1) The delivery of 3 projects as Opal Riverside, Lux Garden and Opal Garden, (2) Secondary Brokerage Business expects to maintain a 25% of growth rate thanks to the B/C segment maintaining good absorption. We forecast that DXG's 2018 sales will reach VND 5,027 billion (+74.4% yoy), NPATMI company is estimated at VND 1,341 billion (+ 78.6% yoy), EPS 2018FW = VND 3,919.

### NLG – BUY – Target price: 37,700 VND/share – Upside: +25.4%

In Q2/2018, the WaterPoint (WP) project has launched, this is a largest project in both scale (365ha) and value of NLG. The current cost of this project on inventories is very low at around VND 1,504bn (equivalent to VND 0.43mn sqm, which is a purely legal and compensated piece of land), compared to the surrounding land about 8 million - 9 million/sqm. Total revenue and net profit of the project are estimated at VND 10,700 billion and VND 2,230 billion respectively, recognizing from 2020. In addition, it is expected that NLG will sign a cooperation project WP with Japan, it is expected to record the

transfer of this project with a maximum of 150ha. We forecast that NLG's 2018 sales will reach VND 4,384 billion (+27% yoy) and EAT will come to VND 615 billion (+20.5% yoy), EPS of 2018F = 3,253. We note that the EAT does not include the estimated transfer of WP project which may occur this year.

#### **KDH – Tracking**

KDH is one of the most reputable real estate developers in Ho Chi Minh City (about 400ha due to the merger of BCI). The townhouses and villas is the segment that creates its reputation for KDH. The company is gradually expanding into the high-rise projects such as Jamila (it will handover in 2018) and Sapphira (it expected to open for sales in Q3/2018 - 1,600 units in Q9, with estimated selling price of around 24 million- VND 25 million / sqm). Q1/2018 earnings results of KDH are likely to decline mainly due to the unique characteristic of the real estate sector. Specifically, revenue and profit were VND 413 billion (-36% yoy) and VND 106 billion (-4% yoy) respectively. We forecast in 2018, revenue and EAT will come in at VND 3,845 billion (+ 25.9% yoy) and VND 742 billion (+ 47.8% yoy) respectively. EPS 2018F = VND 1,915.

<b>Ticker</b>	<b>Rev 2018 (billion VND)</b>	<b>EAT 2018 (billion VND)</b>	<b>EPS 2018 (VND/share)</b>	<b>P/E fw</b>	<b>P/B</b>	<b>ROA 2018</b>	<b>ROE 2018</b>	<b>Price closed 29/06/18</b>	<b>Target price</b>
<b>DXG</b>	5,027	1,314	3,919	6.6	1.3	24%	10%	27,200	39,800
<b>NLG</b>	4,384	615	3,253	11.3	1.6	14.3%	6.7%	28,000	37,700
<b>KDH</b>	3,854	742	1,915	16.2	1.62	8.11%	5.17%	31,000	N/A

(Sources: BSC research)

## Non-life Insurance [Outperform]

- Non-life insurance fee revenue increased by 13% yoy
- Domestic car sales continued to decline, causing great impact on motor vehicle sector.
- Large non-life insurance companies set relatively conservative targets, mostly at 5-10% growth

**Insurance market in the first 6 month maintained positive growth.** Total fee for the whole 6 months were estimated to increase by 23% over the same period last year, of which non-life insurance fee increased by 13% and life insurance fee by 32%.

**Domestic car sales continue to decline, causing great impact on motor vehicle insurance.** According to the Vietnam Automobile Manufacturers Association (VAMA) statistics, total sales in the first 5 months of 2018 reached about 102 thousand vehicles, down 6% over the same period last year. With the continued decline in car prices, auto insurance premiums for many insurance company were down about 10%.

**Large non-life insurance companies set relatively conservative targets, most of which are in the range of 5-10% growth although the non-life insurance industry is expected to grow.** Reasons are fierce competition and the disaster situation, which is difficult to predict. Target revenue growth is expected at 6%, but profit targets are relatively low. Except for MIG that set a high growth plan thanks to the expectation of divesting its subsidiaries, most non-life insurers plan lower than 2017.

Stock	Target Revenue 2018 (VND bn)	Revenue 2017 (VND bn)	Target EBT 2018 (VND bn)	EBT 2017 (VND bn)	Revenue 1Q2018 (VND bn)	% target	EBT 1Q2018 (VND bn)	% target
PVI	9,069	9,029	587.00	683.00	2300	25.36%	207.30	35.32%
BMI	4,300	4,089	210.00	199.26	888.96	20.67%	84.09	40.04%
PTI	3,683	3,466	120.00	186.44	811.07	22.02%	39.39	32.83%
PGI	3,261	3,147	171.35	156.35	585.20	17.95%	43.56	25.42%
MIG	2,500	2,139	146.00	55.54	373.28	14.93%	15.06	10.32%

(Source: Financial Report, AGM report)

**Business results.** The business results of insurance companies in the first quarter of the year have been growing, but the growth of enterprises is not uniform, mainly from different sales policies between enterprises. Financial income of enterprises in the first quarter of 2018 also recorded a good rise thanks to stable interest rate and the strong growth of stock market in the first quarter of 2018, only PGI recorded a decline due to the company recognized an unusual profit from SAB and Binh Duong real estate in Q1/2017. The profit of non-life insurance companies in the first quarter of 2018 also grew relatively well.



	<b>PVI</b>	<b>BMI</b>	<b>PTI</b>	<b>MIG</b>	<b>BIC</b>	<b>PGI</b>
<b>Original fee 1Q/2018</b>	1,939.9	891.44	935.98	427.79	453.86	623.69
<b>%yoy</b>	15.47%	6.37%	23.93%	2.63%	6.41%	5.20%
<b>%compensation 1Q/2018</b>	42.42%	49.77%	53.55%	44.69%	42.65%	47.16%
<b>% compensation 1Q/2017</b>	47.99%	61.3%	53.33%	40.76%	40.67%	53.47%
<b>Combined ratio 1Q/2018</b>	98%	95.8%	99.8%	104.6%	103.1%	94.4%
<b>Combined ratio 1Q/2017</b>	97%	99.7%	101.7%	102.6%	100.6%	101.7%
<b>Financial Profit</b>	147.3	48.67	35.33	31.28	78.06	11.68
<b>%yoy</b>	89.7%	17.0%	-28.7%	20.1%	45.3%	-75.2%
<b>EBT 1Q/2018</b>	207.3	84.09	39.39	12.01	53.11	43.56
<b>%yoy</b>	53.9%	62.5%	-3.2%	-25%	19.9%	9%

(Source: Financial Report)

## Investment Outlook – Outperform

We assess an **OUTPERFORM** outlook to the non-life insurance industry. The non-life insurance sector has continued to grow at over 10% due to high economic growth, especially health and financial insurance with a growth rate of over 20%. Insurance companies are trading at relatively cheap prices (now trading at or below the book value). The divestment and the raising FOL of leading companies such as PVI and BMI are expected to be the driving force for the price of insurance companies in the future.

**PVI - BUY - Target price: 37,830 VND / share - Upside 30.45%.**

- PVI is the second largest player in the non-life insurance industry, especially in the asset insurance segment. In Q1/2018, PVI's original insurance fee increased by 15%, although the compensation rate increased to 66%. However, the insurance margin remained at 16% compared to the same period of 2017 thanks to cession of reinsurance. First quarter financial profit growth of 89% helped PVI's Q1 earnings grow at 56%.
- The 2018 plan: total revenue of VND 9,069 billion (approx. 2017), profit after tax of VND 458 billion (about VND 100 billion lower than 2017, equivalent to profit from stock activities in 2017) -PVI is confident to complete its 2018 plan.
- Although PVI lost its leading position in the sector, PVI was still the largest profitability insurance company in the industry. We highly appreciate PVI with diversified investment strategies in many areas, helping insurance revenue continue to grow well despite the lack of incentives and fees endow and PVI's insurance always maintains its profit. In 2018, with the improved oil price helping the oil and gas companies, we expect PVI's insurance fee in asset sector will be higher than the average industry sector. In 2018, PVI will also book about VND 2,200 billion in financial revenue from the Embassy Garden project. BSC expects PVI's after-tax profit to come to VND 616 billion, equivalent to EPS of VND 2,632.



- PVN's capital divestment at PVI: PVN expects to divest 35% of its capital at PVI in 2018. HDI Global SE is currently willing to buy more shares to acquire key ownership interest in PVI. If the HDI can successfully raise its ownership at PVI, it will help PVI get a higher rating (equivalent to its HDI parent company), thus enabling PVI to reach out to its higher end customers. In addition, the divestment may positively affect the price of PVI because most of the non-life insurers were valued at P/B of 2x when sold to foreigners (currently PVI is trading at forward P/B of 0.94x).

**BMI - BUY – Target price 31,332 VND/share - upside 46%.**

- BMI is the third largest company in the non-life insurance market in Vietnam. BMI's original fee for the first quarter grew at a relatively low rate of 6%, but the cost of provisioning decreased (as BMI changed the way it recognizes provisions) insurance reached 70% growth, financial profit in the first quarter was 48 billion, up 17%. After-tax profit in Q1/2018 reached VND 67 billion (+ 63.4% yoy).
- In terms of business activities, BMI focuses on credit insurance, which is a BMI product in partnership with consumer finance companies such as FE Credit and HD Saison. The potential for this segment of insurance is relatively high as the growth rate of consumer credit is forecasted to remain high at around 30% per annum and the compensation rate is low (only at 22% in 2017 ), we believe that credit insurance will continue to be the main driver for BMI growth in the near future.
- We expect the company to record VND 4,165bn in revenue (+12.4% yoy) and VND 196.3bn in EAT (+ 20%). Accordingly, EPS 2018 is estimated at 2,089 VND and BVPS 2018 is estimated at 24,102 VND, equivalent to forward P/E of 8.03 and forward P/B of 0.89. Therefore, BSC recommend BMI with a target price of VND 36,930 per share.

**MIG – BUY – Target price 16,396 VND/share - upside +32.23%.**

- MIG is currently the No. 6 market player in the non-life insurance market, but has the best performance in the insurance market. Specifically, the company has the lowest compensation rate in the market and is continuously profitable annual insurance. In 2017, core revenue rose 12% (No. 2 in the top six company), well above industry growth (10%) and a relatively low 45% pay-out ratio in the insurance industry. It is noticeable that in the first quarter of 2018, MIG's original fee growth rate was low (only 2%), but with increased reinsurance, MIG maintained its revenue growth rate fee at 10%. However, the compensation rate of MIG continues to increase, affecting the profitability of the insurance business. The combined MIG ratio rose to 104% from 102% in 2017, continuing to record losses in the insurance business.
- MIG has a wide distribution network with 54 member companies, second to only BVH with 78 member companies. Special businesses have a major advantage in insurance related to military sectors.
- Unlike other insurance companies which directly invest itself, MIG invests in MB Capital. We think this is a good step forward for MIG. We expect the company to record VND 2,349 bn in revenue (+ 24% yoy) and VND 95 bn in net profit (+ 14%), excluding surplus financial income and real estate projects.

- Accordingly, EPS of 2018 is estimated at VND 1,181 and BVPS of 2018 is estimated at VND 12,221, equivalent to forward P/E of 11.17 and forward P/B of 1.08. Therefore, BSC recommends to buy MIG with a one-year target price of VND 16,396.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
PVI	7,471	616.6	2,632	11.01	0.95	3%	8.33%	29,000	37,830
BMI	4,165	243.3	2,098	10.22	0.89	4.42%	9.21%	21,450	31,332
MIG	2,349	95	1,181	10.5	1.09	2.1%	8.6%	12,400	16,393

(Source: BSC research)

## Construction [Neutral]

- The new trends in the construction sector will (1) Focus on transport infrastructure projects, (2) Build industrial area based on high FDI inflows, (3) Change from high-end to mid-end/affordable segment in real estate sector.
- Construction sector growth's pace is slowing down.
- We rated **NEUTRAL** for the outlook for the construction sector.

**Construction sector trends will** (1) Focus on transportation infrastructure projects, (2) Build industrial areas based on high levels of FDI and (3) Change from high-end to mid-end/affordable segment in real estate sector.

**(1) Focus on transportation infrastructure projects.** According to the Ministry of Transportation, The demand of investment capital in the period of 2016-2020 will be about VND 952.7 trillion, of which the government budget will only meet 21.9%, the rest will be based on ODA, Public Private Partnership. Infrastructure investment is a high stability, less cycle dependent and has a good gross margin. However, we believe that taking these contracts is relatively difficult due to the dependence on many relationships.

**(2) Building industrial areas.** Foreign direct investment (FDI) inflows in the first 6 months of 2018, although slightly down from the same period last year, are still high compared to previous years, Vietnam has attracted US \$ 16.2 billion (-3.4% yoy) also help the value of the contracts for industrial construction to improve. Given that the real estate market is cyclical, we expect construction firms who can catch up this trend will remain sustain growth in the long run.

**(3) Change from high-end to mid-end sector in real estate** cause the gross profit margin lower than the high-end segment, we estimate that its margin will decrease by 1% -1.5%.

**The pace of growth in the construction sector tends to slow down.** As of the end of Q1/2018, the total revenue of 108 listed construction companies was VND 20.2 trillion (+ 1.3% YoY), total NPAT was VND 825 billion (-64.3% YoY). We note that in Q1/2017, NPAT of construction sector contributed significantly to CII's financial income. If excluding that, the core NPAT of construction sector dropped by -23.7% over the same period. The growth slowed down considerably as only 32 out of 108 companies had positive growth in net profit compared with the same period last year. As we have mentioned in the annual report, we have highlighted the fierce competition and the increase in material prices will be the two main reasons for the decline in business performance of construction sector in 2018.

Ticker	Rev 1Q2018 (VND bn)	%YoY	Gross profit margin 1Q2018	Gross profit margin 1Q2017	EAT 1Q2018 (VND bn)	%YoY
CTD	4,311	-1.14%	7.08%	8.46%	290	-3.46%
HBC	3,346	10.33%	10.65%	11.63%	136	-25.10%
FCN	425	43.90%	13.67%	15.96%	23	28.27%
VCG	1,765	-13.54%	16.44%	14.96%	71	-57.87%
HUT	305	-51.52%	25.99%	30.03%	8	-92.35%
CII	685	386.10%	20.37%	31.03%	51	-99.82%

<b>CTD</b>	4,311	-1.14%	7.08%	8.46%	290	-3.46%
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## **Investment Outlook – Neutral**

We lowered the rating from **OUTPERFORM** to **NEUTRAL** with the construction sector due to the best construction period has past and the slowdown has come: (1) The value of new contracts is expected to slightly increase or move sideways, (2) gross profit margin of the industry tended to decrease. Construction firms are trading at average P/E of 8.8 times. BSC recommends BUY for CTD, FCN, LCG and tracking HBC.

### **CTD –BUY– Target price: 185,000 VND/share– Upside 23.6%**

According to the board, CTD will try to complete the merge between Ricons and CTD in 2018, which will increase the transparency of CTD. The value of back-log as of 30/03/2018 reached 25,576 billion. The value of new contracts signed in Q1/2018 reached VND 6,200 billion. We expect the new contract in 2018 to reach VND 28.873 billion (+ 5% yoy) and the backlog value at the end 2018, up 6% yoy to VND 24,137 billion. We project that CTD's 2018 revenue is estimated at VND27.537 billion (+ 1.4% yoy), EAT is estimated at VND 1,496 billion (-9% yoy) and EPS of VND 17,959.

### **HBC – Tracking**

We are particularly concerned about HBC's receivable risks and leverage risks. At the end of Q1/2018, the percentage of accounts receivable and receivables/total assets and debt/equity ratio of HBC were about 69.8% and 1.81 respectively (down from 2.05 times by the end of 2017). In addition, the ratio of cash and cash equivalents/total debt of HBC is 0.13 times, much lower than peers such as CTD (Unlevered), LCG (1.35 times), FCN (1.27 times). We believed that the construction sector is slowing down and lending rates are on the rise, businesses with high debt costs will face many difficulties and payment risks. We forecast that the new contracts value in 2018 is estimated at VND 21,504 billion and the backlog value at the end of 2018 increased 14% yoy to VND 16,603 billion. We expect that 2018 HBC's revenue will reach VND 19,900 billion (+ 24.0% yoy), EAT of VND 953 billion (+ 10.9% yoy) and EPS of VND 4,526.

