



# SECTOR OUTLOOK **2019**

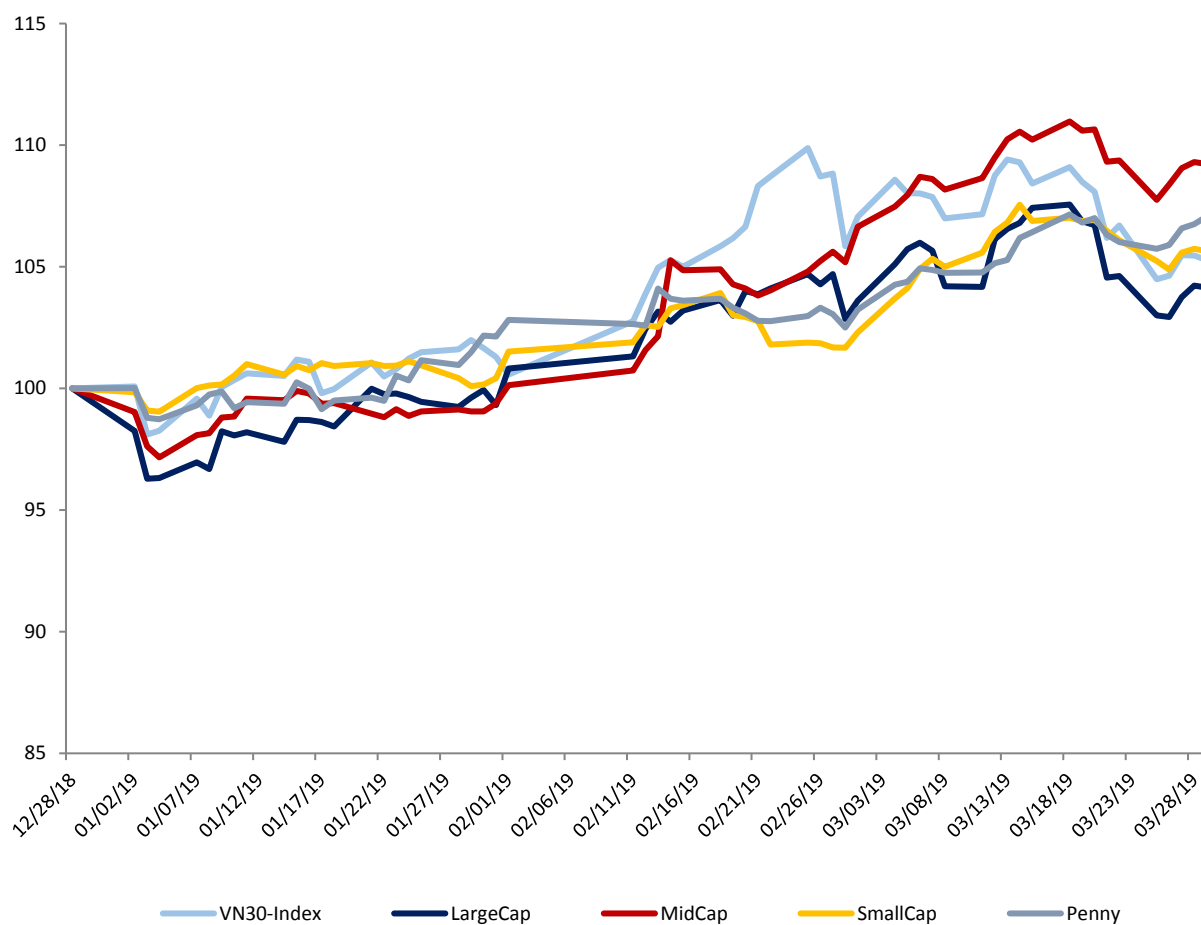
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## Stock market movement in 3M2019

- **In terms of index.** Market index has improved positively compared to Q4/2018 with 2 indexes on HSX and HNX increasing by 88.22 points (+ 9.88% YTD) and 3.21 points (+ 3.08% YTD). VN-Index closed at 980.76 points.
- **Market movements.** After the gloomy period of the stock market in Q4/2018, the market had positive improvements in Q1/2019 with strong support from leading stocks. The strongest market support codes were VIC (contributing 20.13 points), VHM (contributing 18.53 points), VCB (contributing 15.5 points), GAS (contributing 7.97 points) and VNM (contributing 7.96 points). On the other side, stocks that contributed the most to the index's decline include SAB (down 3.56 points), NVL (down 2.36 points), YEG (down 1.28 points), ROS (down 1.16 points) and VJC (decrease 0.58 points).
- **Group of stocks.** As of March 2019, all stock groups have positive performance. MidCap is the group with the strongest performance improvement with 9.22% YTD, followed by Penny (+ 7.07% YTD), Small Cap (+ 5.64% YTD), VN30 (+ 5.27% YTD) and LargeCap (+ 4.12% YTD). The three sectors with the strongest growth rates are Real Estate (+ 18.25% YTD) due to VIC, Health (+ 15.49% YTD) due to DHG and Automotive and spare parts (+ 13.76% YTD) due to DRC, 3 sectors fell sharply Most of Media (-45.98% YTD) is made by YEG, Retail (-5.62% YTD) by MWG and Tourism & Entertainment (-0.9% YTD) by VJC.
- **An outlook on information affecting VN Index and Vietnam stock market in Q1/2019.** In addition to the negative information, it has been reflected in the market **(1) Deceleration of economic growth, (2) Result of Brexit process has not been determined and (3) US 10-year bond interest rate dropped to 3 months lower than US bond interest rate.** Vietnam and the world stock market also received some positive information such as **(1) Expectation to end the China-US trade war, (2) FED changed its position in administration by easing monetary policy, expected not to raise interest rate in 2019, (3) Price Oil of the world recovered strongly.**
- The domestic information is also actively supporting the market with **Economic indicators continued to improve, especially when GDP 2018 reached the highest growth rate in 7 years.** In addition, **good business results in 2018 and positive 2019 business plans** are also factors maintaining investors' excitement. BSC has made the final report of 2018 business results sent to investors (For details, please refer to the [link](#)).

### • Performance of stock groups



Source: Bloomberg, BSC Research

## Event timeline

Month	Time (days)	Viet Nam	Time (days)	International
1	17	Maturity of future contracts	29-30	Fed meeting and announcing monetary policy and interest rate
	18	ETF VN30 review	24	ECB meeting and announcing monetary and interest rate policies
	25	ETF VFM VN30 changes the weight of the portfolio		
	20	Deadline for submission of quarterly financial statements		
2	4-8	Lunar New Year holiday	24	General election Thailand
	21	Maturity of future contracts	28	Ishare MSCI review
3	1	US-China trade war: Tariffs for 200 billion dollars of Chinese goods rise from 10% to 25%	21-22	ETF VNM, ETF FTSE review
	21	Maturity of future contracts	25-29	FTSE Announced the mid-year market rankings
			7	ECB meeting and announcing monetary policy
			19-20*	Fed meeting and announcing monetary policy
4	15	Hung Kings' Temple Festival	10	ECB meeting
	18	Maturity of future contracts	April - May	Indian general election
	20	Deadline for submission of Q1 financial statements	30/4-1/5	Fed meeting
	19	ETF VFM VN30 changes the weight of the portfolio		
	30	Deadline for submission of the financial statements		
5	1	International work holiday	31	Ishare MSCI review
	16	Maturity of future contracts		
	May	9th Party Central Conference		
6	21-22	ETF VNM, ETF FTSE review	6	ECB meeting and announcing monetary policy
	20	Maturity of future contracts	18-19	Fed meeting and announcing monetary policy
	June	Congress meeting	20	MSCI publishes market rankings
			28-29	G20 meeting
7	18	ETF VN30 review	25	ECB meeting and announcing monetary policy
	18	Maturity of future contracts	30-31	Fed meeting and announcing monetary policy
	19	ETF VFM VN30 changes the weight of the portfolio		
	20	Deadline for submission of Q2 financial statement		
8	15	Deadline for submitting semi-annual financial statements	25-27	G7 meeting
	15	Maturity of future contracts	30	Ishare MSCI review
9	1	National holiday	12	ECB meeting and announcing monetary policy
	18-19	ETF VNM, ETF FTSE review	17-18*	Fed meeting and announcing monetary policy
	19	Maturity of future contracts	23-27	FTSE Announces the end of the year market rankings
10	17	Maturity of future contracts	24	ECB meeting and announcing monetary policy
	18	ETF VFM VN30 changes the weight of the portfolio	27	Argentina general election
	20	Deadline for submission of Q3 financial statements	29-30	Fed meeting and announcing monetary policy and interest rate
	October	10th Central Conference		
11	21	Maturity of future contracts	29	Ishare MSCI review
	November	Congress meeting		
12	19	Maturity of future contracts	10-11*	Fed meeting and announcing monetary policy
	20-21	ETF VNM, ETF FTSE review	12	ECB meeting and announcing monetary policy

### Top highlighted stocks in 1Q2019

TOP 5 LEADERS ON VN - INDEX			
CK	Price 31/03/2019	Change in Price 3M (%)	Index pt
VIC	115,900	21.62%	19.4
VHM	91,500	24.66%	12.4
VCB	67,300	25.80%	6.4
GAS	98,200	15.66%	5.9
VNM	134,800	12.33%	5.03

TOP 5 LAGGARDS OF VN - INDEX			
CK	Price 31/03/2019	Change in price 3M (%)	Index pt
SAB	249,700	-6.65%	-10.6
NVL	55,800	-13.08%	-7.7
YEG	1,000,000	-57.45%	-4.6
ROS	32,000	-17.31%	-3.6
VJC	116,500	-2.92%	-2.0

TOP 5 STRONGEST INCREASED STOCKS ON VN- INDEX			
CK	Price 01/01/2019	Price 31/03/2019	%Chg
DCL	9,350	19,800	147%
NVT	6,700	11,500	119%
OGC	3,540	5,830	77%
GTN	10,300	16,600	76%
PHR	33,450	52,600	70%

TOP 5 STRONGEST DECREASED STOCKS ON VN- INDEX			
CK	Price 01/01/2019	Price 31/03/2019	%Chg
YEG	235,000	100,000	-54%
SJF	7,300	4,010	-54%
C47	19,500	11,550	-45%
FRT	71,900	49,700	-41%
ICF	1,850	1,280	-33%

TOP 5 LEADERS OF VN - INDEX			
CK	Price 31/03/2019	Change in 3M (%)	Index pt
PVS	24,100	41.76	1.61
NVB	8,900	18.67	0.38
DBC	29,500	32.29	0.30
VCS	98,000	5.06	0.27
TNG	17,200	66.45	0.25

TOP 5 LAGGARDS OF VN - INDEX			
CK	Price31/03/2019	Change in price 3M (%)	Index pt
SHB	8,900	-4.3	-0.5692
DL1	33,500	-11.61	-0.2941
VGC	18,800	-14.03	-0.2345
NTP	50,000	-5.66	-0.1394
CEO	14,000	-6.38	-0.11

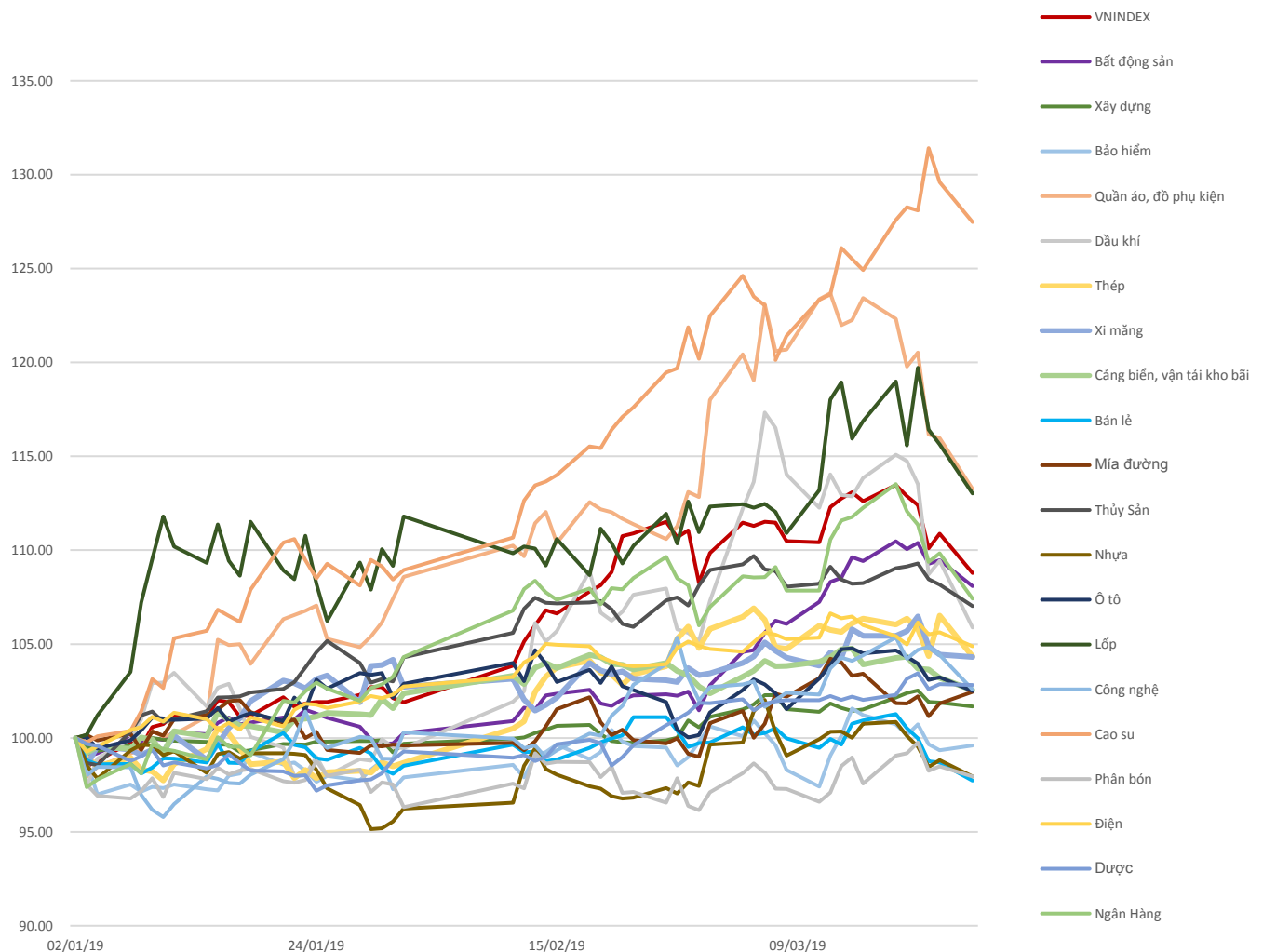
TOP 5 STRONGEST INCREASED STOCKS ON HNX			
CK	Price 01/01/2019	Price 31/03/2019	%Chg
SRA	11,500	35,000	204%
MBG	2,190	5,900	169%
BST	11,200	26,500	137%
BIT	600	1,400	133%
SDD	1,800	3,800	111%

TOP 5 STRONGEST DECREASED STOCKS ON HNX			
CK	Price 01/01/2019	Price 31/03/2019	%Chg
CMV	23,001	10,500	-54%
KAC	17,200	7,900	-54%
STT	9,210	5,070	-45%
HOT	48,003	28,250	-41%
ROS	60,696	40,800	-33%

Source: Bloomberg, BSC Research

## Comparing sectors' growth vs. the VN-Index 3M2019

### Movements of VNindex and Sectors

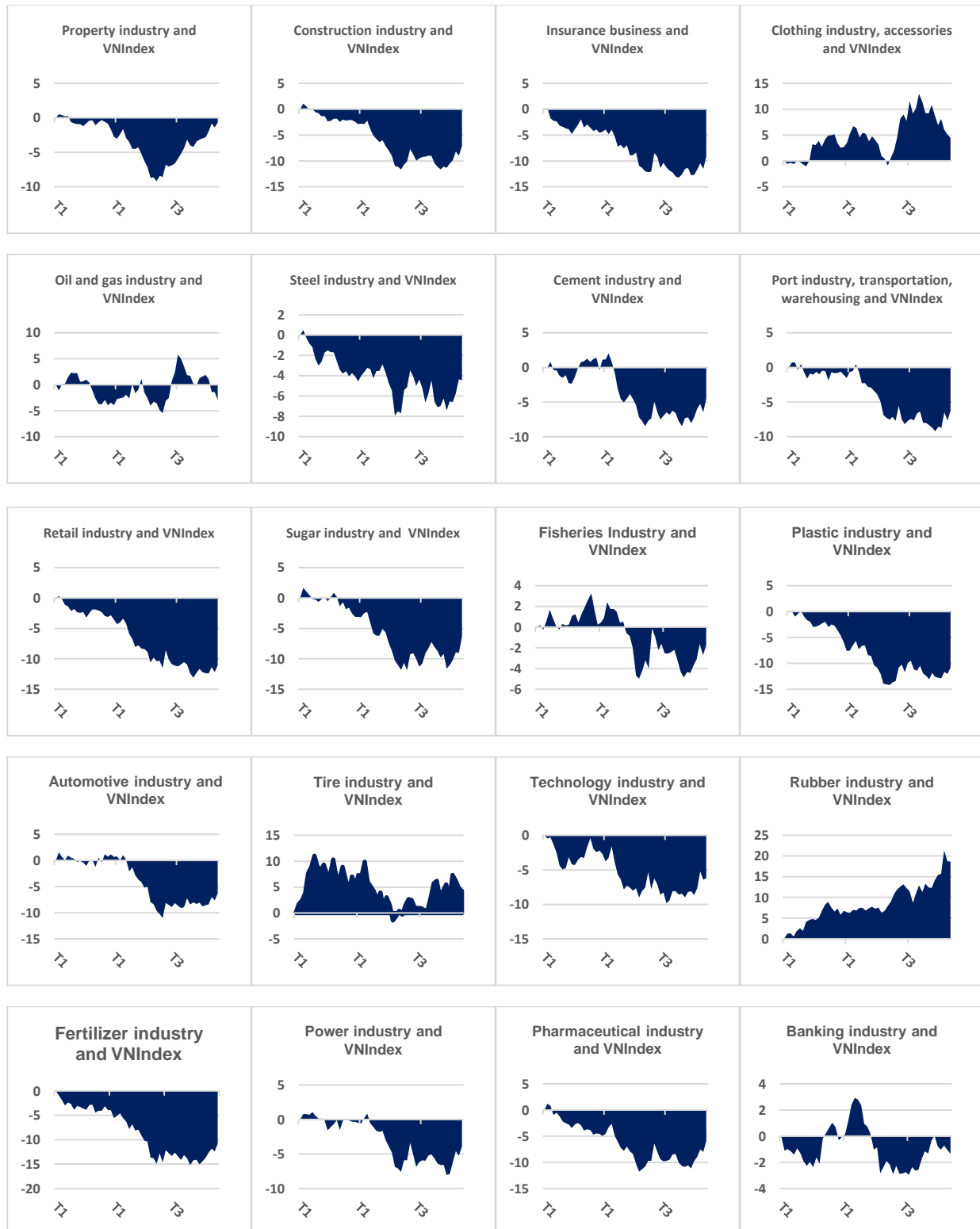


Source: Bloomberg, BSC Research\*

*Note: Using the average calculation method based on the stock performance compared to the beginning of the year (excluding the proportion of stocks to VN-Index).*

In general, most sectors saw a remarkable recovery after the strong drop in the fourth quarter of 2018. However, we realize that except for Textile, Rubber and Tire industry, there has been a steady increase in most. Among stocks in the industry, the remaining sectors have lower average performance than the market (VN-Index). This proves the clear differentiation among stocks in the industry, while the average performance of some stocks we noted in the industry prospect report in 2019 shows the superiority to VN- Index ([Link](#)). On the other side, Retail, Plastic, Insurance and Fertilizer all had deeper fall than VN-Index.





Source: BSC research



## Performance of highlighted stock portfolio

	Code	Day price	Day price	Up/Down (HPR)	Average
Banking	ACB	29,200	30,300	4%	2,211,208
	MBB	19,350	22,400	16%	4,848,791
	TCB	25,600	25,600	0%	2,425,223
	VCB	53,600	67,300	26%	1,183,230
Insurance	BMI	20,500	22,500	10%	83,772
	PVI	32,500	37,500	15%	84,132
Oil & Gas	GAS	86,800	98,200	13%	552,549
	PVD*	14,200	17,900	26%	2,705,120
	PVS	17,200	20,600	20%	3,711,479
Electricity	POW	15,600	15,150	-3%	2,496,158
	GEX	21,850	23,100	6%	1,302,936
	PC1	23,950	23,500	-2%	147,188
	REE	30,650	31,850	4%	572,771
Property	HDG	33,100	41,200	24%	383,913
	KBC	13,000	14,700	13%	2,910,288
	VHM	73,500	91,500	24%	719,780
	NLG	25,800	27,500	7%	496,622
Construction	CTD	160,000	143,400	-10%	157,835
Steel	HPG	30,800	32,200	5%	4,767,239
	HSG	6,460	9,400	46%	4,272,626
	NKG	7,610	7,300	-4%	582,917
Tiles	CVT	18,850	24,650	31%	264,537
	VGC	17,400	20,500	18%	2,435,944
Cement	HT1	13,600	15,200	12%	280,541
Plastic	BMP	50,700	48,550	-4%	125,809
	NTP	40,500	38,000	-6%	16,704
Fertilizer	BFC	25,650	24,300	-5%	160,397
	DPM	22,000	19,600	-11%	502,387
Rubber	PHR	34,000	52,600	55%	562,538
	DRC	21,600	22,350	3%	378,490
Tire	DRC	21,600	22,350	3%	378,490
Technology	FPT	41,200	45,500	10%	695,991
	MWG	85,500	84,800	-1%	574,395
Textile	TCM	22,350	30,600	37%	1,273,671
	TNG	16,300	22,500	38%	1,193,152
	MSH	41,000	51,000	24%	96,028
	VGT	10,600	12,500	18%	1,385,667
	VGG	50,200	65,800	31%	49,614
Pharmaceuticals	DBD	40,500	42,750	6%	25,382
	DHG	76,200	118,300	55%	239,411
	PME	59,400	58,000	-2%	3,037
Retail	PNJ	92,000	99,500	8%	274,135
	VNM	124,000	134,800	9%	828,506
Sugar	SBT	19,292	18,350	-5%	1,511,241
Seaport	GMD	26,400	26,500	0%	430,051
	VSC	40,750	41,300	1%	149,539
Transportation	PVT	15,600	17,000	9%	428,894
Aquaculture	VHC	88,400	89,800	2%	194,352

Source: BSC Research

(\*)New stocks added to the list of notes in the sector Outlook report in Quarter 2/2019

Among the stocks listed by BSC in the 2019 Outlook report, 37/48 stocks had growth in 3M2019. **The average share price growth of the above list is 12.4%, higher than the VN-Index which increased 88.22 points (+ 9.88% YTD) and the HNX-Index increased 3.21 points (+ 3.08% YTD).**

Some stocks have contributed significantly to the above portfolio growth in Q1 / 2019, such as **PHR (+54.7% YTD), DHG (+55.2% YTD), HSG (+45.5% YTD), TNG (+38% YTD), TCM (+36.9% YTD), VCB (+25.6% YTD), VHM (+24.5% YTD)**. In general, most of tickers in the above list have a good recovery according to the general trend of the market. However, some stocks in the list do not maintain the uptrend as **CTD, NKG, DPM, SBT, BMP, NTP, ...** This is mainly because the companies / industries are facing many difficulties.

## Policies and events affect economic sectors in 2019

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 2019:

No.	Policies and events	Effective date	Affect	Infuence level	Status March 31, 2019
<b>Macroeconomic Policy and International Economics</b>					
<b>Monetary policy</b>					
1	FED: keeping interest rate unchanged (easing), the US economy forecast growth slowed		Mixed	Very strong	Affecting
2	PCB: China's economy grows slowly (RMB devaluation)		Negative	Very strong	Affecting
3	ECB: postponing tightening monetary policy		Mixed	Strong	Affecting
4	GBP: Brexit - GBP depreciated	31/10/2019	Negative	Strong	Affecting
5	Price of raw materials increased (oil, steel, rubber prices)		Mixed	Strong	Affecting
<b>Regional Macro Policy</b>					
6	US-China trade war		Mixed	Very strong	Affecting
7	Economic policy of the US president (Trump)	20/01/2017	Mixed	Very strong	Affecting
9	Asian economies grew positively		Positive	Strong	Affecting
10	OPEC meeting	30/06/2019	Mixed	Strong	Not affected yet
11	G7 meeting	25-27/06/2019	Mixed	Medium	Not affected yet
12	G20 meeting	28-29/06/2019	Mixed	Medium	Not affected yet
<b>Macro Policy and Domestic Economy</b>					
<b>Policy to amend the law</b>					
1	Modify public investment law		Mixed	Strong	Not affected yet
2	Modify investment law, business law		Positive	Strong	Not affected yet
3	Modify securities law		Positive	Strong	Not affected yet

No.	Policies and events	Effective date	Affect	Infulence level	Status March 31, 2019
4	Reduce the proportion of medium and long-term loans to 30%		Negative	Medium	Not affected yet
4	Electricity prices and gasoline prices increased		Negative	Medium	Affecting
5	Expect to pass the Law on Special Economic Administrative Region		Negative	Strong	Not affected yet
4	Vietnam upgraded the FTSE Russell primary market		Negative	Strong	Not affected yet
8	Increasing equitization of state-owned enterprises		Neutral	Medium	Affecting
9	Divesting State-owned enterprises (SCIC, Ministry of Industry)		Positive	Very strong	Affecting
<b>Monetary policy</b>					
6	USD / VND exchange rate leveled off		Neutral	Very strong	Affecting
7	High public debt		Negative	Strong	Affecting
<b>Free trade agreements</b>					
1	CPTPP Agreement (*)	14/01/2019	Positive	Strong	Affecting
2	FTA Vietnam - EU	06-07/2019	Positive	Strong	Not affected yet
3	RCEP ASEAN	Negotiating	Positive	Strong	Not affected yet

Source: BSC Research

## Investment Strategy for Q2/2019

In the context of the gloomy global economic growth, potential risks are not clear yet as (1) Trade War, (2) Brexit, these risk will be most influential on countries which are open to the global economy, including Vietnam. Moreover, US, EU and some other countries have made certain changes in monetary / fiscal policy through more easing. This shows concern about the slowdown in global economic growth. Changing the executive view of these policies in many regions such as the US, EU, China can help the world economic growth prospects recover in the second half of 2019 and prolong the economic growth in the next stage.

In terms of domestic situation, (1) The strong recovery of commodity prices (oil, steel, electricity prices ...) in the first quarter and the drop in pork prices due to swine cholera will also put certain pressure on Inflation index of Vietnam, (2) Draft laws on securities and newly developed products (warrants) will help increase the diversity of products in the market. Some important issues to note in the second half of 2018:

### **The deceleration of the global economy and the adjustment of economic growth projection of many countries**

The third times International Monetary Fund (IMF) lowered its forecast for world economic growth to the lowest level of 3.3%, down from 3.7% at the end of 2018 and 3.5% at the beginning of 2019. IMF also lowered US economic growth from 2.5% to 2.3%, lowered Eurozone growth from 1.6% to 1.3% and forecasted China growth at 6.3% compared to 6.6% in 2018. However, Growth prospects will recover gradually in the second half of 2019 and 2020 (economic growth is projected to reach 3.6%) thanks to the view of easing monetary policy in major countries.

### **Trade war**

The negotiation process of the US-China trade war had more positive points with certain concessions from both sides. Accordingly, China has made proposals regarding compulsory technology transfer: The US will reduce the demand for China to limit subsidies to industries, to focus on other issues such as (1) Improving intellectual protection and (2) Improving access to the Chinese market, these are issues that China has previously conceded. The process of discussing trade negotiations is expected to continue until the end of May until both parties have actually reached a preliminary cooperation agreement. The results of the negotiations will more or less affect the world economic prospects and investment strategies of major financial institutions.

