



# SECTOR OUTLOOK **2019**

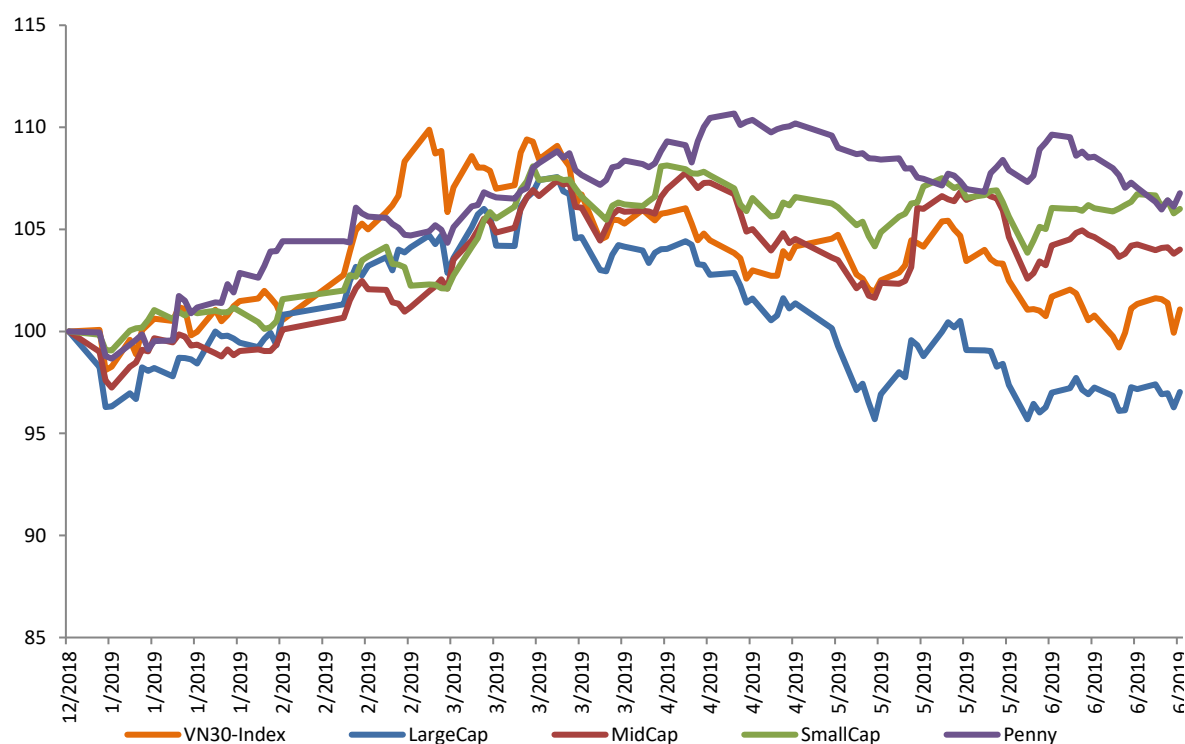
## CONTENT

Stock market movement in 6M2019 .....	3
Top highlighted stocks Q2/2019 .....	7
Sectors' growth vs the VN-Index 6M2019 Comparison .....	8
Performance of highlighted stock portfolio .....	10
Policies and events affect economic sectors in 2019 .....	12
Investment Strategy for Q3/2019 .....	14
Comparison with other regional stock markets .....	16
Influence of macroeconomic factors on sectors .....	19
Sector Outlook for Q3/2019 and FY2019 .....	20
Key stocks in 2019 .....	26
Non-life Insurance [Outperform] .....	28
Technology – Telecommunication [Outperform] .....	30
Textile [Outperform] .....	32
Industrial Park [Outperform] .....	35
Consumer [Outperform] .....	39
Banking [Outperform] .....	42
Commercial Property [Neutral] .....	47
Seaport [Neutral] .....	50
Natural Rubber [Neutral] .....	52
Oil and Gas Industry [Neutral] .....	55
Pharmaceutical [Neutral] .....	59
Electricity [Neutral] .....	60
Tiles [Neutral] .....	62
Plastic [Neutral] .....	63
Automobile [Neutral] .....	66
Tires [Neutral] .....	68
Steel [Neutral] .....	70
Aquaculture [Neutral] .....	72
Transportation [Neutral] .....	75
Construction [Neutral] .....	77
Cement [Neutral] .....	80
Sugar [Underperform] .....	83

## Stock market movement in 6M2019

- In terms of index.** Market index has improved positively in Q2/2019 due to investors' cautiousness when waiting for signals of Fed decreasing interest rate and of trade war US-China. As of 28/6/2019, HSX and HNX decreased by 30.82 points (-3.2% QoQ) and 3.93 points (-3.7% QoQ). VN-Index closed at 949.94 points.
- Market movements.** The average liquidity of 6M2019 decreased dramatically compared to that of 6M2018, capital flow focuses on stocks with medium and small capitalization, as well as market supporting stocks. For the first half of 2019, HSX has 204 increasing stocks, 177 decreasing stocks and 0 fixed stocks. 5 stocks supporting VN-Index include VIC increasing 21.41% (contributing 19.92 points), VCB increasing 31.78% (contributing 19.09 points), GAS increasing 14.83% (contributing 7.7 points), VHM increasing 8.04% (contributing 6.26 points), VRE increasing 24.73% (contributing 4.96 points). On the other side, stocks that contributed the most to the index's decline include TCB decreasing -21.28% (down -5.79 points), BID decreasing -7.85% (down -2.81 points), BVH decreasing -9.21% (down -1.78 points), ROS decreasing -23% (down -1.54 points) and YEG decreasing -68.72% (down -1.53 points).
- Group of stocks.** Categories of stocks by capitalization show both increase and decrease trend. Within the first 6 months of 2019, SmallCap and Penny outperformed with the increase rate of 6% and 6.77% respectively. VN30 and MidCap also show the positive uptrend of 1.08% and 4.02%. LargeCap is the only group with the negative performance of -2.96%. 3 industries with the strongest increasing trend were IT (+21.43% YTD) due to FPT, Oil&Gas (+19.17% YTD) due to PVS, PVD, PLX and Electricity, water & Gasoline fuel (+14.91% YTD) due to GAS, 3 most decreasing industries were Advertising, Public Relations (-57.97% YTD) due to YEG, Financial services (-6.93% YTD) due to BVH and Construction&Materials (-6.77% YTD) due to CTD.
- An outlook on the information affecting VN Index and Vietnam stock market in Q2/2019.** The market has been affected by some negative information: (1) Unpredictable development of trade war US-China, (2) Signs of economic recession. However, the market is still supported by FED decreasing interest rate and easing monetary policy from Central Bank.
- Macroeconomic on some level supported the market when GDP 6M2019 increased 6.76%,** despite being lower than that of 6M2018, the data is still higher than that of the same period in 2011 – 2017, inflation in control and FDI cap keeps increasing. In addition, **good business results in 2018 and positive 2019 business plans** are also factors maintaining investors' excitement

### • Stock movements



Source: Bloomberg, BSC Research

Note: BSC categorize stocks by capitalization, in Largecap > 2000 billion – Midcap from 1000 – 2000 billion -Small Cap from 500 – 1000 billion -Penny < 500 billion (VND).

## Events Timeline

Month	Date	Vietnam	Day	International
7	15	ETF VN30 review	1-2	OPEC Meeting
	18	Future contract's maturity	25	ECB Meeting, monetary and interest rate policy announcement
	19	ETF VFM VN30 change portfolio weight	30-31	FED meeting, monetary and interest rate policy announcement
	20	Deadline Financial Statements Q2		
8	15	Deadline Financial Statements 6M	25-27	G7 Meeting
	15	Future contract's maturity		
	28	Ishare MSCI review		
9	1	National Holiday	12	ECB Meeting, monetary and interest rate policy announcement
	6	ETF FTSE VN's portfolio announcement	17-18	FED Meeting, monetary and interest rate policy announcement
	13	ETF VNM's portfolio announcement	23-27	FTSE Russell's End year Market Classification announcement
	19-20	ETF VNM, ETF FTSE transaction		
	19	Future contract's maturity		
10	17	Future contract's maturity	24	ECB Meeting, monetary and interest rate policy
	18	ETF VFM VN30 change portfolio weight	29-30	FED Meeting, monetary and interest rate policy
	20	Deadline Financial Statements Q3	31	Hạn cuối hoàn thành thỏa thuận Brexit
	October	Communist Party Central Committee 11 <sup>th</sup>		
				America apply 25% tax rate on all cars and car accessories exporting to America
11	21	Future contract's maturity	November	
	29	Ishare MSCI review		
	November	National Assembly Meeting		
12	6	ETF FTSE VN announce portfolio	10-11*	FED Meeting, monetary and interest rate policy
	13	ETF VNM announce portfolio	12	ECB Meeting, monetary and interest rate policy
	19	Future contract's maturity	23-27	MSCI Market Classification announcement
	20-21	ETF VNM, ETF FTSE transaction		

1	1	New Year Holiday	11	Taiwan's General Election
	16	Future contract's maturity	28-29	FED Meeting, monetary and interest rate policy
	17	ETF VFM VN30 change portfolio weight	23	ECB Meeting, monetary and interest rate policy
	18	ETF VN30 review		
	20	Deadline Financial Statements Q4		
2	25/01-02/02	Lunar New Year Holiday		
	20	Future contract's maturity		
	28	Ishare MSCI review		
3	6	ETF FTSE VN's portfolio announcement	12	ECB Meeting, monetary and interest rate policy
	13	ETF VNM's portfolio announcement	17-18	FED Meeting, monetary and interest rate policy
	19	Future contract's maturity	23-27	FTSE Russell Market Classification announcement
	19-20	ETF VNM, ETF FTSE transaction		
4	02	Hung Vuong holiday	15	Legislative election in South Korea
	16	Future contract's maturity	28-29	FED Meeting
	20	Deadline Financial Statements Q1	30	ECB Meeting
	17	ETF VFM VN30 change portfolio weight		
	30	Southern Vietnam Liberization		
	30	Deadline Financial Statements of the Year		
5	1-2	International Workers' Day		
	21	Future contract's maturity		
	31	Ishare MSCI review		
	Tháng 5	Communist Party Central Committee 12 <sup>th</sup>		
6	5	ETF FTSE VN's portfolio announcement	4	ECB Meeting, monetary and interest rate policy
	12	ETF VNM's portfolio announcement	9-10	FED Meeting, monetary and interest rate policy
	18	Future contract's maturity	22-26	MSCI Meeting, monetary and interest rate policy
	18-19	ETF VNM, ETF FTSE transaction		
	Tháng 6	National Assembly Meeting		

## Top highlighted stocks Q2/2019

TOP 5 LEADERS OF VN - INDEX			
Code	Price 25/06/2019	Change in Price 3M (%)	Index pt
VCB	72,400	35.33%	21.2
VIC	116,400	22.14%	20.6
GAS	103,500	21.90%	11.1
VHM	79,500	8.31%	6.5
VRE	34,300	26.60%	5.3

TOP 5 LAGGARDS OF VN - INDEX			
Code	Price 25/06/2019	Change in Price 3M (%)	Index pt
TCB	20,750	-19.70%	-5.4
BID	32,100	-6.70%	-2.4
BVH	80,100	-10.00%	-1.9
NVL	58,500	-8.90%	-1.6
ROS	30,000	-22.50%	-1.5

TOP 5 STRONGEST INCREASING STOCKS ON VN- INDEX			
Code	Price 25/06/2019	Price 31/03/2019	%Chg
D2D	68,200	135,100	98%
TIP	15,900	27,600	74%
DCL	9,300	18,000	94%
GTN	10,000	18,600	86%
STK	15,300	23,500	54%

TOP 5 STRONGEST DECREASING STOCKS ON VN- INDEX			
Code	Price 25/06/2019	Price 31/03/2019	%Chg
YEG	123,800	82,000	-34%
LM8	26,250	17,250	-34%
YBM	15,400	10,400	-32%
DQC	27,000	17,800	-34%
DTL		27600	#DIV/0!

TOP 5 LEADERS OF HNX - INDEX			
Code	Price 25/06/2019	Change in Price 3M (%)	Index pt
PVS	23,200	31.80%	1.3
VGC	20,300	11.50%	0.4
VCG	26,800	23.50%	0.35
TAR	29,900	83.44%	0.3
TNG	19,700	42.40%	0.25

TOP 5 LAGGARDS OF HNX - INDEX			
Code	Price 25/06/2019	Change in Price 3M (%)	Index pt
DGC	27,900	-27.70%	-0.74
ACB	29,200	-1.35%	-0.49
NVB	8,300	-12.63%	-0.35
HUT	2,600	-31.58%	-0.25
SHB	7,000	-2.78%	-0.22

TOP 5 STRONGEST INCREASING STOCKS ON HNX			
Code	Price 25/06/2019	Price 31/03/2019	%Chg
VCR	4,400	28,900	557%
C69	5,000	16,500	230%
L61	10,000	26,500	165%
VMS	4800	12000	150%
HLV	16,500	39,500	139%

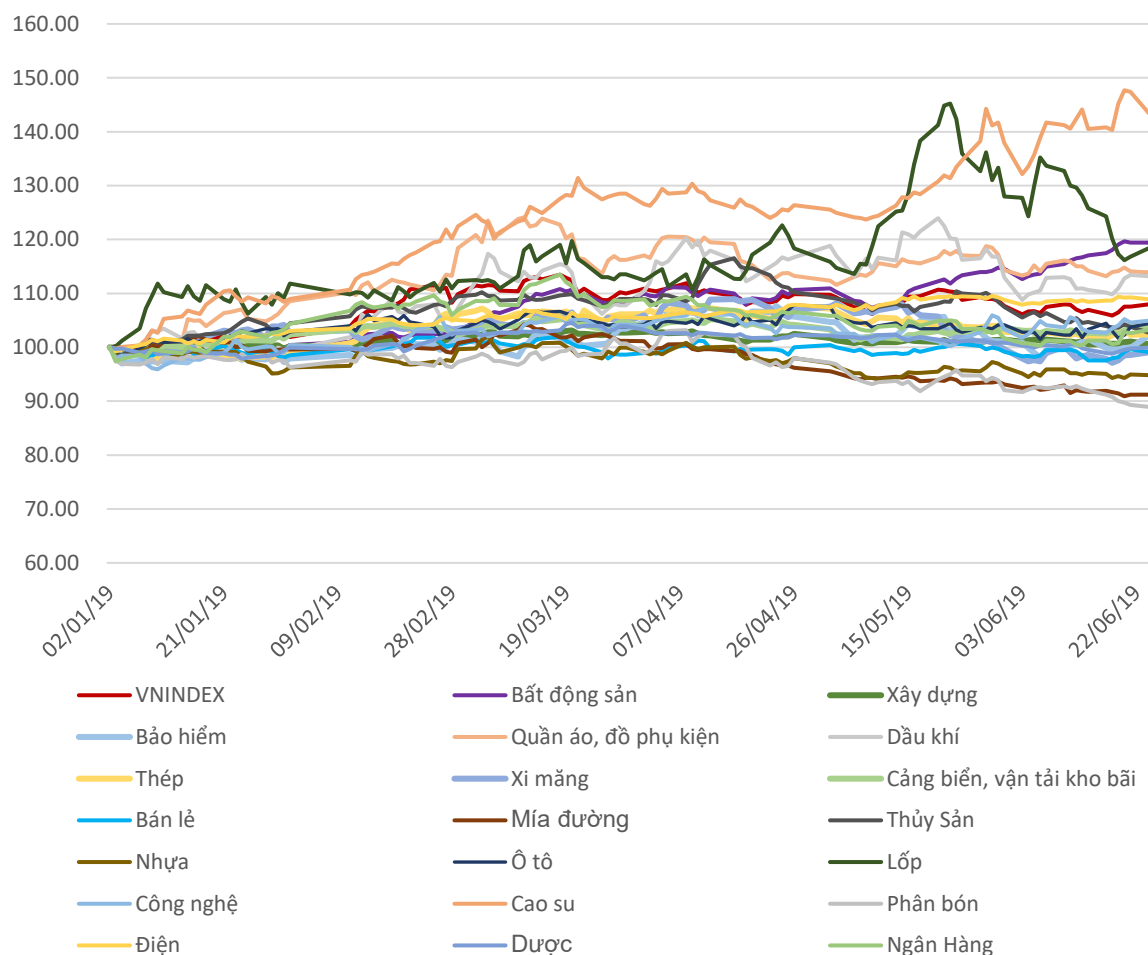
TOP 5 STRONGEST DECREASING STOCKS ON HNX			
Code	Price 25/06/2019	Price 31/03/2019	%Chg
PCG	22,300	10,300	-54%
GLT	78,000	38,400	-51%
V21	24,500	14,000	-43%
TKC	31,000	17,500	-44%
VIE	18,700	10,000	-47%

Source: Bloomberg, BSC Research



## Sectors' growth vs the VN-Index 6M2019 Comparison

Movements of VNIndex and Sectors

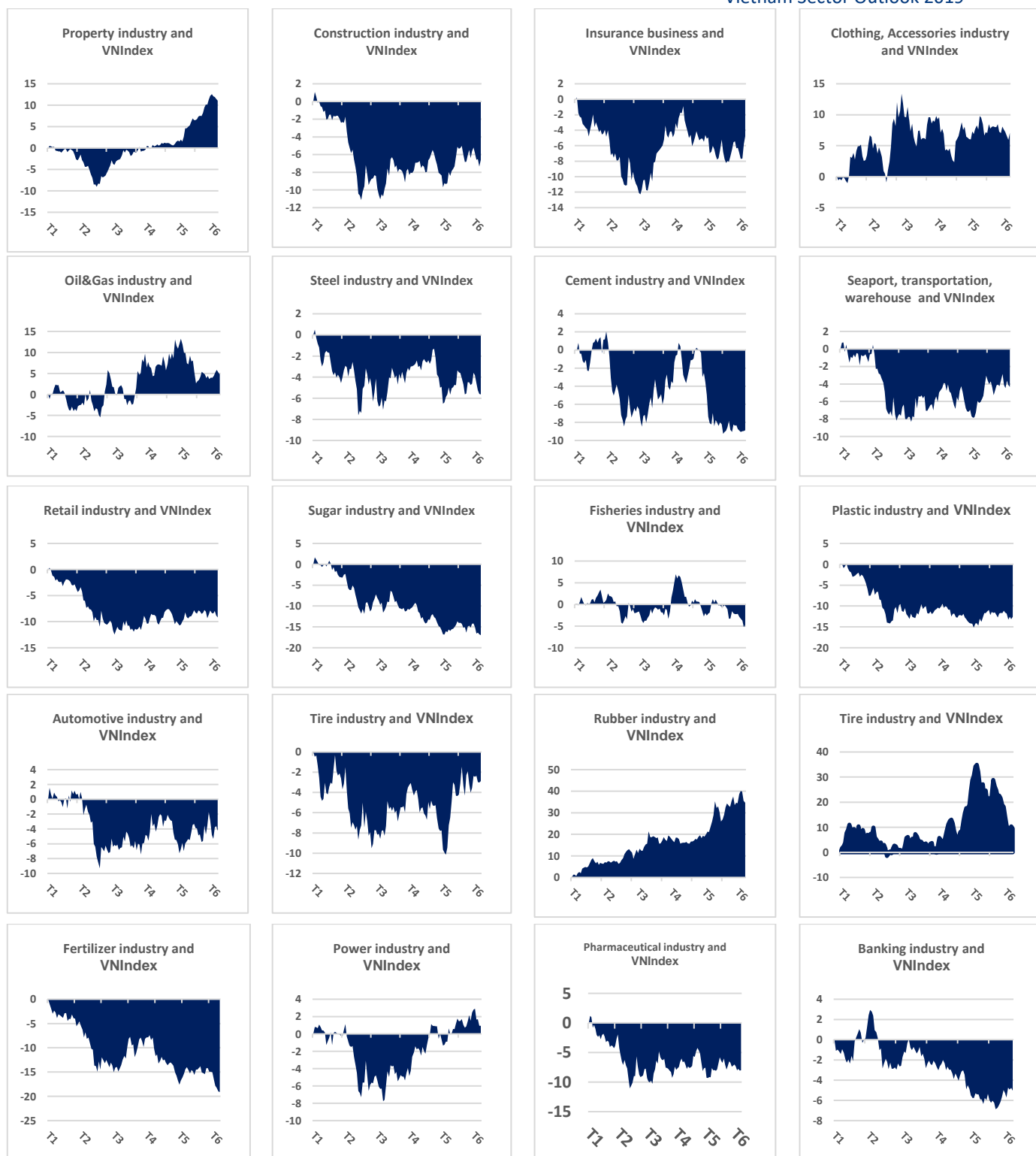


Source: Bloomberg, BSC Research\*

*Note: Using the calculation method: the average performance of stocks in comparison with that at the beginning of the year (excluding the proportion of stocks to VN-Index)*

In general, sectors showed the similar trends as in 3M2019. The sectors we took notice of in the previous report are Textile, Rubber, Tire, Real Estate and Oil&Gas industry. Other sectors showed underperformance compared to VN-Index such as **Banking, Technology, Steel, Fisheries** industries. On the other side, **Retail, Plastic, Insurance, Pharmacy, Fertilizer, Seaport and other sectors fell deeper than VN-Index**. This shows a performance polarization of all sectors and focusing on stocks with large capitalization makes it more effective to use the strategy of picking stocks individually. The average performance of stocks that we took notice of in the Sector Outlook Q2/2019 keep their outperformance against VN-Index, indicating the effectiveness of the picking stock strategy.





Source: BSC research

## Performance of highlighted stock portfolio

	Code	Day price 02/01/2019	Day price 15/07/2019	Up/ Down (HPR)	Average 6M2019
Banking	ACB	22,462	23,077	3%	1,463,463
	MBB	18,837	21,450	14%	2,572,372
	TCB	25,600	21,150	-17%	1,966,394
	VCB	53,600	75,000	40%	751,211
Insurance	BMI	19,535	25,850	32%	175,774
	PVI	30,850	37,300	21%	133,062
Oil & Gas	GAS	85,103	106,000	25%	274,469
	PVD*	12,909	17,091	32%	3,407,760
	PVS	17,200	23,800	38%	3,290,255
Electricity	POW	15,600	14,700	-6%	2,150,592
	GEX	21,850	21,600	-1%	599,965
	PC1	19,958	18,400	-8%	96,986
	REE	29,100	34,000	17%	569,223
Property	HDG	26,480	34,350	30%	441,020
	KBC	12,574	14,750	17%	2,086,053
	VHM	73,500	82,000	12%	892,069
	NLG	25,548	29,350	15%	886,492
Construction	CTD	160,000	110,400	-31%	98,324
Steel	HPG	23,692	21,450	-9%	4,568,478
	HSG	5,873	7,480	27%	2,499,365
	NKG	7,610	6,220	-18%	208,141
Tiles	CVT	16,862	20,650	22%	137,093
	VGC	16,587	20,448	23%	1,270,558
Cement	HT1	13,600	15,700	15%	208,347
Plastic	BMP	47,986	50,000	4%	157,782
	NTP	39,493	33,154	-16%	30,392
Fertilizer	BFC	25,015	18,200	-27%	47,029
	DPM	20,866	15,350	-26%	508,707
Rubber	PHR	34,000	60,800	79%	522,748
Tire	DRC	20,997	19,100	-9%	292,294
Technology	FPT	36,700	47,300	29%	1,250,089
	TCM	20,535	27,300	33%	902,765
	TNG	13,583	21,500	58%	1,147,836
Textile	MSH	41,000	61,200	49%	119,788
	VGT	9,963	10,400	4%	357,092
	VGG	47,609	64,300	35%	23,595
Pharmaceuticals	DBD	39,135	44,300	13%	37,324
	DHG	74,558	104,100	40%	18,294
	PME	57,232	48,600	-15%	7,520
Retail	PNJ	68,157	73,627	8%	493,185
	MWG	84,051	101,200	20%	672,446
	VNM	122,554	123,200	1%	679,227
Sugar	SBT	18,842	17,000	-10%	1,378,271

Seaport	GMD	26,400	27,200	3%	320,860
	VSC	35,583	31,800	-11%	97,011
Transportation	PVT	15,600	17,650	13%	358,149
Aquaculture	VHC	86,495	89,800	4%	231,613

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, 34/48 stocks had growth in 6M2019. **The average share price growth of the above list is 12.2% higher than the VN-Index which increased 80.8 points (+9.88% YTD) and the HNX-Index increased 2.97 điểm (+3.08% YTD).** (\*YTD: compared to the beginning of the year)

Some stocks have contributed significantly to the above portfolio growth in 6M2019, such as **PHR (+79% YTD), TNG (+58% YoY), MSH (+49% YTD), DHG (+40%YTD), VCB (+40% YTD), PVS (+38% YTD), TCM (+33% YTD), HDG(+30% YTD)**. In general, most of tickers in the above list have a good recovery accordingly with the overall trend of the market. However, some stocks in the list do not maintain the uptrend such as **TCB,HPG, NKG, DPM, BFC, SBT, VSC** ... 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	Infulence level	Status June 30 <sup>th</sup> 2019
<b>Macroeconomic Policy and International Economics</b>					
<b>Monetary policy</b>					
1	FED: lower interest rate (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	Affecting
11	G7 meeting	25-27/06/2019	Mixed	Medium	Affecting
12	G20 meeting	28-29/06/2019	Mixed	Medium	Affecting
<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
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>					

No.	Policies and events	Effective date	Affect	Infulence level	Status June 30 <sup>th</sup> 2019
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	Affecting
3	RCEP ASEAN	Negotiating	Positive	Strong	Not affected yet

Source: BSC Research

## Investment Strategy for Q3/2019

In the context of the gloomy global economic growth due to unpredictable potential risks such as (1) Trade War, (2) Brexit, these risk will affect the most on countries which are open economies including Vietnam. Moreover, US, EU and some other countries have made certain changes in monetary / fiscal policy by making them 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 prospects of global economic growth recover in the second half of 2019 and prolong the economic growth in the next stage.

In terms of domestic situation, (1) With the commodity prices (oil, steel, pork...) going down, CPI showed positive signs when CPI 6M2019 keep the slow uptrend, however, as (2) Pork price recovered when swine fever has been under control and (3) Electricity price increased and (4) The slight increase in healthcare cost in the latter half of 2019 also put more pressure on Vietnam's inflation rate. However, trade agreements such as EVFTA, CPTPP would also support the economic growth in the future. Draft Securities Law and other new products were introduced (Covered Warrant, Government bond future contracts), contributing to the product's diversity. Some important issues to note in the second half of 2019:

### **Adjustment of monetary policy and fiscal policy.....**

Both ECB and FED sent signals of cutting interest rate in the meeting of 06/2019 instead of increasing as in previous view, due to: (1) Economic growth in USA shows slowing down signals and (2) Pressure from inflation rate is still low. In order to confirm our opinion, on 31/07/2019, Fed reduced interest rate by 0.25% for the first time since 12/2008. The Quantitative Restriction program is going to be suspended by FED in 9/2019. ECB is going to cut the interest rate deeper and even resume "Quantitative Easing" program with the total value of 2,900 billion USD during 2015-2018. BOJ still keeps Super-Easy Monetary Policy with the intention to support economic growth and expecting inflation rate to be as planned.

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 slashed the required reserve ratio (RRR) for commercial banks and foreign ones in order to boost the capital support for small and medium-sized enterprise (SMEs). Besides, PBOC also used other fiscal policy tools so as to boost economic growth by cutting VAT for manufacturing industry from 16% down to 13%. Regarding monetary policy, PBOC also committed to balance between restrictive and easing.