### **LCG –BUY- Target price: 10,900 VND/share – Upside 16.7%**

LCG is a state-owned enterprise under the Infrastructure Development and Construction Corporation. After being equitized, LCG has a special advantage in terms of the ability to undertake construction works compared to other construction companies. We expect the new contracts value in 2018 will be VND 2,557 billion (-19% yoy) and backlog value at 2018 up 33% yoy to VND 3,123 billion. We forecast that 2018 sales will come to VND 2,487 billion (+ 64.1% yoy), EAT is estimated to come in at VND 95 billion (+ 22% yoy) and EPS of VND 954 dong per share.

**FCN –BUY- Target price: 19,320 VND/share – Upside 14 %**

Fecon is a pillar and foundation company with sales of over 66% (2010-2015). In the period 2015-2017, FCN has participated in two new projects: infrastructure construction (Phu Ly - Ha Nam project) and underground construction of the Metroline 3 project. Q12018's business results recorded a positive growth with revenue and EAT of VND 245 billion (+ 43.86% yoy) and VND 23.2 billion (+ 40.62% yoy) respectively, mainly from Vinfast Hai Phong (VND 110 billion) , Empire City HCM (70 billion), Transimex Hung Yen (33 billion), Viettel Ton That Thuyet (22 billion). We forecast that FECON's 2018 sales will come in at VND 3,005 billion (+ 24.3% yoy) and EAT is estimated at VND 148.2 billion (-16.5 yoy), excluding the extraordinary financial profit from the sale of BOT at Phu Ly and Phu Quoc BOT projects in 2017, 2018F profit after tax grew by 40.6% YoY. The basic EPS of 2018 is VND 1,281 / share (assuming FCN has completed the issuance of 5% dividend share and issued to strategic shareholders of 25 million shares in Q3 / 2018, EPS of 10%), EPS diluted is VND1,239 / share (assumed conversion price is VND20,000).

Ticker	Rev 2018 (billion VND)	EAT 2018 (billion VND)	EPS 2018 (VND/share)	P/E fw	P/B	ROA 2018	ROE 2018	Price closed 29/06/18	Target price
CTD	27,537	1,496	17,061	8.6	1.3	17%	9%	152,400	185,000
HBC	19,900	953	4,526	6.2	2.51	30%	6%	23,850	N/A
FCN	3,500	250	2,808	7.6	1.00	12%	4.3%	16,950	19,320
LCG	2,487	95	954	7.6	0.71	6.9%	2.2%	9,340	10,900

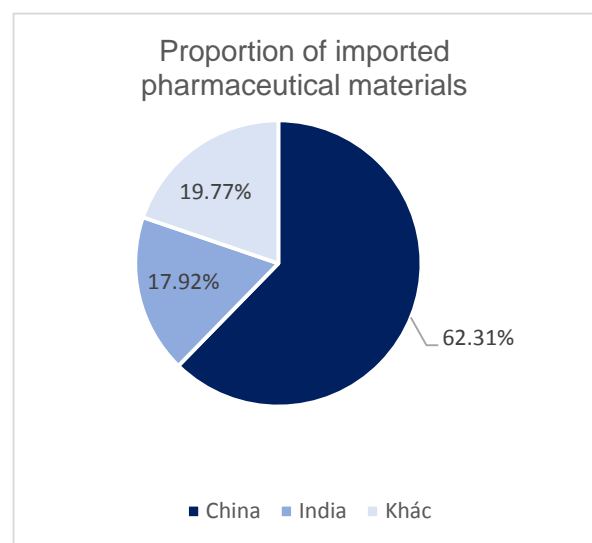
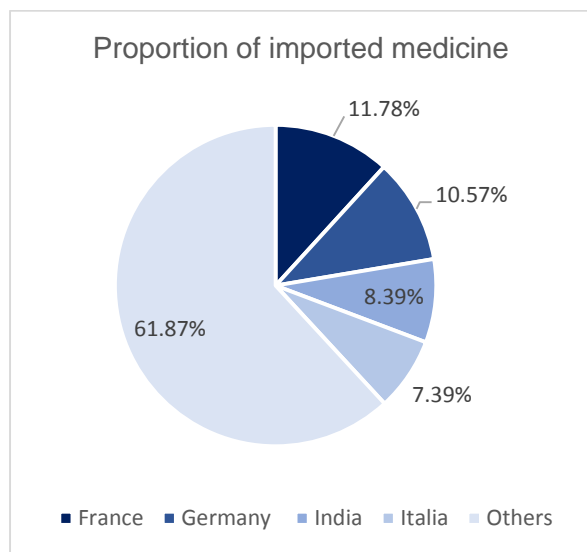
(Sources: BSC research)

## Pharmaceuticals [Neutral]

- In the first 6 month in 2018, manufacture of pharmaceuticals, medicinal chemical and botanical products index increased 16.2% yoy
- In the first 5 month, Vietnam import USD 1,142 million pharmaceutical material (+6.4% yoy)
- The increase in foreign ownership may happen in local corporates, after DHG's foreign ownership raised to 100%.
- In Q1/2018, net revenue and NPAT of 15 pharmaceuticals corporates reached VND 5,359 bn (+2.8% yoy) and VND 546 bn (-1.4% yoy) respectively.

**Manufacture of pharmaceuticals, medicinal chemical and botanical products increased by 16.2% yoy.** According to General Statistics Office, medicines production increased by 16% yoy, 1.4% qoq. This is the highest increase in the last 3 years, confirming the increased manufactured quantities in pharmaceuticals corporates.

**Pharmaceuticals import stably grew.** According to Vietnam Customs, in the first 5 month in 2018, Vietnam import USD 1,142 million pharmaceutical materials (+6.4% yoy). France continues to be the largest exporter to Vietnam with USD 134.6 million (+11.9% yoy) in value, accounting for 11.78% of total value. Moreover, importing pharmaceutical materials recorded USD 172.4 million (+9.4% yoy). China is the biggest provider, exporting USD 107.4 million to Viet Nam, comprising of 62.35% of total value.



(Source: General Department of Vietnam Customs)

**In Q1/2018, DHG officially increased the foreign ownership limit (FOL) to 100%.** This is the second pharmaceuticals company (after DMC) to open foreign room to 100% and soon, foreign shareholders took action to increase their ownership. BSC comments that under the circumstance of the continuous wave of investment occurs, larger room for foreigners is likely to happen. At present, PME, IMP, TRA, have foreign ownership of 49%, in which, TRA belongs to the list of SCIC enterprises will withdraw capital from 2017 to 2020.

**Draft bidding for drugs in public health facilities.** Currently, the Ministry of Health is drafting the Law on Bidding at public health facilities, which is expected to directly affect the pharmaceutical business environment. In particular, bidding prices will be based on prices of drugs and pharmaceuticals received in the past 12 months (instead of only based on the price of medicine in accordance with Circular 11). At the same time, in the generic group tender, companies meeting Group 1 and Group 2 criteria may participate in Group 3 or Group 5 bidding (instead of Group 5 under Circular 11).

**The winning bidding price in the first phase in 2018 sharply reduced.** According to data released by Vietnam Social Insurance, the average winning price of the first phase in 2018 was 20% lower than the average winning bid in the second phase in 2017. BSC said that the bidding price would likely continue to decrease, when the Ministry of Health and Social Insurance Vietnam have policies to reduce drug prices in health facilities.

**Q1/2018 operating business results:** In Q1/2018, total revenue and NPAT of 15 listed pharmaceutical companies gained VND 5.359 bn (+2.8% yoy) and VND 546 bn (-1.4% yoy) respectively. Growth momentum has been slowing down due to (1) Change in tendering procedures resulting in lower bid prices (BSC Sector Outlook 2Q2018) and (2) Fierce competition in the OTC market.

Ticker	Rev 1Q2018 (bn VND)	%YoY	GPM 1Q2018	GPM 1Q2017	Net income 1Q2018 (bn VND)	%YoY
DVN	1,364	-0.1%	8.8%	n.a	32	-32.1%
DHG	908	2.9%	43.2%	45.5%	171	-0.9%
PME	409	-0.3%	48.3%	47.4%	73	9.2%
DHT	391	18.5%	14.5%	15.6%	21	61.1%
TRA	365	-9.0%	54.9%	51.5%	37	-9.2%
DBD	348	1.6%	34.7%	n.a	41	-1.9%
DMC	292	4.8%	39.8%	39.1%	52	8.5%
OPC	283	0.5%	42.2%	43.4%	27	17.5%
IMP	253	12.8%	39.4%	41.0%	32	26.8%
DCL	188	22.4%	31.0%	33.2%	7	-51.3%
DBT	174	-2.7%	23.2%	23.8%	3	-26.0%
DP3	125	46.8%	58.9%	53.2%	18	64.7%
PMC	115	2.7%	41.4%	43.4%	18	5.1%
LDP	104	-18.3%	14.1%	15.5%	-1	-133.0%
PPP	33	-2.6%	22.4%	18.7%	2	149.5%

(Source: FiinPro, BSC research)

## Investment Outlook – Neutral

We maintain the NEUTRAL rating for the pharmaceutical sector. With defensive characteristics, pharmaceutical stocks are potential investment opportunities in the volatile market. Drug revenue per capita in 2018 is expected to reach USD 59.9 (+ 9.9% yoy). The pharmaceutical market is forecast to grow at CAGR of 9.1% during the period of 2018 - 2021, according to BMI data. At the same time, foreign investors continue to increase their ownership in domestic businesses. In the Q2/2018, DHG and TRA both have information related to foreign shareholders (DHG has increased foreign room to



100%). BSC comments that the cooperation with foreign shareholders will promote the transfer of technology, improve the competition of enterprises. Industry stocks are currently trading at  $P / E = 17.66$ ,  $P / B = 2.17$ , close to the median of the region ( $P / E = 18.3$ ,  $P / B = 2.1$ ).

**PME – HOLD – Target price: 83,915 VND/share – Upside 16.54%**

**PME is the third largest pharmaceutical company in terms of revenue.** The company owns the manufacturing lines of cephalosporin capsule and cephalosporin injection in compliance with the EU - GMP standard and 10% of the products are certified as bioequivalent - the highest rate among pharmaceutical companies.

**Drug sales still have potent for growth.** BMI forecasts that drug sales per capita in Vietnam will reach USD 78 per person in 2021, from USD 54.5 per person in 2017, equivalent to a CAGR of 9.3 per cent.

**The growth engine comes from new factory, which is expected to be completed in 2019.** The Non-betalactam factory will follow the PICS / EU - GMP standard, with a capacity of 1,200 million units / year, raising total capacity of the whole company is 2,137 million products / year (+ 128%).

**DHG – TRACKING**

**Increase room for foreign ownership to 100%.** On July 4, 2018, Hau Giang Pharmaceutical Company has been approved to raise room for foreign investors to 100%. In return, the company has to stop supplying pharmaceutical products from third parties (Eugica) and packaging business.

**Major shareholders Taisho wants to increase its stake to 32%.** Taisho Pharmaceutical has announced the public offering of 9,232,647 shares, equivalent to 7.06% of charter capital with the expected bid price of 120,000 VND/share (20% higher than the closing price on July 4, 2018). After the tender offer, Taisho will own 41,838,743 shares, representing 32% of charter capital. Taisho will continue to accompany DHG in upgrading, expanding the plant in the near future.

**Promote self-produced medicines.** DHG expects to increase its revenue from self-produced products by 15.9% to VND 3,541 bn. Growth will come from increased sales of products with high gross margins and high sales prices (antibiotic items) through higher discount rate for pharmacists. BSC said that DHG's earnings would not be affected by the discontinuation of third parties products distribution due to low contribution to gross profit (~ 2%).

**DBD - TRACKING**

**Construction of new factories.** The company will focus on two new plants with a total of VND 281 bn disbursed capital. Capital for cancer medicine factory is VND 116 bn and for Non-betalactam factory is VND 165 bn. The construction of the new EU / PICS - GMP standard will help DBD be able to take bidding in group 2 drugs, at prices 20-30% higher than the price of group 3 drugs. Currently, the construction of the plant is at contractor selection. DBD also said that new factories will apply both standards for drug production line, with the cost of building EU - GMP will be higher than PICS - GMP.

**Divestment from Binh Dinh Investment Fund.** Binh Dinh Investment Fund owns 13.34% of DBD. Expected capital withdrawal will take place in 2018 - 2019.

<b>Ticker</b>	<b>Rev 2018 (bn VND)</b>	<b>EAT 2018 (bn VND)</b>	<b>EPS 2018 (VND)</b>	<b>P/E fw</b>	<b>P/B</b>	<b>ROA 2018</b>	<b>ROE 2018</b>	<b>Closing price 29/06/18</b>	<b>Target price</b>
<b>DHG</b>	4,150	730	5,583	18.27	4.75	17.6%	22.8%	102,000	N/A
<b>PME</b>	1,859	335	5,135	14.30	2.86	17.1%	19.5%	73,800	83,915
<b>DBD</b>	1,584	162	3,092	13.51	2.70	10.4%	20.4%	42,000	N/A
<b>IMP</b>	1,447	173	3,115	16.73	1.61	6%	10.0%	52,500	71,500

(Source: BSC research)

## Steel [Neutral]

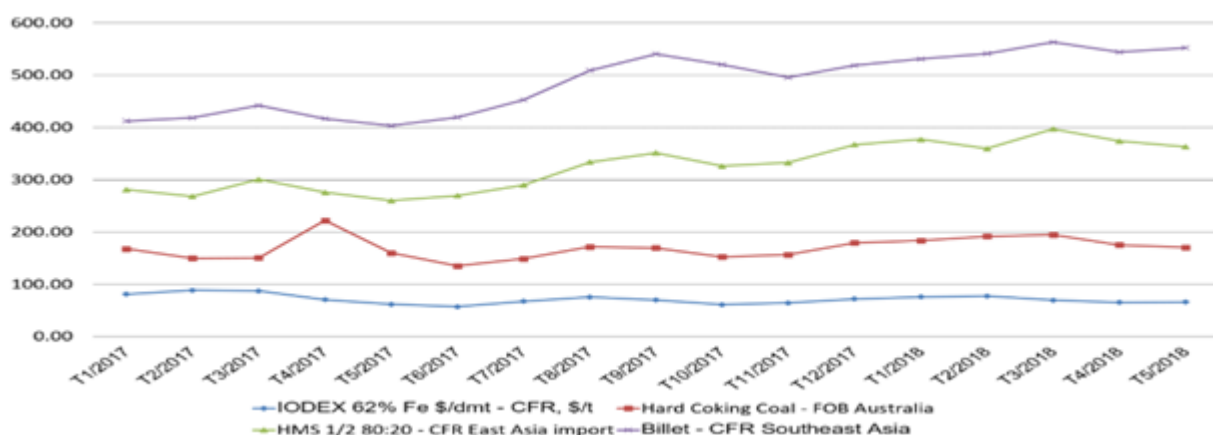
- Construction steel consumption in the first 5 month of 2018 reached 4.1 million tons, +18.74% yoy
- Raw iron ore material prices fell slightly to \$66, but continued to move complicatedly in the second quarter
- Plated steel products in Vietnam continued to be subject to anti-dumping tax

**Domestic consumption continued to grow.** According to the report of the Vietnam Steel Association, construction steel consumption in the first five month of 2018 reached 4.1 million tons, up 18.74% yoy. Consumption of steel pipe grew by 16.21% over the same period, reaching 963 thousand tons of products in the first five month. Consumption of coated steel and hot rolled coil and cold rolled cores reached 1.3 million and 804.5 thousand tonnes, up 19.7% and 171.01% yoy respectively.