### **Commodity and inflation**

Commodity prices have recovered strongly since the beginning of 2019. The price increases include (1) Energy of oil, gas and coal, (2) some metals such as iron, steel, nickel and aluminum , (3) Rubber ... In addition, for the domestic market, (1) EVN has announced the increase of retail electricity price by 8.36% compared to the current price and (2) Gasoline price increases due to the impact of world oil prices also created certain pressures on inflation in Vietnam. According to our assessment, there will not be much room to cut output from OPEC, so the balance of supply and demand of crude oil will depend on (1) Demand mainly comes from China and Asian countries. and (2) US shale oil production.

### **Monetary policy changed to easing trend.**

In the meeting in March 2019, FED issued a signal not to raise interest rates in 2019 and ending the period of tightening monetary policy from 2016 mainly due to (1) US economic growth showed signs of deceleration and (2) Pressure of inflation index decreased. The quantitative tightening program (QT) will

also be stopped by FED in September 2019. ECB will continue to maintain the monetary easing policy and continue to maintain the current level until the end of 2019 due to geopolitical and Brexit factors. BOJ remains loosened monetary policy with the aim of supporting economic growth and inflation expectations may be reached.

The People's Bank of China (PBOC) has shifted from a "cautious and neutral" monetary policy stance to a "cautious and appropriate" policy, thereby tending to loosen some monetary policies. PBOC has reduced the compulsory reserve ratio (RRR) for many commercial banks and foreign banks in order to promote the financing process with small and medium enterprises (SMEs). In addition, PBOC also uses fiscal measures to promote economic growth by cutting VAT for manufacturing from 16% to 13%.

## Comparison with the regional stock market

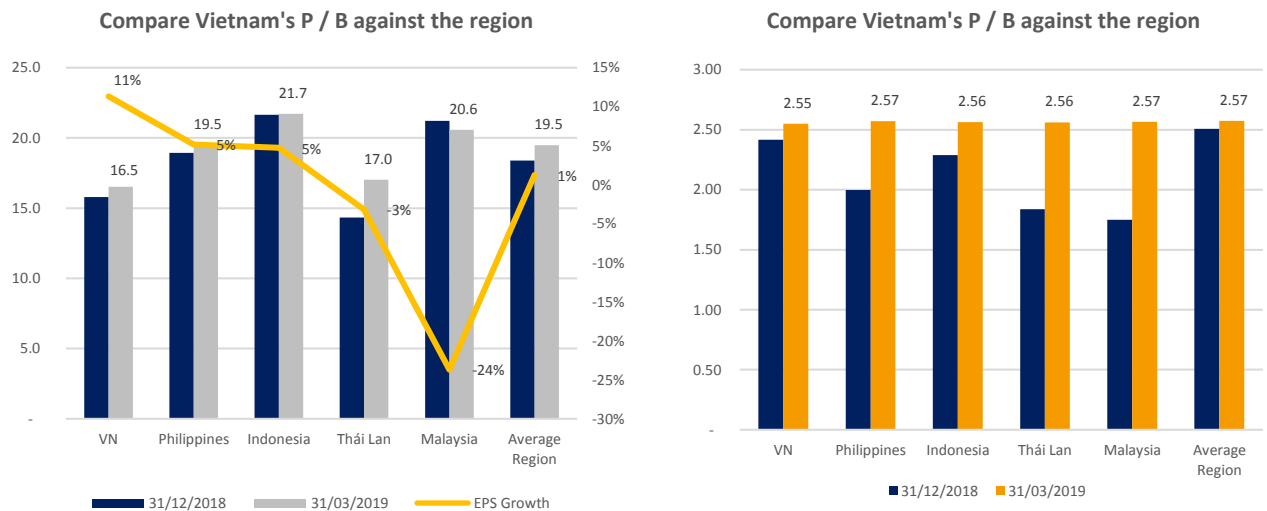
In general, after the recovery process in early Q1.2019, the valuation of Vietnam stock market is still relatively reasonable compared to the region in terms of P/E and P/B. In addition, it is necessary to consider the growth factor (EPS) - the highest in Southeast Asia (+ 11% yoy), the progress of divesting leading state-owned enterprises, the ability to upgrade the market. It can be seen that Vietnam market is relatively attractive. However, in terms of each industry, the discount rate varies. The sectors of Vietnam, when compared to the median of the ASEAN group of countries such as Indonesia, Malaysia, Philippines and Thailand, are relatively cheaper in terms of valuation.

	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	13.51	1.57	<b>14.01</b>	<b>1.06</b>	17.1	1.0	11.79	1.12	15.55	1.34	12.46	.99
Consumer goods	12.14	1.76	<b>20.36</b>	<b>1.39</b>	18.1	1.3	32.12	2.68	2.60	1.54	16.35	1.06
Industry	10.14	1.09	<b>15.94</b>	<b>1.19</b>	11.6	1.1	23.04	1.00	15.99	1.69	15.89	1.22
Oil and Gas	16.21	1.96	<b>17.62</b>	<b>1.10</b>	7.7	0.5	28.23	4.07	19.09	0.70	16.15	1.50
Consumer service	13.77	2.36	<b>19.10</b>	<b>1.26</b>	20.2	1.5	18.00	0.99	25.92	2.74	16.35	1.06
Basic materials	11.07	0.82	<b>10.95</b>	<b>1.67</b>	8.0	0.8	17.96	2.92	9.71	2.27	12.19	1.07
Utilities	12.90	1.69	<b>15.39</b>	<b>1.36</b>	13.4	1.1	19.28	1.20	11.13	1.52	17.35	1.67
Technology	13.48	1.49	<b>17.23</b>	<b>1.86</b>	22.7	2.2	n/a	n/a	n/a	n/a	11.80	1.52
Health	15.69	2.05	<b>27.46</b>	<b>2.20</b>	15.5	1.7	85.71	2.20	n/a	n/a	27.46	3.42
Telecommunication	11.19	2.36	<b>46.71</b>	<b>3.13</b>	48.6	2.6	46.71	3.64	46.71	3.64	21.61	1.36

Source: Bloomberg, BSC research

\* Note, we have excluded stocks with PE > 70 times.

(Note: Finance sector includes Real Estate, according to Bloomberg sub-sector)



Source: BSC Research

## Investment topic for Q22019 and 2019

In 3M.2019, thanks to supportive information on (1) Progress of trade negotiations and (2) Cash flow back to emerging markets, Vietnam's stock market has recovered substantially with other emerging markets and Asian markets. Along with that, the macro data of Vietnam in 2019 is forecasted to slow down but still at a positive level. Entering the second quarter of 2019, Vietnamese stocks continued to be complicated because the second half of the earnings announcement and the annual shareholders' meeting were unspecified risks. Specifically, the market is expected to move in a slight increase in the first half of April and then adjust the second half of April to May and recover in late May and early June. ([link](#)). Prospects for many industries in the next 1-2 years have big differences due to the macro factors on the global scale in general and the orientation of macroeconomic policies in particular. This will make the stock market continue to diverge strongly and the amplitude of fluctuation is greater than in 2018. We update the investment topics mentioned in the 2019 industry outlook report including:

**First, the story of upgrade to Emerging market continue to attract foreign capital.** The ability of the Vietnamese market to be upgraded in September 2019 has dropped significantly after the latest update at T3 / 2019 of FTSE Russell. Accordingly, up to three-quarters of criteria were rated more negatively than the previous review period and still included in the list of up-and-coming second-tier emerging markets. Overall, we think this is a step backwards for the process of upgrading the market.

However, we still expect foreign cash flow from the possibility that Argentina and Kuwait will officially be able to be upgraded by MSCI to emerging markets respectively in the period of May of 2019 and May of 2020. Accordingly, with the above assumption, in the period of May 2019, the proportion of Vietnam in MSCI frontier 100 index will increase from 17% to 23%. (approximately \$ 31 million from the additional Ishare ETF) and raised to 30% by May 2020. We note that many investment funds currently investing under the MSCI Frontier 100 index will also increase the corresponding weight, so the actual number may be significantly higher.

**Secondly, the change in order of VN30 basket and forecast will have a big impact on Vn-Index in 2019.** In the first quarter of 2019, VN30 basket had a big change with 3/4 stocks we noticed in the industry

report will be added in turn are VHM, TCB, HDB and EIB, this is a group of stocks with large capitalization. Accordingly, the total weight of the VN30 group as of April 15, 2019 accounted for 74.4% of the total market capitalization, up from 63.9% at the end of 2018. In addition, investors should pay attention to the amendments to the regulations, VN30 index basket and periodic portfolio rebalancing, with attention to the law that limits the proportion of related groups. With the growing scale of many ETFs simulating the VN30 index, changing the weight and structure of the VN30 portfolio will impact significantly on the base market and especially the derivative market.

**Thirdly, listing / equitization and floor transfer plans are expected to be accelerated due to the failure of 2018 progress.** In the first quarter of 2019, HOSE received a new member with a large market capitalization shift from Upcom, POW. It is expected that in the second quarter of 2019, there will be two more members with significant market capitalization, including HVN and VGC. With the tickers with large capitalization ratios approved for trading on HOSE, VN30 portfolio is expected to have significant updates and additions in 2019.

**Fourth, the opportunities come from divestment of State capital in leading enterprises.** After more than a quiet year of state divestment transactions, we believe that the divestment will be active again from the second quarter of 2019, some leading enterprises are expected to be divested in the second quarter and the third quarter of 2019 which are DRC, CSM, SRC and BFC (Vinachem Group).

**Fifth, Mid-cap stocks with different stories will receive more attention during the year.** Performance of **Mid-cap growth in Q1.2019 is quite similar to our early forecasts** ([link](#)): Aquacultures, Textiles groups benefit from policy changes, trade agreements and trade wars. Specifically, **MidCap recorded the strongest performance improvement of 9.22% YTD, followed by Penny (+ 7.07% YTD), SmallCap (+ 5.64% YTD), VN30 (+ 5.27% YTD) and Largecap group (+ 4.12% YTD).** We believe that the Mid-cap group in the second quarter of 2019 will continue to maintain good performance as in the first quarter of 2019, but the differentiation among Mid-cap stocks will be more pronounced, so investors should select stocks with their own story, low valuation and forecasting positive business results growth.

**Sixth, defensive and high-income stocks and sectors (electricity) with stable growth potential (retail, consumer, drinks)** will be a safer option when the market in the period of high risk in the context of complicated global situation.

**Seventh, public investment is also one of the government's key plans to be promoted in 2019.** Signals to accelerate the implementation of infrastructure investment projects in the first quarter of 2019 show the government's determination in public investment. A number of key projects are expected to be implemented such as Van Don - Mong Cai expressway (April 2019), Long Thanh Airport (expected in 2020), Trung Luong - My Thuan highway (expected to be put into operation from 2020), Ring Belt 2 - Ho Chi Minh (completed 55km / 70km). Therefore, we assess the possibility of building materials - cement (HT1) and construction stone (KSB, CTI), infrastructure construction group (CII, VCG, LCG) to supply raw materials. and participate in building infrastructure projects.



## Influence of macroeconomic factors on sectors

	Trade war	Oil recovery	Fed hike	EU economy slow down/ Brexit/EU R	JPY appreciation	Domestic interest rate increase	Chinese economy slow down	Unsuccessful TPP	Other FTAs
Marine	(-)	(+/-)		(+)	(-)	(-)		(+)	(+)
Real estate						(-)			
Construction						(-)			
Cement				(+)		(-)			
Textile	(+/-)	(-)		(-)	(+)	(-)		(+)	(+)
Electricity		(-)		(+)	(-)	(-)			
Pharmaceuticals				(+)		(-)			
Plastic		(-)				(-)			
Tires	(+)	(-)			(-)		(+)		
Banking	(-)								(+)
Steel	(-)					(-)	(-)		
Aquaculture	(+)					(-)	(-)	(+)	(+)
Sugar						(-)	(-)		
Oil & Gas		(+/-)				(-)			
Fertilizer		(-)				(-)	(+)		
Rubber		(+)			(-)		(-)		
Tiles		(-)				(-)			
Technology		(-)							(+)
Seaport	(+)					(-)		(+)	(+)
Automobile								(+)	(+)
Insurance	(-)					(-)			
Retail						(-)		(+)	(+/-)
Food						(-)		(+/-)	(+/-)

Source: BSC Research

## Sector Outlook for Q2/2019 and FY2019

- We maintain a **OUTPERFORM** rate with the following sectors: **Non-life insurance, Seaport, Technology - Telecommunication, Textile, Electrical, Automotive and Consumer**. These are the enterprises that are expected to have strong growth in 2019 due to the demand for sustainable growth, benefiting from the trend of shifting production to Vietnam, supported by the US-China trade war.
- We rate **NEUTRAL** in sectors such as **Banking, Oil & Gas, Real Estate, Construction, Steel, Ceramic, Plastics, Cement, Pharmaceuticals, Fertilizers, Shipping, Tire, Rubber and Aquaculture**. These are sectors with signs of slowing down in profit growth such as construction, real estate and construction materials sectors. Some industries with high profit level last year such as Banks, Aquaculture, Oil and Gas. Some sectors mentioned above (Plastics, Fertilizers, Shipping) will face disadvantage in raw material prices when oil prices tend to rise again. We raised our recommendation for Cement industry to **Neutral** based on positive growth of consumption, supported by export activities.
- On the **UNDERPERFORM** sectors, we believe that **Sugar** still faces many difficulties in 2019 due to oversupply, commodity prices have not recovered from the downtrend.

No.	Sector	Comment 2019	Medium and Long-term recommendations	Follow
1	PNT insurance	Positive	PVI, BMI	
2	Seaport	Positive	VSC	GMD
3	Technology - Postal	Positive	FPT	CMG, VTP
4	Textile	Positive	MSH, VGG	TCM, TNG, VGT
5	electricity	Positive	POW, PC1, GEX	REE
6	Consumption	Positive	MWG, PNJ	VNM
7	Car	Positive		VEA
8	Real estate	Neutral	VHM, NLG, HDG, KBC, LHG	
9	Oil and Gas	Neutral		GAS, PVD, PVS
10	Pharmacy	Neutral	PME	IMP, DBD, DHG
11	Ceramic tiles	Neutral		VGC, CVT
12	Bank	Neutral	ACB, MBB, TCB	VCB
13	Plastic	Neutral	BMP	NTP, AAA
14	Fertilizer	Neutral	BFC	DPM, DCM, LAS
15	Tire tube	Neutral	DRC	
16	Steel	Neutral	HPG	HSG, NKG
17	Seafood	Neutral		VHC, MPC
18	Shipping	Neutral	PVT	
19	Build	Neutral	CTD	HBC
22	Cement	Neutral	HT1	BCC
20	Natural rubber	Neutral	PHR	
21	Sugar cane	Poor		SBT, QNS

**NON-LIFE INSURANCE – OUTPERFORM**

We still maintain **Outperform** rating for Non-life insurance sector because: (1) rising interest rates help improve financial profit; (2) growth of health and property insurance; (3) The application of ERP technology helps businesses save selling costs and management costs, helping improve insurance performance. However, we would like to note that the growth rate of the industry does not have many changes and the prospect of insurance companies only improves strongly when the divestments and room opening deals take place. We maintain a medium and long-term recommendation for leading companies when valuation is relatively cheap compared to the sustainable growth of the non-life insurance industry.

**SEAPORT – OUTPERFORM**

BSC rated **Outperform** with the prospect of seaport industry in 2019, there will be a lot of positive signs such as (1) Applying a 10% increase in port service price frame (2) Container throughput will increase well thanks to the trade agreements CPTPP and EVFTA (3) China-American trade war will move goods to Southeast Asia, especially Vietnam.

We recommend tracking: GMD and VSC.

**IT - TELECOMMUNICATIONS – POSITIVE**

**We continue to maintain a POSITIVE viewpoint for IT - Telecommunications stocks.** For IT stocks (FPT, CMG) we are optimistic about the growth rate of the software export market and the business channel leasing market. For the shares of Posts (VTP), we expect online consumption trends and the number of new stores received from Telecom are the main growth motivation for VTP's orders. For Telecom stocks (VGI), we expect the company will not suffer a sudden exchange rate loss like 2018, since then, business results will be significantly improved. The stocks we noted are VTP, FPT, CMG

**TEXTILE & APPAREL - OUTPERFORM**

BSC has raised recommendation for the textile and garment sector from Neutral to Outperform since Q4/2018 after considering major opportunities and risks. In fact, the business results of garment firms in 2018 were in line with our forecast. For 2019, BSC maintains the view of **Outperform** for textile and apparel sector. We believe textile and garment export will keep its uptrend thanks to the production shifting to Vietnam, but the growth is likely to slow down due steady demand in some major markets and a relatively high base of 2018. Regarding expense and efficiency, BSC believes that rising labor costs will not be a big downside risk for businesses as can be proved by business results in 2018.

We recommend **BUY** for **MSH** and **tracking for VGG, TNG, TCM, VGT, STK** at current prices.

**ELECTRICITY – OUTPERFORM**

We maintain an **OUTPERFORM** rating for the Electric sector. Demand and stable electricity prices continue to ensure growth for electricity companies.

- For hydropower businesses, 2019 will be a difficult year when natural conditions do not support. However, the business results of these enterprises are expected to remain stable in the first months of 2019.
- Thermal power enterprises are expected to record good growth in the period of 2019-2020 when the mobilized output is expected to increase, combined with the outstanding foreign currency outstanding loans of many businesses.
- We also appreciate electrical construction enterprises and electrical equipment suppliers when it is expected that public investment projects related to transmission and construction of large

substations are expected to be promoted. after a long period of delay due to large electricity demand from the south and a large number of solar power plants were put into operation. Thereby we expect revenue and profit of power equipment and construction enterprises will have a strong growth in the first 2 quarters of 2019 when recording revenue and profit from solar power projects..

**AUTOMOTIVE – OUTPERFORM**

We rate **OUTPERFORM** for automotive stocks based on the following factors (1) the automotive industry is still very large when the car ownership rate is only 2% of households with cars, lower than with regional countries (Malaysia - 82%, Thailand - 51%, Philippines - 6%), (2) rising per capita income of Vietnam (3) free trade agreements reducing import tax cars to Vietnam to 0% will boost consumer demand (4) the supply of imported cars will also increase sharply after ND 116 is resolved. However, we also believe that the automobile market will become more competitive among automakers when (1) CBU cars will compete strongly with locally assembled cars and (2) Vinfast cars will also is a strong competitive factor in the car segment.

Tracking: VEA

**CONSUMER - OUTPERFORM**

BSC maintains **Neutral** for F&B and **Outperform** for retail. For F&B industry, we expect the F&B to continue to grow by 8-9% on average thanks to (1) trade agreements CPTPP and EVFTA will help import and export of F&B increase; (2) M&A activities in F&B will continue to be active in 2019 as VNM offers to buy 46% of GTN shares. For retail in 2019, growth will be strong and stable over 11%. We assess it positively with the growth rate of more than 2 numbers thanks to the continuing online shopping channel.

We recommend Buy to PNJ, MWG and VNM.

**BANKING – NEUTRAL**

In 2019, the expectation of lower credit growth and the operation of a safer system will reduce the growth rate of revenue and profit of banks. Growth from non-interest income and the expectation of healthier, safer banking activities thanks to the application of Basel II will help banks (according to BSC's assessment) will see growth of 10% -12% of NPAT in next year. However, banks in Vietnam have a high valuation compared to the current area. Therefore, we downgraded the banking industry view to NEUTRAL in 2019 and recommend investing in banks with good asset quality and high profitability such as MBB, ACB, TCB ..

**OIL AND GAS – NEUTRAL**

BSC maintains a Neutral standpoint with Oil and Gas industry in 2019, prospect of Vietnam oil and gas industry in 2019 will improve slightly compared to 2018 however new projects will be expected to have more optimistic signals from in 2020. In addition to the Dai Nguyet Sao Vang project, which is expected to be implemented from 2020, we expect the Block B O Mon project, Nam Con Son GD2 project, Blue Whale project will have more positive information. about project implementation. Accordingly, BSC evaluated that upstream enterprises PVS, PXS, PVD and PVB are the enterprises benefiting from the pressure to restart projects in the context of energy shortage and expected gas supply from 2023.

Tracking: GAS, PVS, PVD.

**REAL ESTATE – NEUTRAL (Commercial property) và OUTPERFORM (Industrial property)**

- We continue to maintain a Neutral view for commercial property stocks due to the following factors (1) The issues of legal approval and project construction are still congested; (2) Lending interest rate is expected to increase; (3) Credit tightening for real estate businesses. In 2019, we selected businesses based on the following criteria: (1) Large, clean land fund that can be sold in 2019, helping to ensure profit accounting for the period 2020 - 2022; (2) Recognizing good profit growth thanks to possible handover projects in 2019.

We recommend buying the codes: VHM, NLG, HDG.

- We continue to maintain **OUTPERFORM** for industrial zone property stocks thanks to the surge of FDI into Vietnam through free trade agreements CPTPP and the factory shift by trade war China - US in the context of (1) Demand for industrial parks increased sharply and (2) Existing leasing land is not much. We recommend buying the codes: KBC (update report) and LHG.

BUY: KBC, LHG

### **CONSTRUCTION - NEUTRAL**

We maintain to recommend **Neutral** with construction in prospects of 2019 and forecast average growth from 7.2% - 9.2% thanks to (1) FDI inflows to production industries and real estate will increase in 2019; (2) Major real estate projects such as Vincyty will contribute mainly to new construction contracts for the industry, but the gross profit margin of the project is low. (3) Expecting investment in infrastructure and residential development will continue to boost Hanoi and Ho Chi Minh City.

We recommend tracking: CTD and HBC.

### **STEEL – NEUTRAL**

We continue to maintain a **Neutral** view for the Steel industry. In 2019, the steel industry is expected to face (1) Competition increases when steel consumption volume in 2019 is expected to remain at a growth rate of 10%, equivalent to 2018 thanks to large real estate projects being developed in Hanoi and Ho Chi Minh City, however, the supply is expected to increase sharply when new steel plants are put into operation (Phase 1 Dung Quat project of HPG has a capacity of 2 million tons, Hoa Sen Nhon Hoi factory projects with a capacity of 200 thousand tons, Hoa Sen Ha Nam with a capacity of about 200 thousand tons, ... (2) Prices of raw materials (iron ore prices, electricity prices) increased suddenly. . Therefore, we forecast that the steel industry's profit in 2019 is expected to have a relative decline despite continued growth in revenue.

### **CEREMIC - NEUTRAL**

We continue to maintain our NEUTRAL view of ceramic tile stocks. BSC believes that 2019 will continue to be a difficult year because the industry is still in oversupply. However, in a positive direction, the decrease in input fuel prices will help improve the profitability of the companies in the industry compared to 2018. We recommend Tracking with VGC shares and follow with CVT.

Tracking: VGC, CVT

### **PLASTIC - NEUTRAL**

We maintain a **NEUTRAL** view on plastics industry outlook in the context of steady growth and severe competition, especially in construction plastics segment. However, the downtrend of plastic resin price will be a positive signal for the sector. BSC believes that profit of plastic firm will be better in compared to

that of 2017-2018 period when oil prices surged. Therefore, we keep tracking and updating of plastic firms in the next quarters.

BSC recommends BUY for BMP and Tracking for NTP and AAA (Refer to our report 2018 At a glance).

#### **CEMENT - NEUTRAL**

We change our rating for cement industry from UNDERPERFORM to NEUTRAL in 2019 for some following reasons:

- (1) Rising clinker and cement export to China will continue to ease the competition in domestic market. Although it is obvious that Chinese market possess some inherent risks, we believe that those downside risks are less likely to happen in 2019.
- (2) Our concerning problem in BSC's Sector Outlook 2019 regarding to an increase of input prices such as coal and electricity has somewhat been solved by rising selling prices since the end of March. Hence, BSC believes that the profit margins of cement firms in 2019 will not be affected too much.

We recommend **BUY for HT1** with the target price of **VND 18,400** per share (Refer to the Company update report for details).

#### **PHARMACEUTICALS – NEUTRAL**

In 2019, BSC said that the Pharmacy Channel will continue to grow slowly when fierce competition, along with the application of Prescription Drug Sales (requires documents, origin, doctor's prescription) can change the habit. buy medicine from people. Meanwhile, the channel of treatment and bidding still grows on drug production as the proportion of people with insurance continues to increase, and the Bidding Law will prioritize domestic pharmaceutical enterprises with good medicine quality. Therefore, BSC believes that enterprises with high ETC proportion (IMP, PME, DBD) will continue to benefit, while OTC businesses (DHG, TRA) will level off and shift to ETC. The stocks we noted are DHG, PME, IMP ([Link](#))

#### **TRANSPORT - NEUTRAL**

**BSC maintains to recommend Neutral for the transport industry.** We assess that the shipping industry in general is still differentiating between the two groups of liquid and bulk transportation. Currently, the transportation of liquid cargo (crude oil, refinery oil) still grows well thanks to the oil refineries run operation such as Binh Son and Nghi Son with a total crude oil production of 17 million tons in 2019. Besides, some companies take opportunity of the world ship price is currently low in order to expand transportation activities and rejuvenate the fleet.

**The bulk transportation are still many difficulties** due to the merger of big shipping companies to upgrade to the large fleet of more than 198,000 DWT to maximize transport profits. Thereby, bulk shipping companies in Vietnam only concentrate on waterways and internal waterways, so it is difficult to obtain international transport contracts.

**BSC assess that air transport will slow down in 2019.** For passenger transportation, BSC believes that the domestic market will maintain a moderate growth rate due to the limitation of both demand and supply (overload of infrastructure at some major airports), competition will be higher due to new airlines like Bamboo Airway; while international flights have higher growth potential and also the development strategy of firms. With cargo transportation, the trend of shifting production to Vietnam as well as attracting foreign investment, and the development of e-commerce will be the driving force for growth. We recommend tracking: PVT and HVN.

**RUBBER - NEUTRAL**

We hold a **NEUTRAL** view with stocks of natural rubber industry. Based on the following factors (1) Dividend payment history of companies in the industry is quite high, ranging from 40% -50%, (2) Enterprises with large liquidation gardens continue to have significant other sources of income. from rubber liquidation and the trend of industrial land conversion in accordance with long-term investment objectives. However, rubber selling price has not shown signs of recovery in 2019, so BSC believes that in the short term, rubber companies will not have breakthrough business results. We recommend Tracking for PHR shares.

Tracking: PHR

**TIRES – NEUTRAL**

We keep the **NEUTRAL** view of Tire industry in 2019 due to (1) material prices is expected to reduce the improvement of gross margin; (2) Increasing capacity of Radial tires group of DRC and CSM; (3) high competition makes tire and tube businesses difficult to increase selling prices. We recommend BUY DRC shares. Currently, the tire industry has an average P / E = 18.49x lower than P area (P / E = 20.97x) and P / B = 1.28x higher than the region (P / B = 1.24x).

**FERTILIZER – NEUTRAL**

We maintain **NEUTRAL** recommendation for fertilizer stocks. Fertilizer businesses are expected to have profit growth if the tax policy changes, besides the valuation may increase according to the divestment plan of PVN and Vinachem, but the competition is high due to oversupply and slow growth in demand as well as the price of input materials are expected to affect consumption and selling prices of companies in the industry.

**AQUACULTURE – NEUTRAL**

We maintain a **Neutral** rating for the fisheries sector. In 2019, BSC said that it is difficult to expect sudden growth in seafood enterprises. For pangasius enterprises, the selling price at the historical peak should be low in growth in 2019. Meanwhile, the supply of expanded pangasius (expanding farming area, increasing the plant capacity) will put pressure on price reduction of products. In 1Q19, price movements were in line with our forecast: The price of raw fish decreased, causing the prices of markets (except the US) to fall slightly. For shrimp enterprises, the supply in large shrimp exporting countries continues to be abundant. BSC expects to affect the selling prices of shrimp companies moving sideways in 2019. The stocks we note are VHC, MPC.