### **.....With the purpose to expand economic growth period in the context of slowing global economy**

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 was resumed, however, there has been no guarantees for the wholly agreement. Nevertheless, this information still supported the market in short term, potential risks were still existing. Both leaders agreed to resume to negotiation. Some appeasements were stated. US loosened the restriction on U.S Companies doing business with Huawei. On the other side, China would buy a large number of agricultural products from the US. These are just some step-backs in order to resume the negotiation. However, the result of the negotiation is still vague after several failed meetings. Consequently, the negotiation requires a complicated process which might last to the next term of US President. Therefore, we expect the information would have long-term effect on the market.

**Commodity and Inflation rate**

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 announced the increase of retail electricity price by 8.36% compared to the current price and (2) Pork price recovered but inflation rate for 6M2019 was still low at 2.64% compared the same last period, (3) Petroleum & Oil price showed the down trend. Besides, OPEC and other oil exporting countries agreed to extend the agreement on cutting down oil production (1.2 million barrels) until the end of 2019 and probably to 2020 in order to support oil price in the context of lower supply because of trade ware and slower economic growth.



## Comparison with other regional stock markets

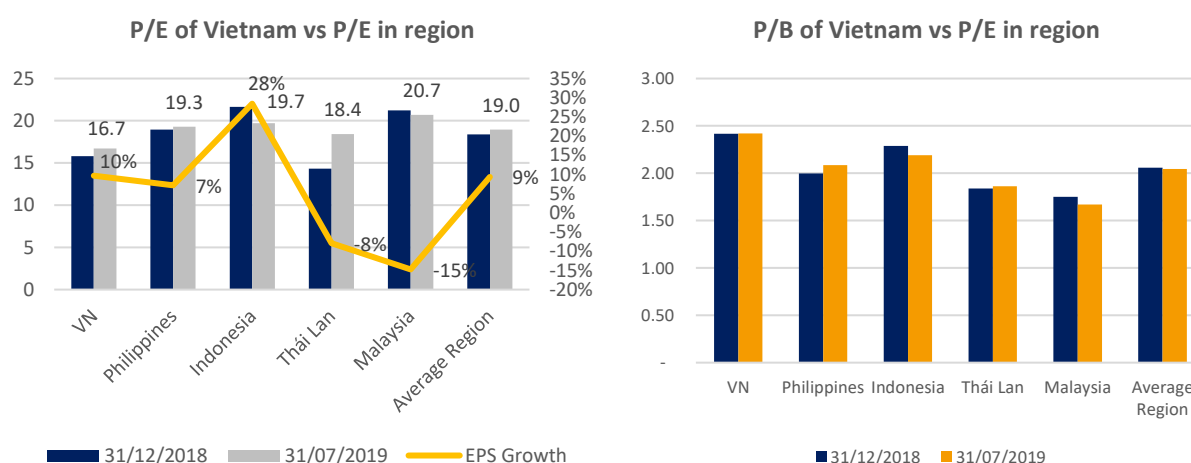
In general, after the recovery process in early Q1.2019, Vietnam stock market slightly went down, moved accumulatively while other markets witnessed recovery, making Vietnam stock market's valuation at lower level than that of other regional markets regarding P/E and P/B ratios, compared with the data of Q1/2019. Moreover, it is necessary to consider the growth factor (EPS) – within the highest growing group in South East Asia (+10% YoY), it could be seen that Vietnam stock market is relatively attractive. Nevertheless, 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	9,36	1,11	<b>14,29</b>	<b>1,06</b>	17,35	0,94	11,63	1,09	15,51	1,38	13,1	1,0
Consumer goods	8,19	1,35	<b>21,09</b>	<b>1,32</b>	16,15	1,17	32,71	2,65	26,02	1,48	14,6	1,0
Industry	10,42	1,06	<b>15,77</b>	<b>1,12</b>	12,12	1,10	20,08	1,00	16,49	1,86	15,1	1,1
Oil and Gas	11,99	1,81	<b>16,04</b>	<b>1,05</b>	7,49	0,56	27,35	4,29		0,71	16,0	1,4
Consumer service	18,18	2,39	<b>17,67</b>	<b>1,29</b>	17,20	1,55	18,13	1,01	26,14	2,68	14,6	1,0
Basic materials	12,12	0,83	<b>11,10</b>	<b>1,58</b>	8,80	0,89	17,84	2,85	10,26	2,16	12,0	1,0
Utilities	10,94	1,56	<b>14,98</b>	<b>1,47</b>	12,15	1,00	24,58	1,35	11,51	1,59	17,8	1,7
Technology	12,86	1,36	<b>13,85</b>	<b>1,54</b>	15,75	1,64	n/a	n/a	n/a	n/a	11,9	1,4
Health	14,04	2,06	<b>27,77</b>	<b>2,32</b>	20,25	2,21	85,55	2,32	n/a	n/a	27,8	2,9
Telecommunication	11,18	2,34	<b>38,74</b>	<b>4,01</b>	52,30	3,75	38,74	4,28	38,74	4,28	21,3	1,6

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

(Note: EPS growth rate to be used is the latest 12-month accumulated EPS on 15/07/2019, in comparison with the last same period)

## Investment topic for Q3/2019 and 2019

Despite the active performance during Q1, Vietnam stock market performed relatively stagnant during Q2 regarding movements and liquidity. Due to complicated worldwide situation, Q2's business performance unimproved and the fragmented cash flow were factors affecting the market. Entering the third quarter of 2019, Vietnam stocks are expected to show complicated movements depending the events regarding: **(1) Global economy prospects, (2) Actions of Central Banks from influential countries, (3) US-China trade war and geopolitical tension and (4) Business performance of 6M2019 being published would provide investors with more information of the performance of the late half 2019. (We expect there would be business performance reports of Q3/2019 for investors).** 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. We update the investment topics mentioned in the 2019 industry outlook report including:

**First, the story of upgrade to Emerging market is dilatory and difficult to happen within 2019.** 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 of the market upgrade progress.

Announced in June, MSCI upgraded Kuwaiti to emerging market status while mentioning nothing about Vietnam's market. Therefore, the ability for MSCI to upgrade the market in 2020 is difficult to happen. The only highlight to expect is whether FTSE would give a favourable review of Vietnam's market in their official announcement in 09/2019 and 12/2019. As Kuwait was successfully upgraded to Emerging Market, Vietnam would become the largest country in MSCI Frontier, increasing the proportion from 15% to 30% following BSC's estimation. It is not until **06/2020** that the portfolio proportion is changed, therefore, BSC find the expectation of foreign cash flow from the reclassification of Russell and MSCI not feasible in 2019.

**Secondly, the change in order of VN30 basket and forecast will have a big impact on Vn-Index in 2019.** In the second quarter of 2019, VN30 basket had a big change with 2/2 stocks we noticed in the industry report will be added in turn are BID và BVH, which are stocks with large capitalization. Accordingly, with CII and DHG being excluded, the total weight of the VN30 group as of 21/07/2019 accounted for 78.2% 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 exchange transfer plans are expected to accelerate due to the sluggish progress in 2018.** In the second quarter of 2019, HOSE received two new members with a large market capitalization shift from Upcom - HVN and VGC. It is expected that in the third quarter of 2019, there will be one more member with significant market capitalization - GVR, other stocks with transferring plan are VEA, BCM... 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 from divesting State capital from leading enterprises.** SCICI has just announced the list of [108 enterprises in divestment plan](#) such as BMI, LIC, FPT... expected to be divested in 2019. However, depending on enterprise, the divestment progress of some Insurance companies might be adjusted such as PVI, BMI to be delayed until 2020. As in Year-to-date, Vinachem stock group are the group actively getting divested the most. The divestment process of Vinachem stock group in Q2 showed mixed results: SRC-NET (successful), DRC-SFG (unsuccessful), indicating that investors' interest depends much on (1) Price valuation and (2) Divested amount. Other groups like CSV, DGC and BFC are expected to be divested in the latter half of 2019.

**Fifth, bank stocks expected to be the center of attention during the latter half of 2019 with their current attractive valuation.** Meanwhile, Mid-cap stocks with distinctive stories showed impressive performance during the first half of 2019 as our forecast compared to the other stocks ([link](#)). Specifically, **Midcap stocks performed relatively well with 4.02% YTD, top group is Penny (+6.8% YTD), SmallCap(+6.0% YTD), VN30 (+1.08% YTD) and Largecap (-2.96% YTD).** We suppose the performance of Mid-cap during Q3/2019 will slowdown because their valuation are more reasonable after the well-grown period during the first half of 2019. Out of Largecap stocks, bank stocks is still the group accounting for a large proportion, but having the negative growth rate. **Therefore, in our opinion, bank stocks with attractive valuation (Average PE trailing =9.65x and Average P/B trailing = 1.34x – excluding VCB) would be the leading stocks for the latter half of 2019.**

**Sixth defensive and high-income stocks (electricity) and sectors with stable growth potential (retail, consumer, drinks) outperformed VN-Index** during 6M2019 and would continue to be a safe choice in such a risky market when the global situation is still complicated. We especially pay attention to electricity stocks, according to Ministry of International Trade and Industry, the country might have to face power shortage from 2020. Therefore, we keep an eye out for leading companies related directly (POW, NT2, PPC, REE, ...) and indirectly to electricity like power construction (PC1, LCG) in the next 2 – 3 years.

**Seventh, public investment is also one of the government's key plans to be promoted in 2019.** In the first half of 2019, the estimated disbursement amount of public investment capital was only 28.6% of the plan assigned by National Assembly, lower than that of 32.53% for the same period of 2018. 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). Although the relatively slow disbursement speed, we suppose the progress for the latter half of 2019 would show more positive signs. Stocks getting benefits directly and indirectly from this movement include building materials - cement (HT1) and construction stone (KSB, CTI), infrastructure construction group (CII, VCG, LCG), industrial park (SZC, TIP, SIP, BMC, GVR, PHR, NTC,...).

## Influence of macroeconomic factors on sectors

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

Source: BSC Research

## Sector Outlook for Q3/2019 and FY2019

- We maintain **OUTPERFORM** rating for the following sectors: **Non-life Insurance, Technology – Telecommunication, Textile, Industrial Park and Banking**. These are businesses that are expected to have strong growth in 2019 thanks to the demand for sustainable growth, benefiting from the trend of moving manufacturing industries to Vietnam, supported by the US-China trade war.
- We value **NEUTRAL** as: **Commercial Property, Seaport, Rubber, Oil&Gas, Pharmaceuticals, Electricity, Tiles, Aviation, Chemicals, Plastics, Fertilizers, Tires, Steel, Aquaculture, Transportation, Construction and Cement**. These are the sectors showing signs of slowdown in profit growth such as construction enterprises, commercial property and construction materials industries; industries with high profit margin last year such as Aquaculture, Oil & Gas; some of the above mentioned industries (Plastics, Fertilizers, Shipping) will face disadvantages in raw material prices when oil prices tend to rise again. We raise our recommendation for the Cement Industry to Neutral based on positive consumption growth, supported by export performance.
- For the **OUTPERFORM** sector, we believe that the **Sugar** industry will still face many difficulties in 2019 due to the oversupply industry, commodity prices have not recovered from the downtrend.

No.	Sector	Outlook in 2019	Mid&Long-term recommendation	Tracking
1	Non-life insurance	Outperform		BMI
2	Technology - Telecommunication	Outperform	FPT	CMG, VTP
3	Textile	Outperform	STK	MSH, TNG, VGT, TCM
4	Industrial Park	Outperform	LHG, KBC	BCM
5	Banking	Outperform	ACB, MBB, VIB	VCB, TCB
6	Consumer	Outperform	MWG, PNJ	VNM, FRT, MSN
7	Commercial Property	Neutral	DXG, NLG, HDG	
8	Seaport	Neutral	GMD	VSC
9	Natural Rubber	Neutral	PHR, GVR	DPR
10	Oil&Gas	Neutral		GAS, PVD, PVS
11	Pharmaceutical	Neutral		IMP, DHG
12	Electricity	Neutral	PC1, GEX, POW	REE
13	Tiles	Neutral		VGC, CVT
14	Aviation	Neutral	AST	ACV, HVN, VJC
15	Chemicals	Neutral	DGC	CSV
16	Plastic	Neutral	BMP	NTP, AAA
17	Automobile	Neutral	VEA	
18	Fertilizer	Neutral		DPM, SFG
19	Tires	Neutral		DRC
20	Steel	Neutral	HPG	HSG, NKG
21	Aquaculture	Neutral		VHC
22	Transportation	Neutral	PVT	
23	Construction	Neutral	LCG	CTD, HBC
24	Cement	Neutral	HT1, BCC	
25	Sugar	Underperform		SBT, QNS

**NON-LIFE INSURANCE SECTOR - OUTPERFORM**

We maintain an **OUTPERFORM** rating for the non-life insurance industry due to (1) an increase in interest rates to help improve financial profit; (2) non-life insurance original fee is estimated to grow steadily 10% -12% in the future; (3) the application of technology to insurance activities helps businesses reduce SG&A expenses, thereby improving the efficiency of insurance operations. However, we would like to note that the growth rate of the industry is not much changed and the prospect of insurance companies only improves strongly when the divestments and room loosening 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 will divest from leading insurance companies such as PVI and BMI. With these two companies affirming their position in the industry as well as having a relatively good market share in the market, we expect the divestment of these 2 insurance companies will attract the attention of investors.

**TECHNOLOGY – TELECOMMUNICATION SECTOR – OUTPERFORM**

We maintain our **OUTPERFORM** recommendation on Technology - Telecommunication sector. For IT stocks (FPT, CMG), we are optimistic about the growth of software export market and enterprise channel leasing market. For the postal sector (VTP), we expect online shopping trend and the number of new stores received from Viettel Group to be the main growth driver for VTP. For Telecommunication stocks (VGI), we expect the company will not suffer from sudden exchange rate losses like 2018, therefore, business results will be significantly improved.

**TEXTILE SECTOR – OUTPERFORM**

BSC maintains **OUTPERFORM** recommendation of the outlook of the Vietnamese textile and apparel sector in 2019 thanks to accelerating production movement (especially in textile and apparel) to Vietnam. At the same time, we recommend that investors closely tracking the order growth and industry risk in the coming years.

We recommend **BUY** for **STK**, Tracking for **MSH, TNG, TCM, VGT**.

**INDUSTRIAL PARK SECTOR – OUTPERFORM**

We maintain **OUTPERFORM** rating for Industrial Park Sector. In the first half of 2019, most listed companies have positive business results, such as VGC - 110ha (reaching 50% of the year's plan), KBC - 80ha (reaching 56.4% of the year's plan), SZC - PAT + 45% YoY, BCM - PAT + 31% YoY, SIP - PAT + 100% YoY. Industrial Park Sector will continue to benefit from (1) trade war, in addition to the effective EVFTA agreement, which will attract FDI inflows into the country, (2) rental price increases on average from 7-15% YoY and (3) competitive labor prices attract labor-intensive industries (textiles, footwear). In addition, many businesses develop more urban areas adjacent to industrial parks that can bring large cash flow to contribute to revenue, but we also note the legal risk that slow down the progress of many projects, influence on business results of enterprises.

**BANKING SECTOR – OUTPERFORM**

In 2H2019, according to BSC's assessment, the revenue and profit of banks will have a differentiation in the growth rate, banks with good asset quality and high profitability will have a stronger growth

rate than average such as VCB, MBB, ACB. BSC forecast that in 2019, the PBT of the banking industry will grow by 12.8% YoY, lower than the expected level of 14.7% with the assumption (1) credit growth in 2019 will reach 13%, (2) NIM will decrease slightly, (3) banks focus on resolving bad debts to meet Basel II requirements. With the attractive current valuation of the industry (P/B = 1.4x) and will be the sector that contributes most of the profit of the whole market this year, we raise the banking industry's view from NEUTRAL to **OUTPERFORM** in 2019 and recommended to invest in banks with good asset quality and high profitability such as MBB, ACB, TCB.

### CONSUMER SECTOR – OUTPERFORM

We maintain **NEUTRAL** rating on F&B and **OUTPERFORM** for retail.

For the F&B, we think it is prudent to invest in the second half of 2019-2020 due to the fact that the epidemic situation has not decreased and China has not opened official export markets for Vietnam's agricultural products. We forecast the growth rate will range from 9% - 12% in 2020F.

For the retail, we believe that 2H2019 will grow steadily above 10% for essential products but slightly decrease in high-end and luxury products due to the income of people in rural areas which affected when the agricultural sector is still facing many difficulties and currently 70% of the labor force in our country is mainly concentrated in rural areas. We expect the retail continue to be positive with a double-digit growth rate thanks to the stable consumption growth of 11% -12% of essential products.

### COMMERCIAL PROPERTY SECTOR – NEUTRAL

We continue to maintain a **NEUTRAL** view for commercial property stocks due to the following factors (1) Legal approval and projects' construction are still congested; (2) Bank loans are restricted for real estate companies; (3) Tightened loan approval procedures for house buyers. 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 **BUY** the followings: VHM, NLG, HDG.

### SEA PORT SECTOR – NEUTRAL

BSC evaluates **NEUTRAL** with growth prospect of 8% -10% of seaport industry in the second half of 2019-2020. We note that Q3 – Q4 will be the time when import - export businesses have to export goods to importing countries to prepare raw materials for production next year so this will be the peak time of the amount of port cargo. As a result, some port enterprises with high capacity and good location can still grow well at the end of the year such as GMD.

### NATURAL RUBBER SECTOR – NEUTRAL

We hold **NEUTRAL** view on stocks of the natural rubber industry as (1) domestic rubber business still performs poorly, and increase in world rubber price does not affect much on domestic price, however (2) enterprises in the rubber industry maintain high dividend payout ratio of 40% - 50% and (3) the trend of converting rubber land into industrial zones will be the motivation for long-term growth for those with large area to be liquidated. We recommend to BUY GVR stock, and to track PHR, DPR.

### OIL&GAS SECTOR – 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.

#### PHARMACEUTICAL SECTOR – NEUTRAL

We maintain our **NEUTRAL** recommendation on pharmaceutical sector. In 2019, BSC believes that the drug store channel will continue to grow slowly due to fierce competition, along with the application of Prescription drug sales changing people's buying habits. Meanwhile, the Bidding channel is still growing in terms of drug output as the proportion of people with insurance continues to increase, and the Bidding Law will give priority to domestic pharmaceutical enterprises with good quality drugs. Therefore, BSC expects businesses with high proportion of ETC (IMP, PME, DBD) to benefit, while OTC businesses (DHG, TRA) will slow down and shift to ETC.

#### ELECTRICITY SECTOR – NEUTRAL

With the hydrological situation of 2019, we maintain a **NEUTRAL** view on the electricity industry due to the clear differentiation of stocks in the electricity industry:

- For big hydroelectric stocks (hydropower with seasonally regulating reservoirs): BSC has negative views in 2019 due to unfavorable hydrological condition. This situation may continue for the next few years since the Elnino cycle usually lasts 5-7 years.
- For thermal power stocks: Thermal power stocks have generally benefited from the increase in electricity prices in the competitive electricity market compared to last year, but for POW, the company is currently renegotiated some of factories which can be result in a significant drop in contract prices, so BSC maintains a neutral viewpoint for 2019 and 2020.
- For electric construction stocks: BSC keeps a positive view based on rising construction demand with large backlog for PC1.

#### TILES SECTOR – NEUTRAL

We maintain our **NEUTRAL** view on ceramic tiles stocks. BSC believes that 2019 will continue to be a difficult year for the industry because the industry is still in oversupply. However, the reduction of input fuel prices will help improve the profitability of businesses while many businesses are looking to export to niche markets by developing technology, and improving product quality. We recommend **TRACKING** with CVT.

#### PLASTIC SECTOR – NEUTRAL

We maintain our **NEUTRAL** view of the plastics sector in the context of slow-down growth and severe competition, especially in the construction plastic group. However, the decreasing plastic resin and oil prices will support the profit of plastic enterprises, enhancing their position as compared to the high oil price period of 2017-2018. Therefore, we continue to keep track of and update the operation of plastic firms in the next quarters. We recommend **BUY** for BMP, **TRACKING** for AAA and NTP.

#### AUTOMOBILE SECTOR – NEUTRAL

We evaluate **NEUTRAL** for automobile stocks. Imported Automobile is expected to show positive results due to (1) That Trade Agreements decrease tax rate of imported cars to 0% would increase consumption, (2) Increase in the supply of imported cars after Decree 116 being handled and (3) the growing potential of the industry is still big when the car ownership rate is only 2%, lower than that of other countries in region (Malaysia - 82%, Thailand - 51%, Philippines - 6%). However, commercial automobile is still in difficult situation due to (1) the restriction on loading allowance of the Ministry of Transport in 2015 (mentioned above), (2) many companies still could not meet the requirement of Euro 4 emission gas and (3) Price of vehicles using Euro 4 engine is higher than ones with Euro 2 engine about 200 – 300 million VND /unit, decreasing the demand.

#### **TIRE SECTOR – NEUTRAL**

We keep our **NEUTRAL** view of Tire industry in 2019 due to (1) raw material price expected to reduce improvement in gross margin, (2) increase capacity of Radial tire group of DRC and CSM; (3) high competition makes tire businesses difficult to increase selling prices. We recommend **BUY** for DRC.

#### **STEEL SECTOR – NEUTRAL**

For steel industry, BSC maintains a **NEUTRAL** view due to (1) the demand for construction steel has not yet prospered when the real estate market and infrastructure disbursement showed no signs of acceleration and (2) both construction steel and corrugated iron capacity are in surplus in the short term. However, in the medium term, BSC expects steel demand will increase when disbursement of public investment has new changes and the real estate market is more active in 2021.

#### **AQUACULTURE SECTOR – NEUTRAL**

We maintain a **NEUTRAL** rating for the aquaculture sector. In 2019, BSC believes that it is difficult to expect sudden growth in seafood corporates due to high base in 2018. For pangasius enterprises, BSC believes that selling price will be difficult to maintain the increase of 30-35% in 2018. Meanwhile, the expanded pangasius supply (expanding farming areas, increasing factory capacity) will create pressure on the selling price. In Q1/19, selling price movements were in line with our forecast: Raw fish price dropped, making market prices (excluding the US) slightly decrease. For shrimp product, the supply in major shrimp exporting countries continues to be plentiful. BSC believes that the selling price of shrimp businesses will continue to move sideways in 2019.

#### **TRANSPORTATION SECTOR – NEUTRAL**

BSC maintain **NEUTRAL** recommendation for transportation industry from now till 2020F. In addition, we note that the IMO emissions convention will greatly affect the shipping industry when the convention comes into effect in 2020. The use of fuel contained sulfur less than 0.5% will cause for shipping lines to (1) Invest in Scrubber to filter emissions for international fleets; (2) Use of DO and FO oil fuel with low sulfur contained however material costs will increase; (3) Use diesel powered train instead. Thereby, we believe that freight rates will increase well next year when Vietnamese shipping enterprises seize the opportunity to invest in a good fleet this year.

#### **CONSTRUCTION SECTOR – NEUTRAL**

We evaluate **NEUTRAL** with the prospect of Construction in 2H2019 - 2020F and forecast an average growth of 7.2% -10.2% thanks to (1) FDI inflows to industrial parks will increase well 2019-2020; (2) Expectations for investment in infrastructure development such as transportation to develop logistics

connecting ports and industrial zones before the Chinese industrial relocation to Vietnam, investing in hydropower development, Thermal power and solar will continue to accelerate to meet future electricity demand.

**CEMENT SECTOR – NEUTRAL**

We maintain our **NEUTRAL** view on the cement industry in 2019 based on the following points:

- (1) Consumption output has declined due to a slowdown in domestic construction and export to Bangladesh and the Philippines, but it is still supported by export volume to China.
- (2) The higher selling price has entirely offset an increase in electricity price from the end of Q1/2019. Falling coal prices are expected to help businesses to cut costs.

BSC recommends **BUY** for **HT1** (TP: VND 18,900 per share) and **BCC** (TP: VND 12,200 per share).

**SUGAR SECTOR – UNDERPERFORM**

We maintain our **UNDERPERFORM** rating for Sugar sector as we have not seen any positive signs on the fundamentals of the industry. Smuggled sugar from Thailand problem has not been completely solved, making the sugar supply still abundant, and the weak demand for sugar also makes the circumstance worse.

## Key stocks in 2019

Ticker	Rev 2019 (VND bn)	NPAT 2019 (VND bn)	EPS 2019 (VND/shr)	P/E F	P/B F	ROA 2019F	ROE 2019F	Closing price 29/07/19	Target price
ACB	15,915	5,764	3,948	7.3	1.6	1.6%	27.6%	28,800	32,686
MBB	23,501	7,651	3,082	6.7	1.1	1.9%	19.2%	20,600	28,424
TCB	21,075	11,208	2,548	7.9	1.2	2.7%	15.9%	20,200	25,986
VCB	44,988	16,575	4,563	15.2	3.5	1.4%	26.1%	69,500	68,576
VIB	7,606	2,600	3,249	5.0	1.0	1.6%	21.9%	16,300	21,658
MWG	102,644	4,979	7,297	10.7	3.3	11.0%	31.0%	91,800	132,100
PNJ	17,508	1,196	4,970	14.5	3.5	15.0%	26.0%	72,000	91,000
VNM	58,010	11,042	5,681	22.5	6.8	30.3%	37.9%	128,000	142,024
VTP	6,687	398	6,125	22.9	8.6	13.4%	44.8%	140,600	134,750
FPT	26,808	3,826	4,643	10.5	1.8	14.0%	23.0%	48,600	59,500
REE	5,414	1,985	6,593	4.9	0.9	11.4%	17.8%	32,400	38,195
POW	32,155	3,428	1,462	10.4	1.2	5.7%	11.5%	15,200	17,830
DRC	3,405	135	1,020	17.9	1.4	5.0%	8.8%	18,300	23,000
PTB	5,395	498	8,703	7.8	1.4	21.0%	28.2%	67,600	81,300
VSC	1,696	366	4,561	7.0	0.8	11.0%	13.9%	31,800	34,600
GMD	2,972	714	2,191	14.3	1.1	5.6%	8.7%	25,950	28,970
KBC	3,340	1,449	3,046	4.7	0.7	8.1%	13.8%	14,300	19,700
BCM	8,898	2897	2,799	11.5	2.08	6.5%	21.0%	27,800	N/A
VHM	80,063	18,412	5,515	17.3	4.9	34.7%	10.3%	87,800	95,600
NLG	3,298	956	3,796	7.5	1.2	17%	9%	30,000	40,500
HDG	4,398	930	7,841	4.6	1.4	25.1%	5.6%	36,200	43,500
PC1	6,208	414	3,118	7.5	0.8	5.3%	10.6%	23,400	36,566
GEX	15,524	1,453	5,114	4.9	0.9	8.4%	16.4%	25,150	33,400
HPG	73,486	9,964	4,745	7.1	1.5	11.3%	21.0%	33,500	38,000
CTD	28,561	1,510	18,356	5.6	1.0	9.2%	19.8%	102,100	114,000
HBC	18,824	593	2,996	6.5	1.2	4.0%	18.0%	15,450	18,000
GAS	79,992	12,916	6,748	16.2	3.8	19%	24%	109,000	118,000
PVS	14,740	1,091	2,012	11.3	0.9	5%	9%	22,100	25,900
PVD	5,370	350	912	20.3	0.5	2%	3%	16,900	20,000
PVT	8,158	793	2,357	6.9	0.8	6.3%	12.5%	16,200	19,280
VEA	6,614	6,504	6,095	9.5	3.0	22.3%	27.3%	58,000	61,446
DGC	5,619	658	5,734	4.8	0.8	13.8%	19.0%	32,700	42,000
VHC	9,036	1,240	13,377	6.4	1.7	18.3%	28.3%	87,300	102,000
BMP	4,275	407	4,480	11.9	1.4	13.1%	15.5%	48,800	57,300
HT1	9,058	753	1,775	8.8	1.2	7.3%	14.4%	15,700	18,900
BCC	3,898	167	1,348	6.3	0.5	3.5%	8.6%	8,500	12,200
VGC	9,317	618	1,239	14.5	1.3	3.8%	8.8%	20,900	20,900
MSH	4,695	446	8,693	6.9	2.2	16.7%	38.6%	59,900	64,300
VGG	9,903	445	8,069	7.7	1.4	9.3%	24.1%	65,500	55,000
TNG	4,366	232	3,492	5.8	1.4	7.9%	25.2%	20,300	21,000

Ticker	Rev 2019 (VND bn)	NPAT 2019 (VND bn)	EPS 2019 (VND/shr)	P/E F	P/B F	ROA 2019F	ROE 2019F	Closing price 29/07/19	Target price
STK	2,488	224	3,270	6.8	1.3	10.0%	21.3%	22,100	29,700
PHR	1,532	1,189	8,644	6.6	2.8	7.6%	13.5%	57,400	57,940
GVR	23,670	3,728	846	17.6	1.2	4.70%	3.20%	14,900	19,696
NKG	17,275	131	720	N/A	N/A	N/A	8.0%	6,100	N/A
HSG	36,142	595	1,550	N/A	N/A	N/A	10.1%	7,300	N/A

(\*) Company's plan

Source: BSC Research

# Non-life Insurance [Outperform]

- Original fee is forecasted to grow 10% -12% compared to 2018.
- Payment of non-life insurance benefits + 11% YoY in 1H2019.
- High competition makes the majority of non-life insurance companies decline in net operating profit. However, increasing deposit interest rates helped the listed companies' NPAT increase by 21.8% YoY in 1Q2019.