**Steel imports from China continued to decline.** In the first four month of 2018, imports of steel from China reached approximately 1.82 million tons, or 42.5% market import, down from 47% in 2017. From 2016, China has been implementing a policy of reducing capacity and increasing domestic demand which caused exports to decline sharply. However, Chinese companies are now relocating and investing in steel factory in South East Asia, particularly countries such as Indonesia and Malaysia, targeting large, undeveloped and unthreatened by import duties steel market. This has a great impact on steel companies in Vietnam, especially steel sheet companies as Southeast Asian market is the main export market of Vietnam steel.

**The price of raw materials continues to move complicatedly.** Iron ore prices in the second quarter hit a peak as the market expected the Chinese people's bank would cut reserve requirements to support real estate projects, thereby increasing demand for steel. Iron ore prices, as well as many other materials, have fallen sharply as war trade between the United States and China is on the rise in late June. Iron ore prices have fallen from \$74 earlier this year to \$66, we maintain our forecast that the ore price will drop slightly to \$65 per tonne and it will be hard to decrease due to China policy in which restructure domestic steel market and reduce output. Prices of other materials such as coking coal, scrap steel or graphite electrodes generally tended to move sideways in the second quarter of 2018.

Steel Marterial Price Chart 2018



(Source: VSA)

**Countries take measures to protect the steel industry in the country.** The US imposition of duties on steel products imported into the country could create a wave of protectionism for the domestic steel industry globally to curb imports of steel that would otherwise have been exported to the United States. According to statistics, Vietnam's steel industry is the subject of 37 anti-dumping cases, 9 anti-subsidy investigation, accounting for 50% and 75% of cases. On 07/06, the Indonesian Anti-dumping Commission (KADI) announced its conclusion in the anti-dumping investigation on the coloring products imported from China and Vietnam. Accordingly, the coloring products from Vietnam will be taxed from 12% -28.49% over a period of 5 years. In addition, some US businesses have filed inquiries into anti-dumping and anti-subsidy measures to the US Department of Commerce for anti-corrosion steel products imported from Vietnam. Other markets, such as the EU and Canada, have also conducted self-defense reviews for countries outside the region, including Vietnam. The lawsuits have not affected many steel companies when the color coated steel products are not the main product as well as that the US market, Eu and Canada are not the main export markets of our country, but will still be compulsory force of Vietnamese enterprises to enhance competitiveness, closed production string.

**Q1/2018 business results.** In the first quarter of 2018, steel prices remained high, helping the company's revenue grow well (average of 20% over the same period). However, the price of ore and raw materials have been complicated and highly competitive in the industry, resulting in gross margin declining (on average only 8.74% compared to 11.16% in 2017). As a result, most of the businesses have decreased profit compared with the same period in 2017.

Stock	Main product	Revenue 1Q2018 (bil.d)	%YoY	Gross profit margin 1Q2018	Gross profit margin 1Q2017	EAT 1Q2018 (bil.d)	%YoY
HSG	Steel sheet	7,664	23.4%	13.3%	18.6%	96	-77.0%
NKG	Steel sheet	3,586	49.9%	8.2%	12.8%	121	-22.3%
DTL	Steel sheet	712	23.6%	10.7%	23.7%	37	-59.1%
HPG	Construction, pipe	13,001	26.7%	22.8%	24.0%	2223	14.9%
POM	Construction, pipe	3,040	11.0%	9.9%	10.5%	209	2.3%
TVN	Construction steel	5,164	16.5%	7.3%	8.7%	383	64.2%
TIS	Construction steel	2,649	31.7%	5.1%	8.5%	12	-77.4%
TLH	Construction steel	1,467	39.9%	11.9%	15.3%	101	-10.3%
VIS	Construction steel	1,300	-12.8%	2.5%	5.1%	2	-94.3%
HMC	Construction steel	892	39.5%	3.9%	5.3%	16	-4.2%
DNY	Construction steel	441	-3.3%	1.2%	7.8%	-18	-281.9%
VGS	Steel pipe	1,722	23.7%	3.5%	3.3%	18	34.0%
SMC	Trading, processing steel	3,263	15.7%	5.2%	7.9%	74	-32.5%

(Source: FiinPro, BSC research)

## **Investment Outlook – Neutral**

We maintain **NEUTRAL** rating as consumption continues to grow well although competition in the industry continues to increase especially for steel sheet companies. Profitability of businesses is expected to continue to fluctuate as the selling price of steel and materials can fluctuate in the coming time due to the impact of global trade war.

### **HPG – BUY – Target price: 44,192 VND/share - Upside 12.7%**

- Phase 1 of the Dung Quat project is expected to be in operation by early Q3.2018. Dung Quat project with a capacity of 2 million tons of long steel is expected to come into operation in June, helping HPG increase its capacity to double to 4 million tons per year and expand the consumption of Hoa Phat steel to market in the South and Central region. Along with having the advantage of production cost, the increase of capacity from Dung Quat project will help Hoa Phat to confirm the number 1 position in the construction steel market.
- For phase 2 of Dung Quat project, the main product is HRC, which will help HPG improve the gross profit margin of steel pipe and galvanized steel sheet (HRC is the input and still be imported 100%). With the financial structure quite healthy compared to steel sheet companies, BSC expects HPG will continue to succeed in the galvanized steel market like the steel pipe and steel construction market.
- We forecast HPG's FY2018 sales will come in at VND 57.227 bn (+ 24% yoy), EAT of VND 9,382 bn (+ 17% yoy) and EPS of VND 4,419.

### **NKG - HOLD**

- Capacity and revenue are expected to increase after Nam Kim 3 plant is put into production. Once in operation, Nam Kim 3 will double its NKG plating capacity. Currently, the NKG plating capacity is about 1.2 million tons. The introduction of cold rolling will also help NKG close the value chain, improving margins. NKG also increased its steel pipe capacity by 180 thousand tons per year by 2017. In 2018, the company expects revenue of VND 17,000 bn (+ 35% yoy), profit of VND 750 bn (+ 6% yoy) and EPS is 5,769 VND per share and dividend is maintained at 50%.
- Regarding Q1 business results, sales volume increased by 24% yoy and selling price increased by 1%. However, with NKG's profit margin falling due to the increase of hot rolled coil price and depreciation of factory and interest expense, Q1's EAT dropped by 35.87%, only reaching 100 billion. NKG's financial position is also relatively risky as most of its current liabilities are short-term debt (accounting for more than 60% or more than VND3,500 billion) while NKG's short-term assets are mainly Accounts receivable and inventories (about 80%, equivalent to VND 4,000 bn), which are affected by steel prices and raw material prices. We believe that with export markets facing difficulties and the fluctuation of raw material prices, NKG's FY2010 EAT will drop about 20% to about VND 573 bn, equivalent to EPS of VND 3,165 per share.
- Sales of NKG in the first five month of the year reached 318 thousand tons, a growth of 34.59% over the same period of 2017.

**HSG - HOLD**

- The second largest steel company and the leader of plated steel sheet. HSG's current consumption is 1.2 million tons, leading the sector, surpassing rivals and will continue to increase strongly in the near future. The current market share of HSG in 2017 is 33.5%, leading the country with more than 340 retail outlets throughout the country. Sales volume of HSG in the first five months was 721 thousand tons, up 13.46%.
- Similarly to NKG, HSG will also face great difficulties in consumption when Hoa Phat is involved in plating and imported countries create tariff barriers. Even HSG's financial position is far more risky than NKG as short-term debt of HSG exceeds short-term assets (exceeding 23%). Similar to NKG, receivables and inventories account for a large part of HSG's short-term asset structure, in the case of falling steel prices which will have a huge impact on the solvency of the firm. In addition, HSG is implementing a policy of discounting plastic pipes in order to gain market share from BMP and NTP, thereby significantly affecting the overall profit of the whole enterprise.
- BSC forecasts that in 2018, HSG will report net sales of around VND 31,000 bn (+ 15% yoy) and after-tax profit of VND 909 bn (-32% yoy) and EPS of VND 2,598.

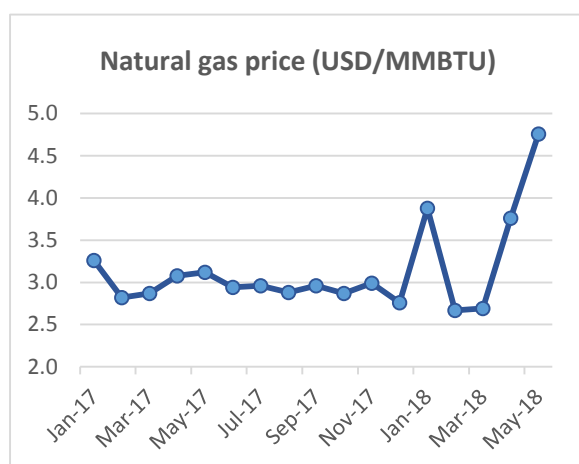
Stock	Revenue 2018 (bn VND)	EAT 2018 (bn VND)	EPS	P/e fw	P/B	ROA 2018	ROE 2018	Price at 29/06/18	Target price
			2018 (bn VND)						
HPG	54,634	9,382	4,419	8.68	1.69	15.1%	24.7%	38,400	44,192
NKG	17,160	573	3,165	4.92	0.92	5.58%	18.05%	15,600	N/A
HSG	31,065	909	2,367	5.11	0.84	3.99%	14.53%	12,100	N/A

(Source: BSC research)

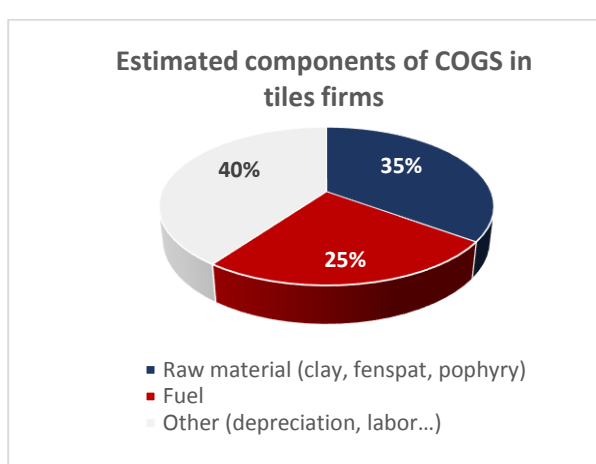
## Tiles [Neutral]

- Fuel price increased: coal price + 10% YTD, gas price + 22.7% YTD.
- Revenue in 1Q2018 witnessed a growth in granite and tiles firms whereas ceramic producers posed a decline in sales.
- We maintain a NEUTRAL rating for tiles sector in 2018.

**Fuel price increased: coal price + 10% YTD, gas price + 22.7% YTD**, resulting a surge in cost of goods sold. Most of the listed firms such as VIT, VHL, TLT switched to use natural gas instead of coal to lower the residue rate as well as to raise the number of A- rating products. In CVT, most of the production lines except for CMC 2.2 still use coal to generate heat. Thus, firms using natural gas as input fuel will suffer greater influence in profit margin due to a sharp rise in natural gas prices, especially in April and May 2018.



(Source: Indexmundi)



(Source: BSC Research)

**Operating results in Q1/2018 are differentials.** While sales were up in granite manufacturers (CVT, VIT) and terracotta tiles (VHL), ceramic firms (TTC, TCR) experienced reduction in revenue, which partly reflected the consumption trend. Profit margins of all firms in the industry (except for CVT) fell sharply in light of the downward trend in selling prices along with the surge in coal and gas prices.

Ticker	Rev 1Q2018 (bn VND)	%YoY	GPM 1Q2018	GPM 1Q2017	Net income 1Q2018 (bn VND)	%YoY
VGC	1,830	-9.8%	20.5%	24.9%	119	-40.10%
VHL	481	0.3%	13.9%	17.1%	30	-0.56%
CVT	239	26.5%	24.8%	24.6%	34	18.90%
TCR	229	-16.4%	13.5%	10.0%	-29	-7.10%
VIT	207	16.0%	10.5%	14.6%	0	-98.99%
TTC	74	-8.4%	12.9%	13.4%	3	-44.57%

(Source: FiinPro, BSC research)



## Investment Outlook – Neutral

We maintain a NEUTRAL rating for the prospect of tiles sector because listed firms in this sector have obvious strength in the context of severe competition after the capacity expansion race. It is expected that consumption in the last months of the year to be better thanks to the demand of construction completion. Current consumption trend appreciates aesthetics, which requires enterprises to constantly improve the design and develop new products. While raw materials prices did not fluctuate much, rising input fuel prices from the beginning of the year have negatively affected the profitability of firms.

### VGC - HOLD - Target price: VND 18,400 / share

Long-term growth comes from industrial parks (IPs), high-quality sanitary wares and super-white glass segments

- **Industrial parks:** In 5M2018, Viglacera rent 40ha, fulfilling 30% of the year plan; received both domestic and foreign investors with the expected rental area of 40ha. Hence, BSC believes that VGC is likely to achieve its target of 120 ha occupied in 2018.
- **Sanitary wares:** Improving the ratio of high-quality products by conducting orders for Caroma (Viglacera Viet Tri); co-operating with ROCA through establishing a partnership. My Xuan 750,000-product per year (+ 61% capacity) factory will be put into operation in the third quarter of 2018.
- **Glass segment:** The average price of building glass will decrease in 2018 due to (1) increasing competition from glass imported from ASEAN and newly launched Indevco Ninh Binh; (2) the 2017 price level was relatively high. New projects of Viglacera in glass segment will shift its focus to ultra-white glass for solar panels instead of building glass. The Phu My floating ultra-white glass factory is expected to come into operation in 2019. Moreover, Yen Phong rolled ultra-white glass is projected to start construction in the Q3/2018.
- **For tiles,** Viglacera has no plans to expand its capacity after operating the 2.5 million m2 of high-quality ceramic in Viglacera Hanoi in early 2018. Viglacera will also restructure its **terrecotta segment**, retain only Viglacera Ha Long and divest in brick manufacturers such as Ba Hien, Tu Liem, and Ha Long 1 (in 2018).

**State divestment to 36% (equivalent to 80,579,262 shares):** was planned to be executed by the order matching method in the stock exchange from 26/07/2018 to 21/07/2018 with matching price being the session's ceiling price but not lower than 26,100 VND. However, in that period VGC experienced a downtrend under selling pressure, which broadened the gap between market price and the executing price, causing the divestment was no longer attractive. Up to now, the divestment has not been completed; Viglacera representative said that they are waiting for further guidance from the Ministry of Construction. The 2018 Annual General Meeting also approved the plan to re-listed in HOSE in Q4/2018.

**Raising charter capital at subsidiaries:** Van Hai, Dap Cau Glass, Thanh Tri and Viet Tri Porcelain.

BSC forecasts that VGC will gain VND 9,416 bn (+2.4% YoY) in revenue in 2018, with net income for shareholders of the parent company of VND 6,803 bn (+13.3% YoY) , equivalent to EPS 2018 = VND 1,353 per share (assume that it will attribute 9% NI to bonus and welfare funds). We assess that VGC's operations in 2018 will not see much improvement, but we expect it to be positive from 2019 onwards as state divests all from VGC and new projects in glass and sanitary ware segment come into stable operation.

**CVT - HOLD - Target price: 30,400 VND / share - Upside 8.9%**

We assess that CVT is a medium-sized tiles enterprise with flexibility in production, and regularly introduction of new products. With the aim to niche market, CVT's products are sold at relatively low prices through its agency system. In addition, CVT also conducts orders for other agents or brands with the volume of 20-30% of its total production. The key growth factor of CVT in the context of high competition in the tiles industry comes from the new products: micro- glass crystal covering and salt melting granite that have been newly launched. We evaluate that the company is relatively cautious in developing new products to limit risk. BSC estimates that CVT revenue in 2018 will be VND 1,460 billion (+23.7% YoY), net income of VND 196.6 bn (+12.9% YoY). EPS is forecast at VND 5,091 per share (calculated on the number of share after stock dividend of 40%), equivalent to P/E = 5.48x (compared to industry median of 6x).