**SUGAR SECTOR – UNDERPERFORM**

We continue to maintain our rating on Less positive for Sugar industry as we have not seen any positive signs of sugar demand in 2018/19. At the same time, smuggled sugar from Thailand has not been thoroughly solved, leading to uncontrolled supply. In 2H of 2018/19, we expect that the decrease in sugarcane purchase price will help reduce input costs and improve the gross profit margin of enterprises. Stocks we note: SBT (Link)



Table of noticed stocks in 2019

Code	Net revenue 2019 (billion dong)	LNST 2019 (billion dong)	EPS 2019 (đ/CP)	P/E fw	P/B fw	ROA 2019	ROE 2019	Closing price 29/03/19	Target price
GAS	82,443	10,913	6,793	14.4	3.5	17%	21%	98,200	91,700
PVS	14,740	1,091	2,012	10.2	0.8	5%	9%	20,600	24,800
PVD	5,370	350	912	19.6	0.5	2%	3%	17,900	18,900
PVI	9,000	910	3,080	10.4	1.1	N/A	11.0%	32,000	41,751
BMI	4,386	343	3,740	5.6	0.7	N/A	13.4%	20,800	33,195
VSC	1,608	304	5,459	8.2	1.1	12.0%	15.0%	41,300	46,400
GMD	2,762	577	1,980	14.1	1.2	5.8%	8.6%	26,500	29,100
VTP	6,023	350	8,459	23.4	5.4	9.2%	36.4%	198,000	N/A
FPT	26,180	3,883	4,702	9.6	1.7	13.4%	21.5%	45,500	59,100
CMG	5,255	258	2,700	11.1	1.3	8.6%	20.6%	29,900	27,000
VGG	10,845	538	9,762	6.7	1.4	10.8%	28.5%	65,800	68,300
MSH	4,472	420	8,170	6.2	1.9	16.0%	36.7%	51,000	60,500
TNG	4,366	231	3,492	6.4	1.5	7.9%	25.2%	22,500	22,700
TCM	3,778	250	4,148	7.4	1.3	8.3%	18.1%	30,600	29,036
STK	2,571	227	3,313	6.7	1.3	10.1%	21.6%	22,200	23,000
GEX	15,524	1,453	5,114	4.9	0.9	N/A	16.0%	25,150	33,400
POW	32,155	3,428	1,462	10.4	1.2	N/A	12.0%	15,200	17,830
REE	5,414	1,985	6,593	4.9	0.9	N/A	18.0%	32,400	38,195
PC1	6,208	414	3,118	7.5	0.8	N/A	11.0%	23,400	36,566
VEA	7,424	8,288	6,913	7.6	2.8	33.0%	21.0%	52,560	N/A
PNJ	14,573	1,291	7,730	17.8	4.7	17.6%	28.5%	99,500	143,700
MWG	86,516	3,566	8,040	11.0	4.5	11.5%	39.1%	84,800	119,700
VNM	55,125	10,577	5,476	26.0	9.3	29.5%	36.4%	134,800	142,400
VCB	44,988	16,592	4,563	14.8	3.5	1.4%	26.1%	67,600	66,616
TCB	21,145	8,900	2,545	10.0	1.5	2.7%	15.8%	25,550	31,180
VPB	35,089	7,254	2,867	7.1	1.2	2.1%	18.9%	20,250	24,905
MBB	23,057	7,480	3,062	7.3	1.2	1.9%	19.1%	22,450	28,413
HDB	11,081	4,499	3,193	8.9	1.5	1.4%	17.4%	28,700	33,351
STB	13,227	2,100	1,046	11.6	0.8	0.5%	8.0%	12,200	14,722
TPB	6,354	2,087	2,413	9.2	1.6	1.4%	18.5%	22,250	21,567
ACB	15,968	5,765	3,948	7.7	1.7	1.7%	24.7%	30,300	32,686
VIB	7,286	2,562	3,202	6.0	1.2	1.7%	21.6%	19,200	21,597
LPB	5,464	1,393	1,130	8.1	0.7	0.6%	10.3%	9,200	11,120
VHM	80,063	18,412	5,579	13.3	4.7	34.7%	10.3%	91,500	92,700
NLG	3,063	930	4,209	8.0	1.3	17.0%	8.0%	27,500	36,285
HDG	5,543	689	7,253	5.7	2.1	8.1%	13.8%	41,200	58,000
KBC	3,226	1,263	2,657	7.6	1.1	12.8%	7.5%	14,500	20,120
LHG	633	189	3,773	5.2	1.1	16.0%	9.0%	20,500	25,506
CTD	30,568	1,427	17,343	8.2	1.4	8.4%	18.0%	143,400	153,600

Code	Net revenue 2019 (billion dong)	LNST 2019 (billion dong)	EPS 2019 (đ/CP)	P/E fw	P/B fw	ROA 2019	ROE 2019	Closing price 29/03/19	Target price
HBC	19,404	614	3,099	6.3	1.2	4.0%	18.0%	18,750	20,100
HPG	73,486	9,964	4,745	7.1	1.5	N/A	21.0%	33,500	38,000
NKG	17,275	131	720	10.8	0.5	N/A	8.0%	7,600	N/A
HSG	36,142	595	1,550	4.5	0.5		10.0%	6,620	N/A
VGC	9,247	924	1,242	16.5	1.2	3.7%	8.5%	20,500	18,510
CVT	1,556	174	4,413	5.5	1.3	12.5%	25.0%	24,650	27,000
BMP	3,984	417	4,590	10.6	1.4	13.9%	15.8%	48,550	63,140
NTP	4,682	351	3,558	10.7	10.7	7.1%	14.6%	38,000	N/A
AAA(*)	10,000	510	2,550	6.6	N/A	N/A	N/A	16,850	N/A
HT1	8,758	721	1,702	8.9	1.1	7.3%	13.7%	13,700	18,400
BCC	3,898	111	892	8.9	0.5	2.3%	5.8%	7,900	N/A
DHG	4,411	679	4,678	25.3	5.6	15.5%	21.8%	118,300	N/A
PME	1,919	318	4,247	13.6	2.2	12.0%	15.0%	58,000	N/A
PVT	8,113	611	2	8.7	0.9	6.0%	11.6%	17,000	19,200
HVN	101,204	3,419	2,410	16.7	3.0	2.8%	13.0%	41,000	N/A
PHR	1,531	1,189	8,644	6.1	2.9	48.3%	23.0%	52,600	N/A
DRC	3,700	157	1,110	20.6x	1.74x	5.7%	10.1%	22,400	27,180
BFC	6,843	225	3,938	6.4	1.2	7.2%	23.1%	25,200	30,777
DPM	9,658	844	2,156	9.7	2.1	7.0%	17.5%	21,000	21,600
VHC	9,988	1,257	13,569	6.6	1.7	19.0%	29.0%	89,900	108,552
SBT	10,301	316	567	32.4	1.5	1.7%	4.1%	18,350	N/A

(\*) business plan

Source: BSC Research

## Non-life Insurance [Outperform]

- The non-life insurance market maintained a growth rate of over 10% in 2018
- First quarter insurance premium increased by 9% yoy.
- Compensation cost of insurance of non-life insurance increased sharply at the end of the year due to two floods in Ho Chi Minh City and Central Vietnam.
- Business results of gross written premium and investment sector are differentiated.

**The non-life insurance market maintained a growth rate of over 10% in 2018 and expected to continue this momentum in 2019.** According to the General Statistics Office, the life insurance premium in 2018 reached VND 88 trillion, up 32.8% yoy and non-life insurance premium revenue reached VND 45.7 trillion, up 9.9%. For 2019, the premium target growth of insurance industry is 25%, of which life insurance premium is expected to increase by 35%, non-life insurance premium will increase by 10%.

**Non-life insurance premiums for the first quarter increased by 9% over the same period.** According to the report of the General Department of Statistics, the whole market insurance premium in the first quarter of 2019 is estimated to increase by 17% compared to the same period in 2018, of which life insurance premium increases by 23%; Non-life insurance premiums increased by 9%.

**Compensation cost of non-life insurance increased sharply at the end of the year due to two floods in Ho Chi Minh City and Central Vietnam.** The total amount of original insurance compensation of non-life insurance businesses is estimated at VND 19,476 billion, up 21.19% compared to the same period of 2017. However, good management of all types of costs and reductions compensation ratio helps the insurance business result of non-life insurance companies remain relatively high.

**Business results of insurance companies 2018 grow slowly.** The growth rate of the non-life insurance industry continued to be low at only 10%, while competition continued to be high, causing the revenue of non-life insurance businesses to continue to grow at a low level. With the exception of BVH (have life insurance segment) and PTI (implementing a series of new insurance programs, revenue increased strongly but the compensation ratio and combined ratio increased accordingly). Although revenue growth is relatively slow, however, by improving operational efficiency through the application of technology to help limit insurance compensation and reduce costs, it helps to improve compensation rates and combined ratio remarkably and helping the profit of many insurance enterprises maintain the growth rate.

	BVH	PVI	BMI	PTI	MIG	BIC	PGI
<b>2018 Gross written premium</b>	31,348	6,872	3,530	4,159	1,924	2,072	2,809
<b>%yoy</b>	22.8%	2.7%	3.9%	29.7%	0.2%	12.5%	7.6%
<b>Compensation ratio 2018</b>	33.7%	40.4%	41.2%	44.7%	39.6%	41.8%	48.8%
<b>Compensation ratio 2017</b>	31.9%	47.6%	42.1%	56.8%	32.2%	39.8%	52%
<b>Combined ratio 2018</b>	121.6%	94.7%	98.9%	100.0%	99.5%	102.6%	94.6%
<b>Combined ratio 2017</b>	111.1%	98%	99.7%	99.5%	105.3%	101.2%	96.7%
<b>Financial profit 2018</b>	7,327	473	133	13	118	239	55
<b>Financial profit 2017</b>	4,338	589	176	152	130	199	76
<b>%yoy</b>	68.9%	-19.7%	-24.7%	-91.3%	-9%	19.9%	-26.8%
<b>PBT 2018</b>	1,366	745	218	28	136	144	175
<b>PBT 2017</b>	1,945	683	198	154	56	143	156
<b>%yoy</b>	-29.8%	9%	9.8%	-81.5%	144.2%	0.6%	12%

Source: FiinPro, BSC research

**INVESTMENT OUTLOOK– OUTPERFORM**

We still maintain **Outperform** rating for Non-life insurance sector because: (1) rising interest rates help to improve financial profit; (2) growth of health and property insurance; (3) the application of ERP technology helps businesses save selling costs and management costs, helping to improve insurance performance. However, we would like to note that the growth rate of the industry does not have much changes and the prospect of insurance companies only improves strongly when the divestments and room opening deals take place. We maintain a medium and long-term recommendation for leading companies when valuation is relatively cheap compared to the sustainable growth of the non-life insurance industry.

It is expected that in 2019, the state expects to divest from leading insurance companies such as PVI and BMI. With these 2 companies affirming their position in the industry as well as having a relatively good market share in the market, we expect the divestment in these 2 insurance companies will attract the attention of the houses. invest. Currently, the valuations of PVI and BMI are 1.1 and 0.74 respectively, P/B is much lower than the divestments in insurance companies in Vietnam and the region at about 1.8-2 times P/B.

Ticker	Revenue 2019 (billion)	Profit 2019 (billion)	EPS 2018	PEF	P/B	ROE (2019)	Close at 31/03	Target price
PVI	9,000	910	3,080	10.39	1.1	11%	32,000	41,751
BMI	4,386	343.3	3,740	5.56	0.74	13.4%	20,800	33,195

Source: BSC Research

## Seaport [Outperform]

- Cargo volumes put through Vietnam's seaports in 2018 reached 524 million tons (+18.7% yoy).
- Da Nang port has an international shipping route to Japan.
- Seaport business results in 2018 grew well thank to increased imports and exports activities.

### Cargo volumes put through Vietnam's seaports in 2018 reached 524 million tons (+18.7% yoy).

According to the Vietnam Maritime Administration (VMA), Vietnam's seaports 2018 had achieved positive growth with the total cargo volumes estimated at nearly 524 million tons (+18.7% yoy), particularly the container volumes throughput estimated at 17.7 million TEUs (+20% yoy). The port's capacity exploited up to 95-98% compared to 2017. The VMA had set a 2019's target with the volume of cargo throughput Vietnam's seaports will continue to increase, reaching about 640 million tons (+7.2% yoy), of which container volumes are estimated at more than 190 million tons thank to Vietnam's signing of new trade agreements and attracting direct investment flows in 2019.



Source: VMA, BSC.

**Da Nang port has an international shipping route to Japan.** Shipping company SITC has officially launched the third transport service line via Danang Port with schedule: Danang - Ningbo - Shanghai - Hakata - Moji (Japan) by Lantau Beach after researching new markets. Cargo ship Lantau Beach has a large tonnage of 12,400 DWT, more than 140m in length, carrying more than 1,000 TEUs, thereby supporting a positive growth in cargo throughput in the central region of Vietnam.

**Seaport business results in 2018 grew well thank to increased imports and exports.** There are 19 seaport companies listed on 3 HSX, HNX and Upcom with total revenue and net profit after tax reaching VND 11,903 billion (-2.7% yoy) and VND 3,774 billion (+50.1% yoy). However, if excluding the extraordinary profit of GMD as VND 1,579 billion, the seaport's core net profit after-tax reached VND 2,195 billion (-0.1% yoy). Gross margin in 2018 reached 31.7% (a slight increase of 1.5%) and core net margin reached 18.4% (a slight decrease of -2%).

BSC assess that the seaport in 2018 had not really prospered because **(1)** The fierce competition situation in Hai Phong port area made loading and unloading price decrease sharply to attract shipping lines; **(2)** Bach Dang Bridge on Cam River is completed in 2018, causing the ports upstream to reduce cargo volumes

because the big ships could not enter. In addition, the Korean ambassador wants to invest more in Lach Huyen port thank to experience in seaport exploitation and development. BSC notes that Lach Huyen port is currently the only deep-water port in the region. Hai Phong and the trend of large ship transport to reduce logistics costs continue to increase, so we think this is a good opportunity for the development of Lach Huyen port and Vietnam's port industry.

Ticker	Rev 2018 (bil. VND)	%YoY	GPM 2018	GPM 2017	NPAT 2018 (bil. VND)	%YoY
GMD	2,686	-32.6%	36.0%	25.8%	1,900	227.0%
PHP	2,045	-1.2%	31.8%	34.7%	516	7.1%
VSC	1,694	30.0%	29.3%	31.3%	354	34.1%
SGP	1,079	-7.1%	43.1%	37.7%	187	-56.8%
HAH	1,054	35.5%	20.8%	26.2%	159	3.9%
CDN	695	15.6%	33.8%	35.6%	148	12.1%
PDN	667	29.0%	29.9%	29.5%	111	46.1%
DVP	639	1.9%	49.6%	49.4%	288	0.3%

Source: BSC Research

#### INVESTMENT OUTLOOK – OUTPERFORM

BSC rated **Outperform** with the prospect of seaport industry in 2019, there will be a lot of positive signs such as (1) Applying a 10% increase in port service price frame (2) Container throughput will increase well thanks to the trade agreements CPTPP and EVFTA (3) China-American trade war will move goods to Southeast Asia, especially Vietnam. We recommend following: GMD and VSC.

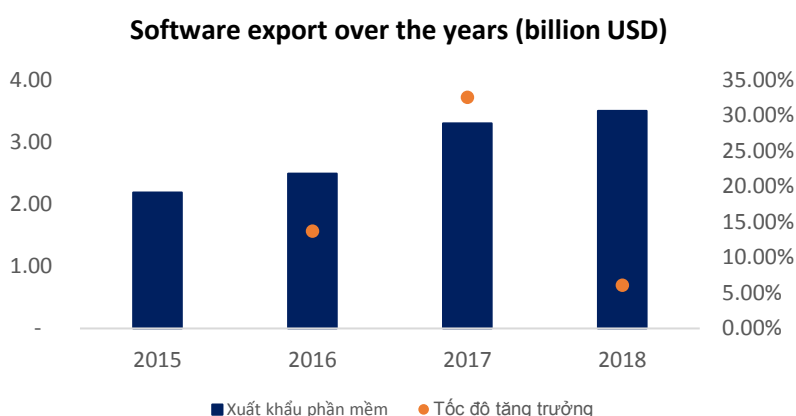
Ticker	Rev 2019 (bil. VND)	NPAT 2019 (bil. VND)	EPS 2019	P/E FW	P/B FW	ROA 2019	ROE 2019	Price on 31/03/19	Target price
VSC	1,608	304	5,459	8.2	1.1	12%	15%	41,300	46,400
GMD	2,762	577	1,980	14.14	1.2	5.8%	8.6%	26,500	29,100

Source: BSC Research

## IT - Telecommunications industry [Outperform]

- In 2018, ICT industry achieved total revenue of 98.9 billion USD (+ 8% YoY), in which software industry reached 4.3 billion DT (+13.8% YoY). Telecommunications reached USD 15 billion in revenue (+ 6% YoY).
- Developing a digital economy and smart industry are key tasks to promote economic growth in an efficient, high-quality way.
- In 2018, listed IT - Telecommunications companies recorded revenue and EAT of 29 businesses reaching 70,350 billion VND (-24.5% YoY) and 4,506 billion VND (-11.7% YoY).

**In 2018, ICT industry achieved a total revenue of 98.9 billion USD, an increase of 8% compared to 2017.** In particular, the software industry achieved a growth rate of 13.8% with revenue of USD 4.3 billion, software export of USD 3.5 billion (+ 6.06% YoY). For the telecommunications sector, revenue in 2018 reached 15 billion USD, up 6% over the same period.



**The development of a digital economy is a key task to promote economic growth in an efficient and high quality way.** After the establishment of the National Committee on E-Government, the Government continued to issue many Decrees aimed at building an e-Government, promoting the implementation of the 4th Industrial Revolution at Vietnam.

Time	Event	Note
28/8/2018	National Committee on e-Government	Advising and building the new e-Government
2018	Develop a National Number Conversion Project	Develop a national roadmap for the Digital Transformation process
1/2/2019	Decree on science and technology enterprises	Incentives for S&T enterprises
3/2019	Establishment of ICT Industry Department	Industry Manager 4.0 (besides other IT)

*Source: BSC Research*

**Digital Transformation plays an important role in the development of modern businesses.** According to BCG, Digital Transformation is a fundamental change in the way businesses create value for shareholders by applying digital technologies to the entire field of business. The digital transformation model for businesses consists of 3 floors divided into 7 blocks. The first floor is a strategic table with the Strategy driven by digitization; this layer will determine the enterprise's overall approach to optimize value creation. The second floor consists of two important platforms (1) Digitizing the core and (2) Growth of



new numbers; 2nd floor will increase operational efficiency and customer experience, thereby increasing the growth rate of the business. Level 3 refers to the available factors (1) People and organizations (2) Data and analysis (3) Technology (4) Ecosystem; these are factors that will help businesses be able to deploy and succeed in digital transformation. For businesses, the application of digital transformation in business operations not only increases operational efficiency but also meets the needs of customers and markets.

**IT - Telecommunications sector recorded revenue and EAT of 29 businesses reaching 70,530 billion VND (-24.5% YoY) and 4,506 billion VND (-11.7% YoY) due to some unusual issues.** The decline in business results is mainly attributed to 2 enterprises: FPT and VGI. For FPT, because the company has no extraordinary profits from divesting from FRT, FTG recorded PAT at VND 3,228 billion (-8.5%). For VGI - a newly listed company in 2018, witnessed poor business results when it recorded a loss of VND 797 billion (compared to a loss of VND 481 billion in the same period). BSC believes that the main reason comes from the appreciation of the USD, making the domestic currency in the investment markets devalue strongly: Myanmar (-15%), Haiti (-11%) compared with the expected depreciation of 1% -2.5 %.

Ticker	Net Revenue 2018 (billion dong)	%YoY	Gross profit margin 2018	Gross profit margin 2017	NPAT 2018 (billion dong)	%YoY	EPS T12M (dong)
VGI	16,862	-11.4%	29.6%	23.6%	(797)		(339)
VTP	4,923	22.1%	11.1%	8.6%	278	63.5%	6,219
FPT	23,213	-45.5%	37.6%	22.7%	3,228	-8.5%	3,897
CMG*	3,911	2.2%	15.8%	15.2%	171	4.9%	1,907

\*: 9M Business Result FY 2018/19

Source: BSC Research

## INVESTMENT OUTLOOK - OUTPERFORM

**We continue to maintain a OUTPERFORM view for IT - Telecommunications stocks.** For IT stocks (FPT, CMG) we are optimistic about the growth rate of the software export market and the corporate leasing channel market. For Postal stock (VTP), we expect online consumption trends and the number of new stores received from Telecom are the main growth motivation for VTP's orders. For Telecom stocks (VGI), we expect the company will not suffer a sudden exchange rate loss like 2018, since then, business results will be significantly improved. The stocks we noted are VTP, FPT, CMG ([Link](#))

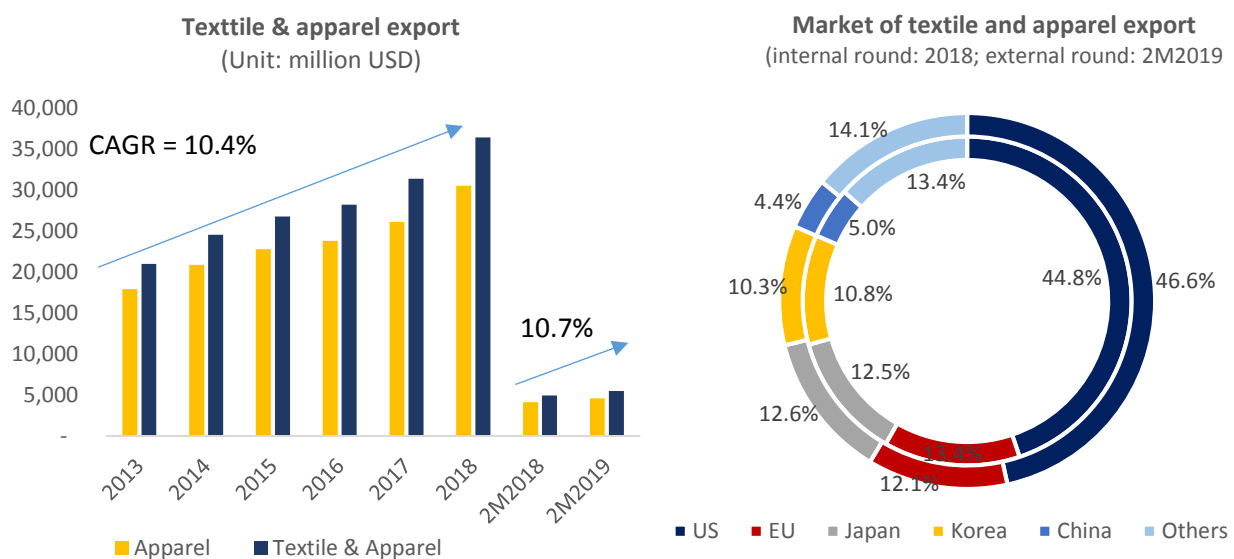
Ticker	Net Revenue 2019 (billion dong)	NPAT 2019 (billion dong)	EPS 2019	P/E fw	P/B fw	ROA 2018	ROE 2018	Day Price 29/3/19	Target Price	Upside
VTP	6,023	350	8,459	23.4	5.4	9.2%	36.4%	198,000	N/A	N/A
FPT	26,180	3,883	4,702	9.6	1.7	13.4%	21.5%	45,500	59,100	29.9%
CMG	5,255	258	2,700	11.1	1.3	8.6%	20.6%	29,900	27,000	-9%

Source: BSC Research

## Textile & Apparel [Outperform]

- Textile and garment export in 2M2019 reached USD 4.6 billion (+11.7% YoY).
- The US is the largest export market of Vietnamese textile and apparel with 46.6% market share.
- Export turnover to China in 2M2019 soared with a growth rate of 16%.
- Europe - Vietnam Free Trade Agreement (EVFTA) which is assessed to have a positive impact in the medium - long term, is expected to be approved by the European Parliament in June or July, 2019.
- We maintain OUTPERFORM view on textile and apparel sector.

**Textile and apparel export in 2M2019 reached USD 4.6 billion (+11.7% YoY).** The growth rate has slowed down as compared to that of 16.8% in 2M2018, but we believe that it is still a sustainable growth in the first 2 months. The main export markets of Vietnam textile and apparel (except for EU, which only grow slightly) maintained a relatively high growth rate in the range of 7% to 15%.



Source: GSO, BSC Research

**EVFTA, which is under reviewing and approving, is considered to have a positive impact in the medium - long term (refer to BSC Sector Outlook 2019).** The approval of EVFTA in the European Parliament is expected to take place in June or July, 2019 after the EU's election. That is slower than our previous estimate because the EU is currently focusing on addressing its key issues, including Brexit. Therefore, it is likely that the EVFTA signing happens at the end of the year instead of in Q3/2019 as in our previous projection.

**The total revenue of listed textile and apparel firms in 2018 reached VND 76,489 billion (+14.1% YoY)** thanks to the jump of garment enterprises (DGG + 54% YoY, TNG + 45.2% YoY, GMC + 27% YoY). **The total profit after tax was VND 3,744 billion (+28.4% YoY) with most of garment companies witnessed an increase in gross profit margin (mostly by 0.5% to 2%).** 2018 was considered a blooming year of apparel export orders, so large-scale firms had more power in selecting orders to do. Additionally, many businesses paid more attention to cost management (such as labor and material expense), which contributed to rising profit margins.

Ticker	Net sales 2018 (VND bn)	% YoY	Gross margin 2018	Gross margin 2017	Net income 2018 (VND bn)	% YoY
VGT	19,418	11.0%	9.0%	9.0%	728	6.3%
VGG	9,704	15.0%	12.0%	12.0%	492	24.2%
HTG	4,344	12.0%	9.0%	9.0%	100	26.4%
MSH	3,951	20.0%	20.0%	17.0%	370	84.6%
TCM	3,662	14.0%	19.0%	16.0%	260	35.2%
TNG	3,613	45.0%	18.0%	18.0%	181	57.1%
PPH	3,499	16.0%	8.0%	10.0%	208	11.2%
MGG	3,120	54.0%	0.0%	11.0%	48	82.1%
M10	2,981	-2.0%	16.0%	15.0%	56	6.8%
HSM	2,556	9.0%	10.0%	9.0%	52	-12.4%
STK	2,408	21.0%	14.0%	11.0%	180	80.3%
TVT	2,357	-7.0%	11.0%	11.0%	102	13.1%
GMC	2,039	27.0%	18.0%	16.0%	135	108.5%

Source: FiinPro, BSC Research

## INVESTMENT OUTLOOK - OUTPERFORM

BSC has raised recommendation for the textile and garment sector from **Neutral** to **Outperform** since Q4/2018 after considering major opportunities and risks. In fact, the business results of garment firms in 2018 were in line with our forecast. For 2019, BSC maintains the view of **Outperform** for textile and apparel sector. We believe textile and garment export will keep its uptrend thanks to the production shifting to Vietnam, but the growth is likely to slow down due to steady demand in some major markets and a relatively high base of 2018. Regarding expense and efficiency, BSC believes that rising labor costs will not be a big downside risk for businesses as can be proved by business results in 2018.

We recommend **BUY** for **MSH** and **tracking** for **VGG, TNG, TCM, VGT, STK** at current prices.

### VGG - Tracking - Target price: VND 63,530 / share

Viet Tien is the second largest firm among listed garment enterprises, with 80% of revenue coming from garment export and the rest from domestic brands like Viet Tien and Viet Long. We highly appreciate VGG's ability to maintain high growth as well as healthy financial situation during a long time.

**Business results in 2018:** Net revenue reached 9,704 billion VND (+14.8% YoY). Gross profit margin increased slightly from 11.7% to 12% and selling expenses declined, which enabled operating profit (EBIT) climb to VND 471 billion (+30.2% YoY). Positive cash flow from operating, no long-term debt and relatively low short-term debt ratio (1.7% of total resources) resulted in low financial expense. Gain from affiliates was up 30.2% after Viet Long Hung factory running into operation in early 2018. Profit after tax for parent company shareholders was VND 468 billion (+23.7% YoY), EPS = VND 8,237 / share (not taking into account the deduction for bonus and welfare fund). At the closing price on 29/03/2019, VGG was traded at P/E = 8x, higher than the current industry median of about 7x.

### VGT- Tracking

BSC believes Vinatex will benefit from the overall growth of textile and apparel industry thanks to its investments in efficient enterprises in that sector. VGT has currently been traded below book value (P/B = 0.72x). The parent company and its subsidiaries possess valuable assets (especially land and real estate). Hence, the divestment of state capital at VGT from 53.49% to 0% in 2019 is expected to be a catalyst for the company to be re-evaluated to fully reflect its advantages.