**The non-life insurance market is forecasted to grow by 10% -12% in 2019.** According to the GSO, by the end of Q2/2019, insurance original fee reached 69,324 billion VND (+15.9% YoY), in which non-life insurance original fee was VND 22,297 billion (+8.8% YoY). Fee from basic vehicle insurance and health insurance grew strongly, reaching 18% YoY and 10% YoY, respectively in 1H2019. We expect that the non-life insurance original fee will continue to grow from 10% -12% YoY with expectation of high demand due to young population structure, non-life insurance/GDP ratio in Vietnam is still low (1.3% compared to 3% -4% in the developing market) and the non-life insurance fee/person is small (21 USD/person compared to 70 USD/person in the developing market).

**The non-life insurance market is forecasted to grow by 10% -12% in 2019.** The total amount of original insurance indemnities of non-life insurance enterprises is estimated at VND 9,101 billion (+11% YoY), mainly due to the high compensation rate in basic vehicles (about 43% -45%). However, thanks to the good management of costs and the reduction of insurance profiteering, the effectiveness of non-life insurance companies is still maintained at a relatively good level. In terms of compensation rate, we expect a slight decrease in 2019 to 37.5% of the whole industry.

**The business results of non-life insurance companies grew strongly in the second quarter of 2019, mainly from the increase in financial revenue.** Because of high competition, operating profit from insurance business of enterprises only increased slightly +3.8% YoY. However, NPAT of non-life insurance companies grew strongly, reaching VND 572 billion (+21.8% YoY) thanks to the improvement of bank deposit rates. In 2H2019, we expect that (1) insurance companies improve operational efficiency through the application of technology to help reduce costs, thereby improving the combined rate and (2) deposit interest rate will be kept at the current high level, making NPAT of the non-life insurance industry increase by 15% -20% in 2019.

Q2/2019	ABI	BIC	BMI	MIG	PGI	PTI	PVI	VNR
Market share	2.9%	3.8%	7.9%	3.8%	5.4%	8.3%	19.5%	3.9%
Insurance fee	351	465	963	471	667	1,016	2,385	480
% YoY	20.4%	-2.4%	-1.9%	9.3%	5.2%	11.4%	13.3%	19.7%
Operating profit from insurance business	52	102	29	87	43	25	54	11
Combined rate	85.3%	78.0%	97.0%	81.6%	93.6%	97.5%	97.7%	97.6%
Financial revenue	27	58	28	25	5	16	158	62
% YoY	24.8%	-25.2%	-41.9%	-18.9%	-60.9%	-54.1%	7.0%	30.2%
Investment rate	6.5%	9.2%	9.1%	5.3%	2.7%	6.6%	7.9%	11.7%
Total asset	2,276	5,225	5,704	4,409	5,601	6,733	21,848	7,049
Equity	812	2,190	2,285	1,018	1,423	1,852	7,200	3,060
PBT	79	70	59	37	48	46	293	89
% YoY	48.7%	3.6%	-30.4%	145.7%	11.2%	17.8%	41.5%	14.7%
EPS	6,632	1,226	1,694	911	1,649	1,847	3,901	2,310

BVPS	21,360	18,419	25,008	7,831	16,039	23,018	31,152	23,345
ROA	9.1%	2.8%	2.8%	3.3%	2.7%	0.4%	2.9%	4.5%
ROE	26.3%	6.7%	6.9%	12.7%	10.1%	1.5%	8.8%	10.4%

Source: FiinPro, BSC Research

## INVESTMENT OUTLOOK – OUTPERFORM

We maintain an **OUTPERFORM** rating for the non-life insurance industry due to (1) an increase in interest rates to help improve financial profit; (2) non-life insurance original fee is estimated to grow steadily 10% -12% in the future; (3) the application of technology to insurance activities helps businesses reduce SG&A expenses, thereby improving the efficiency of insurance operations. However, we would like to note that the growth rate of the industry is not much changed and the prospect of insurance companies only improves strongly when the divestments and room loosening 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 will divest from leading insurance companies such as PVI and BMI. With these two companies affirming their position in the industry as well as having a relatively good market share in the market, we expect the divestment of these 2 insurance companies will attract the attention of investors.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VND bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
PVI	6,305	644	2,563	14.1x	1.2x	4.65%	8.7%	36,200	40,010
BMI	3,623	179	1,866	14x	1.05x	3.2%	7.9%	26,300	30,124

Source: BSC Research

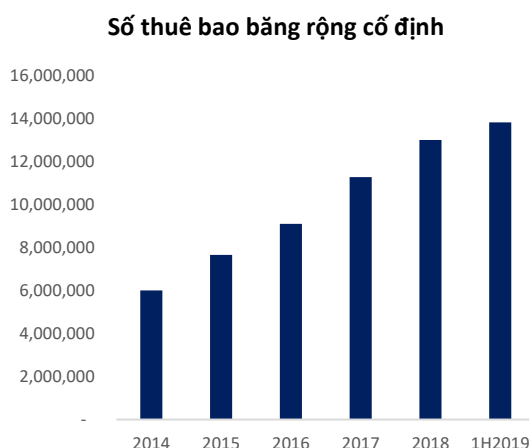
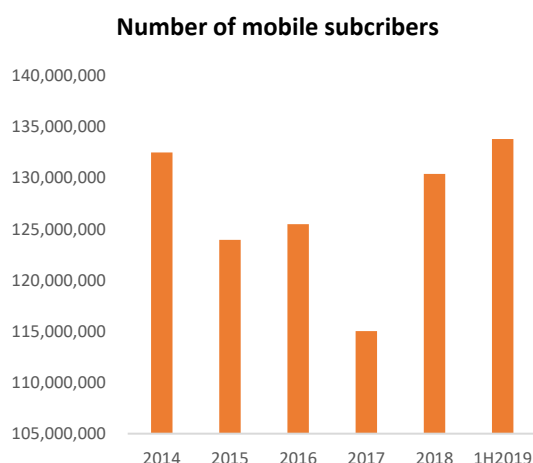


## Technology – Telecommunication [Outperform]

- In 1H2019, Information and Communication's total revenue reaches VND 1,347,087 bil (+7% YoY), mainly contributed from ICT industry.
- In 1H2019, Telecommunication's revenue reaches VND 198,000 bil (+4.38% YoY).
- Trong 1H2019, DT dịch vụ viễn thông đạt 198,000 tỷ (+4.38% YoY). Number of mobile subscribers records 134.5 million (12% YoY).
- Vietnam ranks 5th in the ranking of Countries providing Software Outsourcing Services, increasing one rank according to A.T.Kearney.

According to MIC, in the first half of 2019, total revenue of Information and Communication reaches VND 1,347,087 bil (+7% YoY), mainly contributed by ICT Industry.

MIC reports that Telecommunication service revenue in the first 6 months of 2019 is estimated at VND 198,000 bil (+ 4.38% YoY). The number of mobile phone subscribers by the end of June 2019 is about 134.5 million, up 12% over the same period in 2018. The number of fixed mobile phone subscribers reaches about 4 million.



Source: Vnta

Vietnam continues to be among the leading countries in providing Software Outsourcing services. According to the 2019 Global Services Location Index of A.T. Kearney, Vietnam ranks 5th (up one rank) compared to the report in 2018. The increase reflects the improvement in the business environment in Vietnam. The fact that foreign enterprises (Intel, IBM, Samsung Display, Microsoft) continue to invest in Vietnam will maintain the growth of the industry.

### Ranking of countries for Outsourcing service



Source: A.T.Kearney

**INVESTMENT OUTLOOK – OUTPERFORM**

We maintain our **OUTPERFORM** recommendation on **Technology - Telecommunication** sector. For IT stocks (FPT, CMG), we are optimistic about the growth of software export market and enterprise channel leasing market. For the postal sector (VTP), we expect online shopping trend and the number of new stores received from Viettel Group to be the main growth driver for VTP. For Telecommunication stocks (VGI), we expect the company will not suffer from sudden exchange rate losses like 2018, therefore, business results will be significantly improved.

**FPT – BUY – TP 59,500 VND/cp – Upside 22.4% - P/E fw = 10.46**

In 1H2019, FPT recorded revenue and EBT of VND 12,492 bil (+ 22.2% YoY) and VND 2,139 bil (+ 26.8% YoY) respectively thanks to the contribution of Software and Telecommunication. In 1H2019, Software Export segment recorded revenue and EBT of VND 4,932 bil (+ 37.8% YoY) and VND 742 bil (+ 39.5% YoY) with the growth of over 25% over the same period last year in exporting markets. Telecommunication Services achieved revenue and EBT of VND 4,650 bil (+ 17.7% YoY) and VND 684 bil (+ 15.5% YoY) respectively with broadband internet service growing by 14.4%.

In 2H2019, Software Export will still be FPT's main growth driver. We believe that projects related to Digital Transformation whose gross margin is higher than traditional projects will grow strongly when demand is high. In 1H2019, the projects related to Digital Transformation reached VND 1,654 bil, up 40.9% compared to the overall growth of 36% of traditional projects. We forecast that FPT's revenue in 2019 will reach VND 26,808 bil, net income will reach VND 3,826 bil, EPS = 4,643 VND / share, P / E fw 2019 = 10.46.

**VTP –TRACKING– TP 134,750 VND/cp – Upside -4.1% - P/E fw = 22.9**

Viettel Post is a company operating in the business of delivery with high growth thanks to the boom of E-commerce in Vietnam. According to the Ministry of Information and Communications, the delivery market grew with a CAGR of 10% between 2013 and 2017.

In 1H2019, VTP is expected to maintain an impressive profit growth rate of 42%. BSC believes that the growth rate mainly comes from the number of volumes shipped, due to the inability to increase service prices in the competitive business markets.

In Q2.2019, Viettel Post launched many products: My Go (Delivery + Shipping), Voso (E-commerce). The two products are expected to create an ecosystem for the company's customers. We forecast 2019 revenue of VTP will be VND 6,861 bil, EAT of VND 398 bil, EPS = 6,125 VND / share, P / E fw 2019 = 22.9

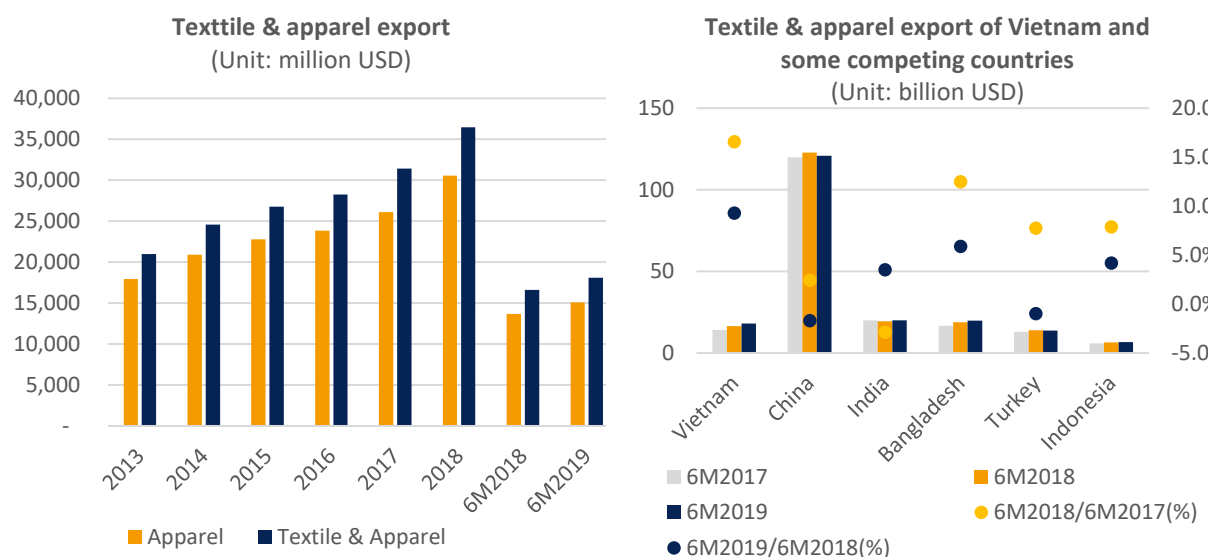
Ticker	Rev 2019F (VND bn)	NPAT 2019F (VND bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price	Ticker
VTP	6,861	398	6,125	22.9	8.6	13.4%	48.8%	140,600	134,750	-4.1%
FPT	26,808	3,826	4,643	10.5	1.8	14.0%	23.1%	48,600	59,500	22.4%
CMG	5,255	258	2,700	15.2	1.7	8.6%	20.6%	41,000	N/A	N/A

Source: BSC Research

## Textile [Outperform]

- Textile export in 1H2019 reached USD 15.09 billion (+ 9.5% YoY).
- The growth rate of Vietnamese textile and apparel exports was relatively higher compared to some competing countries like China, Bangladesh and was higher than the demand growth in some main markets.
- The Vietnam - Europe Free Trade Agreement (EVFTA) was signed, which is expected to have a positive impact on the Vietnamese textile and apparel sector in the medium to long term.
- We maintain OUTPERFORM rating on textile and apparel sector.

**Textile export in 1H2019 reached USD 15.09 billion (+ 9.5% YoY). However, the growth rate was lower than that in the previous period mainly due to the slowdown of export to Japan and South Korea.** In absolute terms, an increase of USD 1.3 billion (6M2019 compared to 6M2018) was lower than a rise of USD 2 billion (6M2018 compared to 6M2017). Nevertheless, the growth rate of Vietnamese textile and apparel exports was relatively higher compared to some competing countries like China (-1.7% YoY due to the influence of the US-China trade war), Bangladesh (+ 5.9% YoY). In terms of export markets, the US market recorded the highest growth rate of 10.8% YoY, EU + 4.53% YoY, Japan + 5.23% YoY, South Korea + 4.54% YoY and China + 10.28% YoY. The share of Vietnam's textile and apparel exports to these markets has increased over the same period. The higher growth rate of Vietnam textile export in comparison to the demand growth in these markets (US + 4.9% YoY, EU -2.8% YoY, Japan + 1.3% YoY) pointed out the competitiveness of Vietnamese products among textile export countries.



Source: General Custom, Textile & Apparel Magazine 7/2019, BSC Research

**The Vietnam - Europe Free Trade Agreement (EVFTA) was signed on June 30, 2019. The FTA is expected to have a positive impact on the Vietnamese textile and apparel sector in the medium to long term** thanks to the immediate removal of 42.5% tariff lines imposed on Vietnamese products. The remaining tariff will be reduced to 0% after 3- 7 years. The tax cut will enhance the competitiveness of Vietnamese textile products in comparison to those of Bangladesh and Cambodia, which are currently enjoying GSP tax of 0%. In the short term, we assess that the impact of EVFTA is

insignificant as apparel firms and their partners need time to search for qualified domestic material and invest in textile and dyeing projects to meet the requirements of origin "from fabric onwards".

**At the Review Meeting of the first 6M2019, a representative of the Vietnam Textile and Apparel Association mentioned the difficulties in searching for orders of the sectors.** We believe that this scarcity occurred mainly in fiber and fabric firms, rather than garment producer. Among apparel firms, some large enterprises experienced declining orders such as Viet Tien, May 10. However, we still recorded a positive flow of orders in some private, large-scale enterprises such as TNG, MSH, and TCM. We believe that the risk of declining order is emerging due to (1) a tense US-China trade war, (2) a slow-down global economy, and (3) degrading Vietnamese cheap labor competitiveness in the context that FTAs that Vietnam is pursuing have not yet come into effect. However, BSC remains optimistic about industry outlook in 2019, especially in large-scale garment enterprises with a qualified customer base and capacity expansion projects.

### INVESTMENT OUTLOOK – OUTPERFORM

BSC maintain **OUTPERFORM** recommendation of the outlook of the Vietnamese textile and apparel sector in 2019 thanks to accelerating production movement (especially in textile and apparel) to Vietnam. At the same time, we recommend that investors closely tracking the order growth and industry risk in the coming years.

We recommend **BUY for STK**, Tracking for **MSH, TNG, TCM, VGT**.

**STK - BUY - Target price: VND 29,760 / share - Upside: + 34%**

#### 1H2019 business results:

- Revenue was 1,100 billion (-7.8% YoY) due to the decrease in fiber prices in May and June 2019. The US-China trade war cut the export volume of China yarn to the US, resulting in the sudden increase of filament supply from China and forcing the price to drop.
- The proportion of recycled yarn (Re) increased from 16% in 2018 to 27.5% of revenue in 1H2019, the gross profit margin increased from 13.6% to 16.2%.
- 1H2019 NPAT was 105.7 billion (+ 24% YoY), completing 59% of the yearly plan.

**The 4,000-ton-color yarn project** with a total investment of 200,000 - 300,000 USD is expected to run for trial in Q3/2019.

**We believe that STK's revenue in 2019 will slightly increase** thanks to (1) a slight increase in capacity (+5%) after Trang Bang 5 recycled fiber project operating commercially in early 2019; (2) decreasing price as a result trade war and lower oil price. **However, BSC believes the profit margin will improve because of the rising portion of Re and specific-characteristic fiber.** The catalyst for growth in the next 1-2 years will mainly come from in-depth growth, improving profitability rather than expansion. **In 2019, BSC forecasts that STK's net revenue will reach VND 2,487 billion (+ 3.3% YoY)**, under the assumption that (1) ordinary yarn price will decrease by 9% YoY according to price movements in Asian markets in 5M2019; (2) the proportion of recycled fiber increased from 16% to 32.7%, leading to an increase of 14.5% in gross profit margin. **Net income is estimated at VND 224.4 billion (+ 25% YoY), equivalent to EPS of VND 3,270 / share.**

**MSH - Tracking - Target price: 64,300 VND / CP - Upside: + 7.6%**

MSH is our preferred textile stock for some reasons (1) growth potential thanks to expansion projects (2) room for operational efficiency improvement and (3) healthy financial situation. In this report, we raised our forecasts for MSH in 2019 after re-assessing the company's growth in 1H2019.

### 1H2019 business results:

- Revenue was 2,136 billion (+ 22.1% YoY) in which revenue from FOB orders and bedding increased sharply by 31.7% YoY, accounting for 85% of revenue. The CMT orders -10% YoY due to the active cut of the company to change to FOB orders.
- Gross profit margin improved from 19.3% to 19.9% thanks to the increasing contribution of FOB orders and bedding segment (from 80% to 85%) and the rising profit margin of this segment (average from 21.3% to 21.8%).
- 1H2019 NPAT was VND 219.2 billion (+ 52% YoY), completing 56% of the year plan.

**Business results forecast:** BSC estimates net sales in 2019 will be VND 4,695 billion (+ 18.8% YoY) based on estimated export orders for 2019 of about USD 184 million (+ 19.8% YoY), sustain bedding segment. GPM is expected to increase slightly from 20.1% to 20.2% thanks to the improvement of the gross profit margin of FOB and the contribution of FOB and bedding segment in total revenue to 87%. Net income is estimated at VND 446 billion (+ 20.8% YoY), EPS 2019 = VND 8,693 / share.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VND bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
VGG	9,903	445	8,069	7.7	1.4	9.3%	24.1%	65,500	55,000
MSH	4,695	446	8,693	6.89	2.18	16.7%	38.6%	59,900	64,300
TNG	4,366	232	3,492	5.81	1.35	7.9%	25.2%	20,300	21,000
TCM	3,828	232	3,788	6.86	1.15	6.8%	16.8%	26,000	26,520
STK	2,488	224	3,270	6.76	1.30	10.0%	21.3%	22,100	29,700

Source: BSC Research

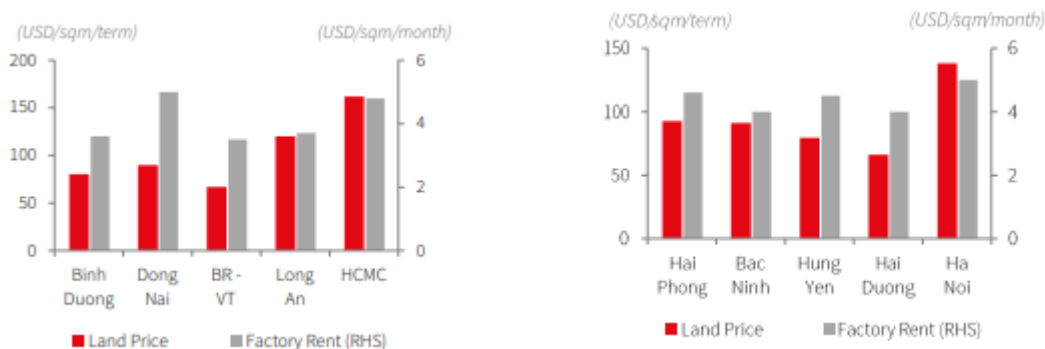
## Industrial Park [Outperform]

- 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.

**The industrial park sector in 1H2019 continues to have positive growth.** Although total FDI in the first 6 months was -9.2% YoY, FDI from Hong Kong (5.3 billion), South Korea (2.75 billion), China (2.29 billion) and Japan (1.95 billion) still increased sharply thanks to the impact of the trade war that increased the demand for industrial parks:

- **Rental price increase due to rising demand.** According to JLL, specifically for the North, the rental price for the Q1/2019 reached 93 USD/m<sup>2</sup>/rental cycle (+7.6% YoY). In the South, the rental price was up to 95 USD/m<sup>2</sup>/rental cycle (+15.8% YoY, of which Ho Chi Minh City has the highest rental price at 162 USD/m<sup>2</sup>/rental cycle due to increasing demand sharply while supply was limited.

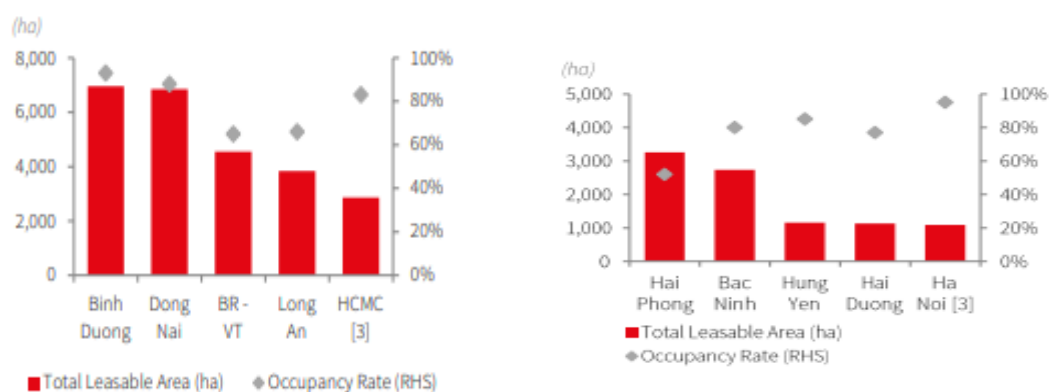
**Rental prices in the South and North**



Source: JLL

- **Average occupancy rate is high.** In the Northern region, the occupancy rate for Q1/2019 reached 72%, concentrated in Hanoi, Bac Ninh and Hung Yen. In the Southeast region, the occupancy rate for Q2/2019 reached 81%, mainly in Ho Chi Minh City, Binh Duong and Dong Nai.

**Total supply and occupancy rates in the South and North**

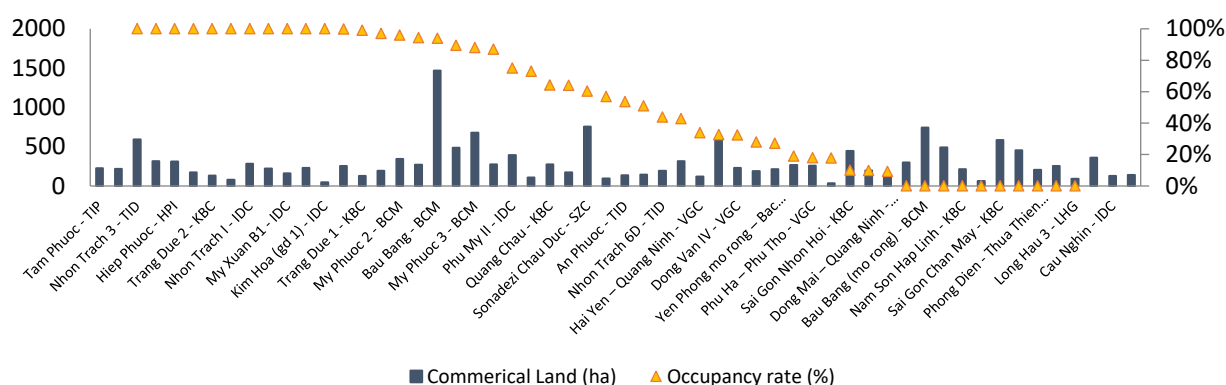


Source: JLL

**The supply of land continues to increase to meet the market demand, especially the new supply from the conversion of rubber land into land for industrial park.** Currently, Vietnam has about 326 industrial parks with a total area of 95,000 ha, and the land area for rent is nearly 64,000 ha, accounting for 68% of the total area. According to JLL, approximately 13,077 hectares in the North and 18,290 hectares in the South will enter the market. In addition, some Southern provinces such as Dong

Nai, Binh Duong, Binh Phuoc and Tay Ninh will increase about 7,000 hectares of industrial park land from rubber land of GVR in the period of 2020 - 2025. We believe that the new land has relatively low ground clearance and compensation costs (only about VND 600 million/ha, equivalent to USD 2.58/m<sup>2</sup>), which will help businesses to enjoy cheap capital costs and improve gross profit margins.

**Commercial area and occupancy rate of listed companies's industrial park**



Source: BSC Research

Most of the southern industrial zones of listed companies have quite high occupancy rates and many have almost completed their filling (BCM, D2D, NTC and LHG). However, these businesses are also rushing to expand new areas like BCM expanding two more industrial parks (Bau Bang Expansion and Cay Truong), NTC waiting to receive Nam Tan Uyen 3 from Phuoc Hoa, LHG is releasing 30% of LH3 ground. BSC believes that with the current compensation schedule, these new industrial parks will be put into stable operation in 2020. While in the North, some previously unattractive industrial zones now have tenants contributing 1H2019 growth. For businesses such as Dong Mai Industrial Park, Tien Hai Industrial Zone, Phong Dien of VGC, Saigon - Chan May Industrial Park of KBC, therefore, Northern industrial zones will still have room for growth.