**Consumption:** Estimated output of Q2/2018 was 4 million m2, accumulated volume in 1H2018 reached 7.1 million m2 (+22% YoY), completing 40% of the year plan, equivalent to the implementation in 1H2017.

**New products:** For micro- glass crystal covering and salt melting granites, CVT has currently run tests to probe the market, avoid losses; project to launch new products to the market in August 2018.

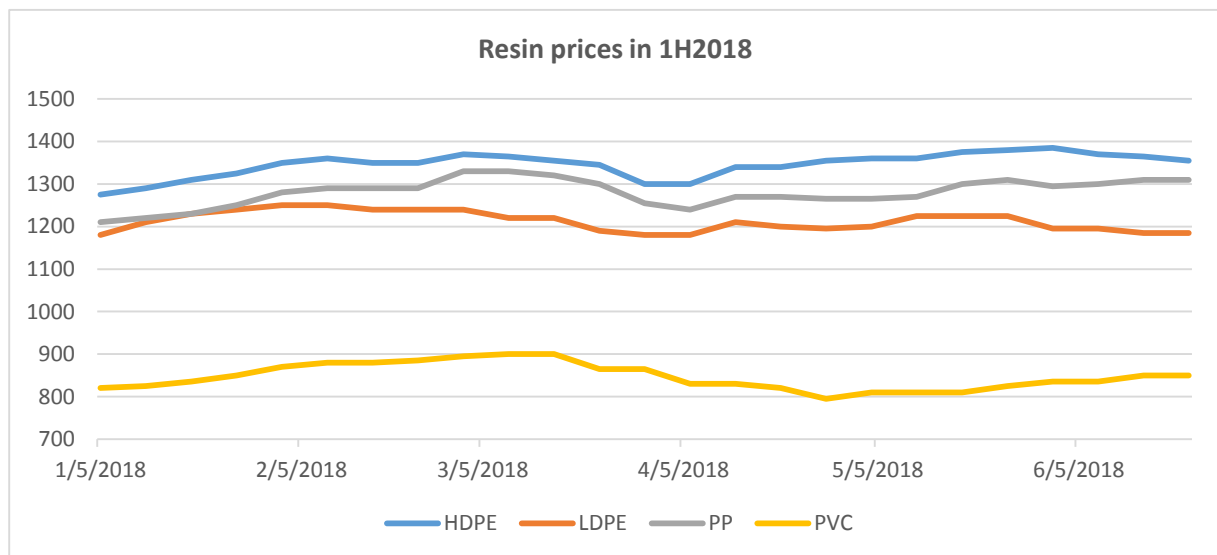
Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
VGC	9,415	680	1,353	15.3	1.43	4.26%	10.0%	20,700	18,400
CVT	1,460	197	5,091	5.48	1.47	14.91%	32.4%	27,900	30,500

(Source: BSC research)

## Plastics [Neutral]

- Resin price rose in 1H2018: PP +8.3% YTD, HDPE +6.3% YTD, PVC +3.7% YTD, LDPE +0.4% YTD.
- Operating results were divergent between plastic packaging firms (sales +81.5% YoY) and plastic material manufacturers (rev -6.7% YoY).
- We maintain NEUTRAL view on plastics sectors.

**Resin price rose slightly in 1H2018** in line with the uptrend of oil price as a result of (1) OPEC members are committed to cutting production; (2) supply shock comes from Venezuela and Iran due to US embargo; (3) Shale oil production does not meet the expectation with over-capacity pipeline system; (4) concerns about trade war. Up to 30/06/2018, PP prices increased the most (+8.3% YTD), followed by HDPE +6.3% YTD, PVC +3.7% YTD, while LDPE prices were almost unchanged compared to the beginning of the year. The slope of plastic resins price were to increase in Q2/2018 and is expected to continue in the second half due to the rise of oil prices, which will adversely affect firms' profit margin.



(Source: Bloomberg)

**Operating results were divergent** between plastic packaging and plastic building material manufacturers. While the plastic packaging business recorded revenue growth (AAA sales volume was 18,134.91 tons (+39% YoY), sales +78.11% YoY and HII (+315% YoY)), BMP and NTP saw a decline in sales, which reflected increasing competition in this industry. For DNP, revenue growth in Q1/2018 came from water infrastructure projects conducted in late 2017 and from expansion projects in plastic packaging and building materials. Despite growth in sales, profit margin in most firms declined due to rising resin prices from the beginning of the year. Except for DNP, DAG and SPP, which posed good earnings growth thanks to their expansion in capacity, higher sales volume and improved profit margin (DAG), other firms earning squeezed.

Ticker	Products	Rev 1Q2018 (bn VND)	% yoy	GPM 1Q2018	GPM 1Q2017	Net income 1Q2018 (bn VND)	% yoy
<b>NTP</b>	Plastic pipe	838	-18.54%	37.46%	34.65%	40	-56.92%
<b>BMP</b>	Plastic pipe	626	-17.43%	27.21%	22.75%	87	-13.54%
<b>DNP</b>	Plastic pipe, water	436	42.49%	21.03%	22.71%	10	97.82%
<b>DAG</b>	Plastics window/bar	382	7.85%	10.80%	8.34%	20	56.59%
<b>AAA</b>	Packaging	1,298	78.11%	11.37%	13.96%	60	-16.47%
<b>HII</b>	Packaging	585	315.42%	6.93%	14.56%	15	39.30%
<b>RDP</b>	Packaging	227	3.03%	11.06%	12.44%	1	-84.26%
<b>SPP</b>	Packaging	306	27.02%	8.90%	10.28%	3	26.33%

(Source: FiinPro, BSC research)

## Investment Outlook – Neutral

We assess fiercer competition in plastic building materials in 2018 will force businesses to increase discounts and promotions to push sales. For plastic packaging, consumption is forecasted to grow well thanks to demand of households and F&B businesses. However, the rise of plastic resins will decrease the profitability of manufacturers. Hence, BSC maintains **NEUTRAL** view on plastic sector.

### BMP - TRACKING

BMP is the largest plastic pipe manufacturer in the country (capacity of 150,000 tons per year), with healthy financial status, good profitability and quite high and sustainable dividend.

- **Consumption output in Q1/2018 decreased** compared to the same period of the previous year, which was explained by the firm representative that agents had fulfilled their stocks in 4Q17, when the company offered a 4-percent discount program on the anniversary and a high discount policy for PPR products produced itself. That led to slowdown sales in the first quarter of this year. BMP has to face to competition mainly in the southern market with the biggest competitor is Hoa Sen, which maintain high discount rate policy (Hoa Sen discount rate for uPVC pipes, HDPE, PPR are in the range of 35-39%, 36-38%, and 67-68.5% respectively, compared to 15 percent discount rate of BMP). HSG has currently experienced difficulties with EAT in Q1/2018 -49% YoY, declining profit margin of galvanized steel, rising SG&A expense, so we believe that it is hard for HSG to retain high discount rate policies to boost sales as in the past.
- **Nawaplastics raised its ownership in BMP to 53.106% in 26/06/2018 and SCIC completed its divestment.** After acquiring 24.16 million BMP shares from SCIC, Nawaplastics has continuously bought to above 51%, thus dominating the largest plastic construction pipe firm in the country. We expect this will create positive changes in BMP's performance thanks to the value chain Nawaplastics and its parent company- SCG Group have been building in Vietnam.

BSC forecasts sales in 2018 will be VND 4,072 bn (+ 6.5% YoY) and net income of VND 438.2 bn (-5.7% YoY) due to an increase in resin prices, equivalent to EPS of VND 4,872 per share.

#### **NTP – TRACKING**

Tien Phong Plastics is a construction plastic pipes manufacturer with the largest market share in the North, pioneering in the production of new products of various sizes with the total capacity of over 100,000 tons per year.

- **State divestment:** NTP was in the divestment list of SCIC in 2017, but until now, the divestment has not yet been completed, the state ownership ratio at NTP remains at 25.77%. We expect that the BOD and Sekisui are likely to increase their ownership and then the discount policy for agents may be changed in the direction of harmonizing the benefits of the firm and shareholders.
- Operating result in Q1/2018: consumption volume of 16,500 tonnes, sales was VND 842 billion, fulfilling 18% the business plan. Gross margin improved thanks to change in products structure but EBIT margin narrowed from 11% in Q1/2017 to 8.8% due to an increase in SG&A expense.
- Sales in Q2/2018 improved significantly: volume of 6T2018 increased by 2% YoY, EAT is estimated at VND 200 billion, fulfilling 42% of the fiscal year target (6T2017 was 41%).

We forecast NTP's net sales in FY2011 of VND 4.788 bn (+ 8.1% YoY), EAT of VND 436 bn (-11% YoY), equivalent to EPS of 2018 = VND 4,400 per share.

#### **AAA- TRACKING**

AAA is the largest plastic packaging manufacturer in Southeast Asia, continuously expanding and to warding the completion of value chain in this sector.

- **Operating results in Q1/2018:** Volume consumed reached 18,135 tonnes (+39% YoY), with the European market accounting for 66.4% of total sales, followed by Japan (23.5%). However, net income in Q1/2018 dropped 16.5% YoY because in the same period of 2017, AAA recorded VND 35 billion gain from the divestment in Vinh Plastic and Packaging JSC (VBC).
- **An Phat Complex:** In 2018, AAA successfully auctioned 12ha land from BIDV (VND 756 billion) to build An Phat Complex, including 8 blocks of factory. This complex aims to serve the domestic market, through the establishment of 4 subsidiaries: (1) ANBIO (invested cap: 1190 billion VND, of which 360 billion VND in 2018; in co-operation with foreign partners) produces raw materials and self-destroying packages; (2) An Cuong (invested cap: VND106 billion) produces decorative plastics sheets used in construction; (3) An Vinh (invested cap: VND 532 billion, 335 billion in 2018) producing high quality industrial packaging; (4) Dai An (invested cap: 548 billion; 130 billion in 2018) producing high tech plastic parts (serving Samsung, Panasonic, Yamaha, Honda). In addition, AAA plans to establish an An Thanh subsidiary on duty of distributing: consume refining products of refineries, importing plastic materials for distribution to the manufacturing enterprises, then collecting products and exporting.

- In 2018, with the expansion of the two factories No.6 and No.7, sales volume is estimated to be 140,000 tons (+76% YoY), revenue of VND 6,000 bn dong (+47.2% YoY). EAT of VND 330 bn (+25.3% YoY), equivalent to EPS = VND 2,632 per share (the company completed convert bonds into shares, EPS was calculated based on the number of shares after issuing to existing shareholders).

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
<b>NTP</b>	4,788	436	4,400	10.46	1.93	10.3%	19.0%	46,000	58,800
<b>BMP</b>	4,072	438	4,872	12.02	1.89	14.4%	17.9%	58,600	N/A
<b>AAA (*)</b>	6,000	330	2,632	7.18	1.30	N/A	N/A	18,900	N/A

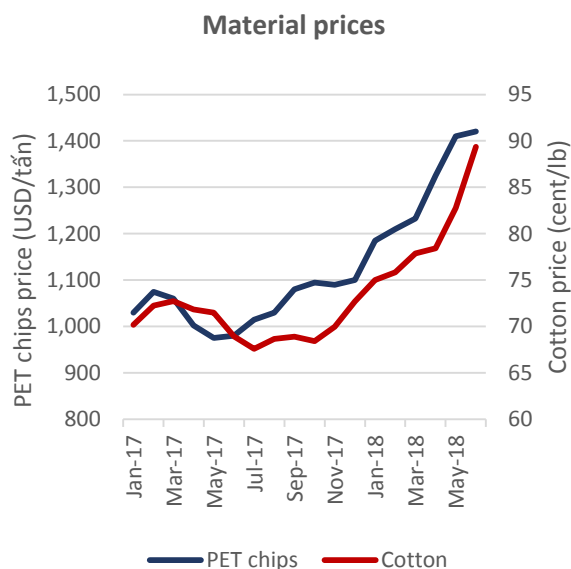
(Source: BSC Research, (\*) AAA's business plan)

## Textile [Neutral]

- Textile and garment export in 5M2018 reached USD 10.91 billion (+15.8% YoY).
- Input prices increased: cotton +12% YoY, PET +27% YoY, minimum wage +6-7% YoY.
- The US-China trade war has a mixed impact on Vietnam's textile and apparel industry.
- Business results in Q1/2018 was positive with revenue of listed firms +13.4% YoY, net income +9.8% YoY.
- Our view on textile sector is NEUTRAL.

**Textile and apparel export in 5M2018 reached USD 10.91 bn (+15.8% YoY)**, posing higher growth rate than 9.5% in 5M2017. Sales robust were recorded in new markets such as China (+49% YoY) due to a shift in textile production in this country to countries with lower labor costs; South Korea (+22% YoY); in addition to traditional markets like the United States, Japan, EU.

**Material prices and labor cost increased.** Cotton price +12% YoY, PET resin price + 27% YoY, which cause an increase in price of cotton, fiber and fabric.



(Source: Bloomberg)



(Source: TradingEconomics, BSC Research)

**Basic wages which were adjusted up from 6% to 7%** since the beginning of the year also created a burden for businesses. Vietnam's minimum wage average growth rate from 2013 to 2017 was 12% per year, which is higher than 5.8- percent increase of the average productivity (GDP per capita). Compared to some countries that are direct competitors of Vietnam textile export, Vietnam's wage growth rate in 2018 is lower than that of Cambodia (11%) and Myanmar (33%), but the adjustment of Vietnam is more frequent than that of Bangladesh (once every five years, the next adjustment is 2019). We estimate that increasing the minimum wage annually in a proportion determined independently of the growth in labor productivity will gradually erode the cheap labor competitiveness of Vietnamese textile sector.

**The US-China trade war has a mixed impact on Vietnam's textile and apparel industry.** On the positive perspective, trade tensions between the two countries will reduce US apparel imported from China (comprising 36.6% of the US textile import value in 2017), facilitating other countries including



Vietnam in increasing textile export to the USA. Secondly, the trend of relocating Chinese factories to Vietnam in order to avoid taxes and take advantage of low cost will also boost the growth of the industry. Thirdly, the higher rate of devaluation of CNY (-2.8% YTD) in comparison to that of VND (-1.5% YTD) as a result of trade war and FED hike will enable apparel enterprises to benefit from lower cost of materials, which are mostly imported from China. By contrast, the depreciation of VND up to now was lower than those of some Vietnamese textile's direct competitors (India's INR -7.7% YTD, Indonesia's IDR -6.6% YTD, BDT of Bangladesh -2.4% YTD), which is likely to reduce the competitiveness of Vietnamese garment. At the same time, a surge of Vietnamese garment export to the USA (+ 7.7% YoY and market share from 11.5% to 11.9% in 2017 and 12.1% in 5M2018) may put Vietnam in the risk of a new tax policy from the United States.

**Positive business results in Q1/2018.** Most export textile and garment enterprises recorded growth in orders and net sales, such as TCM (the orders value in 4M2018 was USD 57.18 mn (+5% YoY)), TNG (the value of orders signed to 30/4/2018 of USD 130.5 mn (+28% YoY)). However, the profit margin of most garment exporters dropped slightly by 1-2% due to the impact of increasing input prices. Regarding profit growth, EVE recorded net income +126.6% YoY thanks to good product sales and a 10- percent rise in average selling price (it is worth to note that the results of EVE in the first quarter of 2017 was quite low). STK also posed a significant growth in earning (+60.18% YoY) thanks to better consumption, higher proportion of recycled and DTY with high selling price.