**Business results in 2018:** Consolidated net revenue was VND 19.418 billion (+11.3% YoY). Cost management efficiency has been improved (gross profit margin increased slightly from 9.1% to 9.4%, SG&A expense/ revenue decreased to 8.1% from 8.1%). Gain from affiliates was up 19.5%, contributing roughly 81% of consolidated profit before tax. Profit after tax for parent company shareholders reached VND 439.35 billion (+13.8% YoY).

Ticker	Net sales 2019 (VND bn)	Net income 2019 (VND bn)	EPS 2019 (VND)	P/E fw	P/B fw	ROA 2019	ROE 2019	Closing price 29/03/19	Target price
<b>VGG</b>	10,845	538	9,762	6.74	1.39	10.8%	28.5%	65,800	68,300
<b>MSH</b>	4,472	420	8,170	6.24	1.89	16.0%	36.7%	51,000	60,500
<b>TNG</b>	4,366	231	3,492	6.44	1.50	7.9%	25.2%	22,500	22,700
<b>TCM</b>	3,778	250	4,148	7.38	1.27	8.3%	18.1%	30,600	29,036
<b>STK</b>	2,571	227	3,313	6.70	1.30	10.1%	21.6%	22,200	23,000

Source: BSC Research

## Electricity [Outperform]

- EVN's production and commercial electricity output increased by 10% over the same period.
- Electricity retail price increased 8.36% since the end of Q1.
- The new electricity generation price frame does not have much impact on electric listed companies.

**Commercial electricity output maintains annual growth at over 10%.** In 2018, EVN's commercial electricity output grew by 10.36%, reaching 212.9 billion kWh. For 2019, EVN's target production output is expected to be 232.5 billion kWh, increase of 9.2% compared to 2018. For 2019, it is expected that electricity demand will continue to grow by more than 10% but supply electricity from solar power projects will be completed in the second quarter of 2019 to ensure electricity demand for production and living in 2019 (currently there are more than 2800 MW signed power purchase contracts).

**Commercial electricity output in the first 3 months increased 9.58%, in which thermal coal still contributed a large proportion.** In the first 3 months of the year, the production and import power output of the whole system reached 53.65 billion kWh, an increase of 9.58% compared to the same period in 2018; Commercial electricity output of EVN is estimated at 46.19 billion kWh, an increase of 9.25% compared to the same period last year, of which domestic commercial electricity output increased by 9.2%. In the first quarter, gas turbine and coal-fired thermal power plants were highly exploited to meet the load demand; in which gas turbines accounted for 21.75%, coal thermoelectricity accounted for 50.25% of the electricity produced and purchased by EVN, making an important contribution to supplying electricity to the South.

**Retail electricity price increased sharply by 8.36% since the end of Q1.** Specifically, the adjusted average retail electricity price is VND 1,864.44/kWh (excluding VAT), up 8.36% compared to the previous (1,720.65 VND/kWh). It is expected that with this price increase, EVN will earn VND 20,000 billion each year. This amount is expected to be paid by EVN to coal gas supply partners and power plants sold to EVN. Thereby, enterprises with exchange rate differences will be repaid from EVN from previous years, which is likely to be paid, reducing financial pressure for electric companies.

**The new electricity generation price bracket does not have much impact on electric enterprises on the floor.** The Ministry of Industry and Trade has just issued Decision No. 281 on the issuance of the annual electricity generation price bracket, thereby raising the ceiling price of electricity tariffs with coal and hydroelectric power plants. However, this new price frame only applies to new factories and has a relatively large capacity (over 600MW) while large coal-fired power plants on the floor have small and medium capacity <600MW so The impact on electric enterprises on the floor is insignificant.

**Business results 2018.** For power generation enterprises, most of the revenue has good growth in revenue due to output and selling price increased according to electricity demand (except for CHP conducting maintenance overhaul of the engine making sales decline). Revenue of hydropower businesses in general has not increased significantly due to the production affected by the weather when the phenomenon of Lalina tends to weaken to make room for the El Nino phenomenon. A decline in hydropower output is a support point for the output of thermal power enterprises to grow well, creating conditions for these enterprises' revenue to grow well. However, due to a sharp increase in the price of input materials (coal and gas) and large financial costs, most of the thermophysics companies recorded a decline in profit (except for PPC when businesses had pay most of the debt and have recorded a sudden profit in 2018 from the return of investment). Revenue of construction and electrical equipment companies has a low growth, businesses still have to depend on other businesses (logistic, real estate) when large construction

investment projects are still slow. progress due to public debt pressure and change of management agency.

#### Summary of business results 2018

	Segment	Revenue 2017	Revenue 2018	+yoy	Gross Profit 2017	Gross Profit 2018	EAT 2017	EAT 2018	+yoy
<b>POW</b>	Thermal	29,710	32,663	9.9%	16.6%	12.9%	2,602	2,052	-21.1%
<b>NT2</b>	Thermal	6,761	7,670	13.4%	20.6%	13.2%	810	782	-3.5%
<b>VSH</b>	Hydroelectric	527	564	7.0%	59.2%	61.9%	284	306	7.7%
<b>SJD</b>	Hydroelectric	495	496	0.2%	57.2%	55.2%	193	191	-1.0%
<b>PPC</b>	Thermal	6,236	7,117	14.1%	12.7%	16.1%	854	1,122	31.4%
<b>CHP</b>	Hydroelectric	861	470	-45.4%	65.6%	43.6%	410	96	-76.6%
<b>GEX</b>	Equipment	12,095	13,828	14.3%	16.4%	16.0%	906	1,283	41.6%
<b>PC1</b>	Construction	3,161	5,085	60.9%	15.2%	16.9%	256	486	89.8%

Source: Company financial reports

#### INVESTMENT OUTLOOK– OUTPERFORM

We maintain an **OUTPERFORM** rating for the Electric sector. Demand and stable electricity prices continue to ensure growth for electricity companies.

- For hydropower businesses, 2019 will be a difficult year when natural conditions do not support. However, the business results of these enterprises are expected to remain stable in the first months of 2019.
- Thermal power enterprises are expected to record good growth in the period of 2019-2020 when the mobilized output is expected to increase, combined with the outstanding foreign currency outstanding loans of many businesses.
- We also appreciate electrical construction enterprises and electrical equipment suppliers when it is expected that public investment projects related to transmission and construction of large substations are expected to be promoted. After a long period of delay due to large electricity demand from the south and a large number of solar power plants were put into operation. Thereby we expect revenue and profit of power equipment and construction enterprises will have a strong growth in the first 2 quarters of 2019 when recording revenue and profit from solar power projects..

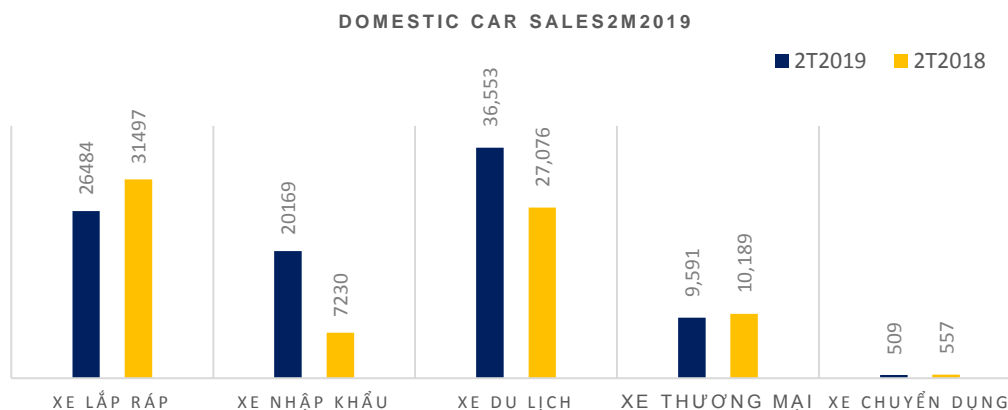
Stock	Revenue 2019	EAT 2019	EPS 2019	P/E fw	P/B fw	ROE 2018	Close at 31/03/2018	Target price
<b>GEX</b>	15,524	1453	5,114	4.9	0.89	16%	25,150	33,400
<b>POW</b>	32,155	3,428	1,462	10.4	1.15	12%	15,200	17,830
<b>REE</b>	5,414	1,985	6,593	4.9	0.9	18%	32,400	38,195
<b>PC1</b>	6,208	414	3,118	7.5	0.8	11%	23,400	36,566

Source: BSC Research

## Automobile Industry [Outperform]

- The proportion of imported vehicles surged again and sales in 2T / 2019 reached 46,653 units (+ 23% YoY).
- 2018 business results: Revenue and net income of 9 businesses were VND 34,141 billion (+ 0.4% yoy) and 8,056.6 billion (+ 35.5% yoy).
- Policy: Tax exemption for import of complete cars to Vietnam and increase taxes on pickup fees.

**The proportion of imported vehicles increased strongly (CBU), leading to 2T2019 car sales reaching 46,653 units (+ 23% YoY).** According to statistics of Vietnam Automobile Production Association, in the first 2 months of 2019, sales of all kinds of cars reached: 36,533 tourist cars (+ 35% YoY), 9,591 commercial vehicles (-6% YoY), 509 cars and specialized vehicles (-9% yoy). In terms of origin, imported car sales reached 20,169 units (+ 179% YoY), assembled cars reached 26,484 units (-16% YoY). The main reason is that Decree 116 issued in early 2018 regulates the conditions of importing vehicles to create barriers to the import of vehicles into the country, the supply of imported cars in the first half of 2018 plummeted. However, from June 2018 until now, automakers have met the requirements of the decree, the number of CBU vehicles has increased again. In addition to the cause of the recovery of imported car supply, the increase in sales of passenger cars also comes from the average price of popular cars dropping by about 10-12%, more in line with the purchasing power of consumers. We believe CBU vehicles will increase strongly again in 2019 and compete strongly with locally assembled cars.



Source: VAMA, BSC Research

### Changes in tax policy affecting the current automotive industry:

- (1) **Exemption of import tax for CBU cars to Vietnam:** Approved trade agreements ATIGA, CPTPP and EVFTA are in the process of negotiating to allow import tax on cars from Vietnam to Vietnam to zero. % These agreements will significantly reduce car prices, stimulate CBU consumption demand, which is a good signal for importers and negatives for car manufacturers. We believe that MBV distribution companies such as HAX will benefit, whereas Thaco is a car manufacturer with localization rate that will face competitive pressure on imported cars.
- (2) **Increasing taxes on pickup truck fees:** The Ministry of Finance proposes a draft to increase the registration fee of freight trucks under 1.5 tons and vehicles under 5 seats about 3-4 times compared to the present and Special sales tax for pickup trucks is also expected to increase from 15% -20% to 30% -45%. Ford Vietnam Ford Ranger pickup truck is the best-selling car with sales accounting for 61% of the market share may be affected when car prices rise from rising tax rates. However, we think that



this draft will not be too big because enterprises said that they will apply promotion and promotion programs to ensure the growth of long-term pickup segment.

**2018 business results** revenue and net income of 9 enterprises in the industry are respectively 34,140.8 billion (+ 0.4% yoy) and 8,056.6 billion (+ 35.5% yoy). Among listed automobile companies, 2 car distribution companies (SVC and HAX) grew in profit. Regarding truck distribution enterprises, TMT has poor results with revenue dropping by -48.2% yoy; HHS has a segment of truck segment down -57% yoy, however profit increased + 111% yoy mainly from real estate segment because companies shifted revenue structure focusing on real estate (over 60% revenue). VEA is a special case, truck and agricultural locomotives have inefficient core business; However, businesses still have positive business results thanks to holding shares in 3 big companies (Honda, Toyota, Ford).

Code	Net Revenue 2018 (billion VND)	%YoY	Gross Profit Margin 2018	Gross Profit Margin 2017	NPAT 2018 (Billion VND)	%YoY
VEA	7,073	7.8%	8.5%	9.4%	7,130	40%
SVC	14,857	7.8%	6.9%	5.2%	300	116%
HAX	4,756	24.1%	4.8%	3.8%	98	17%
TMT	1,209	-48.2%	13.8%	10.4%	1	-91%
HHS	1,152	-6.7%	13.7%	1.1%	194	111%
HTL	786	-2.5%	6.7%	10.0%	6	-78%

Source: FiinPro, BSC Research

## INVESTMENT OUTLOOK – OUTPERFORM

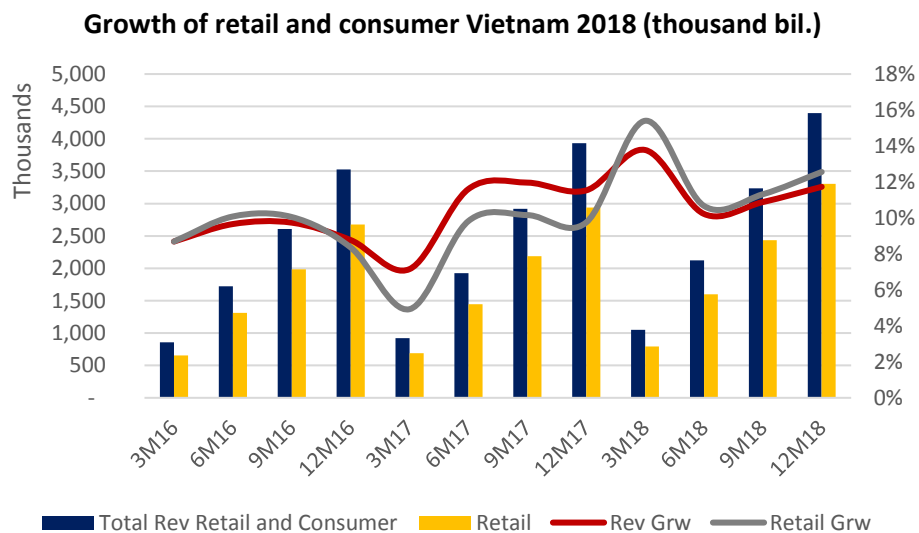
We evaluate **OUTPERFORM** for automotive stocks based on the following factors (1) the automotive industry is still very large when the car ownership rate is only 2% of households with cars, lower than with regional countries (Malaysia - 82%, Thailand - 51%, Philippines - 6%), (2) rising per capita income of Vietnam (3) free trade agreements reducing import tax cars to Vietnam to 0% will boost consumer demand (4) the supply of imported cars will also increase sharply after ND 116 is resolved. However, we also believe that the automobile market will become more competitive among automakers when (1) CBU cars will compete strongly with locally assembled cars and (2) Vinfast cars will also is a strong competitive factor in the car segment.

Code	Revenue 2019 (billion VND)	NPAT 2019 (billion VND)	EPS F 2019	P/E fw 2019	P/B fw 2019	ROE 2019	ROA 2019	Closing Price 29/03/19	Target Price
VEA	7,424	8,288.2	6,913	7.6	2.83	33%	21%	52,560	#N/A

## Consumer [Outperform]

- Total retail of goods and consumer service revenue in 2018 was estimated at VND 4,395.7 trillion (+11.7% yoy).
- FMCG growth trend is currently stalling in urban but still growing positively in rural according to Kantar.
- Consumer's business results in 2018 were positive for retail but slowed down in food and beverage.

**Total retail of goods and consumer service revenue in 2018 was estimated at VND 4,395.7 trillion (+11.7% yoy).** According to GSO, revenue of retail goods was estimated at VND 3,306.1 trillion (+12.4% yoy), contributing the largest 75.2% of the total. Thereby, growth rate of retail and consumer industry maintained at 12% yoy, of which the most important contribution was the retail sector with improving growth than 2017. Some goods grew well in 2018 such as food and foodstuff (+12.6% yoy), household appliances and equipment (+12.3% yoy), garments (+12.1% yoy), etc.



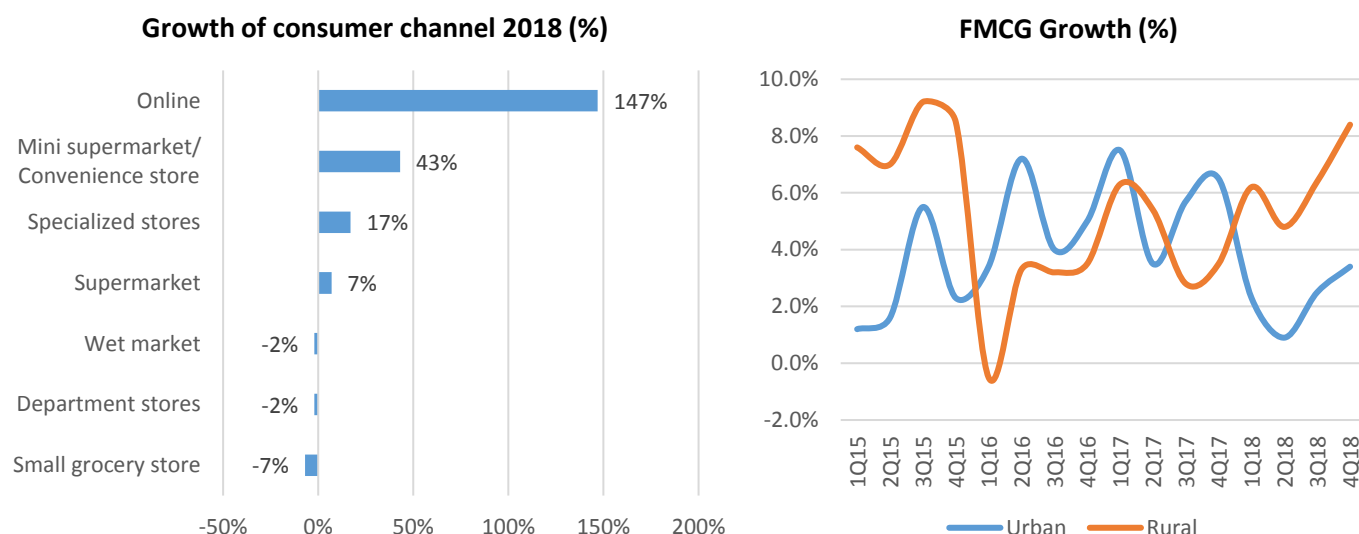
Source: BSC Research, GSO.

### FMCG growth trend is currently stalling in urban but still growing positively in rural according to Kantar.

In urban areas, the growth of FMCG industry value was estimated at 2.3% yoy, the lowest in the period 2014-2018, in which milk and dairy products remained stagnant with a growth of -0.7% yoy but the personal and family care still maintained positive growth estimated from 5.8% - 6.3% yoy in 2018. In rural areas, in contrast to urban areas, FMCG growth was positive with 6.4% yoy, in which milk and dairy products increased by 7.9% yoy; drinks increased by 8.1% yoy and personal care increased by 9% yoy. BSC believes that at the present time, dairy industry is changing consumer behavior when milk is still an essential nutrition in rural areas so the demand still grows while in urban areas the demand for fresh milk changes to imported dairy products or seed milk lead to domestic dairy consumption decrease.

Additionally, we note that online shopping and mini supermarkets/convenience stores continue to grow strongly, reaching an increase of 147% yoy and 43% yoy respectively. BSC believes that the trend of

modern shopping channel will continue to grow strongly and will replace traditional channels.



Source: Kantar, BSC Research.

### Consumer's business results in 2018 were positive for retail but slowed down in food and beverage.

Consumer industry has 94 listed companies on 3 HSX, HNX and Upcom with audited financial report 2018. For F&B, revenue and NPAT was VND 309,974 billion (+8.6% yoy) and VND 33.697 billion (+ 15.5% yoy) respectively with the main contribution structure came from Non-alcoholic beverages (19.7%), Beer (19.7%), Food (16.3%) and Milk and dairy products (15.8%) according to Nielsen. Excluding the extraordinary profit of MSN in 2017 and 2018 of VND 938 billion and VND 1,511 billion respectively, the core net profit after tax in 2018 was VND 32,186 billion (+10.4% yoy). Gross profit margin in 2018 reached 25.8% (-0.46% yoy) and net profit margin improved to 10.4% (+0.5% yoy).

**For retail, revenue reached VND 158,209 billion (+22.5% yoy) and net income reached VND 5,129.8 billion (+20.1% yoy).** Three companies MWG, PNJ and FRT reached VND 116.38 billion (+ 28.7% yoy) accounting for 75% of the total industry. Gross profit margin of 2018 is 15.41%, slightly improved compared to 2017.82%.

Ticker	Rev 2018 (bil. VND)	%YoY	GPM 2018	GPM 2017	NPAT 2018 (bil. VND)	%YoY	Ticker
PNJ	Retail	14,573	32.8%	19.1%	17.4%	960	32.5%
MWG	Retail	86,516	30.4%	17.7%	16.8%	2,880	30.5%
FRT	Retail	15,298	16.4%	13.4%	13.8%	348	20.0%
VNM	Dairy	52,562	3.0%	46.8%	47.5%	10,206	-0.7%
GTN	Dairy	3,008	-20.4%	15.5%	11.6%	104	-31.5%
SAB	Beer	35,949	5.1%	22.5%	25.9%	4,400	-11.1%
BHN	Beer	9,311	-5.0%	24.2%	26.2%	519	-21.2%
MSN	F&B	38,188	1.5%	31.1%	30.9%	5,622	55.8%
KDC	Cooking oil	7,607	8.4%	17.0%	20.7%	163	-63.0%

Source: BSC research.

### INVESTMENT OUTLOOK – OUTPERFORM

BSC maintains **Neutral** for F&B and **Outperform** for retail. For F&B industry, we expect the F&B to continue to grow by 8-9% on average thanks to (1) trade agreements CPTPP and EVFTA will help import and export of F&B increase; (2) M&A activities in F&B will continue to be active in 2019 as VNM offers to buy 46% of GTN shares. For retail in 2019, growth will be strong and stable over 11%. We assess it positively with the growth rate of more than 2 numbers thanks to the continuing online shopping channel. We recommend Buy to PNJ, MWG and VNM.

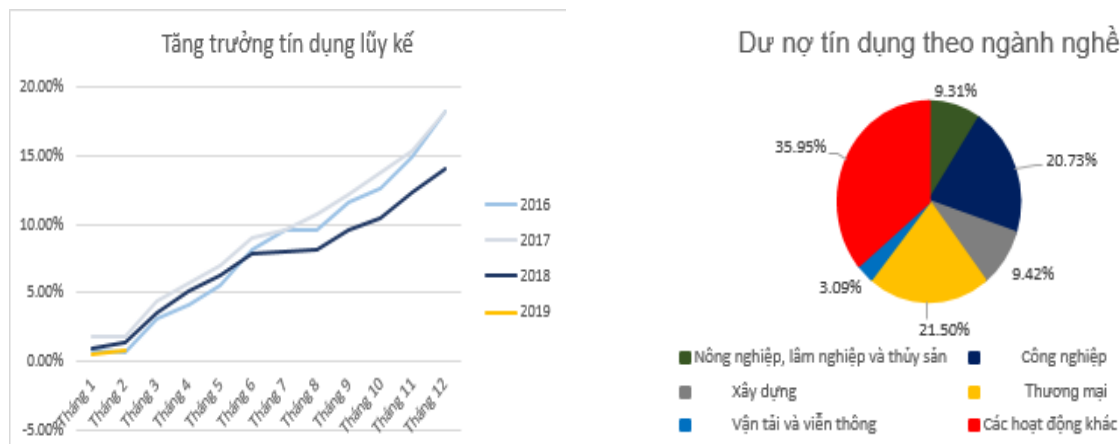
Ticker	Rev 2019 (bil. VND)	NPAT 2019 (bil. VND)	EPS 2019	P/E FW	P/B FW	ROA 2019	ROE 2019	Price on 31/03/19	Target price
<b>PNJ</b>	14,573	1,291	7,730	17.79	4.66	17.55%	28.5%	99,500	143,700
<b>MWG</b>	86,516	3,566	8,040	11.0	4.45	11.5%	39.1%	84,800	119,700
<b>VNM</b>	55,125	10,577	5,476	25.97	9.29	29.5%	36.4%	134,800	142,400

Source: BSC research

## Banking Industry [Neutral]

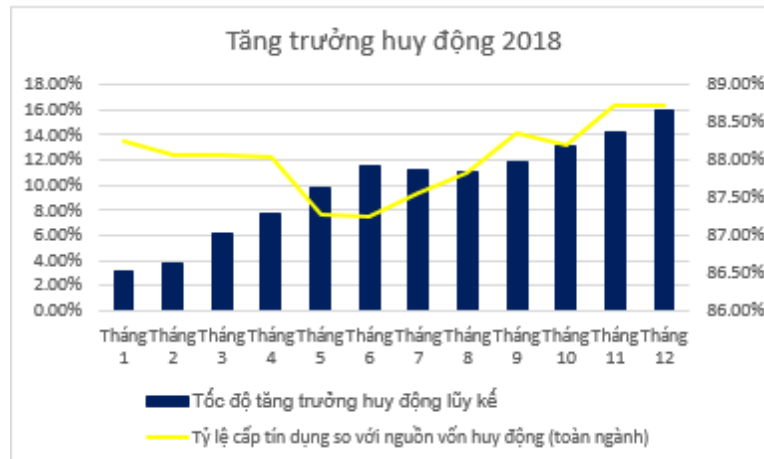
- Credit growth in 1Q2019 reached 2.28%, down from 3.5% in the same period of 2018. SBV set a credit growth target of 14% in 2019.
- Mobilizing -1.23% in 1M2019, pushing the lending / mobilizing ratio of the whole banking sector to 90.28%.
- NIM of the whole industry, according to BSC, will decrease slightly to 3.5% (same period 2018: 3.6%).
- Banks will increase charter capital to meet the capital requirements required by Basel II.
- Banks continue to promote bad debt handling, initially succeeding in the application of Basel II.
- Some banks are expected to list (OCB, MSB, Seabank, ..)
- We downgraded the Banking industry view to NEUTRAL due to the reduction of credit growth and banks towards sustainable growth. We recommend BUY with ACB, MBB, TCB, TRACKING shares with VCB due to good asset quality and high profitability.

**Credit growth in 1Q2019 reached 2.28% (same period 2018 = 3.5%).** In 2018, credit growth reached about 14%, mainly focused on industrial lending (about 21%) and trade (21.5%). These two sectors also had the highest growth rates, about 10% and 18% respectively compared to 2017. In 2019, the SBV set a credit growth target of 14%, quite conservative compared to 2018 = 17 % and focus on manufacturing and business sectors, priority areas (industry, construction, agriculture, services, etc.) and gradually reduce lending credit to potential risk areas (real estate product, ..). According to BSC's assessment, credit growth in 2019 will be between 14% and 15% to help ensure long-term growth for the system.



Source: SBV, BSC Research

**Mobilizing -1.23% in 1M2019, pushing the lending / mobilizing ratio of the whole banking sector to 90.28%.** Lending / mobilizing ratio of state-owned commercial banks was high, at 95.32%, while this ratio in commercial banks was 86.16%, exceeding the allowed level by the State Bank. M2 growth of 9.8% in 1Q2019 reduced the pressure on interbank interest rates, thereby reducing the pressure to raise deposit rates in the market 1.



*Nguồn: SBV*

**The NIM of the whole 2019 industry may decline slightly.** By the end of 2018, the average NIM of listed banks was 3.53%, a slight increase of 5 bps due to (1) higher interest rates than input interest rates; (2) increase the mobilization / lending ratio in excess of SBV's allowable ceiling. In the first quarter of 2019, FED announced that it is not expected to raise interest rates this year, reducing the pressure of raising deposit rates. In terms of lending interest rates, the State Bank will control the increase in lending interest rates, which may prevent banks from raising their corresponding interest rates to maintain the current NIM. Accordingly, banks will have to change, focusing on taking advantage of low-cost sources (TCB, MBB, ..), digital banks (helping to save interest costs) and redirecting retail lending with interest rates. higher. We believe that reducing the pressure to raise deposit rates may help the whole banking sector reduce slightly to 3.5% in 2019. (2018: 3.6%)

**Non-interest income, potential land of banks, is expected to continue to grow from 20% -30% in 2019.** In 2018, non-interest income of the whole system grew 26.7% yoy from (1) growth from service fee + 21.1% yoy thanks to customer growth and service fee increase, (2) positive off-balance sheet bad debt recovery, (3) revenue from cross-selling of bancassurance products. In 2019, BSC expects non-interest income of the industry to continue to grow strongly by 20% yoy for the whole system thanks to the continued increase in service fees, personal customer growth and new land plots. potential (bancassurance, bonds, ..).