In terms of finance, large amount of cash and good profit are advantages of industrial park enterprises. Some businesses such as NTC, D2D have a large amount of revenue due to these enterprises accounting for the land rent divided annually, so when there are tenants, the revenue will not increase sharply, but the company will record a large amount of unearned revenue due to prepayment by customers, this amount can be used to deposit bank savings or pay higher dividends to shareholders. However, in our opinion, the current industrial park area of NTC and D2D has been exhausted (table below). For NTC, as soon as the enterprise receives Nam Tan Uyen 3 from PHR (around the end of 2019), businesses will need a large amount of capital to build infrastructure and systems, so the amount of cash will not as abundant as in present. For D2D, the positive business results in 2019 come from the recognition of revenue of Loc An residential quarter, while the current industrial park land bank has been fully filled so it does not contribute much to revenue. Therefore, we recommend tracking NTC and D2D.



## Summary of indicators of some listed companies

Company	Charter Capital (bn VND)	Unearned revenue (bn VND)	Cash and Short term inv. (bn VND)	Total assets (bn VND)	Existing projects	Up-coming projects	Avg. occupancy rate
LHG	500	1	247	2,007	Long Hau 1&2 : 245ha	Long hau 3 phase 1: 90ha Long hau 3 phase 2: 677 ha	100%
NTC	360	2,585	380	3,452	Nam Tan Uyen 1& 2 : 350ha	Nam Tan Uyen 3 : 355 ha	100%
VGC	4,484	2,962	1,823	18,245	Tien Son : 255,6ha Yen Phong : 269ha Hai Yen : 120ha Dong Mai : 111,5ha Phu Ha : 258ha	Tien Phong phase 2: 314ha Thuan Thanh : 250ha Yen My: 300ha Tien Hai: 166ha	46%
D2D	107	657	170	2,234	Nhon Trach 2: 331ha	Chau Duc: 50ha	98%
KBC	4,757	8	810	16,725	Tan Phu Trung : 314ha Que Vo : 363ha Quang Chau : 275ha Dai Dong Hoan Son : 163ha Trang Cat : 800ha Trang Due : 262ha Sai Gon - Chan may: 586ha	Nam Son Hap Linh: 213ha Trang Due 3: 456ha Binh Giang: 900ha	62%
SIP	691	4,908	377	12,242	Dong Nam : 200ha Phuoc Dong : 1524ha Le Minh Xuan 3 : 220ha	Loc An Binh Son: 336ha	82%
SZC	1,000	251	386	2,851	Sonadezi Chau Duc : 756ha		60%
SZL	200	773	87	1,666	Long Thanh : 488ha	Chau Duc: 50ha Long Phuoc: 75ha	88%

Source: BSC Research

## INVESTMENT OUTLOOK – OUTPERFORM

We maintain **OUTPERFORM** rating for Industrial Park Sector. In the first half of 2019, most listed companies have positive business results, such as VGC - 110ha (reaching 50% of the year's plan), KBC - 80ha (reaching 56.4% of the year's plan), SZC - PAT + 45% YoY, BCM - PAT + 31% YoY, SIP - PAT + 100% YoY. Industrial Park Sector will continue to benefit from (1) trade war, in addition to the effective EVFTA agreement, which will attract FDI inflows into the country, (2) rental price increases on average from 7-15% YoY and (3) competitive labor prices attract labor-intensive industries (textiles, footwear).

In addition, many businesses develop more urban areas adjacent to industrial parks that can bring large cash flow to contribute to revenue, but we also note the legal risk that slow down the progress of many projects, influence on business results of enterprises.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
LHG	487	146	2,913	6.04	1.28	14.5%	9.8%	19,700	#N/A
KBC	3,226	1,263	2,657	7.6	1.05	12.8%	7.45%	15,300	18,150
VGC	9,532	495.2	893	16.9	1.3	8.56%	3.55%	19,700	#N/A
BCM*	8,898	2,897	2,799	11.5	2.08	20.85%	6.5%	27,800	#N/A

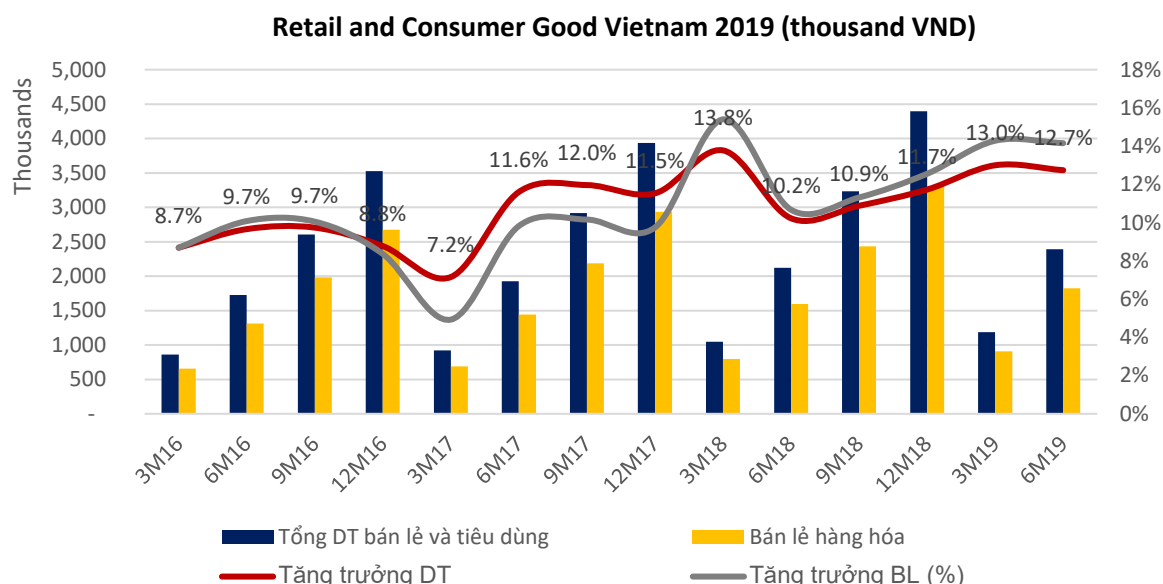
\*: Based on plan of company

Source: BSC Research

## Consumer [Outperform]

- Total retail sales of goods and services in 1H2019 were estimated at VND 2,391.1 trillion (+ 12.7% YoY).
- African Swine Fever (ASF) has a significant influence on the animal feed industry in 1H2019.
- FMCG market in urban and rural areas has progressed positively by 6-8% in 5M2019.
- BSC assesses **OUTPERFORM** for Consumer and recommends **BUY**: PNJ, MWG; **TRACKING**: VNM and MSN.

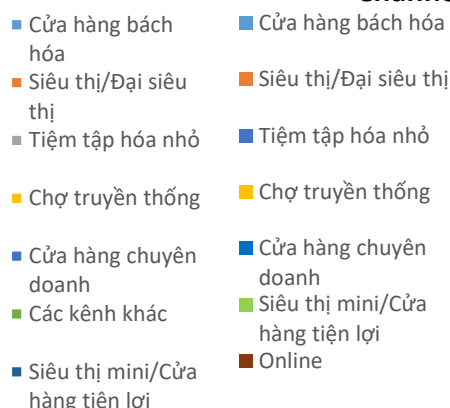
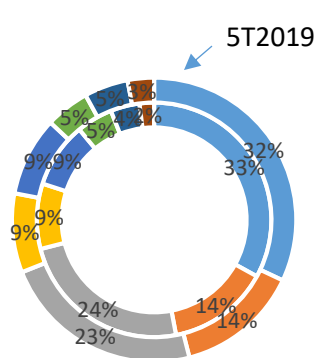
**Total retail goods and consumer service revenue were estimated at VND 2,391.1 trillion (+ 12.7% yoy) in 1H2019 according to the General Statistics Statistics (GSO).** Retail goods were estimated at VND 1,823.6 trillion (+ 14.2% yoy), contributing the largest 76.3% of total retail sales. Some good growth items in 1H2019 such as food and foodstuff (+ 13% yoy), household appliances (+ 12.1% yoy), garments (+ 11.1% yoy), etc. We believe that although the growth of the retail industry has been slightly adjusted by -0.3% in Q2 / 19 compared to Q1 / 19 due to the Tet holiday, it is still 2.5% higher than the same period, so we rate the industry continues to maintain a double-digit growth rate and expects to keep the growth rate of 12-15% for the whole of 2019.



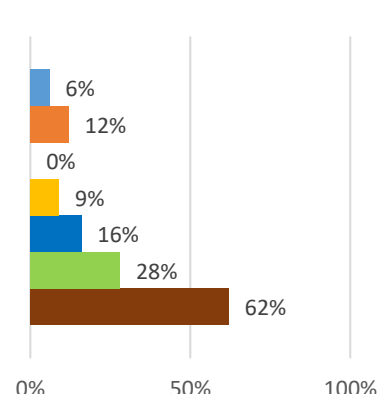
Source: BSC Research, GSO

**FMCG market in both Urban and Rural areas in Vietnam has improved from 6-8% in 5M2019.** In particular, urban areas have grown well thanks to the increase in volume of consumer products but slow in rural areas due to the low season after Tet. Typical growth products in FMCG industry in urban areas such as personal care products (11.4% yoy), home care products (10% yoy), and milk and dairy products still have impressive growth in rural areas with a speed of + 18.4% yoy. Besides, the modern MT sales channel like online still saw a positive growth with 62% in 5M2019 but only accounted for a small market share of 3%, traditional GT channels like department stores still accounted for a large proportion of 32% and speed. steady growth of 6%. Thereby, we believe that in order to reach more customers, consumer businesses will increase investment in not only traditional sales channels and continue to exploit modern online channels with potential for growth.

Channels Market Share 5T2019 (%)



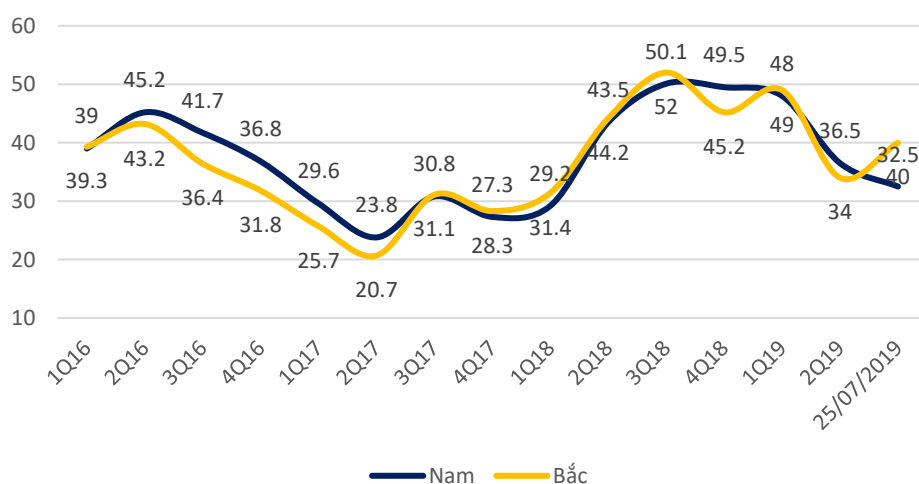
Channels Growth 5T2019 (%)



Source: Kantar

The rapidly spreading AFS has made the feed industry difficult in 1H2019. Currently, AFS has spread to 62 provinces and cities, with a total of more than 3.3 million pigs culled, losing 10% of the country's total swine directly affecting 2.4 million pig farmers. Thereby, we assess that the AFS epidemic has hit heavily on feed producers like Dabaco and Masan Nutri Science in 1H2019. However, at present, we note that the epidemic has gradually diminished in the Northern provinces, although it is spreading rapidly in the South, causing the price of pork in the North to increase again to fluctuate between VND 38-42 thousand VND/kg and the South reduced deeply to 27-38 thousand VND/kg. If the pig epidemic ends early in Q3-Q4/2019, we expect the pork and animal feed market to recover in the second half of Q3/2020.

Pighog Price in North - Sourth VN (thousand VND/kg)



Source: MSN, Vietnammoi

## INVESTMENT OUTLOOK – NEUTRAL

BSC maintains a **OUTPERFORM** rating for retail consumer and **NEUTRAL** for F&B. For the retail consumer industry in 2019, the growth will be strong and stable over 11%. We believe that the growth rate of 12-15% thanks to the online shopping channel continues to grow, but it will be difficult for the jewelry industry such as PNJ due to the slower consumption of jewelry products and Influence from the ERP. For F&B industry, we expect F&B industry will continue to grow at an average rate of over 9-

10% thanks to a sharp increase in year-end food and beverage consumption and an increase in consumption of clean meat products like Meatdeli when AFS still has much influence in the South. We recommend **BUY**: PNJ, MWG, MSN and VNM.

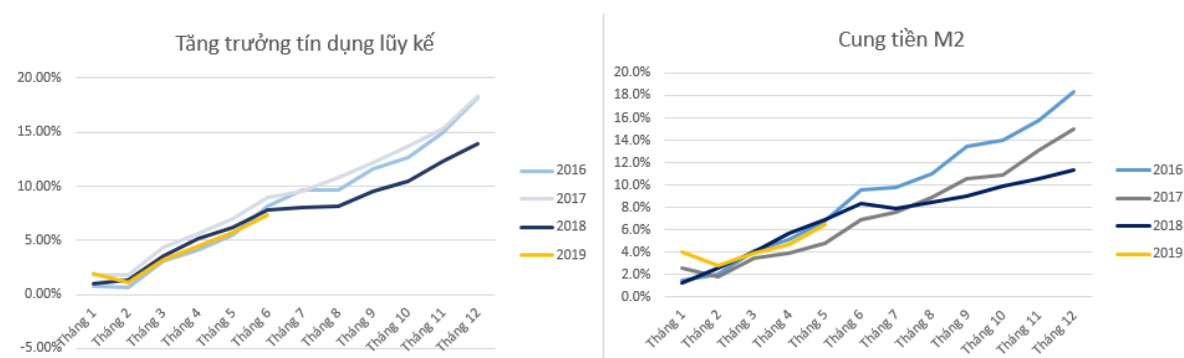
Ticker	Rev 2019F (VND bn)	NPAT 2019F (VND bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
<b>PNJ</b>	16,180	1,193	5,089	15.1	3.5	15%	26%	77,800	93,400
<b>MWG</b>	102,644	3,775	8,304	10.7	3.3	11%	31%	106,00	132,100
<b>VNM</b>	55,125	10,592	5,484	23.6	7.5	29.3%	36.5%	123,500	137,100
<b>MSN</b>	42,696	5,185	4,810	18.1	2.8	7.7%	14.1%	81,000	89,800

Source: BSC Research

## Banking [Outperform]

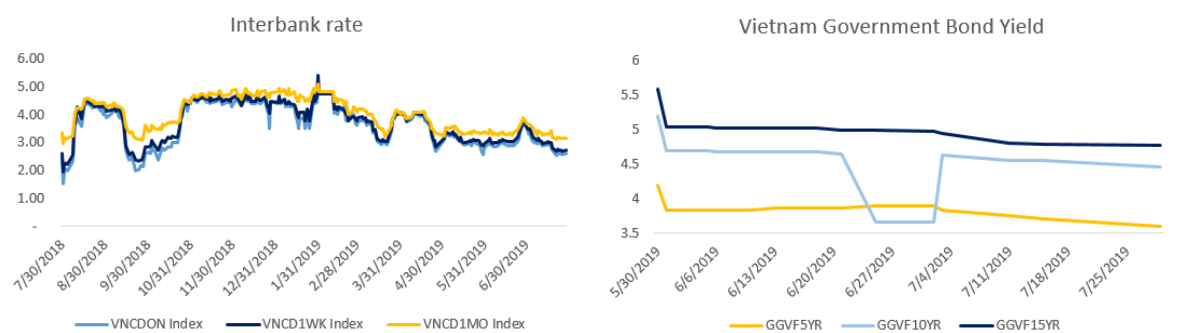
- Credit growth in 1H2019 reached 7.33%, down from 7.86% in the same period of 2018. BSC expects credit growth will be lower than the 14% set by SBV.
- Mobilizing + 5.5% YTD in 5M2019, the bank lending / mobilizing ratio decreased slightly to 89%. Interest rate of interbank + government bond interest rate remained low.
- NIM of the whole industry, according to BSC, will decrease slightly to 3.5%.
- 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 raised our view from NEUTRAL to **OUTPERFORM** for Banking sector and recommended BUY for ACB, MBB, VIB and TRACKING for VCB due to good asset quality and high profitability.

Credit growth in 1H2019 reached 7.33% (7.86% in the same period of 2018), lending structure still focused mainly on agriculture and construction (9.1%), industry and construction (29.5%) and commercial (21.9%), which are the priority sectors of government loans. Accumulated growth in M2 supply in the first 5 months of 2019 reached 6.4% YtD, lower than the credit growth. However, in BSC's point of view, although the money supply growth is lower than the credit growth rate, the interest rate level will be stabilized by SBV as at present (on average, the short-term lending rate is from 6% - 9%, medium and long term at 9% -11%). Regarding the prospect of the 2H2019, BSC assessed that credit growth of the whole system may reach 12% -13%, mainly due to (1) declining credit demand in many business areas that are facing difficulties (real estate, steel, ...), (2) credit demand for individual customers may be affected by the slowing economy.



Source: SBV, BSC Research

**Mobilizing +5.5% YTD in 5M2019, lending/mobilization ratio decreased to 89%.** The lending/mobilization rate of state-owned commercial banks and joint stock commercial banks continued to remain high (93.4% and 84.6%), exceeding the allowed level by the SBV. Deposit rates at medium and long terms increased sharply due to the need to supplement medium and long-term capital when being restricted to the ratio of short-term capital for medium and long-term loans. Interbank interest rates are still low, around 2.5% -2.6% for overnight interest rates, 2.6% -2.7% for 1-week interest rates. Government bond interest rates remained low at 4.6% -4.7% for 10-year and 15-year terms and could hardly be improved in the short term.



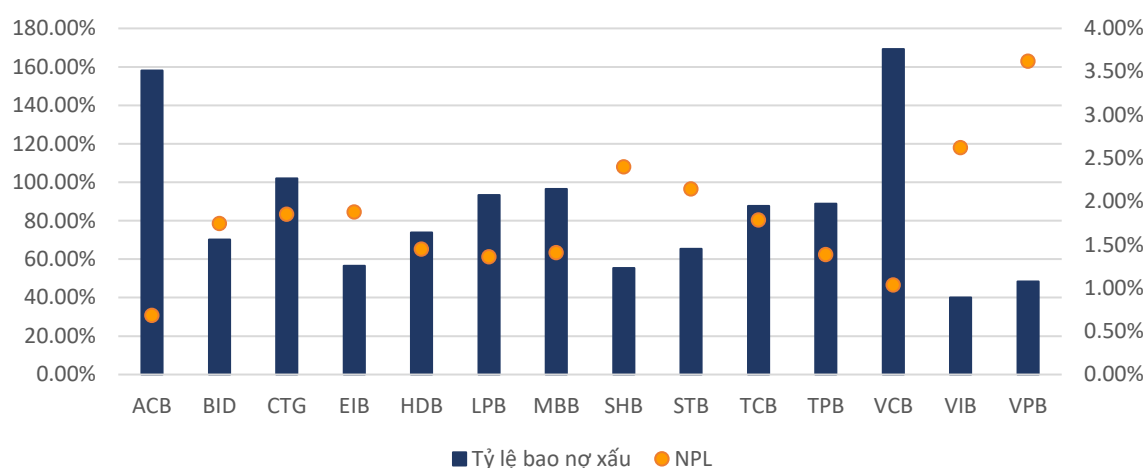
Source: Bloomberg

**The NIM of the whole industry in 2019 may decline slightly.** As of the end of 1Q2019, NIM of banking industry decreased slightly, on average NIM of listed banks reached 3.08% (1Q2018 = 3.11%) because of (1) slowing credit growth, (2) deposit interest rates increased in long term while lending interest rate is stable. In 2Q2019, FED may cut interest rates, which may affect interest rates in Vietnam. We assess that, in 2H2019, NIM of the whole industry might fall slightly due to (1) increasing pressure from mobilizing interest rates, (2) stable lending rates, (3) banks have advantages in cheap casa prices and the focus on developing digital banks.

**Non-interest income, potential business activities of banks, is expected to continue to grow from 20% -30% in 2019.** In 1Q2019, non-interest income of the whole system grew strongly from (1) increasing of service fee +48% YoY thanks to customer growth and service fee increase, (2) actively recover off-balance sheet bad debt, (3) revenue from cross-selling of bancassurance products. In 2019, BSC expect non-interest income of the industry to continue to grow strongly from 20% - 30% YoY for the whole system thanks to the continued increase in service fees, personal customer growth and the new potential business activities (bancassurance, bonds, ..).

**More banks have successfully applied Basel II.** In 1Q2019, the NPL ratio of banking sector stood at 2.02%, up from 1.89% in 2018. The ratio of bad debt (including VAMC + hidden debt) reached 5.88%. In terms of listed banks, NPL ratio decreased slightly to 1.36% (-5 bps), the ratio of bad debt was at an average of 74%. Many banks have dealt with bad debts VAMC (MBB, ACB, VCB, TCB, VIB,..), help reduce provision expenses and improve profitability. Besides, a lot of banks have also successfully applied Basel II before deadline and will have their own credit management and growth mechanism in the coming time (MBB, VIB, TPB, VCB, OCB, MSB, TCB, ACB).

Asset quality of banks Q1/2019



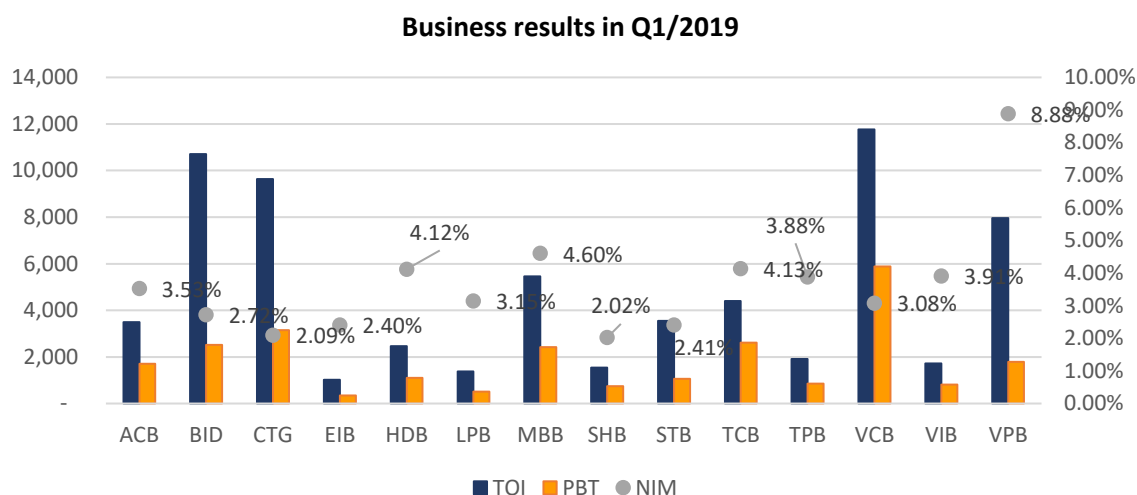
Source: FiinPro, BSC Research

**Banks will increase their charter capital to meet capital requirements according to Basel II** through (1) stock dividend payment; (2) issuing capital to foreign shareholders (VCB, BID), (3) issuing bonds to raise Tier 2 capital. In July 2019, BID negotiated to sell 15% of shares to KEB Hana Bank with price of 33,640 VND/share, currently completing the issuance procedures. Other banks such as VPB, TPB, etc. are currently issuing long-term international bonds to increase Tier 2 capital, thereby improving their CAR.

**Some banks expected to list in the coming time** include: OCB (VND 4,000 billion), Maritimebank (VND 11,750 billion), Seabank (VND 5,466 billion), ABB Bank (VND 5,319 billion), Saigonbank (VND 3,080 billion), Nam A Bank (VND 3,021 billion), Viet A Bank (VND 3,500 billion). Currently, OCB and MSB may list at the end of 2019.

**Business results in the Q1/2019 were positive.** As of the end of 1Q2019, total 14 banks listed reached TOI = 66,934 billion VND (+10% YoY), PBT = 25,514 billion VND (+12.8% YoY). In 2019, companies set a total planned PBT of VND 96,227 billion (+14.7% YoY), of which VCB contributed 21% of the total PBT, TCB (12.2%), BID (10.7%). According to BSC's forecast, in 2019, the PBT of the banking industry will grow by 12.9% YoY with the assumption (1) the credit growth in 2019 will reach 14%, (2) the whole industry's NIM will decrease slightly, (3) banks focus on resolving bad debts in order to meet Basel II requirements.