Ticker	Rev 1Q2018 (VND bil.)	%YoY	GPM 1Q2018	GPM 1Q2017	Net income 1Q2018 (VND bil.)	%YoY
VGT	4,399	12.96%	9.50%	9.66%	178	41.24%
VGG	1,860	23.02%	12.85%	14.09%	97	24.16%
TCM	848	9.37%	17.30%	16.84%	49	2.64%
PPH	676	-1.62%	10.28%	11.74%	60	7.22%
TNG	601	49.58%	17.46%	18.05%	22	49.73%
STK	589	6.27%	13.31%	16.13%	40	60.18%
EVE	235	31.60%	13.07%	11.55%	20	126.60%

(Source: FiinPro, BSC research)

## Investment Outlook – Neutral

**We believe the textile and apparel sector will grow substantially in 2018** thanks to (i) increasing orders from traditional markets as well as new customers; (ii) capacity expansion, shorter delivery time; (iii) The EV-FTA Agreement being urged to finalize approvals in late 2018. Nevertheless, firms in this sector will be disadvantaged by the increasing input prices such as raw materials and labor cost in the context that output prices will not be able to rise correspondingly as many enterprises currently conduct orders with low added value. Besides, the US-China trade war implies many opportunities and risks for Vietnamese textile and garment. For listed firms, BSC assess that despite good growth, the internal factors of the industry were not attractive enough for investors as compared to other opportunities in the market (low added- value, eroding cheap labor cost advantage, highly dependent in export and import). Hence, we maintain NEUTRAL view on textile outlook in 2H2018.

**VGG - BUY - Target price: VND 63,000 per share - Upside: 10.8%**

**We highly recommend VGG for dividend investment strategy for following reasons:**

- Dividend payout ratio is over 30% (out of par) of cash in the period 2015-2017; minimum cash div in 2018 will be VND 2,500 per share.
- Maintain revenue and profit growth of 15% and 10% respectively in 2013-2017; ROE> 26%;
- Healthy financial ratios: abundant cash balance (684.1 billion as of 31/03/2018), no long-term debt;
- Completed investment in the first phase of Viet Long Hung factory, no huge investment plan in the coming time.

**The catalyst for VGG's growth in 2018 is the first phase of Viet Long Hung Factory** that was put into operation in Q1/2018. This phase with 2,000 employees was estimated to increase the production capacity of Viet Tien by 22.5%. We also note that the larger labor force may dramatically increase Viet Tien's expense in 2018.

BSC forecast net sales of VGG in 2018 to reach VND 9,873 bn (+16.8% YoY) driven by the new factory, but the rising the labor cost will lower the gross profit margin of VGG slightly to 11.6%. Net income is forecast at VND 407.8 bn (+7.8% YoY), equivalent to EPS= VND 6,825.

**TNG - BUY - Target price: VND 13,120 per share - Upside: 26.1%**

We are optimistic about TNG's earnings in 2018 based on the company's obtaining and execution of orders since the beginning of the year, which is likely to exceed its target for this year. However, we also note that rising labor cost is a disadvantage for textile enterprises in general and TNG in particular.

- The value of signed orders up to 30/4/2018 is USD 130.5 mn (+28% in comparison to the total value of orders in 2017); of which Decathlon and TCP orders account for over 50%.
- 5M2018 business results: Revenue was VND 1,137.7 bn (+55.2% YoY), net income of VND 45.6 bn (+54.4% YoY). The sharp increase in labor costs caused the gross profit margin to fall to 16.4% (compared to 18.3% in the same period of 2017). Other costs are reduced to maintain operating margins at 8%.

We forecast that net sales of TNG in 2018 will reach VND 3,102 bn (+24.7% YoY), profit after tax of VND 120 bn (+4.2% YoY) and EPS = VND 2,030 per share.

#### **TCM- TRACKING**

- **Revenue of 5M2018 reached USD 57.18 mn** (~ 1.314 billion VND, + 4.88% YoY), fulfilling 41.2% of the year's target. Profit margin was maintained at 18%.
- **In 2018, TCM may record some profit from other activities** such as divestment from Thanh Cong Securities, selling 7ha of land and factories of Factory No.3 (Duc Hoa IP, Long An), 2ha of land in Trang Bang IP.

Net sales is estimated to be VND 3,374 bn (+5.1% YoY), earning after tax of VND 194 bn (+1.2% YoY, excluding infrequent profit), equivalent to EPS 2018 = VND 3,198 per share (assuming that the firm will attribute 15% of its net income to bonus and welfare fund).

**VGT - TRACKING**

Vinatex is the largest listed textile and apparel company, operating as a holding of many profitable companies operating in the industry.

- **Business plan for FY2018:** Consolidated revenue is VND 20,319 bn (+10.04% YoY); profit before tax of VND 787.62 bn (+5.23% YoY). The profit margin was down from 4.29% in 2017 to 3.88% due to the pressure of rising labor expense.
- **Itochu became a major shareholder.** After acquiring 50 million shares of VGT at the end of March 2018, Itochu increased its ownership in the enterprise from 3% to 13%. Itochu is a multi-sector corporation, possessing the completed textile value chain, and is one of Vinatex's major partners in dyeing and finishing process. Consequently, we expect Itochu will give VGT a hand in developing textile value chain and promoting export activities.
- **State- owned capital divestment:** According to the Decision 1232/2017/QĐ-TTg, Vinatex was on the list of SOEs that have to be collected under the management of SCIC before fully divested (from 53.48%) in 2018. Up to current, VGT has been re-evaluating before sent to SCIC to manage and divest. Therefore, we believe that the divestment at VGT is unlikely to be completed in 2018.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
<b>VGG</b>	9,873	408	6,825	8.34	1.56	8.7%	26.1%	56,900	63,000
<b>TNG</b>	3,103	120	2,030	5.13	0.66	4.8%	14.8%	10,400	13,120
<b>TCM</b>	3,373	194	3,198	6.19	0.94	6.3%	15.7%	19,800	N/A
<b>VGT(*)</b>	20,319	787,62	812	13.6	0.89	N/A	N/A	11,100	N/A

(Source: BSC research, (\*) the consolidated business plan of Vinatex)

## Seaport [Neutral]

- US-China Trade War will reduce 1.8 million TEUS of global trading extremely.
- FTAs will be a motivation to push up seaport activities among countries.
- South area's seaports are facing to more intense competition due to supply surplus.
- We recommend Neutral for seaport's outlook in 2018.

**US-China Trade Wars are deteriorative rapidly.** United States imposed a 25% tariff on 818 Chinese products which worth nearly USD 34 billion from 6<sup>th</sup> July, 2018, and China responded that they are considering to impose tariffs on 284 US goods which worth nearly USD 400 billion in retaliation for the US. The escalation of trade war could reduce to more than 1.8 million TEUs, equivalent to 1% of total global commodity trade volume. Consequently, volume of containers through seaports in Vietnam will be impacted negatively when the number of Chinese goods exported to Vietnam and then to US will decrease, China's container inventory left at Vietnamese seaports is rising up and stagnant.

**FTAs will greatly support Vietnam's trade as well as the growth rate of seaport sector.** FDI inflows in Vietnam will expand production and business that will raise the demand for importing raw materials and exporting finished products, thereby boosting the growth of cargo outputs through seaports. In the first five month of 2018, Vietnam attracted FDI inflows of \$ 9.9 billion (~ 81.6% in 2017) including 52.3% in processing and manufacturing industries, 10.8% in real estate and 10.3% in wholesale and retail.

**Table: FTAs in the process of negotiation**

Agreement	Date	Nation member	Status
Vietnam-EFTA Free Trade Association	5/2012	Vietnam, Switzerland, Norway, Iceland and Liechtenstein	Negotiating
Regional Comprehensive Economic Partnership (RCEP)	9/5/2013	Ten members of ASEAN và China, Korea, Japan, India, Australia, New Zealand	Negotiating
Vietnam-Israel Free Trade Agreement	2/12/2015	Viet Nam, Israel	Negotiating
EU-Vietnam Free Trade Agreement (EVFTA)	2/12/2015	VietNam and member of EU	Negotiated but not signed

(Source: Wtocomer)

**The southern deep-water seaport group in Cai Mep - Thi Vai will benefit from dredging Cai Mep - Thi Vai project.** With the current depth of -14m, this port clusters have not served bulk vessels (reducing 50-55% of the vessel's capacity). In addition, due to the one-way unsatisfactory navigational routes, thus, the number of vessels is low, which does not meet the demand for all imports and exports. The project will be carried out in the period 2018-2020, approved by the Ministry of Transport with total investment up to VND 1,160 billion. Total length of dredging is 29.68 km, width of 350 m and depth of -15 m. After dredging, the area will provide for 160,000 DWT container ships with a capacity of 14,000 TEUs, providing two-way service to meet the actual needs of the vessels.

**Business Performance Q1/2018.** SSeaports in Hai Phong area are clearly divided between rear and front of Bach Dang bridge on Cam river. Those ports located behind the Cam River are mainly competing for price war and rising up discount that makes their gross profit margin go down. Gross profit margin of VSC decreases from 36.02% to 30.83% yoy, PHP drops from 36.04% to 32.92%, and TMS is 10.15%, down from 63.57%.

On the other hands, Southern port clusters in Ho Chi Minh City are not growing much, port ecosystem must move out city or transfer functions. Cat Lai Port (CLL) is overloading, and container volumes reaches nearly 4 million TEUs/year. In contrast, Cai Mep-Thi Vai port located downstream near the sea is oversupplied, the volume is approximately 2 million TEUs/year which is equivalent to 30% of designed capacity. In Q1/2018, local companies recorded positive revenue: CLL's revenue was VND 102.19 bn (+51.26% yoy) and TCL's revenue was VND 204.68 bn (+7.75% yoy), and gross profit margin is maintained stably in these businesses.

Ticker	Sales 1Q2018 (bil VND)	%YoY	GPM 1Q2018	GPM 1Q2017	NPAT 1Q2018 (bil VND)	%YoY
GMD	689	-19.9%	29.8%	22.7%	1279	1078.9%
VSC	367	36.0%	29.7%	31.6%	74	53.1%
PHP	459	-18.6%	32.3%	37.8%	72	-48.6%
TMS	487	174.2%	9.4%	32.0%	64	26.2%
SGP	238	-18.0%	45.0%	33.4%	33	-88.7%
TCL	205	7.7%	18.5%	18.4%	21	16.5%
DVP	134	-15.5%	52.9%	52.8%	55	-16.0%
CDN	162	10.2%	38.0%	37.4%	36	5.7%
PDN	149	31.9%	28.3%	31.5%	24	30.7%
DXP	22	45.8%	22.5%	28.1%	5	46.4%
CLL	102	51.3%	29.8%	40.0%	24	24.7%

(Source: FiinPro, BSC research)

## Investment Outlook – Neutral

New-signed FTAs are motivated to boost demand for import and export of goods through seaports in Vietnam 2018-2019. In addition, US-China trade war may not affect too much on the seaport industry because the export of Vietnam goods to China have increased and the import from China have fallen due to Vietnam's protectionist policies in 1H2018. In general, Hai Phong seaports will continue to face difficulties due to high competition, especially when Lach Huyen Seaport with the capacity of 1 million TEUs come into operation in May 2018 and Gemadept's South Dinh Vu Phase 1 with the capacity of 500,000 TEUs has ran in Q1/2018. Moreover, supply is expected to be larger than demand as 40 percentages. Cai Mep - Thi Vai deep-water seaports will benefit from the trend of increasing ship load and serve more ships from Cat Lai seaports. Therefore, we maintain a **NEUTRAL** rating with the seaport industry at P/E TTM=5.6x, ROA=4.03% and ROE=11.85%.

### GMD - HOLD - Target 31,000/share - Upside 23.7%

Business Performance Q1/2018, total revenue was VND 689 bn (-20% yoy), while revenue from seaport division reached only 20% of target plan 2018 due to one month of Tet holiday.

Target company plan in 2018: GMD set a target of consolidated net revenue is VND 2,405 bn (-39.72% yoy) including seaports' revenue of VND 2,183 bn (+19% yoy) and logistics' revenue of VND 222 bn (-89.69% yoy) as GMD divest capital of the two companies (Gemadept Logistics and Gemadept Shipping). EBT is VND 2,130 bn (+327% yoy).

- **Seaports:** (1) Seaport group in Hai Phong exceeded designed capacity about 120% -170% capacity, thanks to Nam Hai Port's location. Nam Hai Dinh Vu Port Phase 1 was completed in Q1/2018, expanding the scale of additional 500,000 TEUs for Hai Phong. (2) Heading of the trend at Cai Mep – Thi Vai deep-water port area, Gemalink will be the largest project there, expected to complete the Phase 1 in Q4/2019.
- **Logistics:** Logistics contracts are currently expanding by increasing customer database; however, due to high competition, we estimate that gross profit margin is not high, about 10% -15%.
- **Real estate:** GMD will divest from GEM project making the profit is expected to be positive.
- **SCSC (UPCOM: SCS):** SCS is in the process of finalizing the listing process on the HSX exchange in the divestment plan. GMD currently holds 2.775 billion shares of SCS (~ 32.25%).

GMD will open room to 49%, foreign room is locked at 20.4%, foreign investors can buy additional 5% corresponding to 14 million shares.

#### **VSC - BUY-Target 40,491/share– Upside: +18.4%**

VSC is one of leading companies in Hai Phong with a designed capacity of port is nearly 1.1 million TEUs/year. VSC's future growth momentum comes from Vip Green Port (VSC holds 75% of shares) due to (1) great position of downstream of Cam River, (2) good annual output growth. In 2017, 65% of capacity was achieved (520,000 TEUs), (3) Evergreen, an important partner (accounting for more than 20% stake in Vip Green Port), can guarantee number of containers passed to VSC around 60% capacity. In our opinion, VSC has a stable growth in the future and a history of paying high dividends (20% cash dividend annually). However, GMD put Nam Dinh Vu port (with a capacity of 500,000 TEUs/year) and Lach Huyen port into operation in February 2018 and May 2018, respectively, that increases the competition making stock price of VSC difficult to increase in the coming time.

Stock	Sales 2018 (bn VND)	NPAT 2018 (bn VND)	EPS 2018 (VND/CP)	P/E fw	P/B	ROA 2018	ROE 2018	Price 29/06/2018	Target Price
<b>GMD</b>	3,981	585	2,031	12.33	2.16	5.21%	7.25%	25,050	31,000
<b>VSC</b>	1,382	274	4,422	7.92	1.03	10.7%	15.1%	34,200	40,491

(Source: BSC research)

## Marine Transportation [Neutral]

- Dry freight rate in 6/2018 increased to 1,333 (+ 26.35% qoq).
- New International Convention of preventing population will make shipbuilding price increase.
- Q1/2018 performance: liquid transportation has been positive; dry transportation still difficult.
- We maintain a NEUTRAL rating of the marine transportation.

**BDI index Q2/2018 increased sharply helping to improve local transportation's price.** BDI increased to 1,333 (+ 26.35% qoq) from 1,055 points. As demand for high-quality ore from Brazil and Australia is rising in China, we expect that the BDI index will continue to support global shipping industry as well as Vietnam in 2018 when many Vietnamese shipping companies anchor the freight price at international price.

**New regulations on international conventions make shipbuilding prices increase which puts pressure on shipping companies in 2019.** The International Convention of Prevention of Population of Ballast Water and Ballast Control will come into effect on Vietnamese ships from 1/1/2019. This new convention will have a big impact on shipyards, which will increase the price of shipbuilding. In 2017, Vietnam has 110 vessels out of a total of 530 international ships newly built to replace for the old one. The number of international ships has decreased significantly, so building new ships are necessary. At present, Vietnamese maritime shipping companies continue to increase new vessels in 2018 to limit the increase in business expenses in 2019.

**Q1/2018 business performance:** In general, the maritime shipping businesses have been recorded a positive revenue compared to the same period last year, especially companies which transport crude oil and oil products growing well as the refinery projects come into operation (Nghi Son and Dung Quat). Some large enterprises such as PVT and VTO have invested in liquid cargo fleet to meet the demand for transporting and consuming crude oil for refineries in Q2 and Q3/2018. In addition, FTAs signed by Vietnam and the ASEAN Economic Community (AEC) in 2015 contribute to promotion of the long-term trade relations of bulk container freight transport between countries; however, the dry transport companies are still struggling in short term.