**Banks continue to promote bad debt handling, initially succeeding in the application of Basel II.** According to the National Financial Supervisory Committee (NFSC), bad debts of credit institutions in 2018 were about VND 163,000 billion, provision for credit losses + 30.1% yoy, the rate of bad debt packages was improved to 78.2% (same period 65.4%). It is estimated that by the end of December 2018, the whole system of credit institutions handled 149.22 trillion bad debts, the system's internal NPL ratio decreased to 1.89% (1.99% in the same period). Currently, VCB and VIB have completed the application of Basel II, therefore, according to the SBV, there will be a separate credit growth mechanism.

**Banks will increase charter capital to meet capital requirements according to Basel II requirements** through (1) stock dividend payment; (2) issuing additional capital to foreign shareholders (VCB, BID). In the first quarter of 2019, VCB issued 2.55% to strategic shareholder GIC (still over 7% of foreign room) and is expected to continue to issue this year.

**Some banks are expected to list** In the future, including: OCB (VND 4,000 billion of chartered capital), Maritimebank (VND 11,750 billion of charter capital), Seabank (VND 5.466 billion of charter capital), ABBbank (VND 5,319 billion of charter capital), Saigon Bank (VND 3.080 billion of charter capital), Nam A Bank (Chartered capital of VND 3,021 billion), Viet A Bank (chartered capital of VND 3,500 billion).

**Positive 2018 business results.** In 2018, the whole banking sector recorded TOI and PBT at 244,360 billion VND (+ 18% yoy) and 83.909 billion VND (+ 31% yoy). Net interest income + 15% yoy, income structure gradually shifted to non-interest income (+ 27% yoy). Profit before provision increased by 22% yoy because banks have actively reduced costs to reduce CIR. The quality of bank assets improved, provision expenses + 10% yoy, bad debt of the whole industry decreased to 1.65%, the rate of bad debt increased to 80%. However, there are many banks having difficulties from quarter 4/2018 and failing to complete profit plan like CTG, VPB, ..

### INVESTMENT OUTLOOK – NEUTRAL

In 2019, the expectation of lower credit growth and the operation of a safer system will reduce the growth rate of revenue and profit of banks. Growth from non-interest income and the expectation of healthier, safer banking activities thanks to the application of Basel II will help banks (according to BSC's assessment) will see growth of 10% -12% of NPAT in next year. However, banks in Vietnam have a high valuation compared to the current area. Therefore, we downgraded the banking industry view to NEUTRAL in 2019 and recommend investing in banks with good asset quality and high profitability such as MBB, ACB, TCB ..

Code	Revenue 2019 (billion VND)	Profit after tax 2019 (billion VND)	EPS 2019 (VND/ stock)	P/E FW	P/B FW	ROA 2019	ROE 2019	Day price 30/3/2019	Target price
VCB	44,988	16,592	4,563	14.8	3.45	1.42%	26.12%	67,600	66,616
TCB	21,145	8,900	2,545	10.0	1.48	2.67%	15.84%	25,550	31,180
VPB	35,089	7,254	2,867	7.06	1.22	2.11%	18.90%	20,250	24,905
MBB	23,057	7,480	3,062	7.33	1.19	1.90%	19.09%	22,450	28,413
HDB	11,081	4,499	3,193	8.9	1.46	1.37%	17.37%	28,700	33,351
STB	13,227	2,100	1,046	11.6	0.83	0.49%	8.02%	12,200	14,722
TPB	6,354	2,087	2,413	9.22	1.60	1.42%	18.50%	22,250	21,567
ACB	15,968	5,765	3,948	7.67	1.67	1.66%	24.66%	30,300	32,686
VIB	7,286	2,562	3,202	6.00	1.16	1.69%	21.64%	19,200	21,597
LPB	5,464	1,393	1,130	8.14	0.68	0.57%	10.34%	9,200	11,120

Source: BSC Research

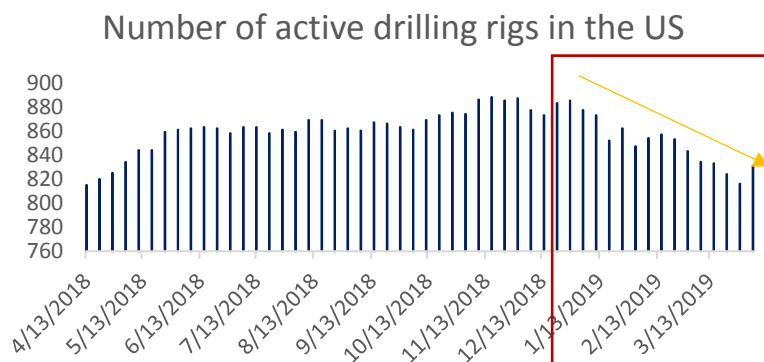
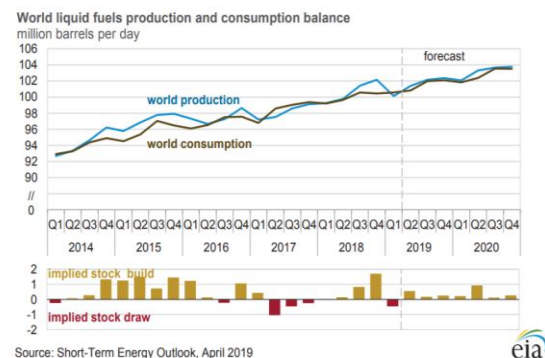
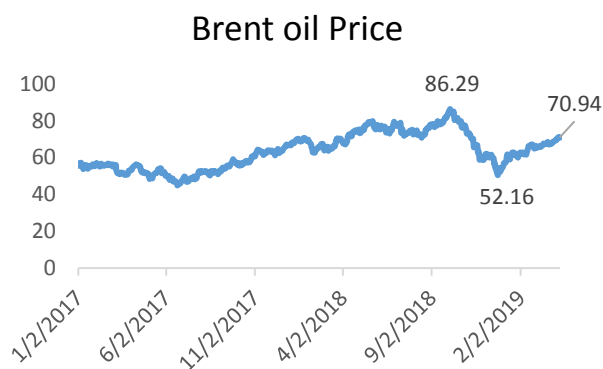
	MBB	CTG	VCB	BID	STB	TCB	VPB	ACB	HDB	LPB	TPB	VIB
<b>Size</b>												
Charter capital	21,605	37,234	35,978	34,187	18,852	34,966	25,300	12,886	9,810	7,500	8,566	7,835
Equity (billion đ)	34,173	67,469	63,889	54,693	24,632	51,783	34,750	21,018	16,828	10,201	10,642	10,667
Total assets	362,361	1,164,318	1,072,983	1,313,038	406,041	321,049	323,308	329,333	216,107	175,095	136,179	139,000
Equity / TTS	9.43%	5.79%	5.95%	4.17%	6.07%	16.13%	10.75%	6.38%	7.79%	5.83%	7.81%	7.67%
Growth (ytd)												
Property growth	15.45%	6.32%	3.64%	9.21%	10.20%	19.18%	16.40%	15.83%	14.14%	7.13%	9.72%	12.86%
Loan growth	16.16%	8.89%	16.26%	14.12%	14.94%	-0.89%	21.38%	15.92%	17.86%	18.43%	21.59%	20.71%
Deposit growth	8.99%	9.68%	13.23%	15.08%	9.17%	17.84%	27.93%	11.85%	6.24%	-2.59%	8.31%	24.11%
CASA	33.48%	15.02%	28.27%	16.35%	14.85%	27.14%	13.25%	16.67%	8.35%	18.18%	18.16%	14.29%
Loans/deposits	88.13%	103.16%	77.58%	98.65%	72.48%	78.20%	127.53%	84.44%	95.11%	94.21%	100.21%	112.25%
Property quality												
Bad debt ratio	1.34%	1.59%	1.00%	1.71%	2.14%	1.78%	3.56%	0.73%	1.55%	1.43%	1.13%	2.54%
NPL ratio	1.34%	1.59%	1.00%	1.71%	2.14%	1.78%	3.56%	0.73%	1.55%	1.43%	1.13%	2.54%
includes debt sold to VAMC												
Repayment of bad debts / Total outstanding loans	1.52%	1.53%	1.65%	1.27%	1.39%	1.51%	1.64%	1.12%	1.10%	1.26%	1.17%	0.92%
Bad debt ratio / Total bad debt	113%	96%	165%	74%	65%	85%	46%	152%	71%	88.25%	103%	36%
Interest, receivable / loan fee	1.33%	1.86%	1.40%	2.12%	2.35%	2.17%	2.42%	1.50%	2.58%	3.46%	1.76%	1.53%
Business efficiency (ytd)												
% Net interest income	74.64%	78.34%	72.31%	78.57%	65.37%	60.64%	79.46%	73.85%	80.99%	102.89%	77.80%	79.78%
Net profit before lending (VND billion)	10,805	14,490	25,679	28,366	3,839	12,507	20,452	7,321	4,999	1,831	2,780	3,362
% yoy	37.33%	-17.44%	46.40%	20.64%	66.31%	7.40%	26.78%	40.21%	45.59%	-20.02%	66.66%	91.57%
DPRR expense (billion VND)	(3,038)	(7,748)	(7,379)	(18,894)	(1,592)	(1,846)	(11,253)	(932)	(994)	(618)	(522)	(620)
% vs LN before DP	28.11%	53.47%	28.73%	66.61%	41.47%	14.76%	55.02%	12.74%	19.89%	33.77%	18.79%	18.46%
Profit after tax	6,190	5,428	14,658	7,542	1,790	8,474	7,356	5,137	3,202	960	1,805	2,193
% yoy	77.34%	-27.23%	60.89%	8.58%	51.51%	31.47%	14.20%	142.53%	63.81%	-29.83%	87.29%	95.09%
NIM (TTM)	4.56%	2.08%	2.78%	2.98%	2.34%	4.13%	8.81%	3.56%	4.05%	3.50%	3.69%	3.79%
CIR (TTM)	44.70%	49.59%	34.64%	36.24%	67.12%	31.84%	34.21%	47.83%	47.05%	62.47%	50.59%	44.45%
ROA (TTM)	1.83%	0.48%	1.39%	0.61%	0.46%	2.87%	2.45%	1.67%	1.58%	0.93%	1.39%	1.67%
ROE (TTM)	19.41%	8.27%	25.18%	14.52%	7.48%	21.53%	22.83%	27.73%	20.27%	15.92%	20.84%	22.55%
EPS (VND / share) (TTM)	2,865	1,456	4,070	2,152	950	2,420	2,907	3,987	2,897	1,280	2,107	2,800
Book value (VND / share)	15,109	18,040	17,739	15,109	13,066	14,790	13,735	16,311	15,938	13,601	12,424	13,615
<b>Price</b>	22,100	21,100	59,800	32,500	13,000	27,550	21,650	30,400	31,200	9,000	21,300	17,700
P/E	7.71	14.49	14.69	15.10	13.69	11.38	7.45	7.63	10.77	7.03	10.11	6.32
P/B	1.46	1.17	3.37	2.15	0.99	1.86	1.58	1.86	1.96	0.66	1.71	1.30



## Oil and Gas Industry [Neutral]

- Oil price recovered strongly from the beginning of 2019 thanks to the balance in the supply and demand of crude oil, reaching 71.15 USD / barrel, an increase of 29.6% compared to the beginning of 2019.
- BSC maintains a Neutral standpoint with Oil and Gas industry in 2019, prospect of Vietnam oil and gas industry in 2019 will improve slightly compared to 2018 however new projects will be expected to have more optimistic signals. from 2020.

**Oil prices recovered strongly from the beginning of 2019 thanks to the balance in crude oil supply and demand.** According to EIA's April 2019 report, crude oil supply in Q1 / 2019 dropped sharply compared to Q4 / 2018 (down by 2 million barrels), specifically reaching 100.1 million barrels / day. This data also shows that the current supply and demand are quite balanced, mainly due to **(1) OPEC's commitment to cut production by 1.2 million barrels from 01/2019 and (2) US sanctions against Iran and Venezuela**. As of April 15, 2019, Brent crude oil price reached 71.15 USD / barrel, an increase of 29.6% compared to the beginning of 2019 (01/01/2019). In addition, the number of active drilling rigs tends to decrease compared to Q4 / 2018, which is a sign that the growth rate of US supply tends to decrease, reaching the lowest level within 10 months. Here, this partly supports the trend of increasing oil prices in the early period of 2019.



Source: BSC Research, Bloomberg, EIA

Although oil price has recovered faster than our previous forecast, oil price outlook is not much changed compared to the view in the industry prospect report in 2019. **Accordingly, BSC maintains false The price**

*of Brent oil in 2019 is estimated at 65-66 USD / barrel as the basic price for forecasting business results of oil and gas industry.* We believe that oil price movements in Q2 / 2019 will be complicated due to many events that may affect the current balance of supply and demand: (1) OPEC + will conduct a meeting in June to decided to extend production cuts from early 2019. (2) US sanctions against Iran and Venezuela. In addition, some long-term factors may affect psychology such as (3) concerns about the decline in fuel consumption demand in the context of world economic growth slowing down or (4) production Fine shale oil surged. According to our assessment, the surplus of OPEC + production will not be much, therefore the supply and demand balance of crude oil will depend on demand mainly from China and Asian countries.

#### INVESTMENT OUTLOOK – NEUTRAL

**BSC maintains a Neutral standpoint with Oil and Gas industry in 2019, prospect of Vietnam oil and gas industry in 2019 will improve slightly compared to 2018 however new projects will be expected to have more optimistic signals from in 2020.** In addition to the Dai Nguyet Sao Vang project, which is expected to be implemented from 2020, we expect the Block B O Mon project, Nam Con Son GD2 project, Blue Whale project will have more positive information. about project implementation. Accordingly, BSC evaluated that upstream enterprises PVS, PXS, PVD and PVB are the enterprises benefiting from the pressure to restart projects in the context of energy shortage and expected gas supply from 2023.

Code	Net Revenue 2019 (billion dong)	EAT 2019 (billion dong)	EPS 2019 (dong/share)	P/E fw	P/B fw	ROA 2019	ROE 2019	Closing Price 29/03/19	Target Price
GAS	82,443	10,913	6,793	14.4	3.5	17%	21%	98,200	91,700
PVS	14,740	1,091	2,012	10.2	0.8	5%	9%	20,600	24,800
PVD	5,370	350	912	19.6	0.5	2%	3%	17,900	18,900

Source: BSC Research

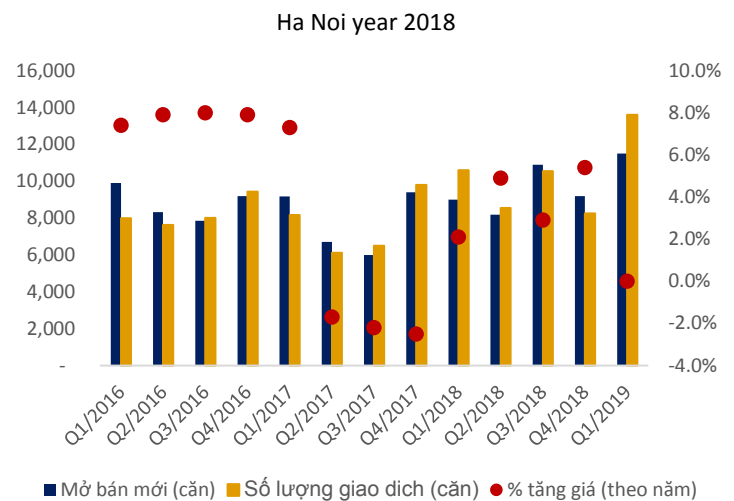
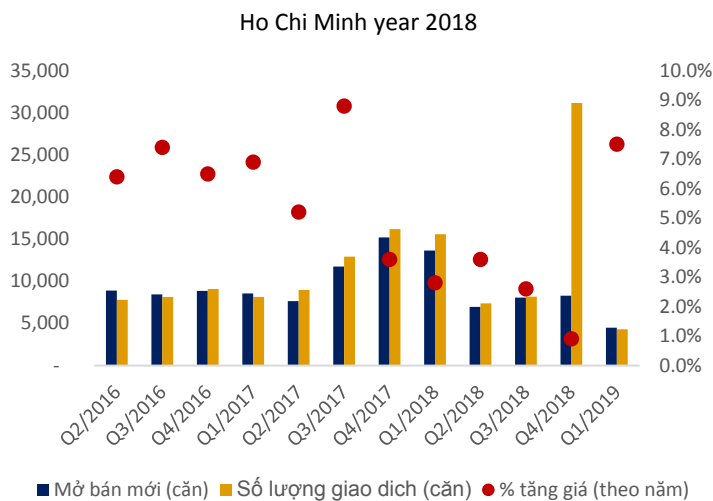
## Property Industry [Neutral]

- Property supply in HCM's real estate market slowed down significantly as our previous forecast, while in Hanoi, the market continued to remain active mainly thanks to Vincy projects.
- The market prospect of 2019 of Ho Chi Minh and Hanoi is quite different.
- The trend of increasing land fund in suburban / provincial areas adjacent to Ho Chi Minh City of listed enterprises.
- 2018 business results of the real estate industry maintained a high growth rate due to the profit dropping point, the total industry profit increased by 111% over the same period.
- The industrial property sector benefited strongly from (1) US-China trade negotiations and (2) the influx of FDI into Vietnam increased sharply through free trade agreements CPTPP.
- 2019 industrial park supply is expected to come from the expansion of existing industrial zones.
- The main growth driver of industrial zone enterprises will come from (1) the expansion of land bank and (2) the increase in rental price.

**Real estate supply in the real estate market in HCM slowed down significantly as our previous forecast ( Industry reports).** According to data of JLL, in HCM City, the number of apartments traded in Q1 / 2019 reached 4,300 apartments (-72% YoY and -51% QoQ), the supply of new apartments for sale in HCM in Q1 / 2019 from about 11 projects, mainly small projects; reached 4,500 units (-67% YoY and -46% QoQ).

We can see the absorption rate in quarter 1/2019 in Ho Chi Minh market reached about 95.5%. This shows that (1) The number of successful transactions will depend on new supply, mainly affordable / high-end segment (2) Existing housing demand in Ho Chi Minh City is very large. . The secondary average selling price (excluding new open projects) in Ho Chi Minh City inched up slightly by 2.9% QoQ and 7.5% YoY mainly due to the supply shortage. If we include new open projects, the overall market price increases by 22.7% due to new open projects mainly in the luxury segment such as Centennial, Park Legend, Grand Manhattan.

**Meanwhile in Hanoi, the market continued to remain active mainly thanks to Vincy projects.** According to JLL data, the total number of apartments reached 13,600 units (+ 28.3% yoy and + 64.8% yoy). Total number of new apartments for sale in Q1 / 2019 in Hanoi is 11,500 units (+ 25% yoy and + 27% yoy), reaching the highest level in the last 5 years, of which 75% of apartments are mainly sold. Households from 2 Vincy Ocean Park and Vincy Sportia projects. This shows that Hanoi real estate market still depends heavily on the progress of selling projects of Vinhomes (VHM). The average secondary selling price in Hanoi market inched up slightly by 1.6% in the affordable segment.

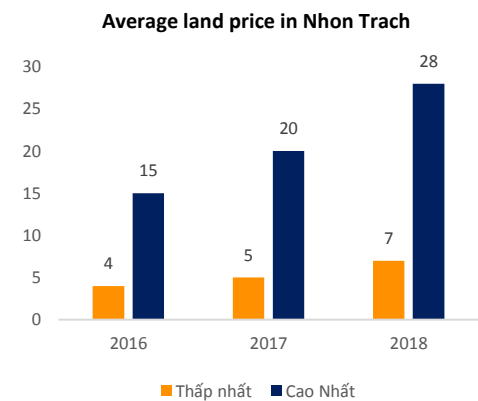
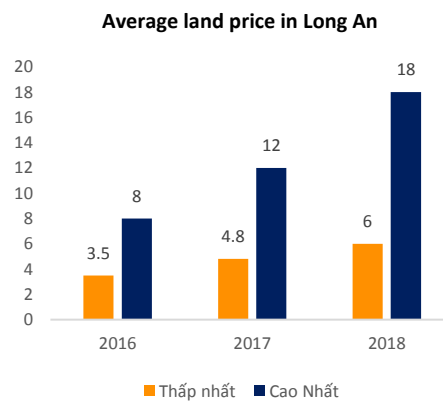
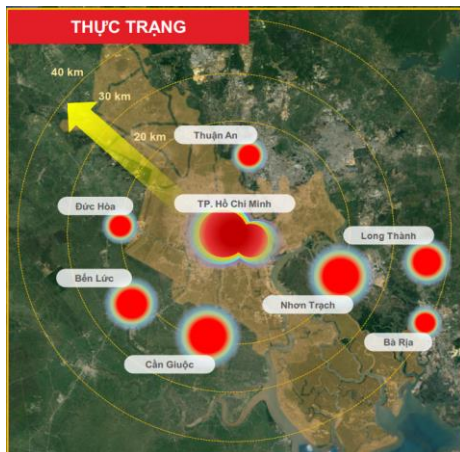


Source: JLL, BSC Research

**Market prospects for 2019 of Ho Chi Minh and Hanoi are quite opposite.** As our previous analysis of industry reports, the supply in Ho Chi Minh market will have to depend heavily on solving legal issues and project approval procedures. Accordingly, we see some more positive signals about accelerating the process of approving project procedures / legal, so BSC still expects projects can be approved in the second half of 2019. Meanwhile, Hanoi market outlook is still better, expected in 2019, new supply is expected to maintain a high level of 10,000-12,000 units / quarter.

**The trend of increasing land fund in suburban / provincial areas adjacent to Ho Chi Minh City of listed enterprises.** In terms of (1) the land fund in the inner city of Ho Chi Minh is exhausted and (2) Stops on legal approval procedures for projects in Ho Chi Minh City and (3) Infrastructure projects The connection between suburban areas has been strengthened, we see a trend of shifting the acquisition of large land areas (Mini City Model) in suburban / neighboring provinces of Ho Chi Minh City to Prepare for the future period. However, the development of real estate will face some risks such as (1) Much depends on the plan to build connected infrastructure systems, (2) Low population formation speed and The utility around is still small, (3) Calculate speculation in some hot areas

Some big projects have just been acquired by some businesses, such as: (1) Nam Long: Waterfront project (Nhon Trach - Dong Nai), Dai Phuoc (NT-DN), Hai Phong Vsp ; (2) Novaland: Resort real estate in coastal provinces of Khanh Hoa, Binh Thuan and Can Tho; (3) Vinhomes: Vinhomes Grand Park (District 9), Cu Chi Golf Course - 200ha, (4) LDG: Binh Nguyen (Binh Duong), Viva Square (Dong Nai), (5) PDR: Bau Ca Residential Area (Quang Ngai), Nhon Hoi (Binh Dinh).



Source: DKRA Report

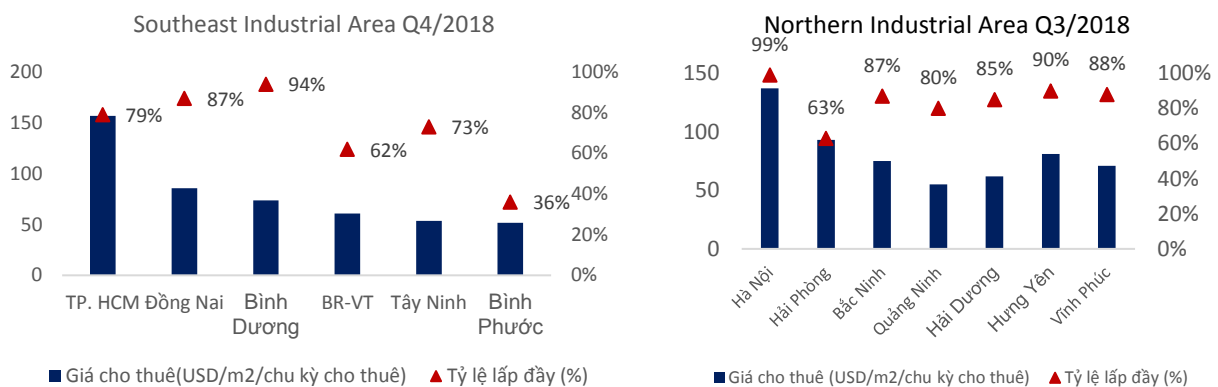
2018 business results of the real estate industry maintained a high growth rate due to the profit dropping point, the total industry profit increased by 111% over the same period. According to our statistics, the total revenue of the industry in 2018 reached VND 254.981 trillion (+ 40.2% yoy), net income reached VND 37,263 trillion (+ 111.0% yoy). VHM still continued to make major contributions to the sector's revenue growth, accounting for 37% of revenue and 71% of profit after tax. Excluding VHM because 2017's profit has not been consolidated with its subsidiaries, the real estate's net income only grew by 14.7%, reaching VND18,672 billion. The real estate market has a certain differentiation, in which the profit growth motivation of the industry still comes from real estate companies with big position and scale, the ability to implement good projects with prestige in the market like DXG (+ 57% YoY), NVL (+ 59% YoY), KDH (+ 61% YoY), NLG (+ 43% YoY).

Code	DTT 2018 (billion dong)	%YoY	Gross profit margin 2018	Gross profit margin 2017	EAT 2018 (billion dong)	%YoY	Customers Pay in advance / Inventory (Q4 2018)	Customers Pay in advance / Inventory (Q3 2018)
VIC	121,894	36%	23.7%	29.7%	3,777	-15%	45.7%	84%
VHM	38,664	153%	26.0%	33.8%	14,284	913%	38.5%	52%
VRE	9,124	65%	39.9%	50.8%	2,404	19%	98.5%	110%
NVL	15,290	31%	33.7%	28.0%	3,227	59%	23.7%	34%
KDH	2,917	-5%	42.5%	33.9%	808	61%	23.5%	26%
PDR	2,148	62%	31.7%	39.1%	643	46%	0.2%	1%
DXG	4,645	61%	56.3%	60.1%	1,178	57%	22.3%	21%
NLG	3,480	10%	43.2%	41.0%	763	43%	33.1%	24%
DIG	2,345	47%	24.1%	24.6%	324	65%	32.5%	33%
HDG	3,221	40%	38.6%	34.0%	633	255%	50.4%	8%
VPI	258	-70%	170.6%	52.2%	422	0%	6.2%	0%
HPX	2,020	87%	24.5%	26.2%	452	39%	85.4%	55%
SCR	2,929	60%	21.8%	30.1%	215	-6%	41.4%	84%

Source: FiinPro, BSC Research

The industrial real estate sector benefited strongly from (1) US-China trade negotiations and (2) the influx of FDI into Vietnam increased sharply through free trade agreements CPTPP helped demand for land lease. Industrial parks have been greatly improved. The industrial estate segment in the Northern and Southern regions shows good signs of growth:

- **Average rental rates have increased well** in the context of strong demand growth while limited supply of available land resources. Specifically for the Northern and Southern rents are 82 USD / m<sup>2</sup> / rental cycle respectively (+ 11% compared to Q1 / 2018) and 80.3 USD / m<sup>2</sup> / rental cycle (+ 10.9% compared to Q2 / 2018).
- **The occupancy rate continues to improve.** For Bac Bo IP, the occupancy rate in Q3 / 2018 reached 85% (+ 7% YTD). For the Southeast Industrial Park, calculated on the available commercial area (excluding new supply from Binh Duong), the occupancy rate reached 66% (+300 bps YTD), for the whole region, the occupancy rate Full is 72% (-5% YTD).
- **Demand for ready-built factories for lease and for sale increases.** With the strong development of e-commerce, logistics systems - distribution channels increasingly play an important role, so the demand of factories / warehouses is increasing. In addition, because land rental prices tend to increase and convenience, ready-built factory rental is considered an alternative. In 2018, many companies in the industry have grasped this trend, focusing on developing factories such as KBC and LHG. We believe that in 2019, ready-built warehouses / workshops will be promoted and have more stringent and diverse requirements in terms of quality / type of factory.