Source: Fiinpro, BSC Research

### INVESTMENT OUTLOOK – OUTPERFORM

In 2H2019, according to BSC's assessment, the revenue and profit of banks will have a differentiation in the growth rate, banks with good asset quality and high profitability will have a stronger growth rate than average such as VCB, MBB, ACB. BSC forecast that in 2019, the PBT of the banking industry will grow by 12.8% YoY, lower than the expected level of 14.7% with the assumption (1) credit growth in 2019 will reach 13%, (2) NIM will decrease slightly, (3) banks focus on resolving bad debts to meet Basel II requirements. With the attractive current valuation of the industry (P/B = 1.4x) and will be the sector that contributes most of the profit of the whole market this year, we raise the banking industry's view from NEUTRAL to **OUTPERFORM** in 2019 and recommended to invest in banks with good asset quality and high profitability such as MBB, ACB, TCB.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
VCB	44,988	16,592	4,563	17.8	4.1	1.4%	26.1%	81,000	N/A
TCB	21,145	8,900	2,545	8.2	1.2	2.7%	15.8%	20,800	25,983
VPB	35,089	7,254	2,867	6.5	1.1	2.1%	18.9%	18,750	21,584
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	8.1	1.3	1.4%	17.4%	26,000	33,351
STB	13,227	2,100	1,046	10.5	0.7	0.5%	8.0%	10,950	14,722
TPB	6,354	2,087	2,413	9.5	1.6	1.4%	18.5%	22,900	23,654
ACB	15,968	5,765	3,948	5.8	1.3	1.7%	24.7%	23,000	32,686
VIB	7,606	2,600	3,249	5.8	1.1	1.6%	31.9%	19,000	21,597
LPB	5,394	1,245	1,275	6.4	0.6	0.7%	11.6%	8,100	10,795

Source: BSC Research

**BUSINESS OPERATION OF LISTED BANKS IN 2Q2019**

	ACB	BID	CTG	HDB	LPB	MBB	STB	TCB	TPB	VCB	VIB	VPB
<b>Scale</b>												
Charter capital (VND bn)	12,886	34,187	37,234	9,810	8,881	21,605	18,852	34,966	8,566	37,089	7,835	25,300
Equity (VND bn)	22,383	56,652	70,125	17,713	11,618	36,131	25,477	53,875	11,342	72,992	11,253	36,180
Total asset (VND bn)	335,803	1,342,939	1,146,774	202,563	181,901	383,219	425,033	326,112	139,944	1,073,332	144,836	322,080
Equity/total asset	6.7%	4.2%	6.1%	8.7%	6.4%	9.4%	6.0%	16.5%	8.1%	6.8%	7.8%	11.2%
<b>Growth (YtD)</b>												
Property growth	2.0%	2.3%	-1.5%	-6.3%	3.9%	5.8%	4.7%	1.6%	2.8%	0.0%	4.2%	-0.4%
Loan growth	3.0%	3.6%	-0.4%	4.7%	3.8%	6.8%	5.6%	2.4%	9.8%	6.4%	6.0%	4.5%
Deposit growth	1.9%	2.6%	-0.2%	-1.1%	0.7%	1.0%	8.0%	3.2%	2.3%	4.5%	4.5%	10.1%
CASA	16.1%	14.4%	14.6%	8.7%	11.2%	25.1%	15.0%	26.7%	16.0%	28.0%	11.6%	9.3%
Loan/deposit	86.3%	100.9%	104.5%	101.8%	98.3%	94.6%	71.9%	78.8%	108.7%	80.3%	114.9%	123.0%
<b>Asset quality</b>												
NPL ratio	0.7%	1.7%	1.9%	1.5%	1.4%	1.4%	2.1%	1.8%	1.4%	1.0%	2.6%	3.6%
NPL ratio inc. debt sold to VAMC	0.7%	2.8%	3.1%	1.8%	1.8%	1.4%	13.9%	1.8%	1.9%	1.0%	2.6%	4.4%
Provision for bad debts/Total debts	1.1%	1.2%	1.9%	1.1%	1.3%	1.4%	1.4%	1.6%	1.2%	1.8%	1.1%	1.8%
Provision for bad debts/Total bad debts	158.1%	70.2%	101.9%	73.9%	93.4%	96.5%	65.3%	87.7%	88.8%	169.2%	40.0%	48.3%
Interest, receivable/lending	1.1%	1.2%	0.8%	2.8%	2.9%	1.5%	8.3%	2.9%	1.4%	1.2%	1.4%	2.0%
Doubtful asset	9,318	82,143	66,873	12,420	10,902	27,111	88,518	18,017	11,982	34,546	7,280	42,408
% Total asset	2.8%	6.1%	5.8%	6.1%	6.0%	7.1%	20.8%	5.5%	8.6%	3.2%	5.0%	13.2%
% Equity	41.6%	145.0%	95.4%	70.1%	93.8%	75.0%	347.4%	33.4%	105.6%	47.3%	64.7%	117.2%
Leverage	15.0	23.7	16.4	11.4	15.7	10.6	16.7	6.1	12.3	14.7	12.9	8.9
CAR (2018)	12.8%	9.0%	7.8%	12.1%	10.9%	10.9%	11.9%	14.3%	10.2%	12.1%	12.9%	12.3%
<b>Business efficiency (YtD)</b>												
% net interest	81.9%	79.8%	82.5%	82.3%	102.3%	75.8%	69.4%	76.4%	67.4%	72.2%	80.8%	85.2%
Net profit before credit loss provision (VND bn)	1,691	7,707	6,394	1,328	645	3,389	1,491	2,784	1,008	7,384	966	4,987
% YoY	4.1%	-9.3%	18.9%	2.7%	13.4%	29.8%	155.1%	-17.9%	73.8%	26.1%	57.5%	-5.4%
Credit loss provision (VND bn)	-16	5,187	3,242	227	133	964	430	167	155	1,506	156	3,204
% profit before provision	-0.9%	67.3%	50.7%	17.1%	20.7%	28.5%	28.8%	6.0%	15.4%	20.4%	16.2%	64.3%
PBT (VND bn)	1,707	2,521	3,153	1,102	511	2,424	1,061	2,617	853	5,878	810	1,783
% YoY	14.6%	1.4%	4.1%	5.3%	0.8%	26.4%	110.7%	1.9%	66.3%	34.8%	56.3%	-31.9%
Planned PBT (VND bn)	7,279	10,300	9,500	5,077	1,900	9,560	2,607	11,750	3,200	20,000	3,400	9,500
NIM (TTM)	3.5%	2.7%	2.1%	4.1%	3.2%	4.6%	2.4%	4.1%	3.9%	3.1%	3.9%	8.9%
CIR (TTM)	51.5%	28.0%	33.6%	46.1%	52.9%	37.9%	57.9%	36.6%	47.1%	37.3%	43.6%	37.4%
ROA (TTM)	1.7%	0.6%	0.5%	1.4%	0.5%	1.8%	0.6%	2.7%	1.5%	1.5%	1.8%	2.2%
ROE (TTM)	26.4%	13.5%	8.0%	17.5%	8.8%	19.4%	9.2%	16.8%	18.9%	24.7%	23.3%	19.7%
EPS (VND) (TTM)	4,297	2,150	1,483	2,939	1,145	3,029	1,241	2,434	2,343	4,372	3,233	2,718
BVPS (VND)	17,947	15,666	18,751	16,759	13,081	16,338	14,125	15,385	13,335	19,661	14,974	14,727
<b>Valuation</b>												
P/E	7.61	15.40	13.76	8.88	7.32	7.08	9.75	9.53	9.18	15.01	5.68	6.71
P/B	1.64	2.11	1.09	1.56	0.64	1.31	0.86	1.51	1.61	3.34	1.23	1.24

Source: Fiinpro, BSC Research

## Commercial Property [Neutral]

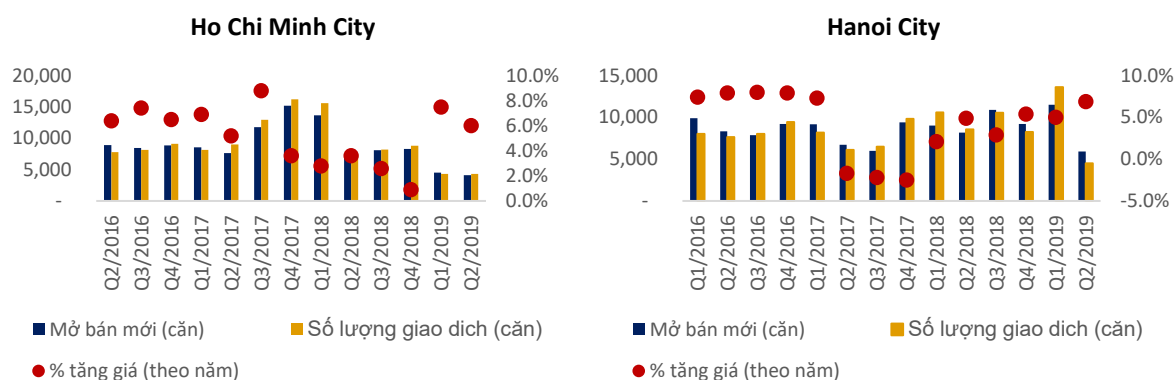
- The dramatic shortage trend in the property supply in HCM's real estate market continues.
- Meanwhile, in Hanoi, the market shows signs of a slowdown in the number of new apartments for sales when there is no new opening projects from Vinhomes Sportia and Vinhomes Ocean Park.
- Market prospects in 2019 for Ho Chi Minh and Hanoi are inactive, depending on some key investors (Vinhomes).
- The moving trend of investment from main cities (HN and HCM) to other developing cities and travel real estate could be seen for the next 1- 2 upcoming years.
- We maintain the Neutral view for the property sector due to: (1) Block in legal procedures; (2) Tightened control over real estate loans and (3) Stricter loan approval process.

### The dramatic shortage trend in the property supply in HCM's real estate market continues.

According to data of JLL, in HCM City, the number of apartments traded in Q2.2019 reached 4,300 apartments (-42% YoY), the supply of new apartments for sale in HCM in Q2.2019 was 4,100 apartments (-41% YoY and -8.9% QoQ), mainly thanks to the next phase of current projects.

We can see the absorption rate in Q2.2019 maintained its high level due to the lack in supply sources, focusing on middle-class segment. Another key point is that the primary average price of Ho Chi Minh market increased by 21.6% per year.

**Meanwhile in Hanoi, the market shows signs of a slowdown in the number of new apartments for sales when no new opening projects from Vinhomes Sportia and Vinhomes Ocean Park are introduced.** According to JLL data, the total number of new apartments for sale in Q2 / 2019 in Hanoi was 5,900 units (- 27.8% yoy and - 4806% QoQ), recording the lowest point for the last 4 years. The total number of apartments in transaction in Q2/2019 in Hanoi reached 5,900 units (-47.4% YoY and - 66.9% QoQ). In our opinion, main reasons are (1) superfluous supply from 2 projects: Vinhomes Smart City and Vinhomes Ocean Park and (2) increasing interest rates and smaller credit room for bank loans, which makes it more difficult to call capital. The average price of Hanoi market goes up by 6.9% YoY.



Source: JLL, BSC Research

**Market prospects in 2019 for Ho Chi Minh and Hanoi are inactive, depending on some key investors (Vinhomes).** 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. However, we could see the progress in accelerating the procedures is slower than our expectation, accordingly, there are just some projects expected to be opened for sales in Q4/2019 such as Akari City (NLG), Lovera Vista (KDH),

Gem Riverside (DXG). Meanwhile, Hanoi market outlook is slowing down after some time rapidly increased.

**The trend of investment moving from main cities (HN and HCM) to other developing cities and travel real estate could be seen for the next 1- 2 upcoming years.** In terms of (1) the land fund in the inner city of Ho Chi Minh and Hanoi are insufficient and (2) Delays on legal approval procedures for projects in Ho Chi Minh City and (3) Infrastructure projects to connect between suburban areas are strengthened, we see a shifting trend of acquiring large land areas (Mini City Model) in suburban/neighbor provinces with high potential of economy and tourism growth such as Quang Ngai, Binh Dinh, Da Nang, Hue, Can Tho, Long An, Quang Ninh, Hai Phong, Bac Ninh...

## **INVESTMENT OUTLOOK – NEUTRAL**

**We continue to maintain a NEUTRAL view for commercial property stocks** due to the following factors (1) Legal approval and projects' construction are still congested; (2) Bank loans are restricted for real estate companies; (3) Tightened loan approval procedures for house buyers. 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 **BUY** the followings: VHM, NLG, HDG.

**VHM (Closed price 29/07/2019): 87,800 VND – BUY – Target price: 65,600 VND – Upside +8.8% - P/E FW 17.3x, P/B FW 4.9x**

**Vinhomes' projects would be the main key drivers for VHM.** VHM is developing 3 Vinhomes projects during 2018-2022 including Vinhomes Ocean Park (44,000 high floor units và 2,400 low floor units), Vinhomes Sportia (45,000 units – 281 ha) and Vinhomes Grand Park (43,500 units – 272 ha).

The total Pre-sale value Q2/2019 was 10,000 billion VND with 5,332 units. Expected total value for 2019 is 5.5 billion USD – equals to 60,000 units from 3 main projects of Vinhomes. The successful openings of two projects in HN (80%) is what strengthens our belief in VHM meeting their 2019 goals and this guarantees the revenue increase of VHM during 2019-2021 thanks to realizing low floor units and wholesales (Ocean Park and Sportia), Vinhomes Metropolis, Vinhomes GreenBay, Vinhomes Imperia.

Vinhomes Grand Park – Rainbow has been soft-launched in 07/2019 with 10,000 units in phase 1.

**BSC forecast revenue and profit-after-tax of VHM in 2019 would be 80,063 billion VND (+207% YoY) and 18,412 billion VND (+24,6% YoY)** due to realizing low floor units of Vincity Ocean Park and Vincity Sportia, the rest of Vinhomes Greenbay, Vinhomes Metropolis, Vinhomes Skylake projects.

**NLG (Closed price 29/07/2019): 30,000 VND – BUY – Target price: 40,500 VND – Upside +35% - P/E FW 7.5x, P/B FW 1.2x**

Owning large land fund and transparent management team. The total land fund of NLG reached 538.3 ha (3,551.1ha belonging to HCM). Other new land funds include 170ha of WaterFront, 45ha of Dai Phuoc and 21ha of Vsip-Hai Phong, which would be the main growth drivers for NLG in the upcoming years. NLG also has strong financials with attractive valuation.

Strong selling plan (Pre-sales) in 2019 would guarantee the revenue increase during 2019-2021. In 2019, NLG plans to launch 3 projects (total expected revenue is 1.2 billion USD) including (1)

SouthGate, (2) Hai Phòng Vsip, (3) Akari City (total expected revenue reaches 346 million USD) and (4) Mizuki Park – next phase. Total expected revenue for 2019 is 3,433 units (+108% YoY), equivalent to the total revenue of 6,019 billion VND. Akari City project – phase 1 and Waterpoint phase 1 are expected to be opened for sales from 07/2019.

**BSC forecast revenue and profit-after-tax of NLG in 2019** would be 3,298 billion VND (-5.2% YoY) and 956 billion VND (+25,2% YoY). EPS 2019 FW is 3,757 VND/ stock (already excluded 5% Bonus and Welfare funds). PE FW 2019 = 8.2x

**HDG (Closed price 29/07/2019): 36,200 VND – BUY – Target price: 43,500 VND – Upside +20.1% - P/E FW 5.9x, P/B FW 1.4x**

Large land fund: we expect HDG would realize the total of 10,000 billion VND from projects: NoongTha, Dragon City... Other M&A projects will contribute to the land fund in the future such as: Dich Vong, Thu Duc, 187 Giang Vo... Project Hado Charm Villa – An Khanh Thuong is postponed until Q3/2019 because of utility service's construction.

**Hydroelectricity is forecasted to grow significantly during 2019 – 2010 thanks to 3 new projects with the total capacity of 267 MW which are operating in May and contributing to the increase of revenue from Q3/2019.** The project named Le Hong Phong was started in 06/2019, beneficial from the electricity price of 9.35 cent/kwh, contributing approximately 100 billion VND to the total revenue in 2019.

**Income results of 2019 is mainly due to Centrosa project.** During Q2/2019, we expect HDG will realize revenue from 2 towers Jasmine – Iris, approximately 4,000 billion VND.

**BSC forecast revenue and profit-after-tax of NLG's Parent Company in 2019** would be 5,543 billion VND (+28.9% YoY) and 689 billion VND (+32.7% YoY). EPS 2019 FW is 5,440 VND/ stock. PE FW 2019 = 5.9x

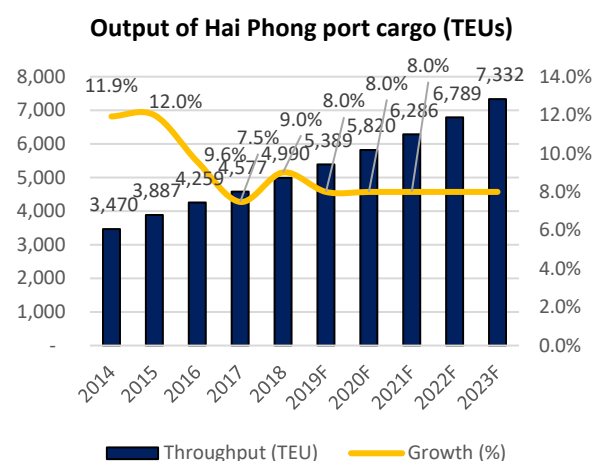
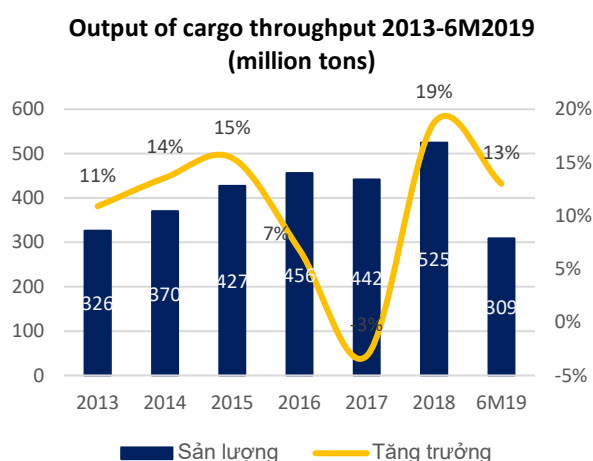
Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
VHM	80,063	18,412	5,515	17.3	4.9	34.7%	10.3%	87,800	95,600
NLG	3,298	956	3,796	7.5	1.2	17%	9%	30,000	40,500
HDG	4,398	930	7,841	4.6	1.4	25.1%	5.6%	36,200	43,500

Source: BSC Research

## Seaport [Neutral]

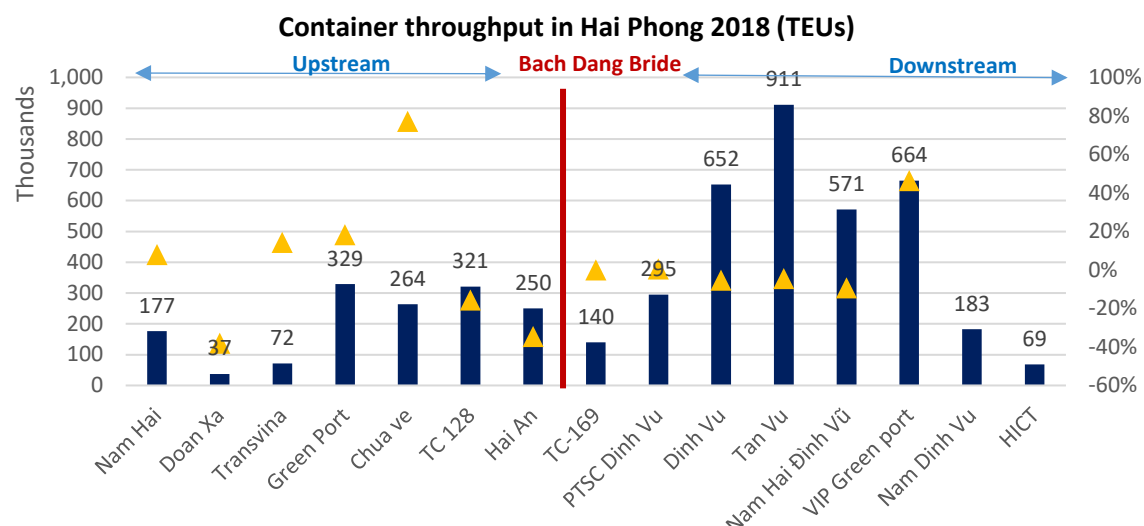
- Output of port cargo in 2H2019 reached 524 million tons, up 18.7% YoY.
- Circular 54 of the Ministry of Transport has not yet clearly shown the impact on seaport enterprises' revenue in 1H2019.
- BSC adjust **NEUTRAL** rating for Seaport industry. We recommend **TRACKING** with GMD and VSC.

Port cargo throughput in 6M2019 reached 308.8 million tons, +13% YoY, but container throughput is growing slowly +3% YoY. According to the Vietnam Maritime Administration, the system of Vietnam's seaports in the first 6 months of the year has achieved a positive growth with the total cargo throughput of Vietnam's seaport estimated at nearly 308.8 million tons (+ 13% YoY), completed. 48% of the target of the Maritime Administration, particularly containerized cargo throughput is estimated at 9.1 million TEUs (+ 3% YoY). The Marine Department has set a target for 2019 with the volume of goods through Vietnam's ports will continue to increase stably to about 640 million tons (+ 7.2% YoY). We assess that the volume of cargo handled by the ports has still increased well, but the container volume is currently slowing, leading to a divergence in the growth of ports depending on the favorable location for large ships to enter the port or not).



Source: VMA, BSC, HAH

**Circular 54 of the Ministry of Transport is still not clear on port enterprises in 1H2019.** We assess that Circular 54 stipulates a 10% increase in the loading and unloading frame for seaports in three regions of Vietnam, which is still difficult to apply due to the situation that the port industry is still oversupply, resulting in fierce competition. rigorous between ports should force ports to lower the cost of other to attract shipping lines. Therefore, we believe that the benefit from Circular 54 will not reflect uniformly across all businesses, but there is a clear differentiation based on (1) location and (2) scale. Thereby, we expect the volume of cargo throughput to increase steadily thanks to the EVFTA and CPTPP agreements to fill the industry's excess supply and reduce the handling rate of loading and unloading.



Source: HAH

## INVESTMENT OUTLOOK – NEUTRAL

BSC adjust **NEUTRAL** assessment with the prospect of seaport industry in 2019. The main cause of Vietnam's port cargo volume has not yet been able to fill the redundant supply in some places such as Hai Phong. The fierce competition in ports has put pressure on many businesses to lower their handling rates to attract new shipping lines. We believe that the EVFTA and CPTPP will be the driving force for Vietnam's exports and imports, as well as FPI flows from China to Vietnam will contribute to the increase in goods production in Vietnam in long-term. Because of that, we revise the growth recommendation of **NEUTRAL** port industry to better suit the short- to medium-term outlook.

We expect that in the last 6 months of the year, the port industry will have a good growth in the volume of port cargo, especially in the fourth quarter when shipping lines will be strong to close year-end orders. In addition, we believe that the growth potential of ICD is still very high in Dinh Vu Hai Phong and Cai Mep Thi Vai economic areas when the supply of ICD ports has been almost filled. We recommend **TRACKING** the following codes: GMD and VSC.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
GMD	2,972	639	1,960	14.3	1.1	5.6%	8.7%	26,500	28,970
VSC	1,698	329	4,561	7.0	0.9	11%	13.9%	30,300	34,600

Nguồn: BSC research



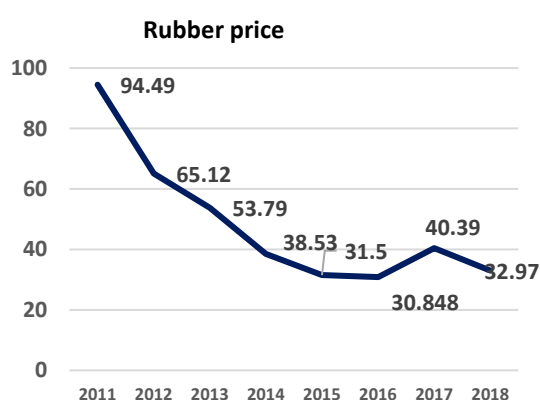
## Natural Rubber [Neutral]

- World rubber price in the first 7 months of 2019 recovered strongly, reaching an average of 200.6 JPY / kg, up 16.8% comparing with 2018.
- Vietnam's rubber export in 1H2019 increased in both volume (+ 9% YoY) and value (+ 3% YoY).
- 1H2019 latex business still shows no sign of positive.
- A number of enterprises have changed their business to industrial zone real estate (PHR and GVR).

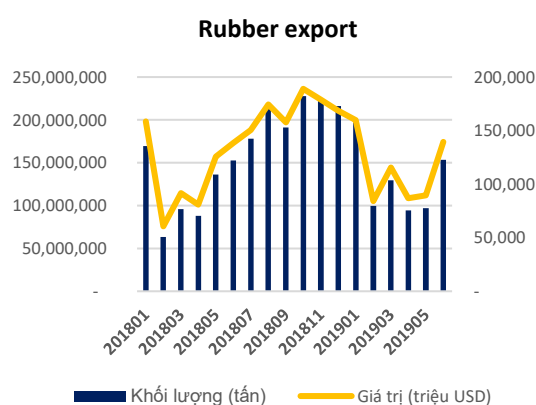
**World rubber price in the first 7 months of 2019 recovered strongly to an average of 200.6 JPY / kg, up 16.8% comparing with 2018.** Reasons behind the positive recovery of world rubber price: (1) Oil price in the first 7 months of 2018 reached 57.5 USD / barell (+ 2.8% compared to Q4 / 2018), leading to increase in the price of synthetic rubber, stimulating demand for natural rubber consumption, (2) Three major natural rubber producing countries – Thailand, Indonesia and Malaysia – have decided to cut supply by about 300,000 tons to support rubber price increases in the global market, (3) Weather in Yunnan China is in the dry season, affecting latex production from Yunnan, which normally contributes 50% of China's total rubber production.

**Although, rubber prices have witnessed a good recovery in the first half of 2019, we believe that the momentum for growth in rubber price is limited and expected to slow down in the second half of the year, reaching an average of about 34.5 million/ton (+5%YoY)** due to (1) Chinese automobile market consumption is still in a downward trend with output of only 10.1 million units (-14% YoY) in the first 6 months of 2019, (2) the oversupply situation will continue and the decrease in supply by Thailand, Indonesia and Malaysia will only have short-term effects. In the long term, the demand for natural rubber depends on the demand for automobile tires. According to our view, domestic rubber price is expected to recover following the world rubber price. However, there is a delay of 1-2 months. Currently, domestic rubber price is stable at VND 33 million/ton (equivalent to the average in 2018).

**Vietnam's rubber export in the first 6 months of 2019 increases +9% YoY in volume and +3% YoY in value, however, the export price decreases -6% YoY.** According to the General Department of Customs, rubber exports as of 6M2019 reached 615,881 tons in volume (+ 9% YoY) and 884.23 million USD in value (+ 3% YoY) respectively. China is still the largest rubber importer of Vietnam, accounting for 64% of total export output, reaching 195.8 million (+ 34% YoY).



Source: BSC Research



Source: General department of Customs, BSC Research



**Rubber business in 1H2019 has not shown any positive signs yet.** Amongst business results reported for the first six months of 2019, most of them decreased significantly in term of net profit such as: PHR (-47.8% YoY), DRI (-98.5% YoY), TRC (-22.7% YoY). The reason is that: (1) domestic rubber price did not increase as much as world rubber price and fluctuated around 32-33 million dong/ton (-18% YoY) while cost was around 30 million dong/ton (only -8% YoY), and (2) selling and administrative expenses increased strongly from 12.7% to 35% YoY, making the net profit margin of most businesses decreased.

**Some rubber enterprises transform their business to industrial zone (PHR and GVR).** PHR plans to convert a part of its land into industrial zone in the period of 2019-2020 with projects such as: Nam Tan Uyen (355 ha), VSIP (691 ha), contributing capital to Tan Binh Industrial Zone (240ha) and Tan Lap Industrial Zone (200 ha). GVR plans to hand over zoned land for industrial zones to in the period of 2021 - 2025, which will transfer over 7,000 hectares of land to governments of Dong Nai, Binh Duong, Binh Phuoc and Tay Ninh provinces. DPR intends to convert 500 hectares into industrial zones in the 2021-2023 period. We believe that the profit from conversion of land into industrial zones will be a motivation for long-term growth for businesses with large rubber areas needed to be liquidated, compensating for the rubber business.

#### INVESTMENT OPINION – NEUTRAL

We hold **NEUTRAL** view on stocks of the natural rubber industry as (1) domestic rubber business still performs poorly, and increase in world rubber price does not affect much on domestic price, however (2) enterprises in the rubber industry maintain high dividend payout ratio of 40% - 50% and (3) the trend of converting rubber land into industrial zones will be the motivation for long-term growth for those with large area to be liquidated. We recommend to BUY GVR stock, and to track PHR, DPR.

#### GVR - BUY - Target price 19,675 - Upside + 32%

**Business results 1H2019:** Revenue reached VND 7,611 billion (+ 35% YoY) and net income was VND 1,058 billion (+ 34% YoY), contributed mainly by rubber business (65% revenue) and by wood processing business (14% revenue), and industrial zone business tripled YoY with revenue continued to increase strongly to 8,000 billion (+ 14% YTD).

**Plan 2019:** GVR targets revenue reaches VND 24,224 billion (+ 23% YoY) and NPAT reaches VND 4,150 billion (+ 27% YoY). GVR will hand over 400 hectares of land to local government for Long Thanh airport project and will continue to hand over 1,700 hectares before 10/2020 with compensation price of about VND million 600 /ha. We realize that the group owns 492,000 ha of land, the majority is rubber land, which is likely to be converted into industrial land or real estate with low clearance costs.