Stock	Main Product	Sales 1Q2018 (bn VND)	%YoY	GPM 1Q2018	GPM 1Q2017	NPAT 1Q2018 (bn VND)	%YoY
PVT	Liquid Transport	1,782	7.9%	12.9%	11.3%	150	18.4%
VTO	Liquid Transport	372	10.0%	16.5%	15.6%	25	17.9%
GSP	Liquid Transport	550	85.0%	4.3%	7.0%	13	-0.2%
VIP	Liquid Transport	197	10.7%	25.5%	22.1%	22	57.8%
PJT	Liquid Transport	122	3.7%	15.0%	14.3%	8	-8.3%
VNA	Dry Transport	181	38.2%	2.2%	-10.6%	-14	-51.5%
VFR	Dry Transport	50	-14.7%	8.6%	-4.4%	1	-96.7%
HTV	Dry Transport	45	4.7%	17.6%	24.4%	4	-17.3%
TJC	Dry Transport	40	-11.1%	2.8%	6.3%	-1	-3172.8%
TCO	Dry Transport	37	-5.8%	20.1%	22.5%	2	-41.9%

(Source: FiinPro, BSC research)



## Investment Outlook – Neutral

BSC maintains a **NEUTRAL** rating with the prospect of marine transportation. For liquid transport companies, they are running stably thanks to Dung Quat oil refinery upgraded last year and Nghi Son oil refinery has operated in May 2018. However, for bulk transport companies, there are still many difficulties such as freight rates dry bulk has been decreased to compete with other competitors, not well quality services of local companies compared to the other international marine transport companies which combined with logistics services.

We recommend BUY: PVT

**PVT – BUY – Target Price VND 20,645/share – Upside 35.37%**

Business Performance 1H2018, PVT's revenue and NPAT has reached VND 3,881 bn (72.4% of plan 2018) and VND 379.5 bn (90.9% of plan 2018).

Revenue and NPAT of 2Q2018 was VND 1,998.9 bn (+ 46% yoy) and VND 229.7 bn (+ 367.5% yoy).

- Revenue increases mainly from Crude Oil Transportation to Dung Quat oil refinery up to 9 times/month (2017: 7 times/month), the Dung Quat oil refinery has surpassed 107-110% of capacity in 1H2018, and forecasted that crude oil consumption could reach 7 million tons by the end of 2018. Nghi Son oil refinery has been operated in May 2018 and it will be able to run 90-100% of capacity by the end of this year. PVT has transported crude oil for Nghi Son 2 times in Q2/2018 and expect to run total 3-4 times in 2018.
- LPG Transportation continues to increase slightly. Coal transportation has been concentrated to transport for Duyen Hai 1 & 2 and Vinh Tan because coal supplier has decreased its capacity in 1H2018.
- FSO/FPSO segment records an increase leasing price of USD 56,000/day in 2017 (USD 46,000/day in 2017) due to rising oil prices in 1H2018.
- Logistics and trading segment continue to decline this year due to low gross margin and restructure to focus on core business.

At the moment, Investment plan of VLCC seems to be unclear because of dependence to Nghi Son oil refinery which are waiting to operate stably next year, thus, PVT will move its plan to 2019. In the meantime, PVT will recall the number of international tankers (3/4 tankers) to serve need of crude oil and refinery oil transportation to the Nghi Son oil refinery.

Prospects for the divestment of PVN from 51% to 36% in 2019.

Stock	Sales 2018 (bn VND)	NPAT 2018 (bn VND)	EPS 2018 (VND/CP)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/2018	Target Price
PVT	6,426	559	1,537	9.92	0.92	6.29%	11.77%	15,250	20,645

(Source: BSC research)



## Rubber [Neutral]

- Rubber prices continued to decline by 5.6% in 2Q2018.
- According to the World Bank, the average price of rubber in 2018 is forecasted to fall 10% yoy due to oversupply.
- Exports of rubber in Vietnam increased 22.6% qoq in volume but down 25.3% qoq in selling rubber latex.
- EAT of companies in 1Q2018 decreased by 1.3% due to lower selling price of rubber.

**The rubber price has continued to decline by 5.6% in 2Q2018.** Compared to 1Q2018, the average price of rubber has continued to decline by 5.6%, reaching 176.5 JPY / kg. By the end of 2Q2018, the rubber price has dropped 26.7% over the same period in 2017 due to excess supply. According to the World Bank and EIU forecasts, the average price of rubber in 2018 will fall by 10% compared to 2017 based on assumptions (1) The expected supply in 2018 is 457 thousand tons (+ 97% YoY) based on ANRPC's forecast, (2) Oil price movement has been on the upward trend, helping to recover the rubber price. According to the World Bank, oil prices are forecast to be \$ 65/barrel on average. (+ 23.1% YoY).

Price movement of RSS3



(Source: Bloomberg)

**Rubber exports increased in volume but declined in value.** According to the General Department of Customs, rubber exports as of 5M2018 reached quantity and value of 442,322 tons (+ 22.6% qoq) and 647.14 million USD (-8.4% qoq) respectively. Export sales price is \$ 1,463/tons on average (-25.3% qoq). In terms of export volume, China has remained the largest importer of rubber in Vietnam (275,511 tons, +25% of the same period, accounting for 59.1% of total production).

**Business results in 1Q2018 decreased due to the impact of rubber price.** In 1Q2018, net revenue and NPAT of rubber enterprises were VND 727.73 bn (-13.03% qoq) and VND 211 bn (-1.3% qoq) respectively, of which only PHR and DPR had an increase in NPAT which mainly contribute by wood disposal. Profit from rubber wood of PHR and DPR accounts for about 60% of EAT, only 20-25% of profit from rubber sales.

	Revenue 1Q2018	Growth	GPM in 1Q2018	GPM in 1Q2017	NAPT 1Q2018	Growth
PHR	268.05	-34.99%	17.96%	14.16%	93.50	39.55%
DPR	251.55	3.11%	31.89%	29.99%	100.60	10.47%
DRI	109.70	42.35%	41.00%	38.84%	4.60	-76.49%
TRC	82.19	-5.80%	25.44%	19.23%	11.40	-66.92%
HRC	17.63	0.44%	14.75%	17.00%	1.00	-39.54%

Source: Companies, BSC Research

## Investment Outlook – Neutral

We maintain our NEUTRAL view with the natural rubber stocks. Most of the companies in the industry have a high rate of dividend (40% -50%). However, business results of the industry mainly depend on the price of rubber. We reckon that the rubber price has bottomed out and it is difficult to reduce in long term. In addition, some companies in the industry have large source of rubberwood from liquidation such as DPR, PHR which would ensure profit for businesses in the next 1-2 years.

### PHR - BUY - Target price 27,473 VND/share - Upside 14%

PHR is a leading rubber company in Vietnam with a large area of rubber plantation (nearly 20,000 ha in Vietnam and Cambodia). However, BSC estimate that the profit from rubber in 2018 will account for a small proportion in total profit of PHR (VND 80 bn) as PHR's rubber trees are currently low productivity. In 2H2018, PHR's main driving force will be from recording 350 ha of transferable land to VSIP at a transfer price of VND 1 bn/hectare. This will help PHR recognize another VND 350 bn profit this year. Besides, the liquidation of about 1000 ha of rubber with an average price of 200 mn VND/ha will help PHR to recognize additional VND 200 bn. BSC forecast that in FY2018, PHR will record net revenue and NPAT of VND 1,389 bn (-16.04% yoy) and VND 549 bn (+ 66.0% yoy) respectively, equivalent to EPS 2018 (minus 10% of bonus and welfare fund) of 3,589 VND / share.

### DPR - TRACKING - Target price 40,997 VND / share - Upside 4.6%

DPR is one of the largest rubber producers in Vietnam with a large rubber plantation area (14,476 hectares, of which 9,326 hectares in Vietnam, 5,150 hectares in Cambodia) with high productivity (> 2 tons per hectare each year). In 2018, DPR expects to produce and sell nearly 17,000 tons of rubber at an estimated selling price of VND 35 - 36 mn (cost of VND 27 mn / ton) which would bring 150 bn VND of gross profit to DPR, along with the liquidation of 530 hectares of rubber with expected profit of VND 100 bn. BSC forecast that, in FY2018, DPR would record revenue and NPAT of VND 946 bn (- 11.7% yoy) and VND 216 bn (-10% yoy) respectively, equivalent to EPS 2018 (minus 10% of bonus and welfare fund) of 4,553 with the assumption that the average price of rubber in 2018 is 35.9 mn VND/ton (-10% yoy).

### DRI - BUY - Target price 9,837 VND/share - Upside 24.5%

DRI has a large rubber plantation in Laos (8,810 ha) with young trees (average age of 6 years), high productivity (estimated at 2.23 tons/ha in 2018). In addition, DRI has the advantage of low production cost (about VND 25-26 mn /ton) due to (1) cheap labor in Laos, (2) cheap rent price (\$5/ha) and (3) 1% tax rate per revenue in Laos. In 2018, DRI expects to produce 18,500 tons (30% of exports). BSC

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**Vietnam Sector Outlook 3Q2018**

forecast that, in 2018, DRI would record revenue and NPAT of VND 603.85 bn (+ 3% yoy) and VND 102 bn (-29.2% yoy) respectively, equivalent to EPS of 2018 (minus 10% of bonus and welfare fund) of VND 1,324/share with the assumptions that the rubber price of VND 32.8 mn/ton (-6% yoy). This year, Dakruco plans to divest from DRI, reducing its ownership to 51% (expected before Dakruco's listing).

Stock	Revenue 2018	NPAT 2018	EPS 2018 (VND/share)	P/E fw	P/B fw	ROA 2018	ROE 2018	Price at 29/06/18	Target price
PHR	1,389	549	3,589	6.7x	1.2x	12.9%	13.03%	24,100	27,473
DPR	946	216	4,553	8.82x	0.72x	6.1%	7.9%	39,200	40,997
DRI	604	102	1,324	6x	0.6x	6.94%	10.98%	7,900	9,837

(Source: BSC research)

## Tire [Neutral]

- Car sales fell 5.6% qoq in 5T2018.
- Fierce competition with China and FDI enterprises. China now accounts for 50% of the tire market in Vietnam with lower sell prices ranging from 20% -30%.
- World rubber price in 6T2018 decreased by 26.9% YOY, artificial rubber prices did not fluctuate much, chemical and black coal prices increased by 50% -60% in 1Q2018.
- Gross profit margin may improve in coming quarters.
- 1Q poor performance of business results. EAT of 1Q2018 of Tire enterprises fell by 73.3% qoq.

**Car sales fell by 5.6% qoq.** As of 5T2018, domestic car sales reached 103,746 vehicles (-5.6% qoq). Domestic car production increased 10.1% qoq to 87,426 units. Import volume of vehicles decreased sharply, reaching only 16,320 units (-46.5% qoq). The main reason is that the Decree 116 increases the time and cost of imported vehicles. We think that the picture of automobile industry growth this year is unclear and needs to be tracking in the near future.

**High competition.** Currently, tire and tube businesses are competing severely with Chinese tires. Chinese radial tires now account for 50% of the market share in Vietnam with cheaper price (20% - 30% lower). FDI enterprises with high production capacity such as Bridgestone (17,885,000 tires per year), Kumho (6,300,000 tires per year) ... started to increase tire output sales in Vietnam to 15% - 20% of total production which also increases competitive pressure.

**The world's rubber price in 2Q2018 continued to decline by 5.6% compared with 1Q2018.** The average world's rubber price in 2Q2018 reached 176.5 JPY/kg, 5.6% lower than that of 1Q2018. By the end of 1H2018, the rubber price has fallen 26.9% over the same period last year, helping to reduce the cost of raw materials of tire industry (Natural rubber accounted for 35% of tire production costs). We expect the rubber price would not have much fluctuation in 2H2018 according to analysis in the natural rubber industry. The price of synthetic rubber (15% -20% of materials) is not much fluctuated, however, the price of chemicals and black coal (35-40% of materials) increased by 50% - 60%.

**GPM can be improved, however, investors need to follow-up on material price fluctuations.** (1) In 1Q2018, tire and tube companies have increased their tire prices by 5%, (2) the rubber price has continued to fall and (3) DRC will increase the capacity of Radial plant which help reducing depreciation costs on a product. We expect DRC to reduce its depreciation/product costs by 30% - 40% due to doubling capacity when its Radial plant is at full capacity. However, the investors should track frequently the fluctuation of oil prices (which directly affect chemical and black coal prices, partly synthetic rubber).

**The business result of 1Q2018 remain low.** In 1Q2018, total net sales and NPAT of companies in the industry reached VND 1,745.7 bn (-6.13% qoq) and VND 29.88 bn (-73.3% qoq) respectively. The declines were mainly due to fluctuations in material prices and lower output prices due to highly competitive pressure. Although rubber price dropped 26.9% over the same period last year, the price of chemical black coal fluctuate is up from 50% - 60%.

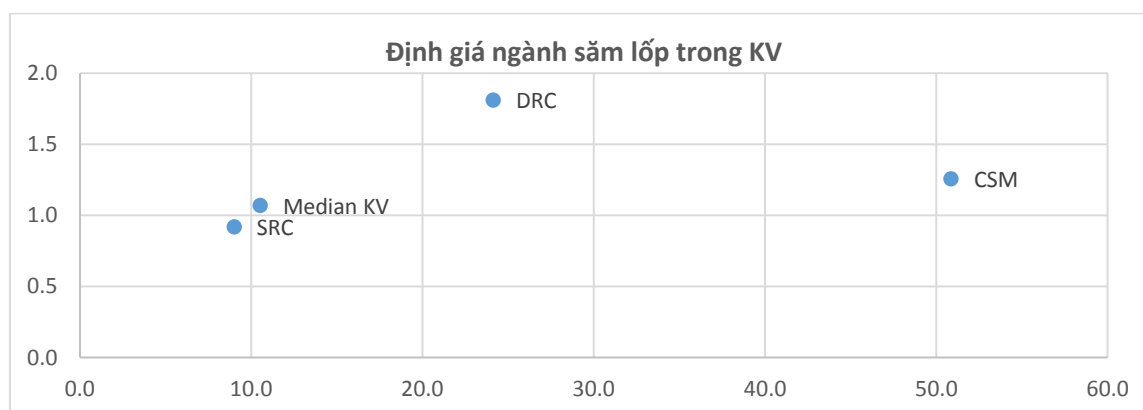
	Main products	Revenue 1Q2018	%YoY	GPM 1Q2018	GPM 1Q2017	NPAT 1Q2018	%YoY
CSM	Passenger car radial	809.06	6.33%	11.58%	18.37%	4.20	-85.35%
DRC	Truck and buses radial	789.71	-18.51%	11.64%	19.28%	20.70	-70.64%
SRC	Motorbike product	216.55	2.49%	15.49%	19.64%	5.00	-60.63%

(Source: FiinPro, BSC research)

**Vinachem intends to divest its capital at DRC and CSM**, reducing its ownership to 36% in 2018. This has attracted a lot of investors.

## Investment Outlook – Neutral

In 2H2018, we expect tire and tube business will recover in terms of earnings as rubber prices are expected to decline and potential growth comes from the consumption of radial tires. However, with the current price volatility, the trend of automobile in Vietnam is unclear and the valuation is high, we maintain the NEUTRAL opinion on the prospect of the tire industry as reported in 1Q2018. Currently, tire stocks are trading at P/E = 24.1x and P/B = 1.3x, which is higher than the Asian industry average (P/E and P/B of 10.5x and 1.1x, respectively).