Source: JLL, BSC Research

**The supply of industrial area 2019 is expected to come from the expansion of existing industrial parks.** At present, the total area of industrial zones for lease in the Northern region and the South East region reaches 39,036 ha (+ 5.4% compared to Q2 / 2018) and 18,126 ha (+ 16% compared to Q1 / 2018). The southern market recorded the main new supply coming from Binh Phuoc and Ba Ria - Vung Tau showing the trend of industrial zones moving to neighboring provinces because the current land fund is not much. It is expected that by 2020, new supply will be strongly increased thanks to the expansion, particularly in the South East and the North will record 11,940 ha and 19.322 ha respectively.

**The main growth motive of industrial zone enterprises will come from (1) the expansion of land bank and (2) the increase in rental price.** BSC believes that the industrial sector will continue to benefit from strong demand from big corporations Samsung, LG, Foxconn and satellites while new supply is forecasted

to be more abundant. Specifically, KBC is capable of obtaining 3 - 687 ha Trang Due IP to Dinh Vu Cat Hai in June 2019; NTC is expected to start receiving land from Phuoc Hoa Rubber JSC at the end of Q2 / 2019 by partial handover with total commercial area of 255ha / 355ha; LHG is implementing LH3 with a commercial area of 90ha / 124 ha.

Code	Net Revenue 2018 (billion VND)	Net Revenue 2017 (billion VND)	%YoY	Gross Profit Margin 2018	Gross Profit Margin 2017	NPAT 2018 (billion VND)	NPAT 2017 (billion VND)	%YoY
KBC	2506	1260	99%	59%	52%	810	619	31%
NTC	532	146	264%	92%	69%	470	142	231%
LHG	430	488	-12%	57%	56%	181	166	9%

Source: FiinPro, BSC Research

#### INVESTMENT OUTLOOK - NEUTRAL (Commercial property) and OUTPERFORM (Industrial property)

We continue to maintain a Neutral view for commercial property stocks due to the following factors (1) The issues of legal approval and project construction are still congested; (2) Lending interest rate is expected to increase; (3) Credit tightening for real estate businesses. In 2019, we selected businesses based on the following criteria: (1) Large, clean land fund that can be sold in 2019, helping to ensure profit accounting for the period 2020 - 2022; (2) Recognizing good profit growth thanks to possible handover projects in 2019. We recommend buying the codes: VHM, NLG, HDG.

Code	Net Revenue 2019 (billion dong)	NPAT 2019 (billion dong)	EPS 2019	P/E fw	P/B fw	ROA 2019	ROE 2019	Day Price 29/3/19	Target Price	Upside
VHM	80,063	18,412	5,579	13.3	4.7	34.7%	10.3%	91,500	92,700	1.13%
NLG	3,063	930	4,209	8.0	1.3	17%	8%	27,500	36,285	28.2%
HDG	5,543	689	7,253	5.7	2.1	8.1%	13.8%	41,200	58,000	40.7%

Source: BSC Research

We continue to maintain Positive viewpoint for industrial zone property stocks thanks to the surge of FDI into Vietnam through free trade agreements CPTPP and the factory shift by trade war China - US in the context of (1) Demand for industrial parks increased sharply and (2) Existing leasing land is not much. We recommend buying the codes: KBC (update report) and LHG.

#### LHG – BUY - TP 25,506 – Upside 25.8%

**Update 2018 business results:** DT and NPAT are VND 430 billion (-11.84% yoy) and VND 180.84 billion (+ 9.1% yoy). (1) Industrial zone leasing segment in 2018 reached VND 389 billion (-39.78% yoy) with 14.3 ha, the gross margin of industrial zone was 68%. (2) Rental of factories and accommodation with VND 84 billion (+ 23% yoy). (3) Financial income in 2018 reached 45 billion, increased 3.46 times YoY mainly came from bank deposit interest (accounting for 82.8% of financial income) (4) The plan to pay dividends in 2018 in cash is about 16%.



**Forecast 2019:** BSC forecasts LHG's business results in 2019 with revenue and NPAT of VND 633.2 billion (+ 47.1% yoy) and VND 188.7 billion (+ 7.53% yoy). We assume based on (1) expected to lease 4ha of factory area (including more than 32,000m2 Long Hau industry area and 10,000m2 Da Nang CNC area). (2) on average, LH3 will lease about 20-30 hectares / year, LH3 rental price ranges from 110-130 USD / m2 (excluding VAT) within 4 years.

Code	Net Revenue 2019 (billion dong)	NPAT 2019 (billion dong)	EPS 2019	P/E fw	P/B fw	ROE 2019	ROA 2019	Day Price 29/3/19	Target Price	Upside
KBC	3,226	1,263	2,657	7.6	1.05	12.8%	7.45%	14,500	20,120	25.8%
LHG	633.2	188.7	3,773	5.2	1.11	16%	9%	20,500	25,506	24.4%

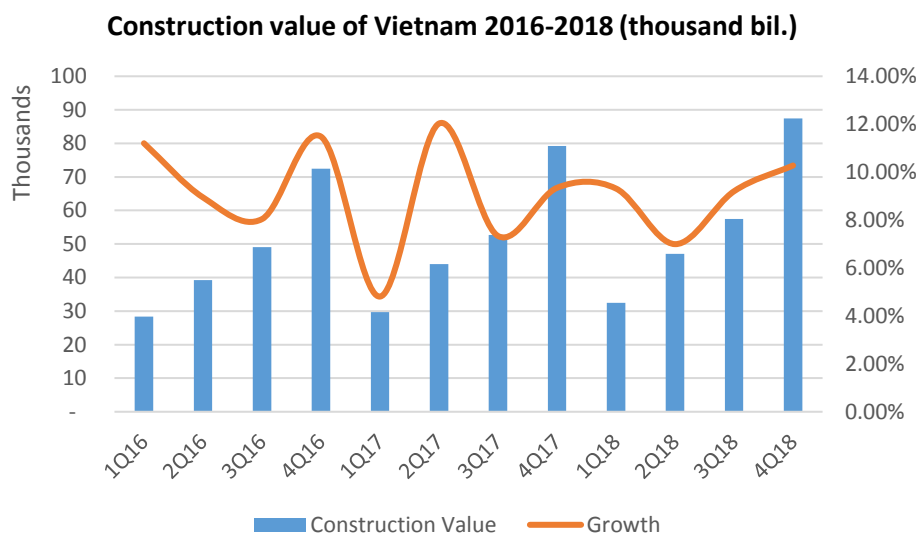
Source: BSC Research



## Construction [Neutral]

- Construction value grew steadily to VND 224.464 billion (+9% yoy) in 2018 according to GSO.
- Ho Chi Minh City plan to achieve 95% of the public investment disbursement in 2019.
- Construction's 2018 business results in general were still difficulty.

**The value of construction industry grew steadily to VND 224.464 billion (+9% yoy) in 2018 according to GSO.** In Q4/2018, the total value of the construction industry reached VND 87,401 billion, up + 10.28% yoy, the highest in the last 4 quarters. Thereby, the construction industry contributes to the total GDP value of 6.4%, a slight increase of 0.1% compared to 2017.



Source: GSO.

**Ho Chi Minh City plan to achieve 95% of the public investment disbursement in 2019.** Thereby, HCM City People's Committee has requested to accelerate the progress of appraisal, approval and investment decisions on public investment projects to ensure implementation 50% at the time of July 31, 2019 and 95% at the end of 2019. In 2018, the disbursement results were quite slow, reaching 56.6% of the plan including 51.6% of ODA projects, infrastructure projects using State capital budget reached 94.3% and the project using government bond reached 37.7%. Some key infrastructure projects in 2019 include: section 1 of the route 3 (Ben Luc - National Road 22), An Suong, My Thuy intersection, Nguyen Kiem overpass - Nguyen Thai Son, ... For facilities In Hanoi, Hanoi Party Committee continue to promote important projects such as route 1 (Hoang Cau - Voi Phuc), and route 2 (Intersection Vong - Intersection So).

**Construction's 2018 business results in general were still difficulty.** Construction industry overview had 186 listed companies on 3 HSX, HNX, Upcom has 2018 financial statements with total net revenue and net profit after tax reached VND 208,531 billion (+7.11% yoy) and VND 9,470 VND billion (-25.76% yoy). Gross and net profit margin 2018 reached 11.8% (down slightly by 0.2% compared to 2017) and 4.54% (down by -2.01% compared to 2017), one of the reasons for the decrease in net margin is that financial expenses increased by 17.82% in 2018. In the construction of infrastructure, Net revenue and NPAT in 2018 reached VND 120,640 billion (-4.2% yoy) and VND 5,692 billion (-36% yoy) respectively, gross and net margin reached 13.8% and 4.7% decreased by -0.67% yoy and -2.38% yoy respectively.

We assess that the construction industry can still grow but the profit growth are downward in business results (CTD -8.6% yoy, HBC - 27.9% yoy) mainly due to (1) Real estate industry is tightening output to the market; (2) Slow disbursement of public investment capital was only 59.94% compared to the plan in 2018; (3) Increasing costs of raw materials and interest rates erode the net profit of enterprises.

Ticker	Rev 2018 (bil. VND)	%YoY	GPM 2018	GPM 2017	NPAT 2018 (bil. VND)	%YoY
CTD	28,561	5.2%	6.4%	7.4%	1,510	-8.7%
HBC	18,201	13.5%	9.3%	10.5%	627	-27.2%
VCG	9,721	-10.8%	12.5%	16.2%	636	-61.0%
PC1	5,085	60.9%	16.9%	15.2%	486	89.8%
CC1	5,948	-2.63	8.04%	6.89%	230	494.9%
SNZ	4,315	13.9%	30.98%	30.6%	794	35.36%
ROS	3,463	-21.6%	6.6%	9.3%	185	-78.2%
CII	2,708	32.7%	28.4%	19.5%	207	-87.2%
C4G	3,313	-18.2%	12.7%	12.6%	171	27.6%
FCN	2,859	23.2%	14.9%	14.5%	252	41.6%

Source: BSC research

#### INVESTMENT OUTLOOK - NEUTRAL

We maintain to recommend **Neutral** with construction in prospects of 2019 and forecast average growth from 7.2% - 9.2% thanks to (1) FDI inflows to production industries and real estate will increase in 2019; (2) Major real estate projects such as Vincity will contribute mainly to new construction contracts for the industry, but the gross profit margin of the project is low. (3) Expecting investment in infrastructure and residential development will continue to boost Hanoi and Ho Chi Minh City. We recommend tracking stocks: CTD and HBC.

Ticker	Rev 2019 (bil. VND)	NPAT 2019 (bil. VND)	EPS 2019	P/E FW	P/B FW	ROA 2019	ROE 2019	Price on 31/03/19	Target price
CTD	30,567.5	1,427	17,343	8.2	1.4	8.4%	18%	143,400	120.000
HBC	19,404	613.6	3099	6.3	1.2	4%	18%	18,750	18,100

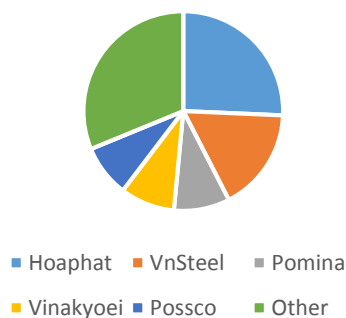
Source: BSC research

## Steel [Neutral]

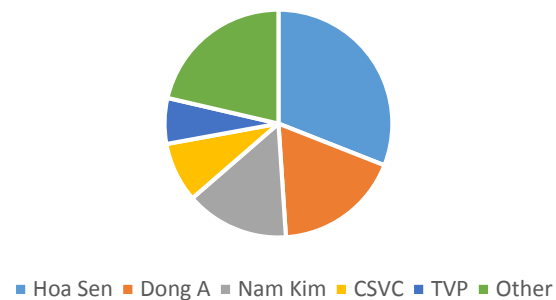
- Domestic consumption in 2018 reached over 21.8 million tons, maintaining the growth rate of 21%.
- Iron ore price increased strongly by over 30% from the beginning of 2019, electricity price increased by 8.36%, which greatly affected electric furnace enterprises.
- Output price of steel increased about 8% from February, reaching 13 million / ton of construction steel in March.

**Domestic consumption in 2018 still maintained the growth momentum (+ 21% YoY).** Total steel consumption in 2018 reached 21.8 million tons, an increase of 21% compared to 2017. In which, Construction consumption volume in 2018 reached 10 million tons, an increase of about 9% compared to 2017. With steel pipe products, total consumption reached over 2.3 million tons, + 8% yoy; Galvanized steel products also achieved a high growth rate of 9.6% compared to 2017 with total consumption in 2018 reaching over 3.8 million tons. The market share of the steel industry is still concentrated in leading companies such as HPG and HSG.

Construction Steel Market share in 2018



Galvanised Steel Market share in 2018



Source: VSA, BSC research

**Iron ore prices increased sharply in early 2019 (+30% compared to the end of 2018), electricity prices increased greatly affecting electric furnace enterprises**

**Iron ore prices in 2018 remained stable, but increased sharply in the first quarter due to a shortage of supply.** Brazil's export volume (the world's second-largest exporter) is forecast to decline as Vale, the mining company, cuts production by 40 million tons (9% of total production - mostly 62% FE ore) after the dam failure event at the end of January. High quality iron ore prices thereby increased by over 20% within 2 weeks and are expected to remain high when other suppliers have not yet can offset short-term output shortages. Currently, ore prices are being traded at about 80 USD/ton, about 23% higher than the end of 2018. In addition, the tropical cyclone Veronica influences the Hedland- important export port for iron ore in Western Australia also made iron ore prices soar. We forecast that iron ore prices will remain high until at least the end of the second quarter, then decline as ore mines in countries like Australia will increase production to compensate for the shortage in the market and ore prices will gradually cool down at the end of the year. Thereby, the average ore price for 2019 is expected to be around 75 USD/ton, an increase of about 15% compared to 2018.

Similar to the price of iron ore, the demand for coking coal is supported when factories return to operation after the Chinese government eases its policy of limiting production in the winter while supply is falling

when many mines coal in China must be closed because the government strengthens management, causing coal prices to rise relatively strong at the end of 2018.

**Electricity price increased 8.63%, greatly affecting electric furnace companies.** The official retail price of electricity will increase to 8.63%, at the end of Q1. With the electricity price currently accounting for nearly 20% of the cost of electric furnace companies, we forecast they will meet relatively difficulties in production and business in the last 3 quarters. However, enterprises using blast furnaces, especially HPG, will benefit when businesses with blast furnace technology can produce about 40% of their electricity demand, thereby creating a cost advantage over other companies.

**Construction steel output price increased by 8% from February to VND 13 million/ton.** Steel prices in January continued to fall, hitting the threshold of VND 12 million/ton (-8% compared to the 2018 average) due to the impact of Chinese steel price decline when fears of falling demand when (1) China's economic prospects due to the trade war, (2) supply has increased sharply when steel output reached a record level due to high profit margin of Chinese steel industry in 2018. However, at the end of February when The Chinese government launched policies to support the economy, which helped the price of steel in this country rise sharply. Domestic steel price also recovered strongly, currently maintaining at the average level of 2018 at about 13 million dong / ton of construction steel.

**Profit margins of steel companies are expected to decline.** The increase in prices of raw materials will have a strong impact on the cost of steel enterprises starting from the second quarter. The selling price of steel products, despite increasing with raw material prices, is still low, about 8% and is expected to grow stronger than the current level so the industry's gross profit margin is expected to decline relatively starting from the second quarter of 2019.

**Update of 2018 business results:** The revenue of steel enterprises has high growth thanks to the increase in production and high domestic steel prices. Steel prices remain high, however, competition increase due to a sharp increase in the supply and gross profit margins of all businesses are declining, especially galvanized steel companies affected by the increase in HRC prices and export is more difficult. The debt ratio of many businesses also increased strongly because the investment of new projects along with the decline in profit margin made most steel companies' profits drop sharply.

Regarding the 2019 business plan, most businesses plan relatively cautiously because input materials tend to increase strongly. Particularly for the first quarter of 2019, the consumption volume remained stable and the steel price in the quarter had a relatively good recovery, so we expect that the revenue of steel enterprises will remain at the same level. However, the gross profit margin has been reduced due to the increase in ore price, which will put pressure on profit, so we expect steel enterprises will start to record a decline in revenue from 2<sup>nd</sup> quarter/2019.

	Segment	Revenue 2017	Revenue 2018	+yoy	Gross profit 2017	Gross profit 2018	EAT 2017	EAT 2018	+yoy
HPG	Construction	46,855	56,580	20.8%	22.7%	20.6%	8,015	8,601	7.3%
HSG	Galvanized	28,474	34,198	20.1%	16.0%	10.0%	1,225	136	-88.9%
NKG	Galvanized	12,638	14,861	17.6%	10.8%	5.3%	708	57	-91.9%
VIS	Construction	6,150	5,314	-13.6%	3.4%	-3.0%	43	(326)	-858.1%
POM	Construction	11,384	13,468	18.3%	9.7%	5.7%	698	434	-37.8%
SMC	Trading	12,665	16,473	30.1%	5.5%	4.0%	276	168	-39.1%

Source: Company Financial Reports

**INVESTMENT OUTLOOK– NEUTRAL**

We continue to maintain a **Neutral** view for the Steel industry. In 2019, the steel industry is expected to face (1) Competition increases when steel consumption volume in 2019 is expected to remain at a growth rate of 10%, equivalent to 2018 thanks to large real estate projects being developed in Hanoi and Ho Chi Minh City, however, the supply is expected to increase sharply when new steel plants are put into operation (Phase 1 Dung Quat project of HPG has a capacity of 2 million tons, Hoa Sen Nhon Hoi factory projects with a capacity of 200 thousand tons, Hoa Sen Ha Nam with a capacity of about 200 thousand tons, ... (2) Prices of raw materials (iron ore prices, electricity prices) increased suddenly. . Therefore, we forecast that the steel industry's profit in 2019 is expected to have a relative decline despite continued growth in revenue.

Stock	Revenue 2019 (bil đ)	EAT 2019 (bil. đ)	EPS 2019 (đ/CP)	P/E fw	P/B 2018	ROE 2019	Giá đóng cửa 30/11/18	Giá mục tiêu
<b>HPG</b>	73,486	9,964	4,745	7.1	1.48	21%	33,500	38,000
<b>NKG</b>	17,275	131	720	10.8	0.45	8%	7,600	N/A
<b>HSG</b>	36,142	595	1,550	4.5	0.51	10%	6,620	N/A

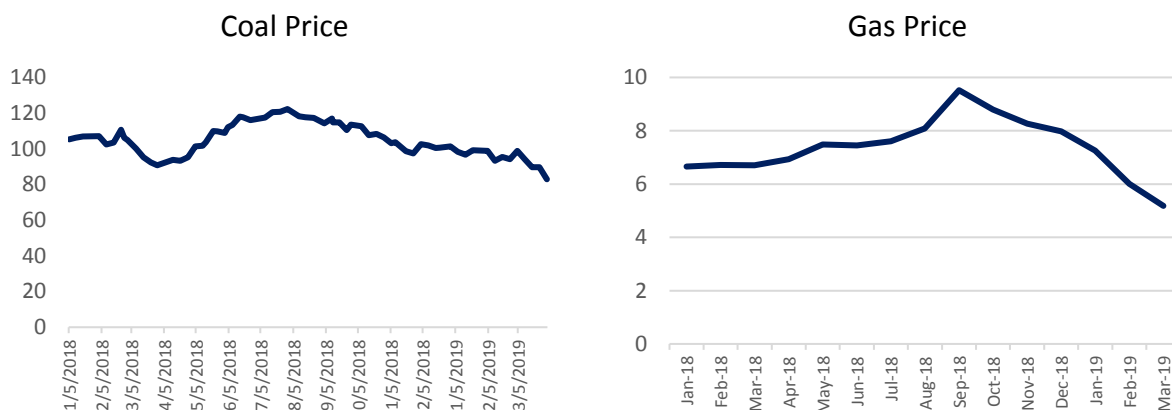
*Nguồn: BSC Research*

## Ceramic Industry [Neutral]

- Fuel price decreases: gas price Q1 / 2019 -23% YTD, coal price -6.9% YTD.
- 2018 business results of diversified ceramic tiles enterprises
- We maintain a NEUTRAL rating for ceramic tile stocks in 2018.

**Ceramic tiles industry in oversupply situation, selling prices continue to fall:** According to the Institute of Building Materials, in 2017, total production output reached 821 million m<sup>2</sup> / year, while the total consumption volume was about 500 million m<sup>2</sup> / year. . The oversupply situation continued with bricks imported from China and some European countries, which caused many businesses to reduce selling prices to compete, making profit decline.

**Fuel prices in 2019 tended to decrease:** In 2018, coal price increased by + 21.2% compared to 2017%, due to a sharp increase in the demand for coal consumption in 2018, high gas price did not increase input costs export of enterprises in the industry, making the LNG margin narrow from 1-3. In 2019, EIA forecasted that gas supply will increase by 8% - 10%, although the demand for natural gas continues to increase but the supply still meets. According to BBG and Indexmundi data, Q1 / 2019 average gas price - 23% YTD, average coal price -6.9% YTD. We believe that 2019 gas price will decrease and positively impact on COGS of enterprises, improve gross margin



Source: BBG, Indexmundi, BSC Research

**Business results in 2018 divergence:** Revenue increased in some granite tile manufacturing companies such as CVT + 23% yoy (consumption volume was over 16 million tons + 20% YoY), VIT + 28% yoy and TTC +16 % yoy. While enterprises of clay and ceramic tiles (VGC, VHL, TCR) have a slight decrease in revenue because the market is relatively saturated. Most of the LNG enterprises in 2018 narrowed from 1-3% due to the increase in raw material prices while selling prices decreased.

Code	Net Revenue 2018 (billion VND)	Net Revenue 2017 (billion VND)	%YoY	Gross Profit Margin 2018	Gross Profit Margin 2017	NPAT 2018 (billion VND)	NPAT 2017 (billion VND)	%YoY
VGC	8984.1	9196.5	-2%	22%	23%	667.4	722.1	-8%
VHL	2011.2	2039.6	-1%	0%	0%	145.3	155.7	-7%
CVT	1448.7	1181.1	23%	20%	24%	168.1	173.8	-3%
TCR	1349.3	1357.9	-1%	11%	13%	-109.3	-71.8	52%
VIT	1244.9	970.7	28%	11%	13%	44.0	36.5	21%
TTC	398.3	344.3	16%	13%	16%	15.1	19.7	-23%

**INVESTMENT OUTLOOK - NEUTRAL**

We continue to maintain our NEUTRAL view of ceramic tile stocks. BSC believes that 2019 will continue to be a difficult year because the industry is still in oversupply. However, in a positive direction, the decrease in input fuel prices will help improve the profitability of the companies in the industry compared to 2018. We recommend Tracking with VGC shares (Refer to details [báo cáo cập nhật doanh nghiệp](#)) and follow with CVT.

**CVT – Tracking – Target Price: 26,500 dong/Stock – Upside: +8%**

**2018 business results:**

- Production of bricks consumed 16,721,339 m<sup>2</sup> (+ 20% YoY) after putting CMC 2.3 brick production line (+ 21.4% capacity) from 2/2018; tile output of 546,632 m<sup>2</sup> (+ 19% YoY). The average selling price is + 3% thanks to an increase in the proportion of high-priced granite tiles, especially dissolved salts and micro-granite.
- Total revenue reached 1,553 billion (+ 23.5% YoY), the discount rate increased slightly to 6.58%. Gross profit margin decreased from 24.3% to 19.7%, we assess that this decline is mainly due to costs incurred during the test of new line CMC 2.3. Net income reached VND 162 billion (-7% YoY), EPS = VND 4,194 / share.
- Profit distribution 2018: expected dividend rate of 25% in cash, deducted from the fund of development and investment and development corresponding to 5% of net profit.

**Business plan 2019:** Sales volume (+ 7.65% YoY), revenue of VND 1,700 billion (+ 9.47% YoY), profit of VND 220 billion (+ 8.3% YoY), dividend of 25-30%.

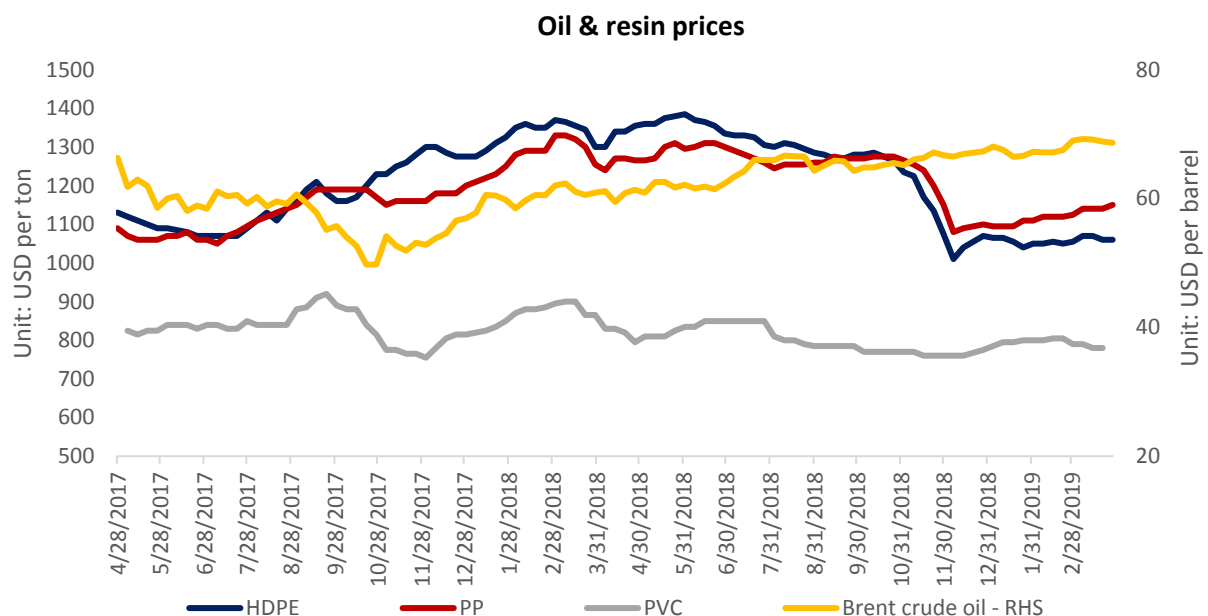
Code	Net Revenue 2019 (billion dong)	NPAT 2019 (billion dong)	EPS 2019 (dong/stock)	P/E fw	P/B fw	ROA 2019	ROE 2019	Closing Price 29/03/19	Target Price
VGC	9,247	924	1,242	16.51	1.24	3.7%	8.5%	20,500	18,510
CVT	1,556	174	4,413	5.48	1.26	12.5%	25.0%	24,650	27,000

Source: BSC Research

## Plastics [Neutral]

- Plastic resin price decreased in line with oil price trend: PVC -8.6% YoY, PP -12.2% YoY, HDPE - 20.7% YoY.
- 2M2019 plastic material import reached 933 thousand tons (+11.3% YoY), indicating the rising demand for plastic industry.
- The total revenue of listed plastic firms in 2018 reached VND 29,785 billion (+23.9% YoY) and net income was 1,601 billion (+0.2% YoY).
- We maintain a NEUTRAL view for plastic industry.

**Plastic resin price decreased in line with oil price trend: PVC -8.6% YoY, PP -12.2% YoY, HDPE - 20.7% YoY.** The average Brent oil price in Q1/2019 was USD 63.5 per barrel (-5.2% YoY), resulting in declining price of plastic resins, especially those that are highly correlated with oil price like HDPE and PP. Although oil prices have posed some signal of a reverse trend recently, many organizations still hold the view that the average oil price in 2019 will be below USD 70 per barrel (that of 2018 was USD 72 per barrel). We believe that the downtrend of oil price will be a positive impact on the profitability of plastic enterprises, especially construction plastic firms that cannot adjust selling price in order to offset part of rising material prices.



Source: Bloomberg

**2M2019 plastic material import reached 933 thousand tons (+11.3% YoY), indicating the rising demand for plastic industry** because most of input materials for the industry are imported. Plastic products export climbed to 185.9 thousand tons (+ 52.3% YoY).

**The total revenue of listed plastic firms in 2018 reached VND 29,785 billion (+ 23.9% YoY)**, of which the strongest growths were recorded in AAA (+96.9% YoY) mainly due to the expansion the plastic resin trading segment; PLP (+65.3% YoY), TPP (+42.3% YoY). **Total gross profit of listed enterprises reached 4,504 billion (-1.53% YoY) as a result of rising raw material prices.** Profit margin of most businesses experienced a decline, especially construction plastic firms such as BMP, NTP, DNP and DAG.