**Business result forecast:** We forecast that revenue and net profit of GVR in 2019 will reach VND 23,670 billion and VND 3,728 billion based on the assumption: Rubber revenue will be VND 16,078 billion (+ 32% yoy), gross profit margin will reach 13% based on sales volume of 450 - 460 tons (+ 20% yoy) and rubber selling price of 34.5 million VND / ton (+ 5% yoy) and (2) revenue from timber business will reach 3,818.32 billion VND (+ 7% yoy), with gross profit margin will be 26% based on assumption that export volume + 10% because of positive outlook of timber industry benefiting from reduction on import tax of machinery as part of CPTPP and trade war.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
PHR	1,531	1,189	8,644	6.1	2.9	23.4%	14.1%	68,600	#N/A
GVR	23,670	3,728	846	17.61	1.2	4.7%	3.2%	14,900	19,120
DPR	1,026	185	4,618	9.96	0.76	7.62%	5.22%	43,000	#N/A

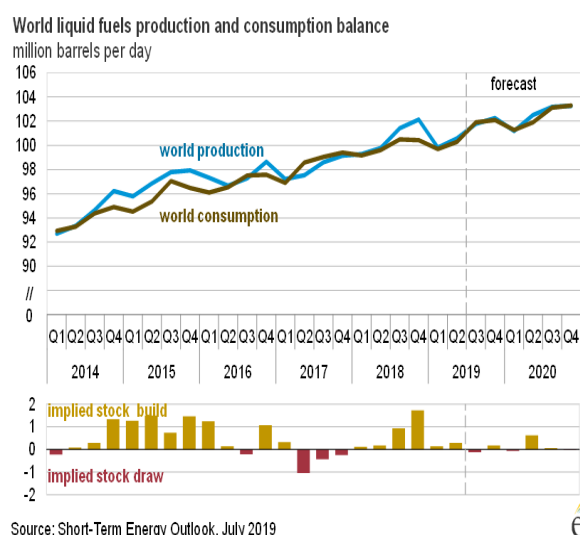
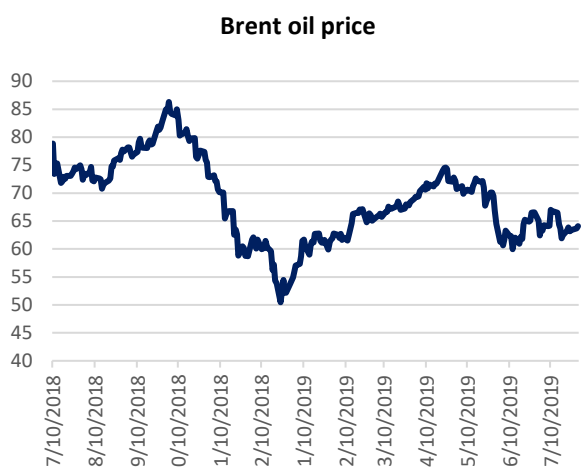
Source: BSC Research

## Oil and Gas Industry [Neutral]

- Oil price (Brent) adjusted in Q2/2019 after the strong recovery of Q1/2019 and fluctuated around 60-70 USD/BBL because of the demand supply balancing.
- OPEC+ stay committed to supporting oil price by cutting off quantity being produced, guaranteeing the demand supply balancing in the context of slow oil consumption.
- Oil production from America keeps increasing mainly due to the supply of shale oil, however, it shows signs of slowing down, maintaining the current oil price.
- 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 price (Brent) adjusted in Q2/2019 after the strong recovery of Q1/2019 and fluctuated around 60-70 USD/BBL because of the demand supply balancing.** According to EIA's April 2017 report, crude oil supply in Q2 / 2019 slightly increased compared to that of Q1/2019 (approximately 2.2 million barrels), specifically reaching the average number of 100.58 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 06/2019 and (2) US sanctions against Iran and Venezuela**. As of 20/07/2019, crude oil price was 65.8 USD/BBL, decreased by 9.86% in comparison to the average number of 2018.

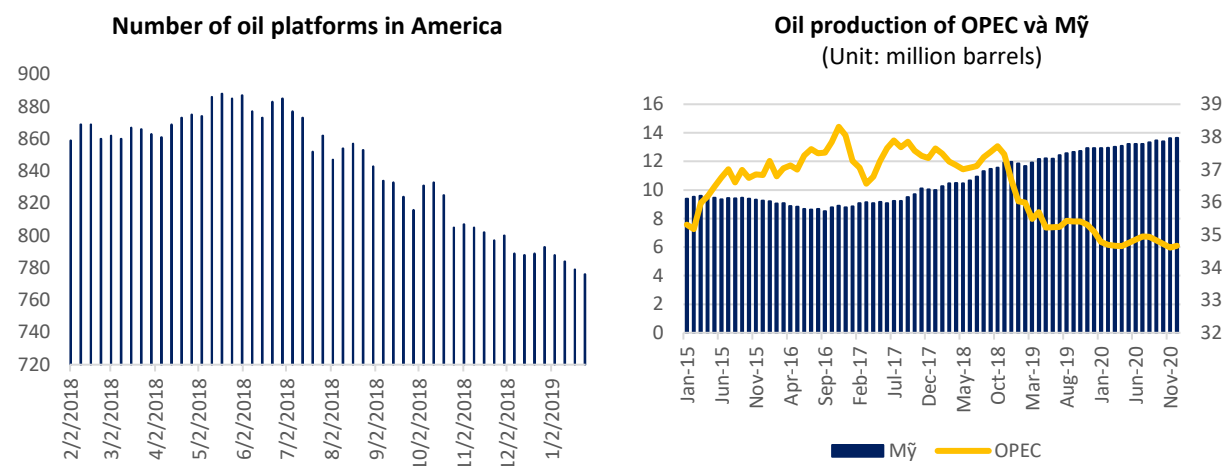
**OPEC+ stay committed to supporting oil price by cutting off quantity being produced, guaranteeing the demand supply balancing in the context of slow oil consumption.** On 03/07/2019, OPEC+ organization including OPEC nations, Russia, Kazakhstan, Malaysia and Mexico have agreed to extend the commitment of cutting off oil production for another 9 months until 03/2020 to support oil price. We believe if OPEC+ members stay committed to the agreement, oil price and demand supply could be stable.



Source: BSC Research, Bloomberg, EIA

**Oil production from America keeps increasing mainly due to the supply of shale oil, however, it shows signs of slowing down, maintaining the current oil price.** The number of oil platforms in

America continues the down trend, being at the lowest level since 02/2018 because companies focus more on profit rather than increasing quantity. However, the quantity of crude oil production of America is still increasing, breaking the record to 12.4 million barrels in 07/2019, however, this trend is slowing down. Considering the above signals, in our opinion, whether there is an increase in the supply of crude oil depends on the production of shale oil in America, the exploitation might be controlled so as to stabilize the current price.



Source: BSC Research, Bloomberg, EIA

The average oil price in Q2/2019 fluctuates around 60-70 USD/BBL as in our previous reports. **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 demand-supply balancing: (1) Quantity of shale oil in America, (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. 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.

#### Oil price forecast (USD/BBL)

	2019F	2020F	2021F	2022F	As of
Morgan Stanley	65	60			07/2019
Citigroup Inc.	78				06/2019
Fitch Group	73				05/2019
JP Morgan	73	64			11/2018
EIA	65.15	62			03/2019
IMF	59.2	59.0			07/2019
Canada Energy Board	67.75	67.75	67.75	68.50	
World Bank	66	65	65.5	67	04/2019

Source: BSC Research

**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.

**PVD (Closed price 29/07/2019): 16,900 VND – BUY – Target price: 20,000 VND – Upside +18.3% - P/E FW 20.3x, P/B FW 0.5x**

**Operating performance is expected to strongly increase from 85% 2018 to 94% 2019.** We forecast operating rate 2020 might reach 98% thanks to (1) Recovery in oil price and (2) PVD signed many contracts for 2020.

**Increasing rental price of oil platforms.** The average rental price of oil platform in 2018 was about 58,000 USD. We expect this rate will increase in 2019 to 60,000 USD. Besides, PVD expect the price might go up by 105 in 2020.

**Bad debt collection and the changes in depreciation method could help improve revenue of PVD in 2019.** (1) PVD changed the depreciation method for oil platforms PVD II, PVD III from 20 years to 35 years, (2) we expect PVD would collect all the bad debt left in 2019 (approximately 200 billion VND) within 2019 and Q1/2020. In 2019, PVD plan to set up 90 billion VND as a provision in case of unsuccessful deb collection.

**Investment theme:** (1) Bad debt collection, (2) Change in depreciation method, (3) increasing oil platform's rental price and improving operating performance.

**PVS (Closed price 29/07/2019): 22,100 VND – BUY – Target price: 25,900 VND – Upside +17.1% - P/E FW 11.3x, P/B FW 0.9x**

**M&C recovered thanks to the stable progress of Sao Vang Dai Nguyet (500 million USD) and Gallaf (320 million USD) projects.** Other projects planned to be deployed in 2020 including Block B O Mon (2020 – 2024), White Lion (2020 – 2024) and Nam Con Son 2<sup>nd</sup> phase (2020). We expect the backlog M&C to be 2.1 billion USD.

**Dissolution of 2D&3D in 2018.** PVS recorded the loss of 376 billion VND in 2018. In 2019, it is expected to set up a small amount of provision. We consider the dissolution of 2D&3D will help to improve the gross profit margin in 2019.

**The contract with SVĐN regarding FSO might contribute to the revenue 2021-2022.** The expected contract value is 176 million USD.

**GAS (Closed price 29/07/2019): 109,000 VND – BUY – Target price: 118,000 VND – Upside +8.2% - P/E FW 16.2x, P/B FW 3.8x**

With the base case assumption, the average Brent oil price 2019 is 68 USD/BBL and the Take-or-Pay mechanism might improve the gross profit margin for GAS. From 20/03/2019, Ministry of Industry and

Trade demanded one price mechanism (46% MFO - for electric power companies). Priorly, there are 2 types of price mechanism: fixed price, increasing 2% per year and 46% MFO.

**Phong Lan Dai Well has been operating since the end of 2018.** The total dry gas reserve of PLD is estimated to be at 3 billion m<sup>3</sup>. We expect Phong Lan Dai Well would increase the production of block 6.1 by 20% in 2019 compared to the last year's, almost recovering for its production shortage.

**SVĐN project is improving GAS's production from 2021.** Nam Con Son 2<sup>nd</sup> phase is planned to start from the late half of 2019, helping to transport approximately 1 billion m<sup>3</sup>/year of dry gas, expecting to receive the first gas flow from Sao Vang Dai Nguyen project from the end of 2020.

The long-term project LNG Thi Vai is one of the most important projects supporting the increase of revenue for GAS. Currently, the project is in bidding progress, expecting to sign EPC in Q3/2019.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
<b>GAS</b>	79,992	12,916	6,748	16.2	3.8	19%	24%	109,000	118,000
<b>PVS</b>	14,740	1,091	2,012	11.3	0.9	5%	9%	22,100	25,900
<b>PVD</b>	5,370	350	912	20.3	0.5	2%	3%	16,900	20,000

Source: BSC Research

# Pharmaceutical [Neutral]

- In the first 6 months of 2019, import value of pharmaceuticals and pharmaceutical materials respectively reached USD 1,378 mil (+ 10.1% YoY) and USD 200.8 mil (+ 10.2% YoY).
- Circular 15 on Regulations on bidding for drugs will positively affect businesses participating in bidding from 2020.
- More than 15,178 drug stores (accounting for 80% of the total number of stores nationwide) have made interconnections with the National Pharmacy Database.

**Imports of pharmaceuticals and pharmaceutical materials grew by + 10.1% YoY and + 10.2% YoY respectively in 1H2019.** According to the General Department of Customs, pharmaceutical imports reached US \$ 1,378 mil (+ 10.1% YoY). The import markets of pharmaceuticals saw mixed increases and decreases: France (192 mil USD, +26.4% YoY); Germany (146 mil USD; -8.1% YoY); India (120 mil USD, -5.1% YoY). For pharmaceutical materials, Vietnam's import value reached 200.8 mil USD (+ 10.2% YoY). China continues to be the main exporter of raw materials to Vietnam with value of 129.8 mil USD (+ 12.9% YoY).

**On July 11, 2019, the Ministry of Health issued Circular 15 on Regulations on bidding for drugs at public health facilities.** Circular 15 will take effect from October 1, 2019 and supplement regulations on bidding packages. BSC expects that Circular 15 will promote ETC channel bidding for domestic enterprises with production processes compliance to EU - GMP standards (IMP, PME, DBD).

**More than 80% of drug stores across the country have connected to the National Pharmacy Database.** According to information from the Ministry of Health, as of April 5, 2019, 15,178 drug stores (accounting for 80% of the total number of stores nationwide) have made interconnections with the National Pharmacy Database. BSC believes that the connection to the Pharmacy Database will provide information for residents as well as regulatory agencies, and will not cause significant changes in drug stores operations.

## INVESTMENT OUTLOOK – NEUTRAL

We maintain our NEUTRAL recommendation on pharmaceutical sector. In 2019, BSC believes that the drug store channel will continue to grow slowly due to fierce competition, along with the application of Prescription drug sales changing people's buying habits. Meanwhile, the Bidding channel is still growing in terms of drug output as the proportion of people with insurance continues to increase, and the Bidding Law will give priority to domestic pharmaceutical enterprises with good quality drugs. Therefore, BSC expects businesses with high proportion of ETC (IMP, PME, DBD) to benefit, while OTC businesses (DHG, TRA) will slow down and shift to ETC.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
DHG	4,411	679	4,678	21.5	4.7	15.5%	21.8%	100,600	N/A
PME	1,919	318	4,247	11.6	1.9	12.0%	15.0%	49,350	N/A

Source: BSC Research

## Electricity [Neutral]

- Commercial electricity output grows by 10% year over year.
- Electricity transmission capacity has not kept pace with new generation capacity, which is an opportunity for electricity construction and installation enterprises.
- El Nino caused drought, affecting hydropower output and pushing the price of electricity in the competitive market up 6.9% year over year.
- We adopt a **NEUTRAL** view on the electricity industry.

**Commercial electricity output has grown steadily at 10% over the same period.** According to EVN, 6T2019 total electricity output reached 117.38 billion kWh (+ 10.6% YoY), of which commercial electricity reached 100.9 billion kWh (+ 10.01% YoY). In the first half of the year, EVN has commenced 72 works and completed 57 power grid projects from 110 - 500 kV. The total source capacity of the next June 2019 is 53,326 MW (+ 13% YoY).

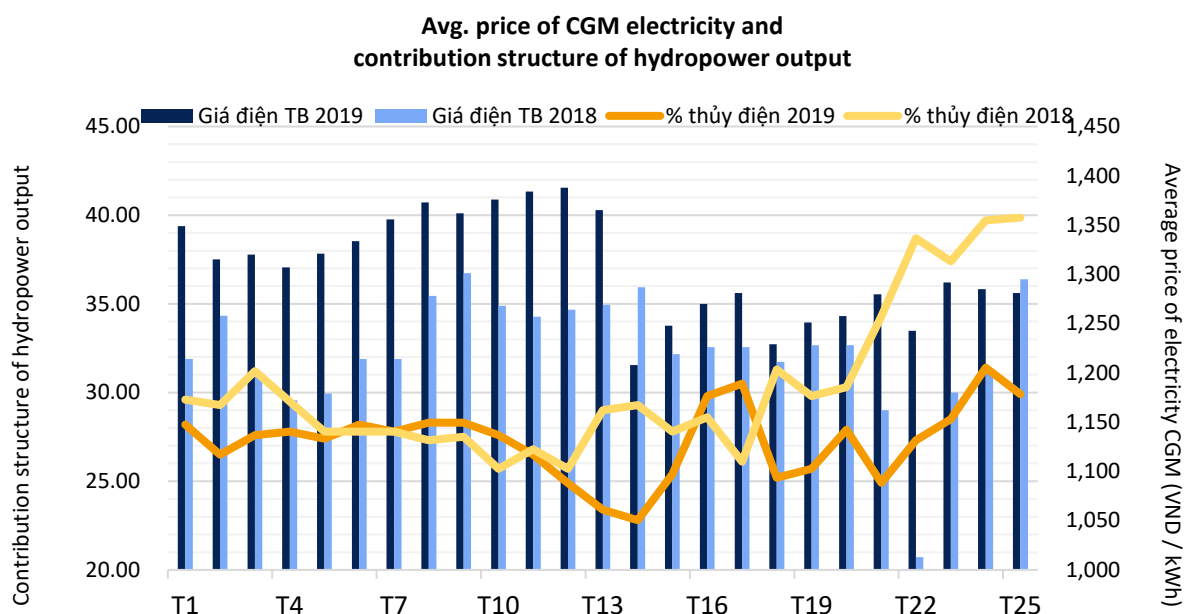
**Power transmission capacity has not kept up with new generation capacity, which is an opportunity for electricity construction and installation enterprises.** Until June 30, 2019, about 4,464 MW of solar power have been successfully connected to the grid. Ninh Thuan and Binh Thuan provinces, in particular, contribute 2,027 MW of solar and wind power. It is expected that by December 2020, the renewable electricity capacity in these two provinces will reach 4,240 MW. However, development rate of transmission grid capacity has not kept pace with capacity growth in this area due to two main reasons:

- The time to construct power transmission lines (2 years) is longer than that of the solar power projects (3-6 months), causing the transmission overcapacity
- According to Decision 11 / 2017QD-TTg on incentive mechanism for solar power project development in Vietnam, Point i, Clause 1, Article 13, Ministry of Industry and Trade is allowed to approve additional solar power projects with capacity of less than 50MW without needing to submit to the Prime Minister additional power planning, while the construction of power transmission lines must be planned and calculated based on planned generation capacity.

For electricity construction businesses, this can have a positive impact in the next one to two years when: (1) pressure to boost the progress of electricity transmission infrastructure project will induce EVN to have special mechanism for major projects and (2) the rate of revenue recognition of existing power projects of EVN will be accelerated faster than expected so that the renewable power projects can timely operate at the right capacity.

**El Nino causes drought affecting the electricity output of hydroelectricity.** Up to July, there were 9/25 hydropower reservoirs in the Central - Central Highlands at the horizontal level of dead water (including reservoirs of Song Ba Ha, Thac Mo, Song Tranh 2 and Vinh Son B hydroelectricity reservoirs). ...). The shortage of water in the hydropower reservoirs is about 29.3 billion m3, equivalent to 12.49 billion kWh, approximately equal to the contribution of hydroelectric power in 10 weeks. For electric businesses on the floor, in general, the lack of water to the reservoir will affect the profitability of hydropower businesses. However, BSC believes that the lack of hydropower contribution in the total electricity mobilization structure this year will push electricity prices in the competitive generation market (CGM) to a higher level. The average purchase price of EVN in the competitive power generation market in 2019 is expected to increase by 6.9% over the same period to VND 1,307 / kWh.





Source: National Load Dispatch Centre, BSC Research

### INVESTMENT OUTLOOK – NEUTRAL

Với With the hydrological situation of 2019, we maintain a **NEUTRAL** view on the electricity industry due to the clear differentiation of stocks in the electricity industry:

- **For big hydroelectric stocks (hydropower with seasonally regulating reservoirs):** BSC has negative views in 2019 due to unfavorable hydrological condition. This situation may continue for the next few years since the Elnino cycle usually lasts 5-7 years.
- **For thermal power stocks:** Thermal power stocks have generally benefited from the increase in electricity prices in the competitive electricity market compared to last year, but for POW, the company is currently renegotiated some of factories which can be result in a significant drop in contract prices, so BSC maintains a neutral viewpoint for 2019 and 2020.
- **For electric construction stocks:** BSC keeps a positive view based on rising construction demand with large backlog for PC1.

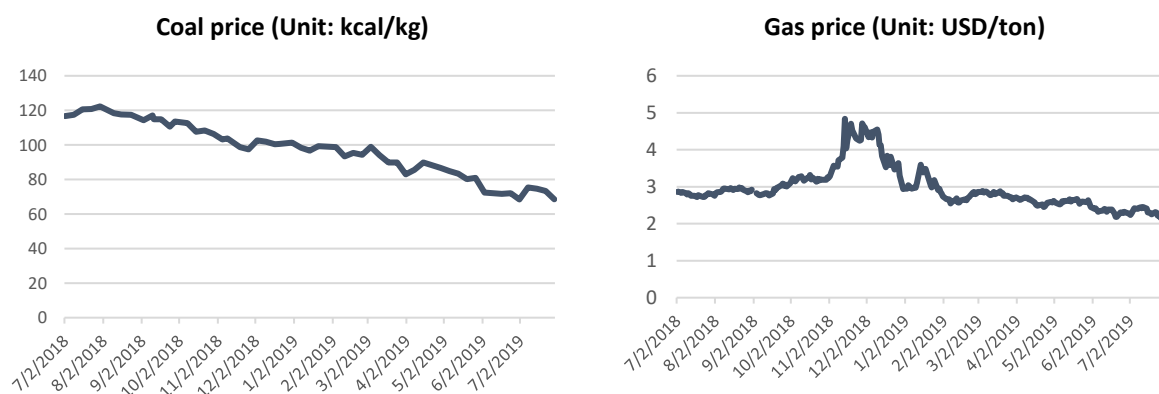
Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
GEX	15,524	1,453	5,114	4.38	0.79	6.7%	16%	22,400	33,400
POW	32,155	3,428	1,462	9.61	1.06	5.4%	12%	14,050	17,830
REE	5,414	1,985	6,593	4.94	0.91	9.6%	18%	32,600	38,200
PC1	6,208	414	3,118	5.53	0.59	5.5%	11%	17,250	36,600

Source: BSC Research

## Tiles [Neutral]

- 1H2019 fuel price decreases, improving gross profit margin: coal price -21% YtD, gas price -14% YTD.
- We maintain a **NEUTRAL** rating on ceramic tiles stocks in 2018.

**Fuel price of 1H2019 decreased, improving gross profit margin.** Coal price -21% YtD, gas price -14% YtD helped reduce COGS of tiles enterprises. Many businesses increased gross profit margin by 2-3% such as VHL from 14% to 17%, VIT from 9% to 13%, VTA from 12% to 14%. In addition, businesses also enhance technology improvement, developing differentiated new products to keep price advantage.



Source: BBG, BSC Research

**Domestic production capacity continued to maintain at a high capacity level exceeding demand while the current civil construction industry showed signs of slowing down.** According to the Institute of Construction Materials, in 2017 the total production reached 821 million m<sup>2</sup>/year, while the total consumption was more than 500 million m<sup>2</sup> / year. Most businesses are currently running at full capacity. We see positive signals from a number of niche market-driven businesses to solve the output problem when the domestic market is oversupply such as VGC and VIT to research and launch new products with export potential up to 70% of output.

**1H2019 business results were differentiated:** Revenue increased in some granite tile producers such as CVT + 4% YoY and VIT + 23% YoY. While ceramic and clay tile businesses saw a slight drop of VHL - 5.6% YoY because the market was relatively saturated.

### INVESTMENT OUTLOOK – NEUTRAL

We maintain our **NEUTRAL** view on ceramic tiles stocks. BSC believe that 2019 will continue to be a difficult year for the industry because the industry is still in oversupply. However, the reduction of input fuel prices will help improve the profitability of businesses while many businesses are looking to export to niche markets by developing technology, and improving product quality. We recommend **TRACKING** with CVT.

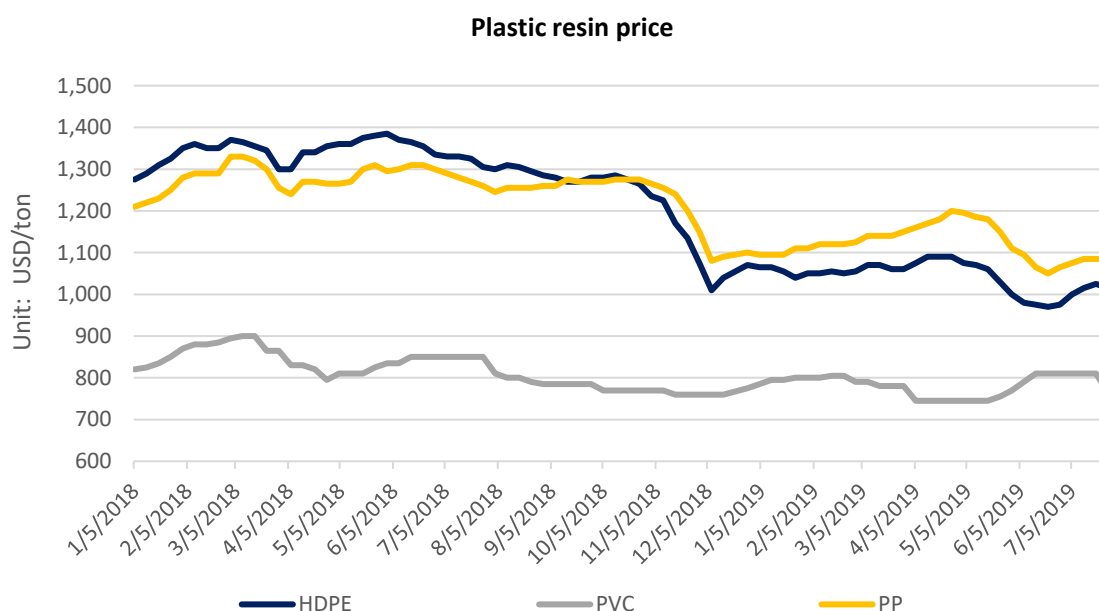
Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
CVT	1,566	170	4,413	5.59	1.26	12.5%	25.0%	19,700	26,500

Source: BSC Research

## Plastic [Neutral]

- Plastic resin prices decreased in line with the downtrend of oil price: PVC -8.0% YoY, PP -11.8% YoY and HDPE -22.1% YoY.
- The volume of plastic resin imported in 6M2019 reached 2.98 million tons (+ 11.8% YoY). In 5M2019, imported PE volume +22.3% YoY, PVC +21.8%, but PP -4.7%.
- We maintain **NEUTRAL** rating on plastic sector.

**Plastic resin prices decreased in line with the downtrend of oil price: PVC -8.0% YoY, PP -11.8% YoY and HDPE -22.1% YoY.** Thanks to the lower average price of Brent crude oil in 6M2019 of 65.8 USD/barrel (-7% YoY), resin prices have dropped, especially HDPE and PP that are highly correlated with oil prices. We believe that the downtrend of oil and plastic resin prices will favor the profit margins of plastic firms, especially in construction plastic companies that can not pass an increase in raw materials to the customers. However, we also note that the high competition among construction plastic firms may force them to increase discounts for agents, so restrict them from improving profit.



Source: Bloomberg, BSC Research

**The volume of plastic resin imported in 6M2019 reached 2.98 million tons (+ 11.8% YoY),** of which PE and PP accounted for nearly 55%. In the first 5 months of 2019, PE imports soared by 22.3% YoY, PVC rose by 21.8% YoY while PP -4.7% YoY. The average import price of plastic resins in 6M2019 decreased by 10% compared to the same period of the previous year, reflecting the general trend of the global resin prices.

### INVESTMENT OUTLOOK - NEUTRAL

We maintain our **NEUTRAL** view of the plastics sector in the context of slow-down growth and severe competition, especially in the construction plastic group. However, the decreasing plastic resin and oil prices will support the profit of plastic enterprises, enhancing their position as compared to the high oil price period of 2017-2018. Therefore, we continue to keep track of and update the operation of plastic firms in the next quarters. We recommend **BUY** for BMP, **TRACKING** for AAA and NTP.

**BMP - BUY - Target price: VND 57,300 / share - Upside: + 17.4%**

### **1H2019 business results**

- Consumed volume in 6M2019 increased by 20% YoY. PVC products comprised 80% total output (+24% YoY), PE products (5% volume, -15% YoY), PPR ones (2% volume, +150% YoY), and the remaining 13% came from pipe accessories. Total revenue 2,111 billion (+ 15.3% YoY).
- Although the average price of PVC was flat in 6M2019 and the price of PE decreased slightly, BMP's gross profit margin decreased by 2%
- The company maintains the discount policy for agents, but it has adjusted the transporting policy since January 15, 2019. The new policy allows BMP's agents to self-transport the products to their customers at the fixed rate of 2% sales, which generated an additional VND 64.97 billion in selling expense in 1H2019 (equivalent to 3% of revenue). As a result, the net profit margin plunged from 13.3% to 9.9%.