(Source: Bloomberg, BSC Research)

### DRC - BUY - Target price of 27,022 VND/share - Upside 14.5%

DRC is a leading tire and tube manufacturer in Vietnam mainly producing truck tires. In 1Q2018, DRC's business results were down sharply compared to the same period last year, revenue and NPAT were VND 733.6 bn (-18.5% qoq) and VND 20.7 bn (-70.7% qoq) respectively. Although the selling price of tires and tubes was up 5% qoq, output car tires fell by 22% qoq and raw material prices significantly fluctuated (natural rubber dropped 15.8% qoq, chemical and coal prices increased by 50% - 60% over the same period) negatively affected business results. Radial tires sold 72,986 tires (-5.02% qoq) with prices up 10.45% qoq (two-thirds of the exports, Brazil 50%). We expect that from 3Q2018, the company will put the second phase of the Radial plant into double capacity with lower investment costs, which will help reduce the depreciation cost by 30% on a product of the company, helping DRC improving gross profit margin. However, we also note that investors should track closely the price

movements of rubber and oil (affecting the price of chemicals and black coal) before making investment decisions. BSC forecast that revenue and NPAT would reach VND 4,437 bn (+ 20.9% yoy) and VND 144 bn (-10.5% yoy) respectively, equivalent to EPS 2018 of VND 1,111 per share. On 26/4/2018, DRC shares were trading at a P/E of 25.88x, P/B = 1.87x.

#### **CSM - TRACKING**

CSM is a large tire manufacturer in the Southern market of Vietnam, producing passenger car tires. In 1Q2018, revenue and NPAT of CSM were VND 795.7 bn (+6.3% qoq) and VND 4.23 bn (-85.3% qoq) due to fluctuations in cost of materials. Currently, CSM is focusing on producing truck and buses radial tires (TBR) and passenger car radial tires (PCR). In 2018, CSM expects to sell 8,500 - 9,000 TBR tires a month. About PCR tires, Tireco is the main consumer of CSM. By 2017, Tireco bought 200,000 PCR tires of CSM and would import one million tires from CSM in 2018. However, Tireco's sales price is 20% lower than CSM's domestic sales. Therefore, CSM in 2018 will prioritize domestic sales of PCR products and now has familiar customers such as Truong Hai, TNT, Dong Bang ..., the rest will export. CSM set a target of VND 3,800 bn (+ 8% yoy) and VND 100 bn (>+81% yoy) this year. Dividend is expected to be 3% in 2018. In addition, Vinachem is expected to divest its capital at CSM to 36%. CSM is currently trading at a P/E of 50.72x, P/B = 1.23x.

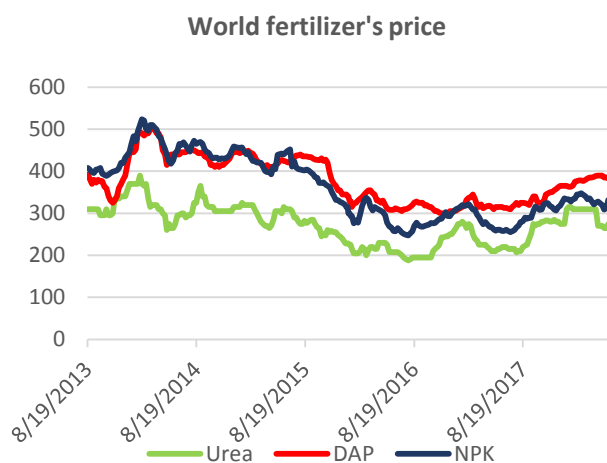
Stock	Revenue 2018	NPAT 2018 (bn VND)	EPS 2018 (VND/share)	P/E fw	P/B fw	ROA 2018	ROE 2018	Price at 29/06/18	Target price
DRC	4,437	145	1,111	21.9x	2.0x	5.2%	9.75%	23,600	27,022
CSM	3,670	82	746	20x	1.2x	2.4%	6.3%	14,950	N/A

(Source: BSC Research)

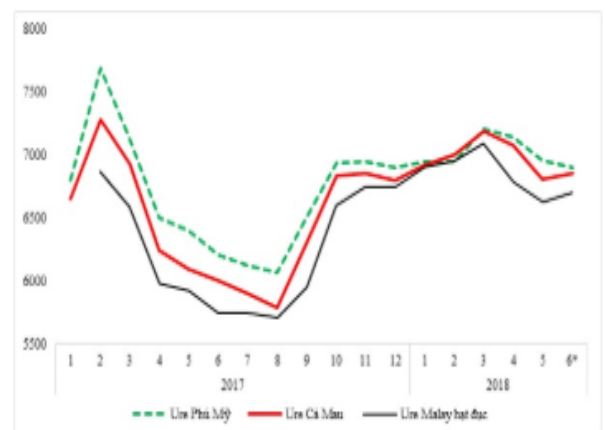
## Fertilizer [Neutral]

- Compared to 1Q2018, Urea's price decreased 8.1%, DAP's price increased 4.3% and NPK's price decreased 3.6%. Though, compared to average of 2017, fertilizer's price has increased, for example, Urea increased 15.5%, DAP increased 19.1% and NPK increased 11.5%.
- Raw material price increased. Compared to 1Q2018, Q2's gas prices increased 13% qoq, coal prices slightly up 1.2%, H<sub>2</sub>SO<sub>4</sub> price decreased 9%.
- Continue to wait for the VAT policy (discussed at the National Assembly in 11T2018)
- Divesture plan of PVN and Vinachem
- Total revenues and EAT in 1Q2018 of 14 listed companies reached VND 9,435 bn (-4.24% qoq) and VND 602 bn (-10.86% qoq).

The global fertilizer market slightly decreased, however, is still higher than average of 2017. (1) Average of Urea prices in 2Q2018 were at \$ 283 per ton, down 8.1% from 1Q2018, but still 15.5% above 2017. According to Yara Research, the amount of Urea is forecasted to continue to exceed 500,000 million tons by 2022, (2) the price of DAP continued to rise to 329 USD per ton (+ 4.3% compared to 1Q2018, + 19.1% compared to 2017) due to short supply and price increase, NPK price slightly dropped 3.6% compared to 1Q2018, but still increased by 11.5% compared to 2017. Urea selling price in Vietnam is stable in 6T2018.

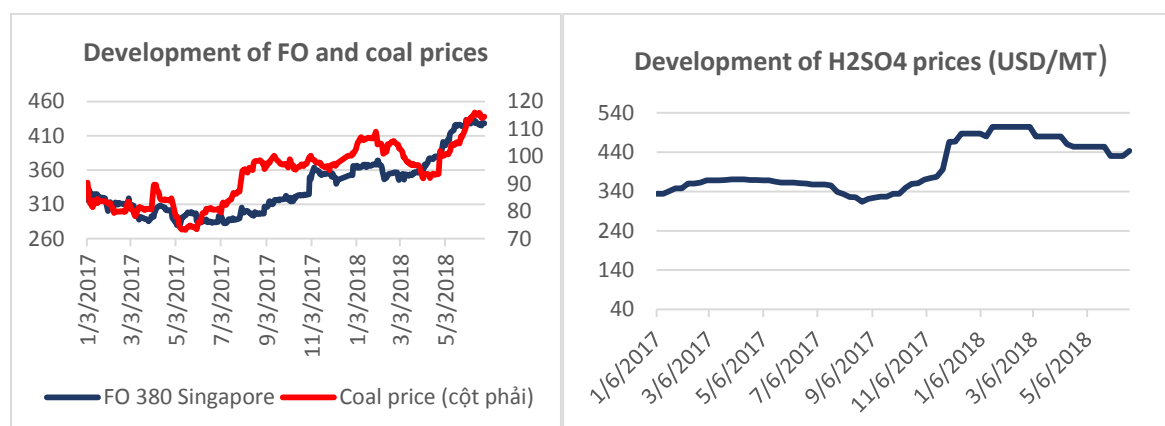


Giá Ure giao dịch tại Việt Nam từ 1/2017-6/2018



(Source: Bloomberg)

**Input material prices continue to rise sharply**, reducing the margin of single-unit producers, especially urea. The input price of gas, key raw materials for urea production increased 13% compared to 1Q2018 and increased 30% compared to 2017. World coal price increased to USD 103.67 per ton, up 1.2% from 1Q2018 and up 18% compared to the 2017 average. H<sub>2</sub>SO<sub>4</sub> prices fell 9% from 1Q2018 to \$449.36 per ton, but still 23% higher than the 2017 average.



(Source: Bloomberg, BSC)

**Continue to wait for information to put fertilizer into VAT subject.** This is included in the draft amendment of the tax policy, the tax rate of 5%. This content will also be discussed at the National Assembly in November 2018. This regulation, which is expected to be effective from 2019, will reduce costs through the deduction of VAT by single-scale producers such as DPM (estimated VND 300 bn), LAS (more than 100 bn), DDV (about 138 bn).

**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...

**1Q2018 business results.** Total revenues and EAT of 14 listed companies reached VND 9,435 bn (-4.24% qoq) and VND 601.54 bn (-10.86% qoq). LN decreased mainly due to rising raw material prices and high competition, affected enterprises reduced output and failed to raise the selling price corresponding to the price increase of raw materials.

	Main products	Revenues 1Q2018	Growth rate	LNG 1Q2018	LNG 1Q2017	EAT 1Q2018	Growth rate
DPM	Urea	2,085.85	5.34%	24.53%	27.75%	183.20	-20.11%
BFC	NPK	1,357.34	14.42%	15.46%	15.59%	41.90	-36.25%
DCM	Urea	1,315.25	4.99%	22.08%	31.70%	259.50	-9.41%
LAS	Phosphorus	955.30	-10.68%	20.58%	18.11%	31.70	-28.22%
DDV	DAP	574.31	8.35%	11.83%	-15.84%	15.80	-142.06%
QBS	Trading	565.90	-34.29%	4.98%	4.25%	10.80	-35.25%
PSW	Trading	517.26	-3.11%	2.60%	3.83%	2.30	-61.30%
PSE	Trading	479.49	8.45%	3.12%	4.42%	0.80	-82.21%
PMB	Trading	458.84	-2.16%	4.58%	5.65%	7.30	-1.59%
VAF	Phosphorus	451.27	7.69%	23.39%	24.40%	21.20	5.71%
PCE	Trading	423.54	-11.58%	3.15%	4.73%	1.50	-77.44%



	Main products	Revenues 1Q2018	Growth rate	LNG 1Q2018	LNG 1Q2017	EAT 1Q2018	Growth rate
NFC	Phosphorus	196.17	12.58%	18.34%	17.38%	6.80	-0.27%
SFG	NPK	47.20	6.11%	9.89%	10.66%	23.40	8.07%
PCN	Trading	7.40	-25.52%	-0.89%	2.85%	-4.50	68.54%

(Sources: FiinPro, BSC research)

## Investment Outlook – Neutral

We maintain **NEUTRAL** for fertilizer stocks with high expectations of changes in tax policy and plans for divestment of PVN and Vinachem, but high competition, oversupply and slow growth affect consumption and selling prices of enterprises in the industry. Fertilizer stocks are trading at P/E and P/B of 8.0x and 0.68x, respectively.

### **BFC – BUY – Target price 34,763 VND/share, upside 26.1%**

BFC is a leading fertilizer company specializing in producing NPK fertilizer for the domestic market. In 2018, BFC expects to double the capacity of Binh Dien Ninh Binh and Binh Dien Tay Ninh to 100,000 tons and 400,000 tons / year respectively (up 250,000 tons / year). This will help BFC expand its market share in the North and save transportation costs. In addition, BFC will invest in the investment project depth fertilizer NPK Binh Dien - Long An capacity of 200,000 tons per year to increase the quality of products and increase the competitiveness of enterprises. However, with the excess supply of fertilizer and high competition, it is difficult for enterprises to raise the selling price. BSC forecasts that revenues and EAT belong to BFC will come to VND 6,574 bn (+ 4.3% yoy) and VND 252 bn (-9.1% yoy) respectively, equivalent to EPS of 3,915 VND / share (minus 11 % of KTPL fund). On June 22, 2018, BFC shares were trading at VND 27,550/share, P/E F of 5.44x, relatively attractive to the position of a leading company. In addition, Vinachem plans to divest its stake in BFC, reducing its stake from 65% to 36%, attracting the attention of many investors.

### **LAS – BUY – Target price 13,200 VND/share, upside 14.5%,**

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. In 2018, LAS plans to reach revenues and pretax profit of VND 4,111 bn + 0.27% yoy) and VND 220 bn (+ 14.4% yoy). The VAT policy, if changed, will also add about VND 100 bn in pre-tax profit to the LAS (expected from 2019). We forecast that revenues and profits after tax in 2018 will reach VND 4,000 bn and VND 163 bn 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 bn, 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 6T2018, Revenues and EBT were estimated at VND 4,915 bn (+ 11.5% yoy) and VND 430 bn (-7.05% yoy), fulfilling 97% of the yearly target.

In 2018, revenue is expected to grow. (1) DPM has completed major urea plant maintenance in December 2017, production and consumption of urea is expected to increase by 11% yoy. (2)

Domestic urea price tended to be stable in the first half year, especially the selling price of Urea Phu My has increased by 8% (6,800 VND - 6,600 VND / kg), (3) DPM plans to sell 34,000 tons of NH<sub>3</sub> and 150,000 tons of NPK, strive to reach 170,000 tons of NPK from the new plant NH<sub>3</sub>-NPK. However, on the other side, the growth of business results depends on (1) the price of input materials, in 1H2018, the price of gas increased 27.24%, the price of H<sub>2</sub>SO<sub>4</sub> decreased 30.42% over the same period, (2) the efficiency of the NH<sub>3</sub>-NPK plant complex, as mentioned in the latest reports, the new plant will contribute about VND 1,200 bn in revenue, however, interest expense and depreciation expense increased sharply, estimated at VND 610 bn; (3) Payments on behalf of PVTEX, if executed (estimated at VND 80 bn), will erode DPM's profits. DPM set a revenue target of VND 8,577 bn, EAT of VND 371 bn (-48% yoy), then EPS of VND 948 per share. We note that if the VAT policy is approved, DPM's EBT will increase by VND 300 bn, EPS will increase by VND 776 / share to VND 1,715 / share.

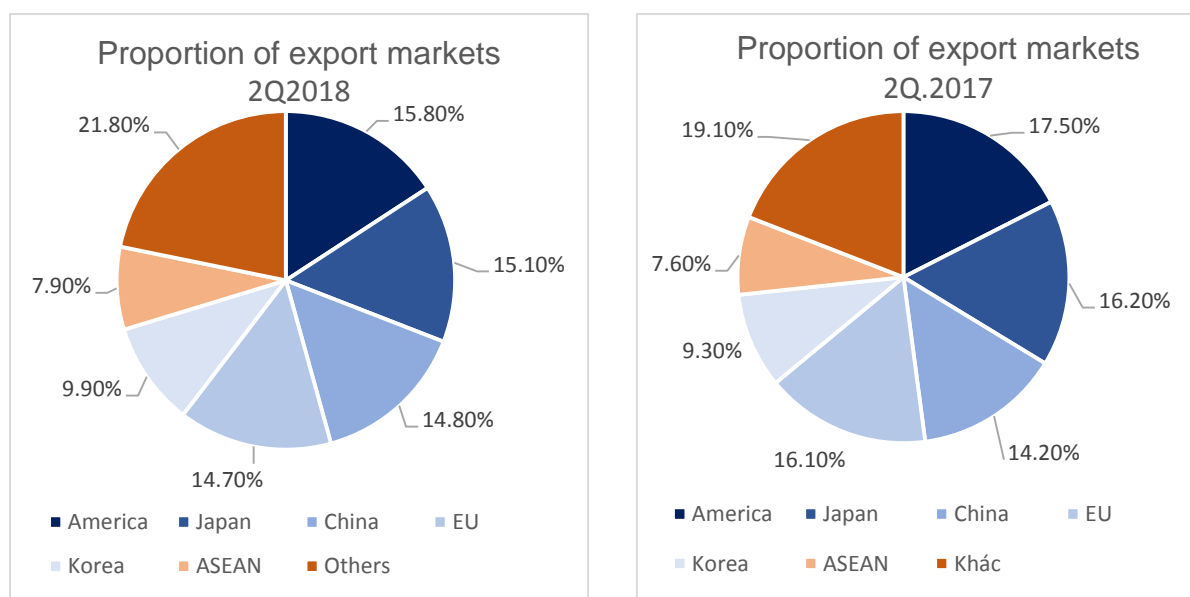
Stock	Revenue 2018	NPAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B fw	ROA 2018	ROE 2018	Price at 29/06/18	Target price
BFC	6,574	252	3,915	5.44x	1.25x	8.0%	23.56%	27,800	34,763
LAS	4,000	163	1,355	8.5x	0.98x	5.2%	12.39%	11,500	13,200
DPM*	8,577	371	948	18.1x	1.07x	6.9%	9.94%	17,200	22,800

(Source: BSC Research, \* plan)

## Aquaculture [Neutral]

- In the first half, seafood exporting reached USD 4 bn (+ 12.3% yoy)
- In May, raw materials price was stable at high level, around 31,600 VND/kg
- Since 29/5/2018, shrimps officially has been placed under SIMP Program
- EU extends yellow card warning on Vietnam's seafood by six months

**In the first half of 2018, seafood exporting estimates to record 4 bil USD (+12.3% yoy).** America remains the biggest exporter of Vietnamese seafood at USD 626 mn (+1.3% yoy). Japan surpasses EU to rank 2<sup>nd</sup> in term of total value which is USD 599 mn (+4.8% yoy). Chinese market observes robust growth, importing at USD 396 mn (+30% yoy). BSC concerns that the double – digit growth in Chinese market will continue in the next 1 – 2 year due to high market demand.