Ticker	Products	Net sales		Gross margin 2018	Gross margin 2017	Net income	
		2018 (VND bn)	% YoY			2018 (VND bn)	% YoY
AAA	Packaging	8,012	96.9%	8.4%	13.5%	212	-19.4%
NTP	Plastic Pipe	4,520	2.0%	29.4%	33.2%	332	-32.7%
BMP	Plastic Pipe	3,920	2.5%	22.2%	24.1%	428	-7.9%
DNP	Plastic Pipe, Water	2,181	44.9%	16.3%	19.2%	14	-80.6%
RDP	Packaging	1,552	17.4%	8.9%	8.2%	7	-112%
DAG	Door, Window, Profile	1,541	-6.4%	9.3%	8.5%	54	-9.1%
SPP	Packaging	1,105	5.5%	11.1%	11.6%	22	3.2%

*Nguồn: FiinPro, BSC research*

### INVESTMENT OUTLOOK - NEUTRAL

We maintain a **NEUTRAL** view on plastics industry outlook in the context of steady growth and severe competition, especially in construction plastics segment. However, the downtrend of plastic resin price will be a positive signal for the sector. BSC believes that profit of plastic firm will be better in comparison to that of 2017-2018 period when oil prices surged. Therefore, we keep tracking and updating of plastic firms in the next quarters.

BSC recommends BUY for BMP and Tracking for NTP and AAA (Refer to our report 2018 At a glance).

Ticker	Net sales 2019 (VND bn)	Net income 2019 (VND bn)	EPS 2019 (VND)	P/E fw	P/B fw	ROA 2019	ROE 2019	Closing price 29/03/19	Target price
BMP	3,984	417	4,590	10.58	1.41	13.9%	15.8%	48,550	63,140
NTP	4,682	351	3,558	10.68	10.68	7.1%	14.6%	38,000	N/A
AAA(*)	10,000	510	2,550	6.61	N/A	N/A	N/A	16,850	N/A

*Source: BSC Research; (\*): According to the company's plan*

## Cement [Neutral]

- Cement consumption in 3M2019 reached 23.08 million tons (+4% YoY) with key growth domestic market.
- Many cement companies have raised their selling prices by VND 30,000-50,000 per ton (equivalent to an increase of 2% to 3%) in order to offset part of an 8.36-percent rise in electricity price.
- The Philippines has imposed a temporary self-defense tax of 4 USD per ton on cement imported from Vietnam within 200 days since 18/01/2019.
- Export to China climbed, which has improved the competition context of the industry.
- Total revenue of 2018 of listed cement companies reached VND 23,345 billion (+5.9% YoY); net income was VND 990 billion (+75.5% YoY).
- We upgrade our recommendation for cement sector from the **UNDERPERFORM** to **NEUTRAL**.

**Cement consumption in 3M2019 reached 23.08 million tons (+4% YoY)**, of which domestic market absorbed 14.52 million tons (+5.9% YoY) thanks to strong demand of residential construction from some big real estate projects. Cement export was 8.56 million tons (+0.93% YoY).

**Many cement companies have raised their selling prices by VND 30,000-50,000 per ton (equivalent to an increase of 2% to 3%) in order to offset part of an 8.36-percent rise in electricity price** since March 20, 2019. Electricity accounts for about 10-15% of cement's cost of goods sold, so a rise in electricity price will significantly affect the profitability of cement grinding. However, the increase in selling price that firms have made is estimated to cover rising electricity price, enabling firms to maintain its profit level.

**The Philippines has imposed a temporary self-defense tax of 4 USD per ton on cement imported from Vietnam within 200 days since January 18, 2019.** It is the 3rd largest export market of Vietnam cement (21% market share) with 2018 output reaching 6.6 million tons (+ 43% YoY) and the average export price of 47 USD per ton. According to its announcement, cement products with HS code of 25232990 and 25239000 are subjected to self-defense tax of about 4 USD per ton (equivalent to 8.5% of current price). This applied tax may reduce the competitiveness of Vietnamese cement in the Philippine market, but we believe that the general export will not be much affected thanks to the growth from China.

**In 2018, China surpassed Bangladesh to become the largest export market of Vietnam cement and clinker.** The export volume climbed to 9.89 million tons, 6.6 times as much as that of the same period. Exportation of clinker and cement to China have increased rapidly since 2017 because China imposed stricter environmental requirement regarding heavy industrial production (such as steel and cement) to ease air pollution problem. According to DBS, this campaign could reduce the national clinker production by 45-47 million tons (-2%), which is 4.5 times as much as the imported volume from Vietnam. We believe the rising export to China will continue to ease the competition in domestic market in 2019. However, it is worth taking into account some inherent risks relating to export to China such as: (1) slowing down construction demand and delayed major infrastructure projects in China; (2) rising domestic production when the environmental restrictions are loosen instead of import.

**Total revenue of cement listed companies in 2018 reached VND 23,345 billion (+5.9% YoY)** with key growth from HOM (+1.4%); CCM (+1.2%); VCX (+1.1%) whereas TMX pulled industry down by 1.3%. Gross margin of some cement companies was up thanks to increasing the proportion of cement in total volume. The selling price of cement increased by 20,000-50,000 VND per ton, which enabled firms to offset part of increasing coal price. **The total net income was VND 990 billion (+75.5% YoY)**, with the most significant

change recorded in HT1 (+159 billion, equivalent to + 32.7% YoY), BCC (+92.79 billion while the same period saw a loss of 3.48 billion) and VCX (+100.61 billion, 6 times as much as that in 2017).

Ticker	Net sales 2018 (VND bn)	% YoY	Gross margin 2018	Gross margin 2017	Net income 2018 (VND bn)	% YoY
HT1	8,878	0.3%	15.2%	15.8%	641	31.9%
BCC	3,681	5.9%	11.9%	12.3%	88	N/A
BTS	3,151	14.2%	14.0%	1957.0%	3	0.2%

Source: Fiin Pro

## INVESTMENT OUTLOOK - NEUTRAL

We change our rating for cement industry from UNDERPERFORM to NEUTRAL in 2019 for some following reasons:

**(1) Rising clinker and cement export to China will continue to ease the competition in domestic market.** Although it is obvious that Chinese market possess some inherent risks, we believe that those downside risks are less likely to happen in 2019.

**(2) Our concerning problem in BSC's Sector Outlook 2019 regarding to an increase of input prices such as coal and electricity has somewhat been solved** by rising selling prices since the end of March. Hence, BSC believes that the profit margins of cement firms in 2019 will not be affected too much.

We recommend BUY for HT1 with the target price of VND 18,400 per share (Refer to the Company update report for details).

### BCC - Tracking

#### Business results in 2018:

- Consumption volume reached 4.37 million tons, of which 3.65 million tons was cement (+17% YoY) and the remaining 0.73 million tons was clinker (-15% YoY).
- Net revenue was VND 3,681 billion (+5.9% YoY), gross profit margin rose from 11.9% to 12.3% thanks to increasing the proportion of cement in total consumption. Net income was VND 88 billion whereas the same period of 2017 witnessed a loss of VND 3.5 billion.

#### Business plan for 2019:

- Consumption volume will be 4.4 million tons (+0.5% YoY), of which cement accounts for 4.1 million tons (+12.3% YoY) and clinker takes up 300 thousand tons (-58.8% YoY). The company's strategy is to focus on domestic consumption, and to maintain market share in key markets like Thanh Hoa, Ha Tinh and Binh Tri Thien.
- Revenue is projected at VND 4,005 billion (+8.9% YoY), profit before tax of VND 171 billion (+51% YoY). Net income will grow more rapidly than revenue as the company will increase the proportion of cement in total consumption (the selling price of clinker is approximately 60-65% that of cement).
- Dividend 2019 is expected at 7%.

- New investment: (1) Cement grinding and packaging plan (total investment of VND 908 billion) is expected to be completed in Q2/2019; (2) material storage (total investment of 384 billion) is projected to go into operation in Q1/2020.

Ticker	Net sales 2019 (VND bn)	Net income 2019 (VND bn)	EPS 2019 (VND)	P/E fw	P/B fw	ROA 2019	ROE 2019	Closing price 29/03/19	Target price
HT1	8,758	721	1,702	8.93	1.12	7.3%	13.7%	13,700	18,400
BCC	3,898	110.5	892	8.85	0.48	2.3%	5.8%	7,900	N/A

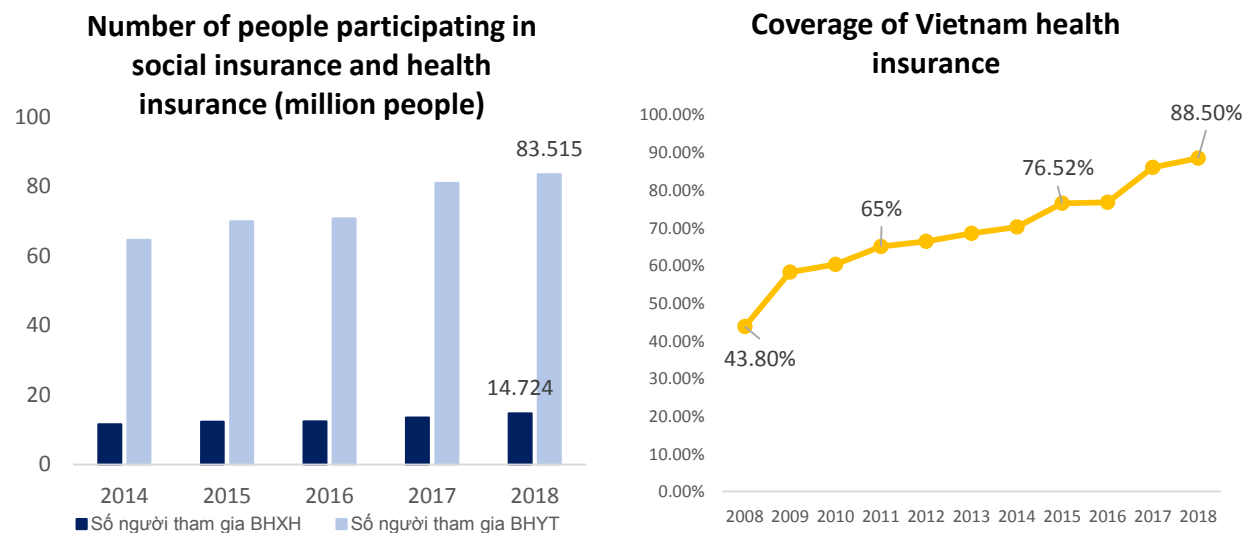
Source: BSC Research

## Pharmaceutical [Neutral]

- Accumulated in 2 months of 2019, import turnover of pharmaceuticals and pharmaceutical materials reached 402 million USD (+ 15% YoY) and 65 million USD respectively (+ 20% YoY)
- ETC channel benefits when the proportion of people participating in social insurance is expected to increase in 2019
- In 2018, the pharmaceutical sector recorded revenue and net income of 30 businesses, reaching 48.797 billion VND (-2.2% YoY) and 2,648 billion VND (-4.6% YoY) due to competition in OTC channel, which caused large enterprises to drop business results

**Imports of pharmaceuticals and pharmaceutical materials increased by + 15% YoY and + 20% YoY respectively in 2M.2019.** According to the General Department of Customs, pharmaceutical import turnover reached 402 million USD (+ 15% YoY). Pharmaceutical import markets saw mixed gains: France (55 million USD, + 42% YoY); Germany (45 million USD; -12% YoY); India (37 million USD, -7% YoY). For pharmaceutical materials, Vietnam's import turnover reached 65 million USD (+ 20% YoY). China continues to be the main material supply market for Vietnam with a turnover of 39 million USD (+ 14% YoY).

**ETC channel benefits when the proportion of people participating in social insurance is expected to increase in 2019.** By the end of 2018, according to Social Insurance, Vietnam had 14.72 million people (+ 9% YoY) participating in social insurance, accounting for about 30.4% of the labor force in the age group. For health insurance, there are 83.5 million participants nationwide, achieving health insurance coverage of 88.5% (compared to 86% in 2017). According to the Prime Minister's Plan in Decision 1167, the target of implementing health insurance in 2019 and 2020 is 88.1% and 90.7%, respectively. The coverage of health insurance and social insurance increases the demand for drugs through Procurement and Hospitals.



Source: BSC Research

**In 2018, the pharmaceutical sector recorded revenue and net income of 30 businesses, reaching VND 48.797 billion (-2.2% YoY) and VND 2,648 billion (-4.6% YoY) because competition in the OTC channel caused big businesses to drop their business results.** Most pharmaceutical enterprises with sales proportion through drug channels have a very low decline or growth in EAT: TRA (-32.9% YoY), DVN (-11.7% YoY) and DHG (+ 1.4% YoY). On the other side, pharmaceutical enterprises with selling proportion

through Treatment Channel, Bidding still recorded higher growth rate than industry average: IMP (+ 18.2% YoY); PME (+ 8.0% YoY). BSC believes that this trend will continue in 2019 due to (1) sale of OTC channel decline when fierce competition while Decision 4041 negatively affects the habit of buying drugs of people and (2) Demand for consumption through ETC channel increases when the proportion of people participating in social insurance increases and incentives for domestic businesses when selecting contractors are implemented when the Bidding Law takes effect.

Code	Net Revenue 2018 (billion dong)	%YoY	Gross profit margin 2018	Gross profit margin 2017	EAT 2018 (billion dong)	%YoY	EPS T12M (dong)
DVN	49	-43.6%	16.3%	12.6%	96	255%	405
DHG	3,882	-4.4%	44.2%	43.9%	651	1.4%	4,445
PME	1,675	3.2%	48.1%	48.1%	309	8.0%	4,084
TRA	1,798	-3.8%	52.0%	55.7%	175	-32.6%	3,352
DBD	1,401	0.9%	30.5%	35.4%	163	-0.6%	2,801
IMP	1,185	1.7%	39.6%	37.5%	139	18.8%	2,524

Source: Enterprise

#### INVESTMENT OUTLOOK - NEUTRAL

In 2019, BSC said that the Pharmacy Channel will continue to grow slowly when fierce competition, along with the application of Prescription Drug Sales (requires documents, origin, doctor's prescription) can change the purchasing habit of people. buy medicine from people. Meanwhile, the channel of treatment and bidding still grows on drug production as the proportion of people with insurance continues to increase, and the Bidding Law will prioritize domestic pharmaceutical enterprises with good medicine quality. Therefore, BSC believes that enterprises with high ETC proportion (IMP, PME, DBD) will continue to benefit, while OTC businesses (DHG, TRA) will level off and shift to ETC. The stocks we noted are DHG, PME, IMP ([Link](#))

#### IMP – TRACKING

IMP is one of the pharmaceutical enterprises with bidding activities through ETC with high quality products and factory standards. Currently, the company owns 4 factories: 2 factories are following EU - GMP (IMP Binh Duong and CNC IMP Vinh Loc) standards. BSC believes that Vinh Loc CNC will be the main growth driver in 2019 of IMP due to its EU certificate - GMP from T1.19 with a total capacity of 250 million products / year. Besides, IMP is also constructing and completing Binh Duong CNC Factory (with investment capital of VND 470 billion) expected to achieve EU-GMP certification at the end of 2019 and start commercial production in early 2020.

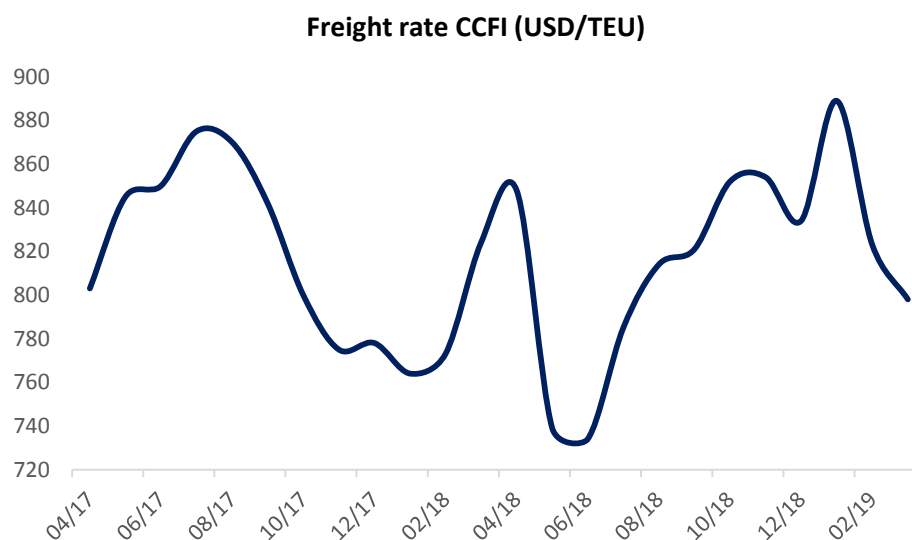
In 2019, we expect that the impact of the Bidding Draft will improve IMP's bidding segment due to incentives for domestic businesses. However, BSC also noted that the Delayed Drafting of Issues is also a risk to IMP's operation because the current bidding is still inadequate for domestic enterprises.

Code	Net Revenue 2019 (billion dong)	EAT 2019 (billion dong)	EPS 2019	P/E fw	P/B fw	ROA 2018	ROE 2018	Day Price 29/3/19	Target Price
DHG	4,411	679	4,678	25.3	5.6	15.5%	21.8%	118,300	N/A
PME	1,919	318	4,247	13.6	2.2	12.0%	15.0%	58,000	N/A

## Transport [Neutral]

- Freight rates generally weakened by 8.5% yoy in 2018.
- Fuel expenses increased by + 31.5% yoy cause weakness in profit margin of the shipping industry.
- Passenger volume through airports 2018 reached 104 million (+10.5% YoY).
- Transport's business results 2018 showed positive growth for liquid cargo transportation but still difficult for bulk transportation.

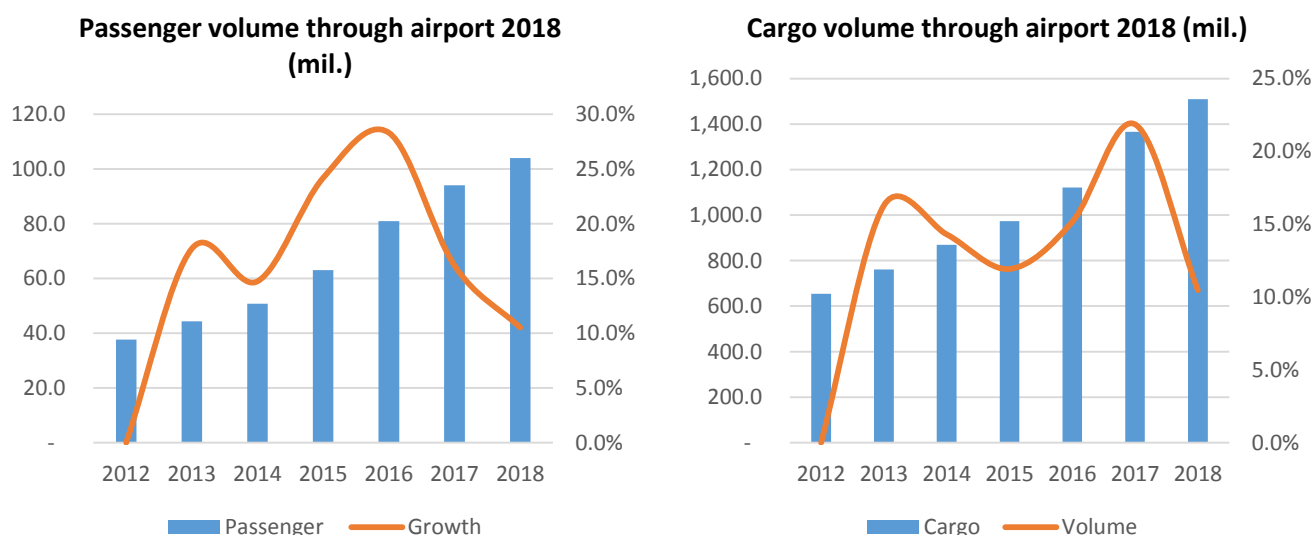
**Freight rates generally weakened by 8.5% yoy in 2018.** CCFI (China Containerized Freight Index) average price for the whole year remained at 800 USD/Teu, -8.57% yoy lower than 2017. However, the global shipping field is triggered by the export of goods from China to the US to avoid high taxation, some of shipping line control supply of cargo volumes better that helped boost both the CCFI and SCFI (Shanghai Containerized Freight Index). In Q1/2019, CCFI freight rate index continued to fall below 800 USD/TEU, down -6.89% yoy and tended to continue to decline, thereby BSC noted if sea freight rates continue to fall then Q2/2019 revenue of shipping enterprises may decline.



Source: SSE, BSC research.

**Fuel expenses increased by + 31.5% yoy cause weakness in profit margin of the shipping industry.** Currently, sea transport vessels use two main oils, FO and DO, but mostly DO oil. In 2018, oil price fluctuated between VND 15,000-17,500/liter, 29% -34% higher than the same period. However, the recent reduction in oil prices will reduce stress for shipping lines. Moreover, BSC updated Binh Son refinery (BSR) which has almost completed 99.8% of land clearance in February 2019 to continue investing in more facilities to increase output from 6.5 up to 8.5 million tons with a total investment value of USD 1.82 billion. Nghi Son oil refinery prepares 50-day maintenance scheduled in May 2019, which will affect contracts of crude and clean oil transportation of companies in the industry.

**Passenger volume through airports 2018 reached 104 million (+10.5% YoY):** of which domestic tourists reached 67 million (+5% YoY), international visitors reached 37 million (+22.1% YoY). The growth rate slowed down compared to 16.2% in 2017. For the whole year, domestic airlines transported about 51.2 million passengers (+14.7% YoY), of which the passenger volume of VietJet increased 33.5%, exceeding the volume of Vietnam Airlines. The total amount of parcels (air cargo) through the airport reached 1,509 thousand tons (+10.5% YoY), the domestic cargo volume of 548 thousand tons (+18.9% YoY), the international cargo volume of 961 thousand tons (+6.2% YoY).



Source: BSC research

**Shipping industry's business results 2018 showed positive growth for liquid cargo transportation but there are still many difficulties for bulk transportation.** Overview of the shipping industry currently has 11 listed companies on 3 HSX, HNX and Upcom with net revenue and NPAT reached VND 15,295 billion (+18.6% yoy) and VND 1,099.7 billion (+36.9% yoy). We noted that 2018 transportation industry has improved more than 2017 thanks to (1) the liquid cargo transportation operated stably with domestic freight rate was better than the international rate (2) BSR oil refinery was stable after maintenance. In 2017, oil transport orders increased again. However, if excluding the extraordinary profit of PVT from liquidation of the ship, the core net profit after tax of the industry reached VND 1,021.7 billion (+27.2% yoy). The gross margin 2018 is 12.43% (+ 2.25% yoy) and the core net margin is 6.68% (+ 0.5% yoy).

Ticker	Rev 2018 (bil. VND)	%YoY	GPM 2018	GPM 2017	NPAT 2018 (bil. VND)	%YoY
PVT	7,523	22.4%	14.4%	13.8%	780	46.1%
VTO	1,599	26.9%	15.2%	17.3%	97	3.2%
GSP	1,550	20.0%	7.3%	7.2%	64	20.8%
VIP	778	6.7%	25.7%	25.3%	81	3.8%
PJT	626	11.2%	12.8%	13.0%	36	5.9%
VOS	1,683	4.4%	3.1%	-7.6%	17	54.5%
VNA	765	36.9%	4.6%	-7.0%	33	-143.4%
VFR	217	1.9%	1.1%	-12.4%	-52	-240.5%

Source: FiinPro, BSC research



**INVESTMENT OUTLOOK - NEUTRAL**

BSC maintains to recommend **Neutral** for the transport industry. We assess that the shipping industry in general is still differentiating between the two groups of liquid and bulk transportation. Currently, the transportation of liquid cargo (crude oil, refinery oil) still grows well thanks to the oil refineries run operation such as Binh Son and Nghi Son with a total crude oil production of 17 million tons in 2019. Besides, some companies take opportunity of the world ship price is currently low in order to expand transportation activities and rejuvenate the fleet.

For the bulk transportation, there are still many difficulties due to the merger of big shipping companies to upgrade to the large fleet of more than 198,000 DWT to maximize transport profits. Thereby, bulk shipping companies in Vietnam only concentrate on waterways and internal waterways, so it is difficult to obtain international transport contracts. We recommend tracking stocks: PVT.

We assess that air transport will slow down in 2019. For passenger transportation, BSC believes that the domestic market will maintain a moderate growth rate due to the limitation of both demand and supply (overload of infrastructure at some major airports), competition will be higher due to new airlines like Bamboo Airway; while international flights have higher growth potential and also the development strategy of firms. With cargo transportation, the trend of shifting production to Vietnam as well as attracting foreign investment, and the development of e-commerce will be the driving force for growth. We recommend tracking stocks: HVN.

Ticker	Rev 2019 (bil. VND)	NPAT 2019 (bil. VND)	EPS 2019	P/E FW	P/B FW	ROA 2019	ROE 2019	Price on 31/03/19	Target price
PVT	8,113	611	2,171	8.7	0.91	6%	11.6%	17,000	19,200
HVN	101,204	3,419	2,410	16.7	2.99	2.8%	13%	41,000	N/A

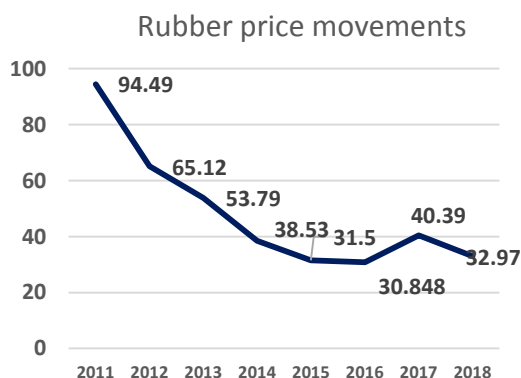
Source: BSC research

## Natural Rubber [Neutral]

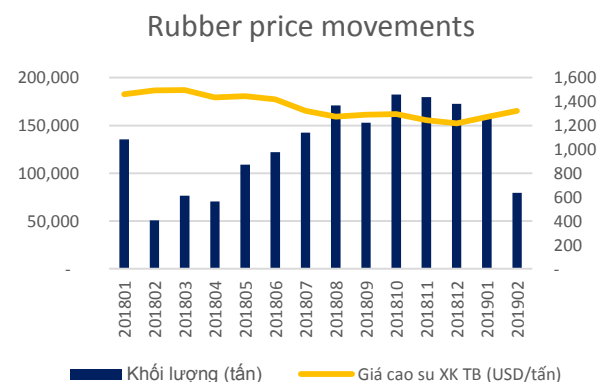
- The oversupply situation continues. According to ARNP, supply in 2019 will increase by 4.6% YoY while demand will increase by 4.2% YoY, inventory will remain high.
- Rubber export of Vietnam in the first 2.5 months of 2019 increased both volume (+ 28% yoy) and value (+ 13% yoy), but decreasing in export price (-12% yoy).
- 2018 business results: All natural rubber entrepreneurs saw a decline in rubber latex sales, however, EAT of 11 businesses increased by + 12% YoY thanks to rubber wood liquidation income (PHR, DPR).

**Natural rubber's selling prices will be hard to increase.** BSC believes that rubber prices in 2019 will be flat when considering the following factors: (1) According to ARNP, in 2019, supply will increase by 4.6% YoY while the demand will increase by 4.2% YoY; We estimate inventories of 2019 at 1.127 million tons (+ 6.8% yoy), so natural rubber is still in oversupply. (2) Brent oil price in 2019 is forecasted by the Goldman Sach, BBG or EIA at an average of 60-61 USD / barrel (-14.5% yoy), boosting the demand for synthetic rubber. (3) Natural rubber consumption slows down while if rubber prices become attractive, the supply is ready to increase, immediately pushing down rubber prices.