**Assessing the consumption and competition in 1H2019:** The representative from BMP said that the market recorded some positive signals in consumption thanks to the weakened sales pushing campaign of some big competitors such as HSG. It was argued that this might contribute to BMP's volume growth in 1H2019.

**BSC forecasts that the net revenue of BMP will reach VND 4,184 billion (+6.8% YoY)** assuming sales volume of 104 thousand tons (+10% YoY), stable selling price and unchanged discount policy. Operating profit margin decreased from 15.6% to 14% due to the impact of selling expenses during the year. **Net profit is forecast at 408 billion (-4.6% YoY), equivalent to EPS = 4,480 VND/share, P/E fw = 10.6x.**

### **AAA - TRACKING**

#### **1H2019 business results:**

**Revenue was 5,085 billion (+ 67% YoY), profit before tax of 438 billion VND (3.3 times as much as that of the same period),** fulfilling 51% and 69% of the yearly target respectively

- Plastic packaging segment (40% of revenue, + 20.4% YoY): Output reached 45,800 tons (+ 29% YoY) mainly thanks to the growth of sales to Japan (32% of revenue, + 40% YoY); America (10% of revenue, + 82% YoY).
- Trading segment (46% of revenue, + 23.9% YoY) recorded improving gross profit margin after signing a contract of distributing PP with Binh Son Refinery.
- Industrial park (IP) segment (13% of revenue, newly emerge in 1H2019): The occupancy rate by the end of 1H2019 reaches 59% (the plan for 2019 is 40%).

**2H2019 business plan:** (1)The volume of the plastic package in 2H2019 will be 50,000 tons (equivalent to the same period). The occupancy rate of the IP is up to 90% (equivalent to an increase of 13 ha leasing area). The planned revenue is VND 4,915 billion, net profit of VND 176 billion (from core business only). **Based on the business outlook and the company's achievement in 1H2019, we assess that AAA is likely to exceed the profit plan of 2019.**

**In the coming years, AAA plans to promote biodegradable products** (packaging, knives, utensils, etc.), with the target of contributing 50-60% of revenue in 2024. Its parent company - An Phat Holdings (

APH) has just acquired a Korean company that produces PBTA (a biodegradable material). In the coming time, APH will invest in a factory of biodegradable plastic resins (capacity of 20,000 tons/year, CAPEX 20 million USD). The first phase of the project with the capacity of 5,000 tons and CAPEX of 6 million USD will be constructed soon to operate at the end of 2020, helping AAA to self-control input for production and reduce expenses.

**The 180-ha IP project in Nam Sach, Hai Duong:** AAA said that after receiving official investment approval, it will invest in this project. The expected revenue of the project will be VND 2,500 billion.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
BMP	4,275	407	4,480	11.9	1.41	13.1%	15.5%	48,800	57,300
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; (\*): AAA's plan

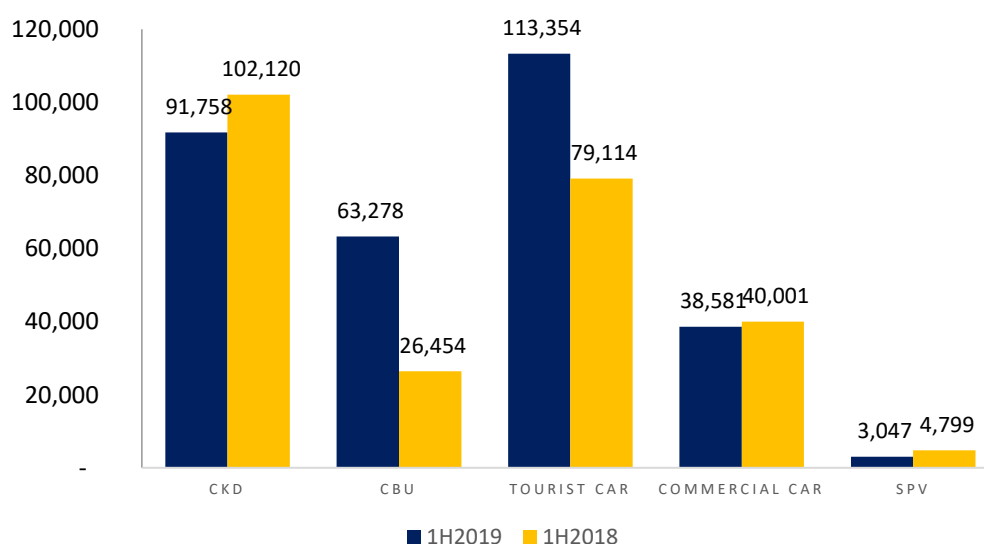
## Automobile [Neutral]

- Sales of Vietnam's automobile Industry during 1H2019 reached 154,273 units (+21% YoY).
- Pickup's registration fee increased leading to the increase in the vehicle's price.

**Sales of Vietnam's automobile Industry during 1H2019 reached 154,273 units (+21% YoY).** In term of origin, sales of domestic products decreased by -10% YoY while it is an increase for imported products +203% YoY. By functions, tourist automobile -35% YoY; commercial automobile -1,5% YoY and special-purpose automobile -32% YoY. In our opinion, the large number of imported vehicles is due to (1) pricing decreases because of competition and (2) supply increases due to Decree 116 being handled, allowing automakers to continue importing vehicles as usual, however, we notice the growth rate would return to the normal rate, not as dramatically as it was in 1H2019. Imported vehicles take over the market share of domestic assembled automobile, commercial automobile and special-purpose automobile. We suppose the business results of commercial and special-purpose automobile would be unpromising because in 2015, the Government decided to restrict loading allowance, increasing the renewal rate leading to rocketing sales number. After that, the demand for commercial vehicles started to decrease gradually year after year, which is expected to continue for another 2-3 years until the next phase of loading allowance restricted.

**Pickup's registration fee increased leading to the increase in the vehicle's price.** Decree 20/2019 is modified, adding the regulation of registration fee, changing the price calculation of pickup and van vehicles: vehicle under 5 seats, carried trade amount under 1,500 kg, the 1<sup>st</sup> registration fee would be 60% of that of motorcar. From the 2<sup>nd</sup> submission of registration fee, it would be 2%, nationally applied. In our opinion, the regulation would increase the pickup truck's price, affecting negatively on its revenue.

**Volum sales 1H2019/1H2018**



Source: VAMA, BSC Research

**Q2/2019 business results,** revenue and net income of enterprises in the industry 8,210 billion VND (+25.6% YoY) and 2,224 billion VND (+7.1% YoY) respectively. In which, 2 car distribution companies (SVC and HAX) grew in revenue, however, profit-after-tax strongly decreased compared to the data of last same period SVC (-36.6% YoY) and HAX(-20.1% YoY). The reasons were because the supply of imported products rocketed, increasing the competition among automakers, leading to a decrease in

gross profit of automobile distribution. In contrast, VEA has a decreasing revenue of -31.3% YoY because of ineffective core business: commercial vehicles, however, profit-after-tax went down by +14% thanks to joint venture companies' dividends and a dramatic increase in automobile sales of 1H2019 compared to the last same period (Honda +60% YoY, Toyota +44% YoY and Ford +62% YoY).

### INVESTMENT OUTLOOK– NEUTRAL

We evaluate **NEUTRAL** for automobile stocks. Imported Automobile is expected to show positive results due to (1) That Trade Agreements decrease tax rate of imported cars to 0% would increase consumption, (2) Increase in the supply of imported cars after Decree 116 being handled and (3) the growing potential of the industry is still big when the car ownership rate is only 2%, lower than that of other countries in region (Malaysia - 82%, Thailand - 51%, Philippines - 6%). However, commercial automobile is still in difficult situation due to (1) the restriction on loading allowance of the Ministry of Transport in 2015 (mentioned above), (2) many companies still could not meet the requirement of Euro 4 emission gas and (3) Price of vehicles using Euro 4 engine is higher than ones with Euro 2 engine about 200 – 300 million VND /unit, decreasing the demand.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
VEA	7,424	8,288.2	6,913	7.6	2.83	21%	33%	63,000	#N/A

Source: BSC Research

## Tires [Neutral]

- BSC forecast that tire production in 2019 will grow + 9.6% YoY.
- Tire manufacturers face fierce competition with Chinese radial tires and FDI enterprises.
- Raw material price is expected to increasing the cost of tire businesses (account for 80% of COGS).
- DRC put the Radial factory into operation to increase capacity in 2019 to help reduce fixed cost per products while CSM increases the capacity of Radial factory to 700,000 tires/year.
- Vinachem plans to divest from DRC, CSM and SRC, reducing its ownership rate to 36% in 2018.
- We keep the **NEUTRAL** view of Tire sector in 2019 due to (1) Raw material price is expected to reduce the improvement of gross margin; (2) Increasing capacity of Radial tire group; (3) High competition makes tire businesses difficult to increase selling prices. We recommend **BUY** for DRC.

**Tire production in 2019 in the whole industry, according to BSC's estimate, will grow 9.6% YoY.** In 6M2019, automobile production reached 154,955 vehicles (+23.3% YoY), of which imported cars increased strongly +232% YoY, domestic assembled cars -14% 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 increasing foreign cars. We expect that in 2019, automobile sales will increase by +14.3% YoY with the expectation of (1) import tax rate of 0% in ASEAN, reducing car prices in Vietnam; (2) imported cars rebound 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 future automobile production growth.

**The ability to increase selling prices due to high competition makes it difficult for businesses to increase selling prices** to compensate for fluctuations in raw material prices. In 2018, the average selling price of enterprises only increased by 3% -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, around VND 33-34 million/ton and (2) chemical price + black coal is likely to decrease in 2019.** Besides, oil price is forecasted (according to BSC's macro report) at 68 USD/barrel (-10% YoY) to help reduce the price of artificial rubber (Natural rubber and artificial rubber contributed about 40% of COGS). In addition, the price of chemicals + black coal (which accounts for about 20% of COGS) is 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 is expected to divest from tire companies (DRC, CSM, SRC) to reduce its ownership rate to 36% in 2018.** Currently, the state has divested from DRC in 2Q2019, but failed in Q2/2019.



**INVESTMENT OUTLOOK – NEUTRAL**

We keep our **NEUTRAL** view of Tire industry in 2019 due to (1) raw material price expected to reduce improvement in gross margin, (2) increase capacity of Radial tire group of DRC and CSM; (3) high competition makes tire businesses difficult to increase selling prices. We recommend BUY for DRC.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
<b>DRC</b>	3,405	135	1,020	18x	1.4x	5%	8.8%	18,400	23,600

*Nguồn: BSC Research*

## Steel [Neutral]

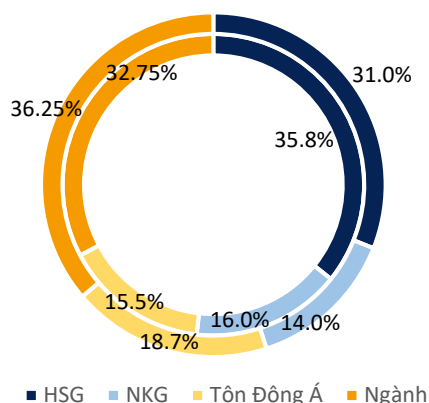
- Construction steel consumption increases by 22.9% while the overall price level decreases.
- Steel pipe consumption hardly grows when galvanized steel sheet drops by 5.3% due to lower export volume.
- Iron ore surged and will set a new price ground in 2019.
- We maintain a **NEUTRAL** view on the steel industry.

### Construction steel consumption output increases with lower price level than the same period.

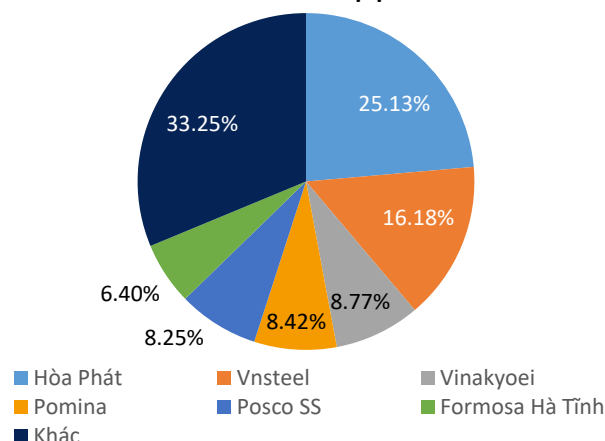
Construction steel consumption output 6M2019 reached 5.3 million tons (+ 8.96% YoY), but the overall price of construction steel decreased compared to 2018 due to (1) the demand for construction showed signs of slowing down when the Southern real estate projects have problems with construction permits and (2) infrastructure spending has not shown any positive signs. Hoa Phat continued to lead with 25.1% market share (+ 2.8% YoY) followed by VNSteel, Vinakyoei and Pomina.

**Steel pipe consumption remains stable; galvanized steel sheet sold volume is down due to lower export.** Steel pipe consumption 6M2019 reached 1.19 million tons (+ 1.4% YoY) of which Hoa Phat's consumption output increased by about 14% due to taking HSG and SeAH's market share. Galvanized steel sheet consumption reached 1.78 million tons, down 5% compared to the same period, mainly due to a decrease in export output due to the protection trend of this product in Southeast Asian countries. Leading market share businesses are HSG (31% market share), Ton Dong A (18.7% market share) and NKG (14% market share).

Market share of galvanized steel 1H2019



Market share of steel pipe 1H2019



Source: VSA

**Iron ore increased sharply and is forecast to set a new ground in 2019, an average of 85-95 USD/ton, according to BSC forecast.** The Vale dam failure in Brazil in January and the impact of Hurricane Veronica in Australia caused the world's three largest iron ore miners to cut production, pushing ore prices to their peak in the last five years. As of July 24, 2019, the price of 62% Fe ore exported in Australia to China was at USD 116 /ton and the average in 2019 (Ytd) was USD 95.5 /ton compared to the 2018 average price of USD 68.5 / ton. In the short term, the price of ore will not fall deeply and it is expected to remain above USD 100 / ton as (1) Vale's remaining supply from dams is forecast to be only partially offset by the end of the year, (2) China's iron ore inventory is at record lows will be a support for the decline in ore prices. The price of ore may then continue to adjust to a more

equilibrium threshold for both ore producers and steel producers. BSC forecasts prices ore will remain above USD 100 / ton over the next one to two months as the price of ore will be supported by buying from Chinese steel enterprises in the context of China's ore quantity of inventory are at record lows and then it will decrease to USD 95 / ton in 2019. For the whole year of 2019, BSC estimates that the ore price will be in the range of the USD 85 - 95 / ton. For 2020, BSC forecasts that the price of ore will be able to cool down to USD 80 - 85 / ton when Vale can gradually offset the output in the closed mines.

**HRC prices cool down when consumption of cars in China and the world shows signs of slowing down.** After falling earlier in the year due to concerns about a trade war, the price of many steel exporting countries dropped and the poor business results of Chinese automakers and home appliances (two major consumer of HRC), HRC price rebounded in the II quarter and maintained a price level of USD 510 / ton. Most recently, the domestic and imported HRC offered prices in September increased when Formosa announced a cut of HRC output from 16-20% in August. Currently, the HRC price in September of Formosa is offered at about USD 530 - 540 /ton.

**Coke coking coal price may cool down in the second half of 2019.** Although there is not much change in the first half of 2019, coke coal price is expected to cool down in the second half of 2019 when the supplies from Mongolia, Russia were increased to make up for the shortage of coal from China. At the moment, coke coking coal price from Russia is traded at USD 190 - 195 /ton.

**Stagnant construction activities put downward pressure on construction steel prices in the context of high competition.** In the first 6 months of the year, construction steel price generally decreased over the same period but recovered from the bottom at the end of 2018. To forecast construction steel price in 2019, BSC proposed 2 scenarios. Scenario 1 with high probability: non-domestic construction demand does not make great progress and there are no big negative surprises from the US-China trade war, steel price will be flat at 12.3-12.5 million VND /ton and may fall slightly by the end of Q4 when Hoa Phat's Dung Quat factory officially goes into commercial operation. Positive scenario: the real estate market in the South will overcome difficulties by the end of 2019, resulting in a large demand for construction, the domestic steel price is supported and will increase to about 12.6 - 12.7 million VND / ton.

## INVESTMENT OUTLOOK – NEUTRAL

For steel industry, BSC maintain a **NEUTRAL** view due to (1) the demand for construction steel has not yet prospered when the real estate market and infrastructure disbursement showed no signs of acceleration and ( 2) both construction steel and corrugated iron capacity are in surplus in the short term. However, in the medium term, BSC expects steel demand will increase when disbursement of public investment has new changes and the real estate market is more active in 2021.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
HPG	66,389	7,064	2,559	8.64	N/A	11.3%	16.7%	22,100	21,752
NKG	17,275	131	720	N/A	N/A	N/A	8%	6,100	N/A
HSG	36,142	595	1,550	N/A	N/A	N/A	10%	7,300	N/A

Source: BSC Research

## Aquaculture [Neutral]

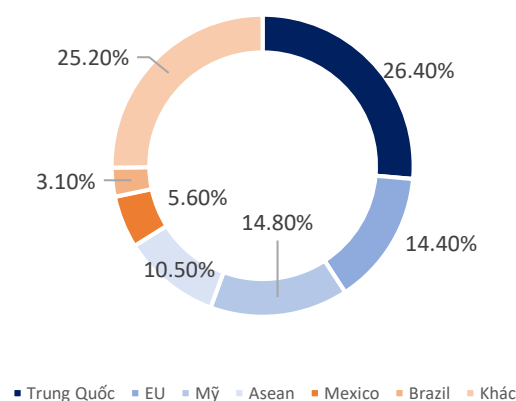
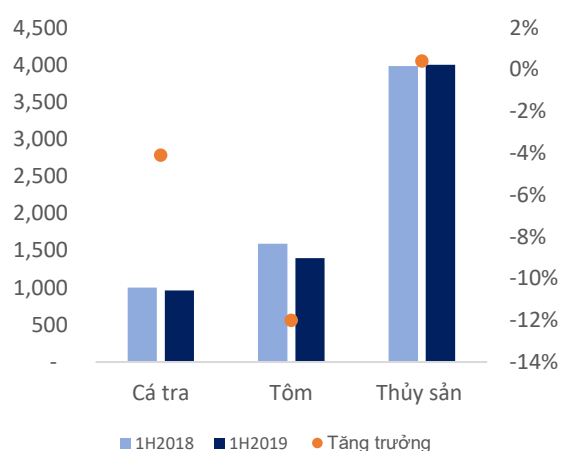
- In 1H.2019, shrimp export value reached USD 1.4 bil (-12% YoY).
- In 1H.2019, pangasius export value reached USD 961.6 mil (-4.1% YoY). US market recorded a decline (-27.9% YoY) with export value about USD 141.9 mil.
- The signing of EV-FTA agreement will benefit Vietnam's seafood industry (especially shrimp industry) when tax rates decrease.

**Shrimp exports continued to decline in the first half of 2019 due to weak demand.** Shrimp export value in 1H2019 reached USD 1.4 bil (-12% YoY). In particular, the EU market - the largest shrimp import market of Vietnam recorded a decline of 25.9% with a value of 300.5 million USD. Low selling prices together with weak consumption demand made shrimp products not grow as expected.

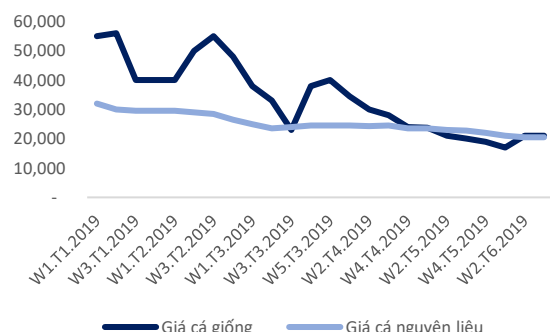
**At the end of 1H2019, pangasius recorded a decline after a strong growth period in 2018.** The export value of Pangasius reached USD 961.6 mil (-4.1% YoY). In particular, the US market recorded a sharp decline with a total export value of US \$ 141.9 million (-27.9% YoY). (1) Abundant supply of raw materials over the previous year and (2) high inventories in export markets are main reasons for the decline in exports.

**In 1H2019, seafood export value reached USD 4 bi; (+0% YoY), in which, shrimp about USD 1.4 bil (-12% YoY), pangasius of USD 961 mil (-4% YoY).**

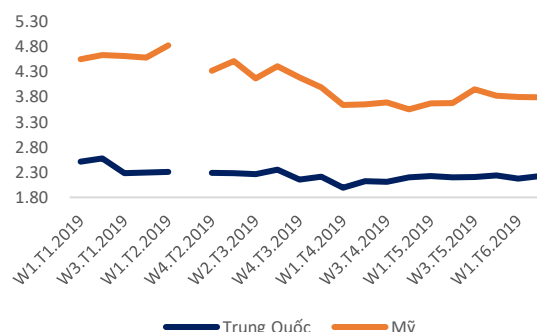
**Proportion of pangasius export markets in 1H2019: China continued to be the leading market in terms of market share, the US market dropped to the second position.**



**In 1H2019, fingerling and material pangasius prices continue to be in downtrend**



**Selling prices to US and China are also declining.**



Source: BSC Research

**The signing of EVFTA will benefit the fisheries sector.** After EVFTA is signed, the import tax of raw shrimp (frozen blue lobster; freshly frozen PD shrimp; ...) to EU will be 0% from the current rate of 12.5%, shrimp product tax (PD frozen tiger shrimp, shelled tiger shrimp, ...) to 0% from the current 20% in one year. Vietnamese shrimp exporters will be benefited due to the strong reduction of tax rate and large market of EU. However, for pangasius products, BSC believes that the impact of tax reduction in each year is not significant because the current tax rate is low, and the time to reduce to 0% is quite long (3 year reduced from 9% to 0%).

## INVESTMENT OUTLOOK - NEUTRAL

We maintain a **NEUTRAL** rating for the aquaculture sector. In 2019, BSC believes that it is difficult to expect sudden growth in seafood corporates due to high base in 2018. For pangasius enterprises, BSC believes that selling price will be difficult to maintain the increase of 30-35% in 2018. Meanwhile, the expanded pangasius supply (expanding farming areas, increasing factory capacity) will create pressure on the selling price. In Q1/19, selling price movements were in line with our forecast: Raw fish price dropped, making market prices (excluding the US) slightly decrease. For shrimp product, the supply in major shrimp exporting countries continues to be plentiful. BSC believes that the selling price of shrimp businesses will continue to move sideways in 2019.

**VHC – BUY– TP 102,000 VND/cp – Upside 16.7% - P/E fw = 6.1**

Accumulated 1H2019, VHC recorded revenue and EBT of VND 3,814 bil (-5.6% YoY) and VND 795 bil (+ 55.6% YoY) respectively and gross profit margin reached 22.3%. In particular, revenue and EBT of Q2 reached VND 2,024 billion (-9.6% YoY) and VND 449 billion (+ 12.8% YoY). The export value of VHC reached USD 158 mil(+ 0% YoY). After benefiting in Q1.2019 thanks to the high selling price and lower input costs, VHC is starting to suffer negatively in the context that the pangasius industry is more difficult. The two main markets of Vinh Hoan (USA and China) recorded negative growth in 1H2019 due to low import demand.

Regarding the outlook of 2H2019, we believe that the export situation will be better in the last quarter of the year when the seasonal demand is higher. For 2020, the company's usage of new farming areas

will increase the output and the rate of active material controlling. BSC forecasts VHC's 2019 revenue of VND 9,036 bil, EAT of VND 1,328 bil, EPS 2019 = 14,340, P/E fw 2019 = 6.1.

#### **ANV – TRACKING – P/E fw = 10.46**

Accumulated 1H2019, ANV recorded revenue and EBT of VND 1,975 bil (+ 17.3% YoY) and VND 408 bil (+ 89.7% YoY) respectively with a gross profit margin of 25.4%. In particular, revenue and EBT of Q2 reached VND 1,064 bil (+ 22.6% YoY) and VND 177 bil (+ 39.4% YoY). ANV's export value reached 66.6 million USD (+ 11% YoY). ANV's China and Southeast Asia markets recorded strong growth with growth rates of 53% and 30% respectively. The company said it will focus on developing China - Hong Kong market in the near future. The company has signed an exclusive cooperation with Fenglei (a wholesale enterprise in China) to distribute pangasius products under Nam Viet's brand.

The company is currently constructing Binh Phu farming area with an area of 600 ha. This farming area is expected to serve the Chinese market, expected to be harvested from November 2019. The company expects the farming area will contribute 150,000 tons of fish by 2020 and increase to 250,000 tons by 2021.

#### **MPC – TRACKING – P/E fw = 10.46**

By the end of Q1.2019, MPC recorded revenue and EBT of VND 3,363 bil (+ 9.5% YoY) and VND 90 bil (-30.4% YoY), respectively, with gross profit margin of 10.2%. MPC's export value reached USD 286 mil (+ 1% YoY), of which, the US market reached USD 110.8 mil (+ 12% YoY), the Japanese market reached USD 55 mill (-15% YoY) and the EU market reached USD 38.4 mil (+ 23% YoY). The accumulated export volume of 6M.2019 reached 25,658 tons (+ 3% YoY) but the selling price decreased slightly (-2% YoY). BSC believes that Minh Phu is still affected by the unfavorable business environment of the shrimp industry. However, we expect the company will benefit when the EV - FTA agreement comes into effect and the shrimp tax rate is reduced to 0% from 12.5% (fresh lobster, fresh PD shrimp) and from 20% ( frozen PD shrimp) for 1 year.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price	Upside
<b>VHC</b>	9,036	1,329	14,340	6.1	1.7	19%	29%	87,300	102,000	16.8%

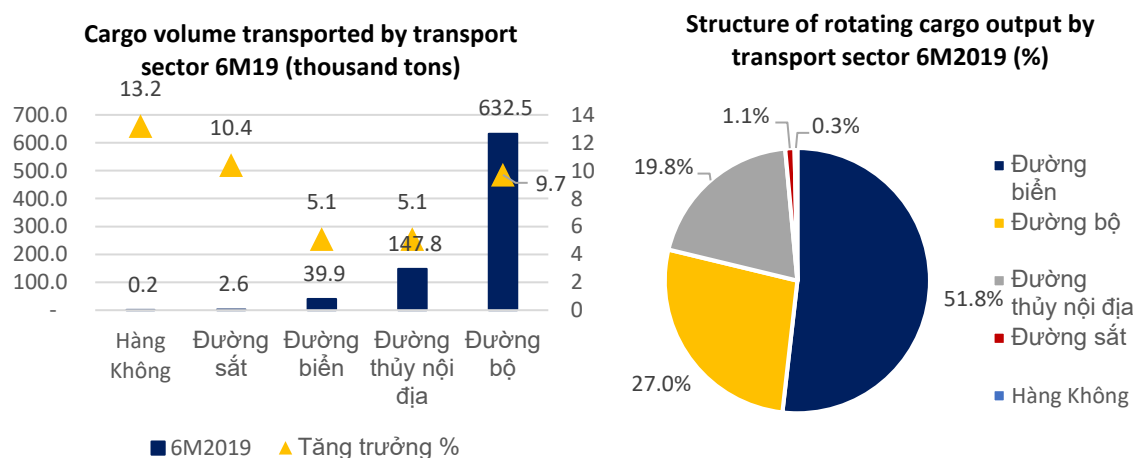
Source: BSC

## Transportation [Neutral]

- Passenger carriage in 6M2019 reached 2,496 million (+ 10.7% YoY), of which passenger and air transport had the highest increase of 10.9% YoY and 8.3% YoY respectively.
- Transported cargo volume grew steadily to 823.051 million tons (+ 8.5% YoY) in 1H2019 according to GSO.
- The IMO emissions convention will greatly affect the shipping industry in 2019-2020.
- BSC maintain **NEUTRAL** recommendation with Transportation sector. We recommend **BUY** for PVT.