( Source: VASEP)

**In May, raw materials of pangasius remained at peak level,** around 31,600 VND/kg. However, fingerlings changed sharply, with the price of fingerlings fell by more than 50% from the previous month, down to 26,000 - 30,000 VND / kg.

**Impact of trade war between America – China.** In Chinese market, after imposing tariff on American aquaculture products, on 31/5/2018, Ministry of Finance of the People's Republic of China announced to reduce tax on 221 aquaculture products: tariff on tra fish fillet and fresh and frozen tra fish were cut from 10% to 7% and from 12% to 7%. In American market, of USD 200 bn America threatens to impose on China including aquaculture products: tilapia, catfish. Although China only accounts for 10% market share for catfish imported to America, Chinese products are sold with double price compared to Vietnamese. BSC concerns that this is opportunity for Vietnamese seafood to encourage exporting to these two major markets.

**Commercial barrier update:** In 29/5, shrimps officially has been placed under SIMP Program of America, therefore, shrimp exporting to America may face difficulties in near future. About Farm Bill, in May, America has completed the on-site inspection of catfish. Moreover, EU announced that it continues to hold yellow card against Vietnamese seafood in the next 6 months.

**Q1.2018 Operating Business Result.** Most of pangasius companies records positive growth in Q1.2018. High demand from markets (America, China, ASEAN) accompanied with the shortage of supply of raw materials results a positive selling price in Q1.2018 (+20% yoy), helping companies which supply its own raw materials to encourage its gross profit margin (ANV, IDI).

Ticker	Rev 1Q2018 (bn VND)	%YoY	Gross profit margin 1Q2018	Gross profit margin 1Q2017	NPAT 1Q2018 (bn VND)	%YoY
VHC	1,804	11.5%	14.0%	14.2%	97	0.7%
IDI	1,252	32.2%	18.1%	8.4%	166	579.2%
ANV	814	16.7%	16.9%	12.5%	75	204.9%
ACL	332	17.5%	13.6%	13.5%	5	171.8%
TS4	208	-11.4%	13.3%	13.0%	1	-64.5%
ABT	89	-10.2%	18.7%	14.7%	9	-12.4%

(Source: FiinPro, BSC research)

## Investment Outlook – Neutral

We raise the rating for the Aquaculture sector from **Underperform** to **Neutral**. Demand from new markets (China, Japan) is and will be the growth engine for seafood enterprises in the next 1-2 years. At the same time, the complexity of the US-China trade war will be an opportunity for Vietnamese seafood in these two big markets.

We recommend to follow leading stocks such as VHC due to the potential growth thanks to tax advantages in the US market and sustainable development strategy.

### VHC- HOLD – Target price: 67,350 VND/share – Upside: 14.7%

Potential growth comes from expanding exporting markets and higher control of raw material supply.

**Export output:** According to Agromonitor, for the first four months, VHC exported 20,568 tonnes of catfish. US continues to be the largest export market of the company, with export volume of 13,270 tonnes (64.5%), average selling price is \$ 4,287 per ton (+ 15.9% ytd).

**Expansion of farming area:** The company started to exploit Tan Hung farming area of 220 ha, including 50 ha for breeding fish. The new aquaculture area is 20km from Vinh Hoan and the risk of salinity is low. Up to now, adding Tan Hung farming area, the total farming area of the company is 750 hectares (+ 42% ytd).

**Divestment from Van Duc Tien Giang (VDTG).** In Q1.2018, VHC reduced its ownership in VDTG from 100% to 35% as its chartered capital increased to VND 872.6 bn from VND 305.4 bn. BSC believes the company has recorded VND 500 bn in cash from Van Duc Tien Giang. The reason for the withdrawal from Van Duc Tien Giang are geographic distance and the declining quality of farming areas due to salinity.

**FMC - TRACKING**

**Operating Business results:** In 2Q.2018, net revenue and NPAT are VND 1,891 bn (+ 39.1% yoy) and VND 51 bn (+ 18.6% yoy) respectively. Gross profit margin has decreased from 7.4% to 6.9%.

**Production output:** In the first 6 months, the company processes 7,787 tons frozen shrimp (+ 18.7% yoy). Consumption is USD 76.6 mn (+ 25.1% yoy). Since the beginning of the year, the company has raised 156 shrimp ponds, expected from July 3, the company will continue to raise 88 new ponds.

Ticker	Rev 2018 (bn VND)	NPAT 2018 (bn VND)	EPS 2018 (VND/share)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
<b>VHC</b>	9,000	600	6,500	9.02	1.77	12.5%	19.7%	58,700	67,350
<b>FMC</b>	3,700	151	3,756	9.31	1.36	7.5%	24.1%	20,200	N/A

(Source: BSC research)

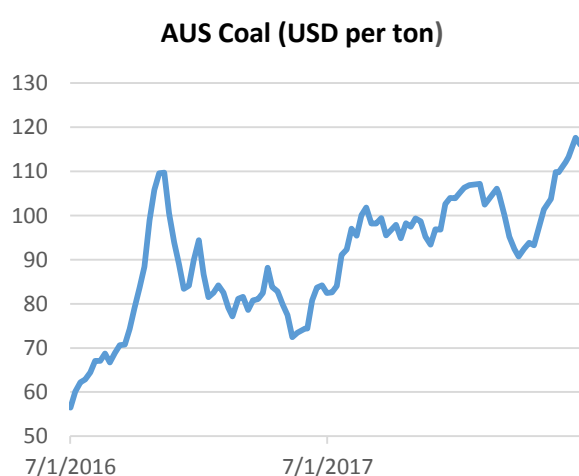
## Cement [Underperform]

- Cement consumption in 5M2018 reached 45.51 million tons (+39.8% YoY).
- Excess capacity is estimated to be 14-16 million tons per year, which is likely to keep this rising momentum.
- Coal price +10% YTD, electricity price for production increased from 2% to 5%.
- Cement companies experienced a decline in profit in Q1/2018.

**Cement consumption in 5M2018 reached 45.51 million tons (+39.8% YoY).** The domestic consumption was 32.61 million tons (+35.4% YoY) thanks to the growing construction demand and favorable weather conditions; export volume was 12.9 million tons (+52.3% YoY). The consumption in domestic market of the private sector increased sharply, occupying market share of Vicem (the Vicem's market decreased from 34-36% in the period 2014-2017 to 31% in May 2018). Cement and clinker export output recorded strong growth from China as many cement plants in this country had to close down due to environmental regulations.

**Supply surplus will continue.** The total designed capacity of cement lines in operation at the end of 2017 was 99 million tons; while the total demand for domestic consumption and export are estimated to be 83-85 million tons in 2018, which implies 14 -16 million tons of surplus per year. Supply surplus is likely to occur as some new cement projects are still being invested such as Song Lam 2 (3.8 million tons per year); Katio Ha Tien (4.5 million tons per year) ... while inland demand is forecasted to increase slightly by 5-6% annually and exports will be tightly controlled to ensure efficient utilization of natural resources.

**Coal price + 10% YTD, electricity price for production increased from 2% to 5% YoY,** hitting the profit of cement firms. Cement prices rose by 1-5% from the beginning of the year, but cannot offset the increase in input prices, especially in the context of excess supply.



(Source: Bloomberg)

Electricity for production (Voltage ranging from 22kV to under 110kV)			
	Price 01/12/2017	Price 16/03/2015	%
<b>Normal hours</b>	1,452	1,405	3.3%
<b>Low-load hours</b>	918	902	1.8%
<b>Peak hours</b>	2,673	2,556	4.6%

(Source: MOIT)

**Operating results in Q1/2018 were divergent in terms of revenue growth but almost enterprises witnessed a decline in earnings.** Q1/2018 results of cement companies have differentiated in terms of growth but they all saw profit margins decline. Some small and medium sized enterprises recorded positive sales growth in Q1/2018 thanks to favorable regional markets such as CCM (+37% YoY), HOM

(+22% YoY), CLH (+25.6 YoY), CQT (+45% YoY). Gross profit margin declined significantly by 2 to 6% due to the effect of coal price and electricity price.

Ticker	Rev 1Q2018 (bn VND)	%YoY	GPM 1Q2018	GPM 1Q2017	Net income 1Q2018 (bn VND)	%YoY
HT1	1,840	-3.0%	14.9%	15.9%	82	-24.7%
BCC	788	-15.3%	8.1%	14.3%	-6	-163.7%
BTS	619	-10.8%	11.4%	14.8%	-18	-211.8%
HOM	372	21.9%	8.2%	14.6%	0	-3.0%

(Source: FiinPro, BSC research)

## Investment Outlook– Underperform

We estimate cement sales will be better in 2H2018 thanks to growing demand for construction. However, the uptrend of coal and electricity prices will hit the profit of firms, as selling prices cannot rise correspondingly due to fiercer competition. We downgrade Cement sector to **UNDERPERFORM**.

### HT1 – TRACKING

Ha Tien 1 is the most profitable firm in Vicem Group with the largest market share thanks to its favorable position in the south and its well-known brand name. Because of the industry over-supply, many cement companies have shifted their focus to the southern such as Cong Thanh, Hoang Thach, Cam Pha ..., which will increase the competition and affect the consumption of HT1. However, we believe that HT1 with a leading position will maintain its growth. Additionally, HT1 is worth to be noticed based on good asset quality, and lower than book value current market price (VND 13,534 per share as of 31/03/2018).

- **Declining operating results in Q1/2018:** Volume - 5% YoY while selling price increased slightly by VND 20,000 per tonne (1.6%). Net income was VND 81.67 bn (-24.7% YoY) due to (i) increase in selling price was not enough to offset the rising input prices; (ii) recorded a FX loss of VND 31 bn.
- **Large investment projects:** (i) Phu Huu BOT project is expected to temporarily come into operation from Q3/2018 before receiving officially license (ii) Truong Tho Complex (former site of Thu Duc milling station) cannot be built due to not yet received the license and the approval 1/500 project.
- **We estimate that HT1's sales volume will be better in 2H2018** (note that consumption in Q1/2017 was quite high thanks to good construction demand before the time fund for real estate was tightened according to Circular 06/2016/TT-NHNN (then Circular 19/2017/TT-NHNN). However, in the context of rising coal and electricity prices, HT1's profit will be hit significantly, BSC estimates that a 1-percent rise in coal prices could lower HT1's profit margin by 0.4%.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
HT1	8,721	481	1,259	9.13	0.83	4.52%	8.53%	11,500	14,500

(Source: BSC Research)

## Sugar [Underperform]

- Quotas of sugar importing from ASEAN extends by 2019, helping local selling price at the premium to world selling price.
- By 15/4/2018, sugar inventory reaches 681,000 tons (+5.8% yoy)
- RS sugar price and RE sugar price reduced sharply, -30% yoy and -21% yoy respectively.
- Except SBT, sugarcane corporates record high decrease in NPAT

**Delay the implementation of the Agreement on Trade in Goods of ASEAN Countries (ATIGA).** According to the report of the Sugar Association, the government will continue to apply the Tariff Quotas for sugar products to the end of 2019. This delay will help sugarcane enterprises enjoy the selling price higher than world prices (50% higher than world prices), mitigating negative impact when sugar prices are at the bottom level

**By May 31, 2015, sugar production reached nearly 1.4 million tons.** Up to April 15, sugar inventory in the country reached 681,000 tons (+5.8% yoy). The high inventory reflects the difficulties in business environment, with sugar prices falling to the lowest level in four years.

**Domestic sugar price in June decreased 30% over the same period.** Wholesale sugar prices in June continued to be at low level. Wholesale price RS range from 10,500 to 11,600 VND / kg, compared with 15,100 - 16,700 VND / kg in the same period last year (-30% yoy, -17% ytd). Wholesale sugar RE price is from 13,200 - 14,500 VND / kg, with 16,700 - 17,500 VND / kg (-21% yoy, -9% ytd).

**The business results of sugar companies continue to reflect the general difficulties of the industry.** The decrease in selling price coupled with lower demand of many F & B customers caused the gross profit margin of sugarcane enterprises to decrease. As for SBT, thanks to the consolidation of BHS, revenue and NPAT are up 140.01% and 69.6%, respectively. However, the gross profit margin trend continues to decline. For SLS, sugar sales were 15,068 tonnes (-11.5% yoy), while average selling price was 11,600 VND / kg (-20% yoy), resulting in a drop of revenue and NPAT of 29.13% and 53.94% respectively.

Ticker	Rev 1Q2018 (bn VND)	%YoY	Gross profit margin 1Q2018	Gross profit margin 1Q2017	NPAT 1Q2018 (bn VND)	%YoY
SBT	2,731	140.0%	12.3%	13.9%	137	69.6%
LSS	243	-71.2%	12.7%	15.2%	2	-87.3%
SLS	211	-29.1%	29.1%	36.8%	42	-53.9%
KTS	118	-36.2%	5.1%	19.8%	6	-87.3%

(Source: FiinPro, BSC research)

## Investment Outlook – Underperform

We maintain **UNDERPERFORM** rating to sugar sector based on the following reasons:

- (1) Supply surplus for 2018/2018 is estimated to be 560,000 tonnes.
- (2) World and domestic sugar prices continue to decline.



(3) The slowdown of consumption of F & B customers and the tendency to switch to Chinese liquid syrup.

#### **SBT - TRACKING**

**Operating results of 9M 2017/2018.** Net consolidated revenue 3Q FY2017/2018 recorded VND 8,200 bn (+ 154% yoy), fulfilling 83% of the year target. NPAT is VND 397 bn, (+ 54% yoy) and fulfills 72% of the year plan. Consumption was approximately 437,000 tonnes (+ 228% yoy). According to the structure of sugar consumption by industry, big industry accounted for 45%, export accounted for 16%, trade accounted for 14% and other channels accounted for the remaining proportion.

**Issuing individual bonds:** The firm announced that it will issue no more than VND 450 bn bonds to less than 100 investors excluding professional investors in 2018. The par value of bonds is 1 bil VND per bond.

#### **LSS - TRACKING**

**Operating results of 9M 2017/2018.** Net consolidated revenue 3Q 2017/2018 recorded VND 719 bn (-71.3% yoy). NPAT is VND 15 bn (-87% yoy). In the 2017/2018 season, the company processed 754,000 tonnes of sugarcane (+ 19% yoy) with total sugar output of 87,645 tonnes (+ 16% yoy). The company set a target of 850,000 (+ 13% yoy) tonnes of processed sugarcane in 2018/2019.

Ticker	Rev 2018 (bn VND)	NPAT 2018 (bn VND)	EPS 2018 (VND/share)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 29/06/18	Target price
<b>SBT</b>	8,659	576	1,084	14.22	1.51	2.3%	11.2%	15,500	17,350
<b>LSS*</b>	2,500	125	1,781	9.31	0.32	4.8%	7.35	7,680	N/A

\*: Company plan for 2017/2018

(Source: BSC research)

## Disclosure

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