**Rubber export of Vietnam in the first 2.5 months of 2019 though increased in volume (+ 28% yoy) and value (+ 13% yoy), but rubber price tends to decrease (-12% yoy).** According to the General Department of Customs, high-value exports by the first 2.5 months of 2019 achieved volume and value of 292,673 tons (+ 28% YoY) and 382.5 million USD (+ 13% YoY). However, the average export price of rubber reached US \$ 1,307 / ton, down -12% over the same period. China is still the largest rubber importer of Vietnam, accounting for 64% of total export volume, reaching 195.8 million (+ 34% YoY). India and South Korea are the next major export markets with volume in the first 2 months of 2019 increasing 42.9% and 7.7% respectively compared to the first 2 months of 2018.



Source: PHR, BSC Research



Source: General Department of Customs, BSC Research

**The rubber latex business of 2018 enterprises is not positive.** Revenue of 11 enterprises in the industry reached VND 4,918 billion (-4.1% YoY). The reason is that the average domestic rubber price has decreased from VND 42 million / ton to VND 32.9 million / ton (-18% YoY) while the cost of VND 30 million / ton has decreased less than the selling price (-8% yoy), making the gross margin of rubber segment of most businesses decrease, rubber latex business is less effective.

**The main growth motivation comes from liquidating rubber wood.** Although sales of rubber latex declined, the EAT of enterprises still increased by 12% YoY thanks to the income from rubber tree liquidation. The main contribution from PHR and DPR recorded EAT of 636.9 billion VND (+ 93% YoY) and

235.2 billion VND (+ 5% YoY). Specifically, in 2018, PHR liquidated about 1,300 hectares and DPR liquidated more than 554 hectares of wood and rubber wood liquidation price increased sharply at 280 million dong / ha (+ 27.3% YoY) to generate income from timber liquidation rubber trees, offset the difficult core business. The remaining businesses in the industry all suffered a decline in business results because most of them relied on rubber latex business.

Code	NR 2018 (billion VND)	NR 2017 (billion VND)	%YoY	Profit margin 2018	Profit margin 2017	PAT 2018 (billion VND)	PAT 2017 (billion VND)	%YoY
PHR	1561	1654	-5,6%	16%	17%	637	330	93%
DPR	1030	1070	-3,7%	33%	30%	235	225	5%
TRC	354	405	-12,6%	16%	28%	120	145	-17%
DRI	518	583	-11,1%	34%	44%	51	145	-64%
HRC	178	170	5,1%	12%	16%	8	9	-7%

Source: FiinPro, BSC Research

### INVESTMENT VIEW - NEUTRAL

We hold a **NEUTRAL** view with stocks of natural rubber industry. Based on the following factors (1) Dividend payment history of companies in the industry is quite high, ranging from 40% -50%, (2) Enterprises with large liquidation gardens continue to have significant other sources of income. from rubber liquidation and the trend of industrial land conversion in accordance with long-term investment objectives. However, rubber selling price has not shown signs of recovery in 2019, so BSC believes that in the short term, rubber companies will not have breakthrough business results. We recommend Tracking for PHR shares (refer to [business update report for details](#)).

Stock code	Revenue 2019 (billion VND)	PAT 2019 (billion VND)	EPS F 2019	P/E fw 2019	P/B fw 2019	ROE 2019	ROE 2019	Closing price 29/03/19	Target price
PHR	1,531	1,189	8,644	6.1	2,9	48.3%	23%	52,600	#N/A

## Tire Industry [Neutral]

- Tire production in 2019 is forecast + 9.6% yoy
- Tire businesses face fierce competition with Chinese Radial tires and FDI enterprises.
- NVL price is expected to reduce support to reduce the cost of tire businesses (80% of cost of goods sold from NVL).
- DRC put the Radial factory into operation to increase capacity in 2019 to help reduce fixed costs / products. CSM increases the capacity of steel Radial factory to 700,000 tires / year.
- Vinachem plans to divest from DRC, CSM and SRC, reducing its ownership rate to 36% in quarter 2/2018.
- We keep the NEUTRAL view of Tire industry in 2019 due to (1) NVL price is expected to reduce the improvement of gross margin; (2) Increasing capacity of Radial tire group; (3) high competition makes tire and tube businesses difficult to increase selling prices. We recommend BUY DRC shares.

**Tire production in 2019 in the whole industry, according to BSC's forecast, will grow 9.6% yoy.** In 2M2019, automobile production reached 46,653 vehicles (+ 21.39% yoy), of which imported cars increased strongly + 181.73% yoy, domestic assembled cars -15.31% yoy. According to BSC's assessment, the growth of imported car production is due to the fact that enterprises have solved the Circular 116 issue, thereby reducing the consumption of domestic cars and importing foreign cars. We expect that in 2019, the volume of cars consumed will be + 14.3% yoy with the expectation that (1) the import tax rate of 0% in the Asian bloc will reduce the price of cars in Vietnam; (2) imported cars grow back after a period of entanglement; (3) assembled vehicles grow well due to high demand for cars (CAGR = 20% / year in the period of 2012-2018); (4) the number of cars in Vietnam is still low (34 vehicles / 1,000 people) while people's income continues to improve. We also raise our forecast for tire production in 2019 to increase 9.6% yoy from the growth of automobile production in the future.

**The ability to increase selling prices due to high competition** makes it difficult for businesses to increase selling prices to compensate for fluctuations in NVL prices. In 2018, the average selling price of enterprises only increased from 3% to 5% while the price of raw material fluctuated strongly, causing the profit of enterprises to be affected.

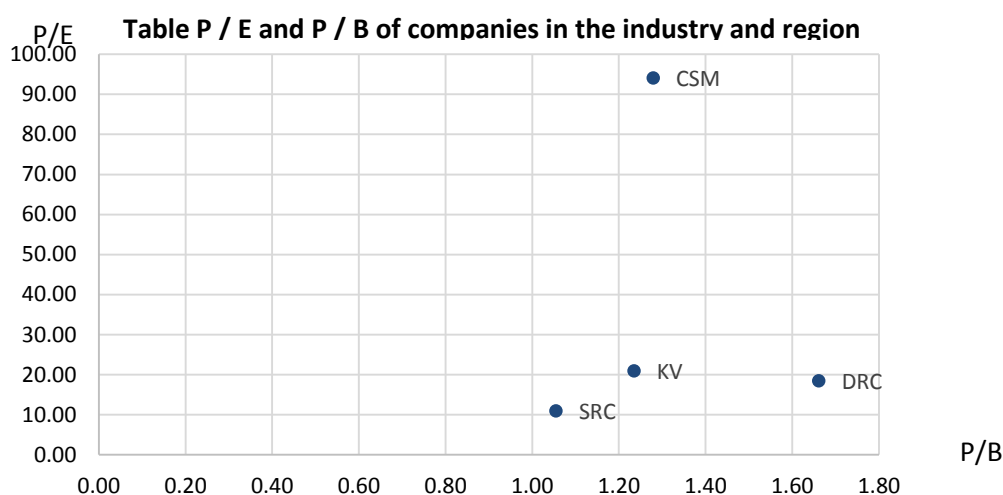
**Ability to improve gross profit margin thanks to (1) Rubber price is forecasted to be low and (2) price of chemical and black coal is likely to decrease in 2019.** Besides, oil price is forecasted (according to BSC's macro report) at 64-67 USD / barrel (-10% yoy) to help reduce synthetic rubber prices. (Natural rubber and artificial rubber contribute about 40% of the cost of capital of tire companies). Besides, the price of chemicals and black coal (accounting for about 20% of cost of goods sold) are also likely to decline because oil prices are forecast to decrease. This helps reduce the cost of capital of enterprises and improve the gross profit margin.

**New growth motivation comes from increasing the capacity of Radial tires group.** In 2019, the second phase of DRC's all-steel Radial factory was put into operation to help the company double the capacity to 600,000 tires. CSM has also raised the capacity of semi-steel Radial factory to about 700,000 tires / year to serve Tireco partner. However, we note that due to the fierce competition, the volume of domestic tires consumed by tire companies is not much (from 20% - 30% of production volume) while the export price is only equal to 70% of domestic prices, strong depreciation costs made the new projects' earnings not contribute much to the growth of revenue in 2019.

Vinachem expects to divest from tire companies (DRC, CSM, SRC) to reduce the ownership rate to 36% in quarter 2/2018. This creates a lot of investors' attention.

#### INVESTMENT OUTLOOK - NEUTRAL

We keep the **NEUTRAL** view of Tire industry in 2019 due to (1) raw material price is expected to reduce the improvement of gross margin; (2) Increasing capacity of Radial tires group of DRC and CSM; (3) high competition makes tire and tube businesses difficult to increase selling prices. We recommend **BUY** DRC shares. Currently, the tire industry has an average P / E = 18.49x lower than P area (P / E = 20.97x) and P / B = 1.28x higher than the region (P / B = 1.24x).



Source: FiinPro, BSC Research

Code	Revenue 2019 (billion VND)	Profit aftertax 2019 (billion VND)	EPS 2019 (VND/cp)	P/e fw	P/B	ROA 2019	ROE 2019	Day price 30/11/18	Target price
DRC	3,700	157	1,110	20.6x	1.74x	5.71%	10.1%	22,400	27,180

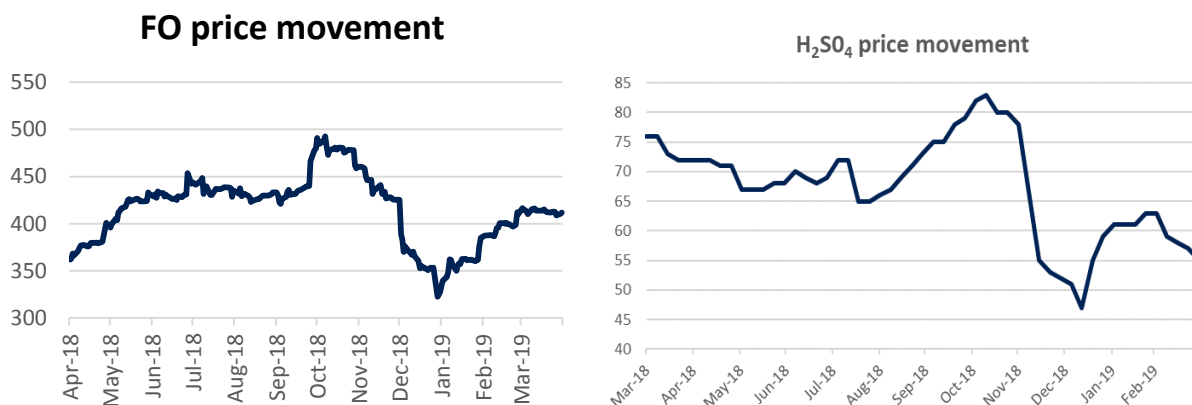
Source: BSC Research

## Fertilizer [Neutral]

- Fertilizer prices tend to decrease by 7% -10% in the first quarter
- Input gas price increased sharply, affecting the profit margin of enterprises
- The trend of shifting to high quality products to improve gross profit margin of enterprises
- Many fertilizer companies are expected to divest in 2019

**Prices of fertilizers have a mixed trend in the first quarter.** Average urea prices in the first quarter of 2019 fell to US \$ 253/ton corresponding to a decrease of about 12% compared to US \$286/ton in 4<sup>th</sup> quarter, 2018. In then the price of DAP tends to increase, averaging 390 USD/ton, increasing by 4% compared to 379USD/ton of 4<sup>th</sup> quarter, 2018. In Vietnam market, urea prices also decreased by 7% to 7,900 VND/kg in 1<sup>st</sup> quarter 2019.

**Input gas price increases in line with the trend of oil price, affecting the profit margin of enterprises.** The price of oil in the first quarter of 2019 increased relatively strong + 27.8% compared to the end of 2018, greatly affecting the profit margin of the companies producing single fertilizers, especially urea. In addition, the prices of other materials such as H<sub>2</sub>SO<sub>4</sub>, coal also tend to increase slightly, affecting the gross profit margin of fertilizer enterprises in the first quarter of 2019.



Source: Bloomberg, BSC

**The trend of shifting to high-grade NPK products.** Currently, DPM has put into operation NPK-NH<sub>3</sub> complex with high quality chemical NPK product with a capacity of about 250 thousand tons. In addition, DGC currently plans to build a factory with a capacity of 100 thousand tons, DCM's molten Urea Plant with a capacity of 300,000 tons is also expected to operate in the second quarter of 2019. Due to high competition in the fertilizer industry, shifting to high quality products will help businesses compete for better market share and improve profit margins.

**Progress of divestment in fertilizer enterprises.** Expectedly in 2019, Vietnam Chemical Group will divest to 51% at LAS and reduce its ownership rate to 36% at fertilizer companies such as BFC and SFG. Currently, Vietnam Chemical Group is under pressure to repay large loans from Ninh Binh Fertilizer project so we expect the divestment of the group will be paid in a hurry and completed in 2019. In addition, DPM and DCM are currently included in PVN's divestment list, but obstacles in gas price mechanism will be a big barrier to attract investors in these two businesses.

**Business results in 2018 increased slightly compared to 2017.** Revenue of fertilizer companies increased by 3% compared to 2017. Most of the revenue of companies has a slight growth when the output

decreased slightly while The selling price is good. The gross profit margin of most fertilizer enterprises decreased because the prices of input materials increased sharply, which also made the profit of fertilizer companies grow insignificantly.

Bil.	Sector	Revenue 2017	Revenue 2018	+yoy	Gross profit 2017	Gross profit 2018	EAT 2017	EAT 2018	+yoy
DPM	NPK, Ure	8,102	9,395	16.0%	26.1%	20.2%	708	712	0.6%
DCM	Ure	5,833	6,827	17.0%	23.7%	21.0%	641	659	2.8%
BFC	NPK	6,428	6,500	1.1%	15.7%	12.9%	349	253	-27.5%
LAS	Phosphate	4,100	3,800	-7.3%	19.1%	19.1%	152	123	-19.1%
DDV	DAP	2,011	2,346	16.7%	9.1%	15.3%	15	202	1246.7%
QBS	Trading	3,495	2,187	-37.4%	5.1%	3.5%	23	59	156.5%
SFG	Phosphate, NPK	2,392	2,265	-5.3%	9.7%	9.1%	92	67	-27.2%

Source: Financial Reports

#### INVESTMENT OUTLOOK– NEUTRAL

We maintain **NEUTRAL** recommendation for fertilizer stocks. Fertilizer businesses are expected to have profit growth if the tax policy changes, besides the valuation may increase according to the divestment plan of PVN and Vinachem, but the competition is high due to oversupply and slow growth in demand as well as the price of input materials are expected to affect consumption and selling prices of companies in the industry.

Stock	Revenue 2019 (bil.)	EAT 2019 (bil.)	EPS 2019 (VND/cp)	P/e fw	P/B	ROA 2018	ROE 2018	Close 30/11/18	at Target price
BFC	6,843	225	3,938	6.4	1.18	7.2%	23.1%	25,200	30,777
DPM	9,658	844	2,156	9.7	2.1	7.0%	17.5%	21,000	21,600

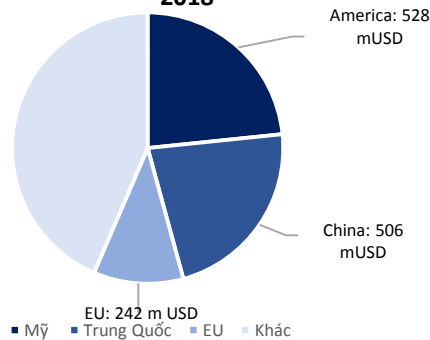
Source: BSC Research

## Aquaculture Neutral]

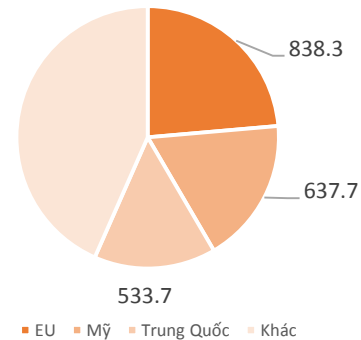
- In 2018, Pangasius export value reached 2.26 billion USD (+ 26.5% YoY), however, shrimp export value reached 3.55 billion USD (-7.8% YoY).
- Accumulated 2T2019, the export of aquatic products reached 1.12 billion USD (+ 4% YoY): shrimp reached 389 million USD (-12% YoY), pangasius reached 284 million USD (+ 8% YoY).
- In 2018, the fisheries sector recorded net income of 26 enterprises with VND 4,041 billion, an increase of 126.5% compared to 2017: the main growth contribution came from VHC and HVG.

**In 2018, pangasius and shrimp recorded opposite export results.** Pangasius export value reached 2.26 billion USD (+ 26.5% YoY). Supply is scarce while demand is high and pangasius export price increases by 30-35% on average in 2018. However, in the opposite direction, Vietnam shrimp export is not as good as expected, decreasing by 7.8% compared to 2017 and reached USD 3.55 billion turnover. The increase in shrimp supply in India and China has affected the world shrimp export price and made competition more fierce.

Market structure for exporting pangasius 2018

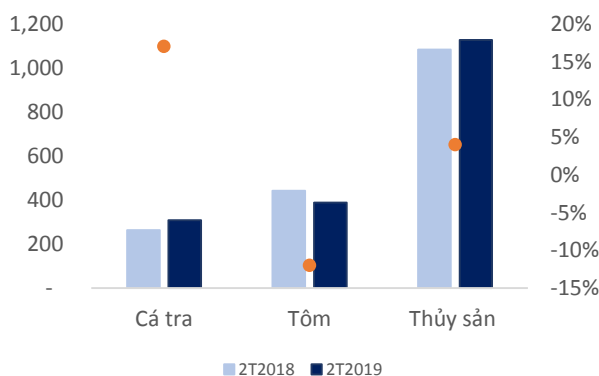


Market structure of shrimp export 2018

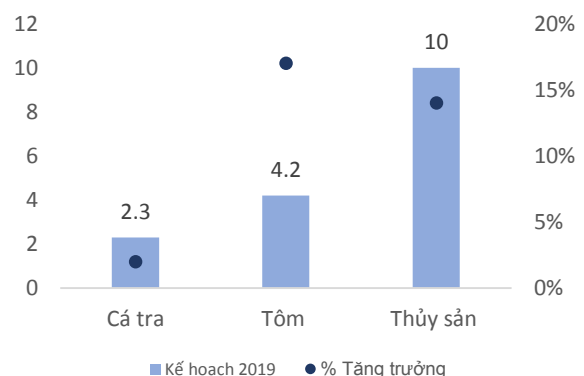


Source: VASEP

Accumulated 2M2019, export of aquatic products reached USD 1.12 billion (+ 4% YoY): shrimp reached USD 389 million (-12% YoY), Pangasius reached USD 309 million (+ 17% YoY)



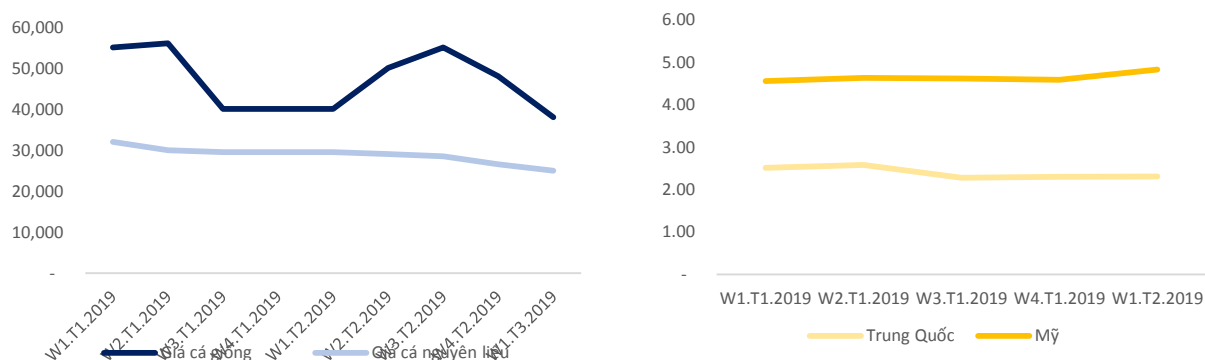
Vietnam seafood plans to export seafood in 2019 to reach 10 billion USD (+ 14% YoY): shrimp reaches 4.2 billion USD (+ 17% YoY), Tra fish reach 2.3 billion USD (+ 2% YoY)



Accumulated 2M.2019, the price of tra and raw pangasius is decreasing

US export prices are still high while Chinese export prices are falling according to the price of raw fish





Source: BSC Research

In 2018, the fisheries sector recorded impressive growth in NPAT of 26 enterprises with VND 4,041 billion, an increase of 126.5% compared to 2017. The main growth contribution came from VHC and HVG: VHC recorded EAT of 1.452 billion (+ 140.2% YoY) and HVG recorded EAT of 30 billion compared to 728 billion loss in the same period. In 2018, pangasius exporters had impressive growth rates due to good market demand and strong selling price (~ 25% - 30%): ACL (+ 994.4% YoY); AAM (+ 747.6% YoY); ANV (+ 319.6% YoY). In contrast, shrimp exporters have lower growth rates because in 2018, the supply of shrimp in India is plentiful, affecting the export price of Vietnamese shrimp: FMC (+ 57.6% YoY); MPC (+ 15.3% YoY).

Code	Net Revenue 2018 (billion dong)	%YoY	Gross profit margin 2018	Gross profit margin 2017	NPAT 2018 (billion dong)	%YoY	EPS T12M (dong)
MPC	16,925	8.0%	12.9%	11.9%	824	15.4%	5,110
FMC	3,807	8.8%	10.4%	7.8%	180	62.2%	3,888
VHC	9,323	14.4%	21.9%	14.4%	1,452	140.2%	15,585
IDI	7,001	31.4%	14.2%	12.1%	638	86%	3,423
ANV	4,118	39.6%	20.9%	14.6%	604	319.4%	4,811

Source: BSC Research

## INVESTMENT OUTLOOK - NEUTRAL

We maintain a **Neutral** rating for the fisheries sector. In 2019, BSC said that it is difficult to expect sudden growth in seafood enterprises. For pangasius enterprises, the selling price at the historical peak should be low in growth in 2019. Meanwhile, the supply of expanded pangasius (expanding farming area, increasing the plant capacity) will put pressure on price reduction of products. In 1Q19, price movements were in line with our forecast: The price of raw fish decreased, causing the prices of markets (except the US) to fall slightly. For shrimp enterprises, the supply in large shrimp exporting countries continues to be abundant, making the selling prices of shrimp companies moving sideways in 2019. The stocks we note are VHC, MPC. ([Link](#))

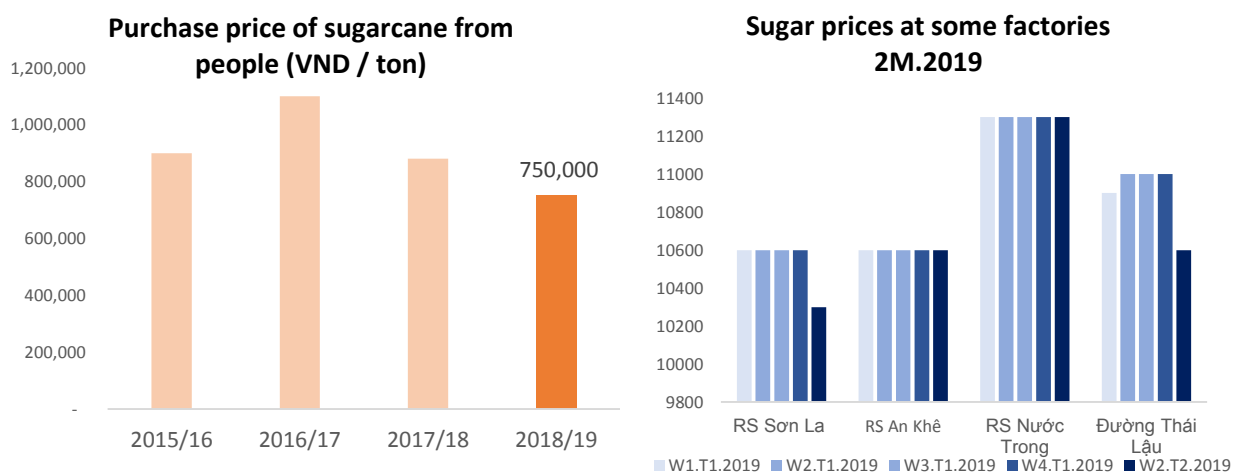
Ticker	Net Revenue 2019 (billion dong)	NPAT 2019 (billion dong)	EPS 2019	P/E fw	P/B fw	ROA 2018	ROE 2018	Day Price 29/3/19	Target Price	Upside
VHC	9,988	1,257	13,569	6.6	1.7	19%	29%	89,900	108,552	20.7%

## Sugar [Underperform]

- In 2M.2019, domestic sugar prices at factories fluctuated around 10,300 - 11,000 VND / kg (-16.8% YoY) due to stable supply.
- Gross profit margin is expected to improve as sugarcane purchase price continues to decline
- 6M business results in the period of 2018/19 of 4 sugar companies reached 6,745 billion VND (+ 6.0% YoY) and 37 billion EAT (-88.8% YoY) due to a sharp decrease in gross profit margin

**Accumulated in 2 months of 2019, domestic sugar prices continue to trade around the bottom of 10,300 - 11,000 VND / kg (-16.8% YoY) due to stable supply.** BSC believes that due to the fact that factories are still not in the new production season, along with tightening border smuggling lines at the beginning of the year, the supply of sugar in the market from the beginning of the year is not excessive, helping the price of domestic sugar to fluctuate around bottom level. However, considering the 2018/19 crop year (from July 2018 to June 2019), the selling price of sugar has decreased by 16.8% over the same period, putting pressure on the business results of the enterprise.

**Gross profit margin is expected to improve as the purchasing price of sugarcane continues to decrease (-14.7% YoY).** The current purchase price of sugarcane fluctuates around VND 750,000 / ton (-14.7% YoY), this is the third consecutive year of falling prices as the demand for sugarcane is not high in the context of difficult sugar consumption. BSC expects that sugar prices in 2H in 2018/19 season will fluctuate around the bottom (10,300 - 11,000 VND / kg), while the purchasing price of sugarcane decreases compared to 1H in the crop year of 2018/19 will partially improve the gross margin of the business.



Source: BSC Research

**The impact of ASEAN Trade in Goods Agreement (ATIGA) on sugar products for domestic sugar supply is still unclear.** After the ATIGA takes effect (2020), about 22 sugar factories with a capacity of less than 3,000 tons will be most negatively affected and likely to be closed due to losses. BSC believes that this will narrow domestic supply and positively impact businesses with large market shares. However, domestic businesses will also have to compete with sugar products from Asean countries (Thailand), which are selling at a lower price compared to Vietnamese products.

**6M business results in the season of 2018/19 of sugarcane enterprises continued to decline due to a sharp decrease in gross profit margin.** Net revenue of 4 sugar companies reached VND 6,745 billion (+ 6.0% YoY) while net income reached VND 37 billion (-88.8% YoY). Three-fourths of the number of the

enterprises recorded a decline in profit, in which, SBT saw the steepest decline: EAT is 13 billion (-95.0% YoY). BSC believes that sugar selling price decreases faster than sugarcane purchase price, causing strong impact on business results of enterprises.

Code	Net Revenue 6M 18/19 (billion dong)	%YoY	Gross profit margin 6M 18/19	Gross profit margin 6M 17/18	NPAT 6M 18/19 (billion dong)	%YoY	EPS 6M (dong)
SBT	5,300	-3.1%	5.4%	11.1%	13	-95.9%	114
LSS	792	66.3%	7.4%	15.3%	(9)		(133)
SLS	447	82.4%	14.8%	28.3%	36	-37.9%	3,710

Source: BSC Research

### INVESTMENT OUTLOOK - UNDERPERFORM

We continue to maintain our rating on **Underperform** for Sugar industry as we have not seen any positive signs of sugar demand in 2018/19. At the same time, smuggled sugar from Thailand has not been thoroughly solved, leading to uncontrolled supply. In 2H of 2018/19, we expect that the decrease in sugarcane purchase price will help reduce input costs and improve the gross profit margin of enterprises. Stocks we note: SBT ([Link](#))

Code	Net Revenue 2019 (billion dong)	NPAT 2019 (billion d)	EPS 2019	P/E fw	P/B fw	ROA 2018	ROE 2018	Day Price 29/3/19	Target Price
SBT	10,301	316	567	32.4	1.5	1.7%	4.1%%	18,350	N/A

## Disclosure

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

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