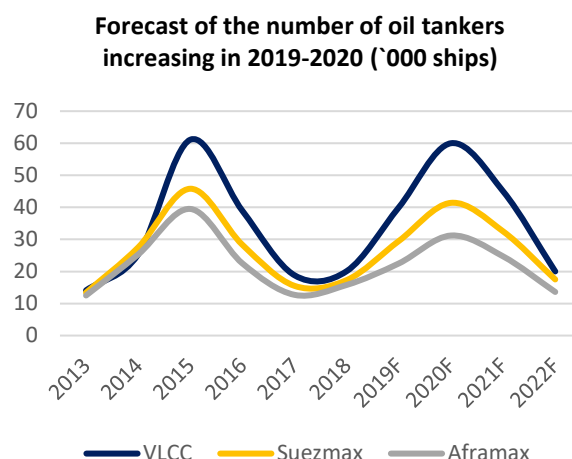
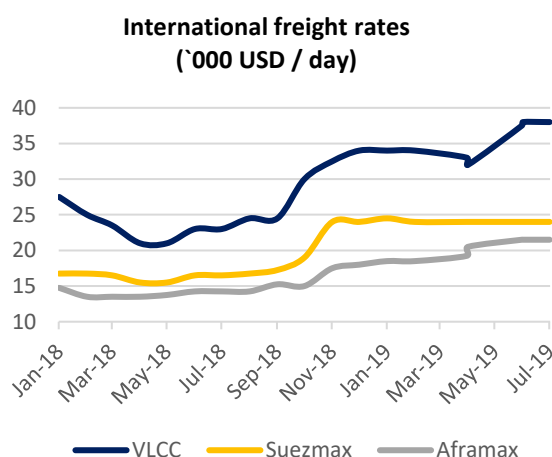
**Passenger carriage in 6M2019 reached 2,496 million (+ 10.7% YoY), of which road and air passenger traffic had the highest increase of 10.9% YoY and 8.3% YoY, respectively).** Turnover volume of passengers increased by 9.5% to 113.6 billion passengers.kilometers, of which, road transport accounts for 70% (+ 10.3% YoY), air transport provides 30.6 billion passengers.kilometers (+ 8.8% YoY). According to the statistics of Vietnam Airport Corporation (ACV), the volume of passengers through domestic airports in the first 6 months of the year reached 57 million (+ 9.5% YoY), of which the international was 20 million (+13 % YoY), domestic reached 37 million (+ 7.5% YoY). Passenger volume through Tan Son Nhat and Noi Bai accounted for 61% of total output, growing respectively 4.3% YoY and 9.9% YoY. Da Nang and Cam Rang International airport recorded strong growth with 7.6 million passengers (+ 17% YoY) and 4.8 million passengers (+ 18% YoY) respectively.

**The volume of transported goods grew steadily to reach 823,051.2 million tons (+ 8.5% YoY) according to GSO.** According to the General Statistics Office, the country's transport cargo output grew steadily by 8.5%, with the largest contribution being road transport with 632,546.8 thousand tons (+ 9.7% YoY), and inland waterways of 147,821.6 thousand tons (+ 5.1% YoY), by sea reached 39,885.3 thousand tons (+ 5.1% YoY) and finally by air reached 211.4 thousand tons (+ 13.2% YoY). However, if we look at freight, we assess that goods transported by sea must account for more than 51.7% of the throughput of goods and growth in the first 6 months of the year reached 6.7% YoY. Thereby, we assess that shipping is still an important trade route for Vietnam connecting with the world with the advantage of geographical location for international shipping routes and benefiting from US - China trade war.



Source: GSO

**The IMO emissions convention will greatly affect the shipping industry in 2019-2020.** The IMO convention will take effect on January 1, 2020, which applies to all shipping lines that reduce their sulfur emissions. less than 0.5% to reduce emissions of environmental pollution. Currently, the shipping lines have 3 pre-treatment methods prescribed by IMO: (1) Installing Sulphur Scrubber filter with the cost of 1-1.5 million USD per machine; (2) Use fuel with a low sulfur content but the price will be high; (3) Replace the train with diesel but not many ports will have diesel available to fuel the ship. Thereby, we assess that there will be 2 major impacts on the shipping industry: (1) The supply of ships in the world will drop sharply because ships over the age of 10 years will have to liquidate their ships; (2) Freight rates will increase due to the reduction of freight trains.



Source: Fearnley

## INVESTMENT OUTLOOK - NEUTRAL

BSC maintain **NEUTRAL** recommendation for transportation industry. We note that crude oil transport is currently heavily dependent on Binh Son and Dung Quat oil refineries, so if Nghi Son has 50 days of maintenance in October 2019 and major maintenance for Binh Son in 2020, it will affect affecting shipping volume of crude oil and finished products of shipping enterprises. We recommend **BUY** on PVT and **TRACKING** on HVN, and VJC.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
PVT	8,113	611	2.171	8.7	0.91	6%	11.6%	17,450	19,200
HVN	73,306	3,567	2,515	16.8	2.6	5.1%	15.6%	42,500	39,000
VJC	59,284	7,160	11,750	11.3	5.0	16.1%	38.7%	133,400	135,000

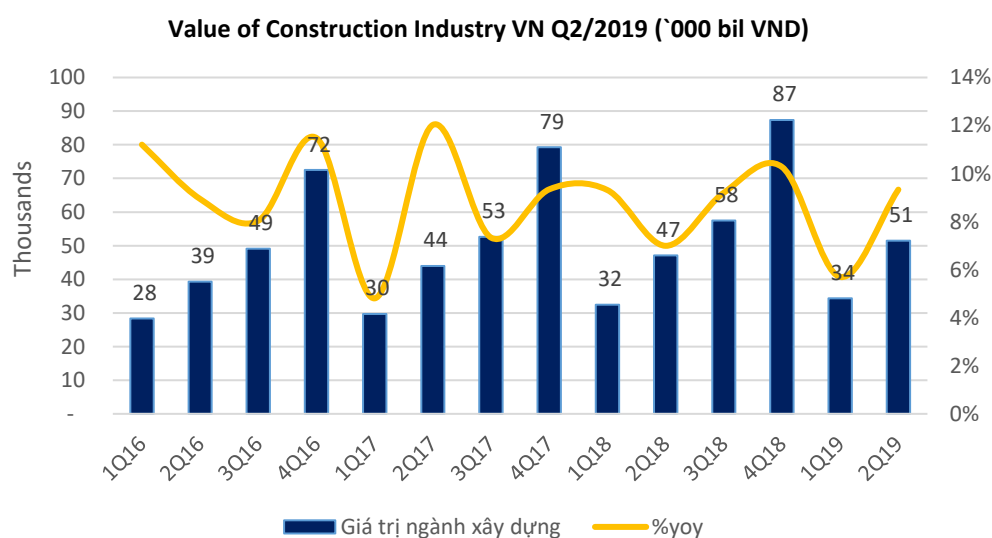
Source: BSC Research



## Construction [Neutral]

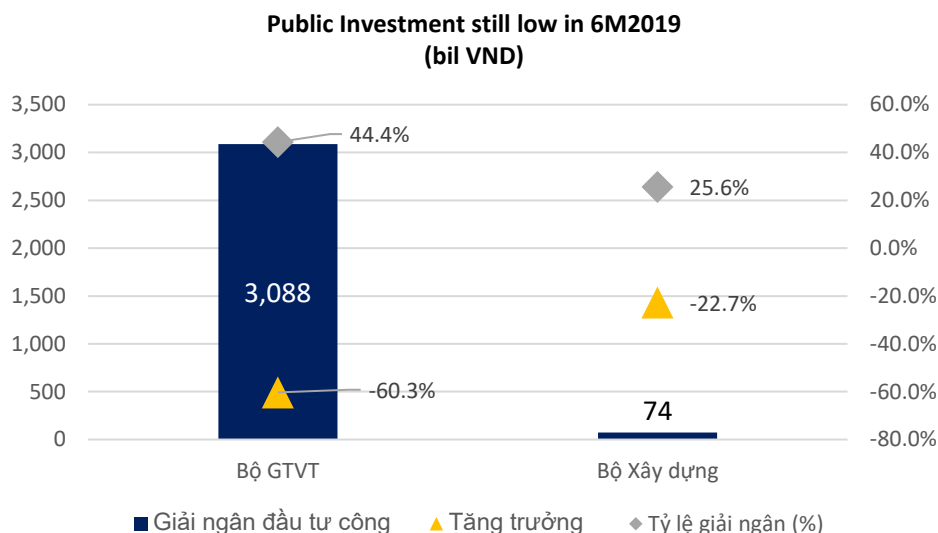
- The value of construction industry grew stably to VND 224,464 billion (+ 9% YoY) according to GSO VN.
- Ho Chi Minh City strives to achieve 95% of the plan to disburse public investment for 2019.
- BSC maintain a **NEUTRAL** rating on the construction industry.

**The value of construction industry grew stably to VND 85,798 billion (+ 7.85% YoY) according to the General Statistics Office.** In Q2.2019, the total value of the construction industry reached VND 51,461 billion, up + 9.33%. Thereby, the construction industry contributes a total value of GDP of 5.5%. We think that the construction industry has a significant segmentation of projects such as civil, infrastructure and energy. For civil construction enterprises, the situation of tightening real estate supply nationwide has made it difficult for civil construction enterprises such as CTD and HBC. However, energy construction businesses are generally better off thanks to high renewable energy projects such as solar power and hydropower thanks to the support of renewable electricity tariffs.



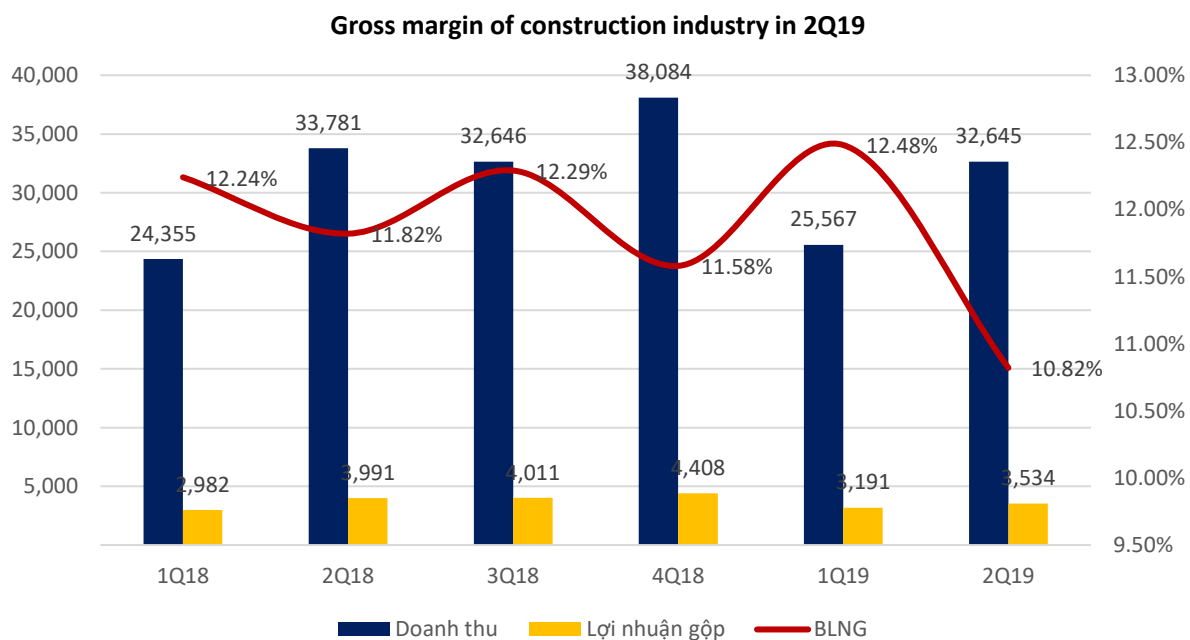
Source: GSO

**Disbursement of public investment throughout the country is still quite slow, reaching only 26.54% in the first 6 months of 2019.** As of 6M2019, the value of capital disbursement to the Ministry of Construction reached VND 74 billion (-22.7% yoy) and Ministry of Transport only reached VND 3,088 billion (-60.3% yoy), equivalent to only 39.7% over the same period. Thereby, we assess that the disbursement for public investment this year will still face many difficulties due to the low efficiency of public investment projects in infrastructure, prolonging construction time, making the capital of Government up a lot. Therefore, we believe that the disbursement progress for public investment from now until the end of 2019 will continue to be slow if the state has not removed the bottlenecks to adjust the regulations on the use of public investment.



Source: GSO, MPI

**Gross margin of construction industry decreased relatively to 10.82% in Q2.2019 due to the shortage of new construction contracts.** According to the statistics, there are 94 enterprises building Q2.2019 business results, the gross profit margin of construction enterprises is currently falling sharply to 10.82% over the same period of 11.82%. We believe that the reason for the decline in gross margin is due to the scarcity of real estate supply in the market in the first 6 months of the year, which increases the bargaining power of investors with BDS projects. Consequently, construction contractors are forced to cut their gross margins in order to successfully bid on construction contracts. We assess that the situation will continue to be difficult for the construction industry in 2H19 when the situation of real estate without supply continues.



Source: Fiinpro

## INVESTMENT OUTLOOK - NEUTRAL

We still maintain a **NEUTRAL** rating with the Construction industry with prospects in 2019. In the second half of the year, we assess that the civil construction industry will face many difficulties due to tightening real estate supply. As a result, construction companies have not recorded many new contracts and almost recorded sales from the transfer contracts in the previous year, so we think that the revenue of civil construction companies may continue. However, the infrastructure construction and power and water projects still have a lot of growth potential, so we appreciate the segment. Thereby, we recommend **Tracking** the stocks: CTD, HBC and **Buy** LCG.

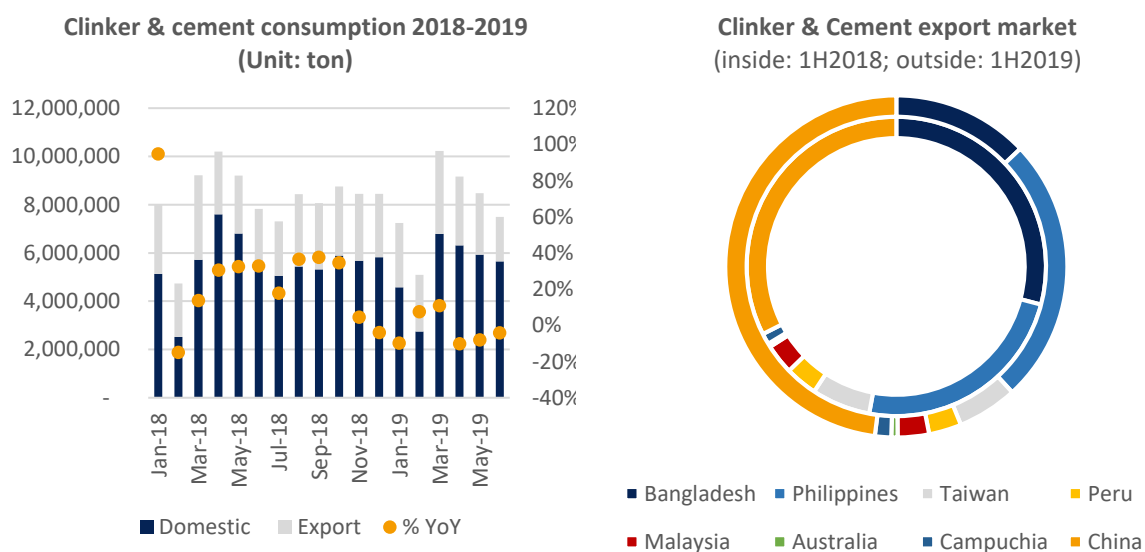
Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
CTD	27,149	1,280	15,557	6.5	0.9	7.5%	15.4%	115,000	108,900
HBC	17,191	526	2,667	6.5	1.2	3.1%	16.7%	14,050	16,000
LCG	2778.6	204.6	1,870	5.9	0.7	4%	12%	10,200	12,900

Source: BSC Research

## Cement [Neutral]

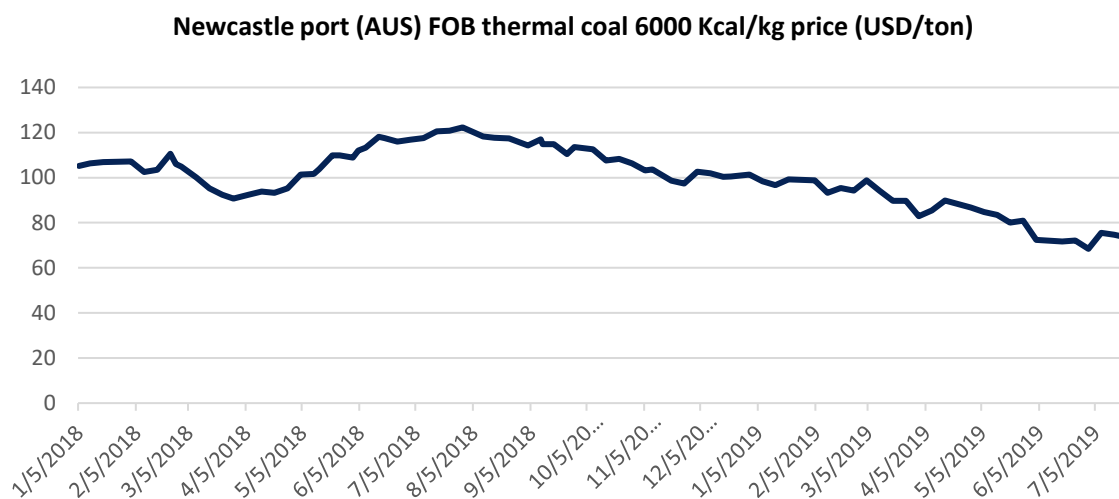
- In 1H2019, cement and clinker consumption reached 47.7 million tons (-3.1% YoY), of which domestic consumption was 32 million tons (-4% YoY), export was 15.67 million tons (-1% YoY)
- The price of thermal coal decreased slightly, reducing the input material expenses of cement producers.
- We maintain **NEUTRAL** rating on cement sector.

In 1H2019, cement and clinker consumption reached 47.7 million tons (-3.1% YoY), of which domestic consumption was 32 million tons (-4% YoY) due to the slowdown of construction since the beginning of the year. Clinker and cement export were 15.67 million tons (-1% YoY) with China continuing to be the main export market (40% market share; + 11% YoY). The export to China has increased rapidly since 2017 as China stepped up its campaign to restrict heavy industrial production (steel, cement ...) to reduce air pollution. However, we are pessimistic about this growth after 2020. At the same time, the export to Bangladesh recorded a decrease of 3.4 million tons (- 67% YoY). We think that this reduction might be because the domestic capacity of Bangladesh has increased significantly enough to replace imported products. The volume export to the Philippines also decreased 855 thousand tons (-21% YoY) due to the impact of a temporary safeguard tax of 4 USD/ton imposed on Vietnam cement products).



Source: FiinPro, GSO

The price of thermal coal decreased slightly, reducing the input material expenses of cement producers. FOB thermal coal price at Newcastle Port (Australia) -25% YTD (equivalent to a decrease of 19% YoY). In our talk to some cement companies, they said coal prices have decreased by 50,000-70,000 VND/ton as compared to the beginning of the year (corresponding to a reduction of 2-2.5%). Coal accounts for about 30% of cement's production cost, so the lower coal price will help improve cement firms' profit in the context of intensive competition.



Source: Bloomberg

### INVESTMENT OUTLOOK - NEUTRAL

We maintain our **NEUTRAL** view on the cement industry in 2019 based on the following points:

- (3) Consumption output has declined due to a slowdown in domestic construction and export to Bangladesh and the Philippines, but it is still supported by export volume to China.
- (4) The higher selling price has entirely offset an increase in electricity price from the end of Q1/2019. Falling coal prices are expected to help businesses to cut costs.

**BSC recommends BUY for HT1 (TP: VND 18,900 per share) and BCC (TP: VND 12,200 per share).**

**HT1- BUY - Target price: VND 18,900 / share - Upside: + 20.3%**

**1H2019 business results:** Consumption output was 3.6 million tons (+12.4% YoY). Net revenue reached VND 4,366 billion (+ 8% YoY). The rise of revenue was lower than that of output because the proportion of bulk cement in the total consumption rose from 27% to 33%. Gross profit margin, therefore, decreased from 17.1% to 15.9%. Net profit in 1H2019 reached 314 billion (-3% YoY). After the first 6 months, HT1 completed 52% and 48.7% its plan of revenue and profit in 2019 respectively.

**In 2H2019, we forecast HT1 will keep its growth.** The decreasing coal price will ease the negative impact of higher bulk cement percentage in total consumption. Net revenue of HT1 in 2019 is forecasted at VND 9,058 billion (+ 8.1% YoY; 3.4% higher than our [latest forecast](#) due to better than expect consumption in 1H2019). Gross profit margin decreased from 16.8% to 16% under the assumption that (1) coal price + 1% YoY, (2) electricity price + 8% YoY. EAT is estimated to be VND 752.6 billion (+16.7% YoY) thanks to saving financial expenses of about VND 100 billion by paying the principal. EPS 2019F = 1,775 VND / share (4.3% higher than our latest update).

**BCC - BUY - Target price: VND 12,200 / share - Upside: + 43.5%**

**1H2019 business results:**

- Total output was about 2.2 million tons of cement and clinker (~2 million tons of cement, 200 thousand tons of clinker) (+ 8% YoY), of which exports account for 30%.

- Net revenue in 1H2019 reached 1,915 billion (+7.3% YoY), EBT of 100.8 billion (4 times higher than the same period), completing 44% and 59% of the 2019's targets respectively.

**The new cement grinding station project (+ 30-35% of capacity) is expected to run commercially from July 7, 2019.** When operating, it will increase the cement output and operational efficiency of BCC. The total investment is about VND 920 billion, of which 38% is funded by loans. The company has paid back most of those loans, so it will not be under much pressure of paying principal and interest. The depreciation expense of the project is estimated at VND 55-60 billion per year.

**Business results forecasts:** We keep the forecast of BCC's revenue at 3,898 billion (+6% YoY). Regarding cost, BSC reduces the assumption of increasing coal price from 5% to 1% because the company revealed that its coal price has decreased by VND 50,000/ton (-2%) since 05/06/2019. The estimated interest expense decreased by VND 20 billion as compared to our previous forecast because the company said that the debt ratio for new mill investment decreased from 70% (as in the initial plan) to 38% and the company has paid back most of the loans. NPAT 2019F = 166.8 billion (+78.1% YoY), equivalent to EPS = 1,348 VND/share.

Corresponding to the change in our forecast in 2019, the valuation of BCC which is based on a combination of P / E and EV / EBITDA methods (weight 50:50) increased from VND 11,200 per share ( [Update Report](#) on May 16, 2019) to VND 12,200. In specific, regarding P/E method, our EPS forecast increases from VND 1,012 to VND 1,348 (+ 33.2%), but the target P/E was down from 10x to 8x because BSC is pessimistic about the consumption of the industry after 2020. For the EV / EBITDA method, BSC keeps the target multiple of 5x, EBITDA 2019F is forecasted to increase to VND 586 billion (the latest forecast = VND 558 billion).

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019 F	ROE 2019 F	Closing price 29/7/19	Target price
HT1	9,058	752.6	1,775	8.8	1.15	7.3%	14.4 %	15,700	18,900
BCC	3,898	166.8	1,348	6.3	0.5	3.5%	8.6%	8,500	12,200

Source: BSC Research

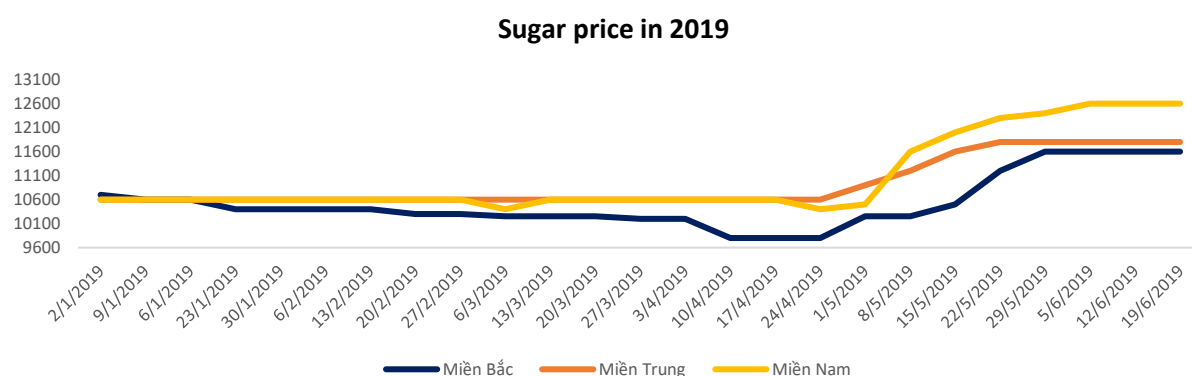
# Sugar [Underperform]

- The 2018/19 sugarcane crop witnessed a decline in output of pressed sugarcane (-12% YoY) and sugar (-8.6% YoY). Sugarcane purchasing price is at the lowest level in the last 5 years, making sugarcane farmers difficult.
- Sugar price is currently trading around VND 11,600 - VND 12,600 / kg (+ 9.4% - 18.8% YtD) depending on the region.

**The 2018/19 sugarcane crop witnessed a decline in output of pressed sugar cane and sugar.**

According to report of the Vietnam Sugar Association, sugar mills have pressed 12 million tons of sugarcane (-12% YoY) and produced 1.2 million tons of sugar (-8.6% YoY). Sugarcane price of 10 CCS at the field in the North is from 750 to 900 VND/kg, Central and Central Highlands from 720 - 800 VND /kg and the South from 720 - 800 VND/kg. This price level is the lowest in the last 5 years, making it difficult for sugar farmers.

**Sugar prices recovered but remained at an average low level of the past 3 years.** In May, domestic sugar price increased from VND 10,600/kg mainly due to tight supply of Thai sugar. Border transactions slow down due to Vietnam and Thailand holidays, causing inventories of Thai sugar decline. However, BSC believes that the price increase is seasonal and will not last long when the supply increases again in the near future. At the same time, the demand for sugar in Vietnam is still low, making business results of sugar enterprises no signs of recovery.



Source: BSC Research

## INVESTMENT OUTLOOK – UNDERPERFORM

We maintain our **UNDERPERFORM** rating for Sugar sector as we have not seen any positive signs on the fundamentals of the industry. Smuggled sugar from Thailand problem has not been completely solved, making the sugar supply still abundant, and the weak demand for sugar also makes the circumstance worse.

Ticker	Rev 2019F (VND bn)	NPAT 2019F (VN bn)	EPS 2019F	P/E 2019F	P/B 2019F	ROA 2019F	ROE 2019F	Closing price 29/7/19	Target price
SBT	10,301	316	567	29.0	1.3	1.7%	4.1%	16,450	N/A

Source: BSC Research

## 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).*

### BSC Headquarter

BIDV Tower, 10<sup>th</sup> & 11<sup>th</sup> Floor,  
35 Hang Voi, Hoan Kiem District, Hanoi  
Tel: +84 4 3935 2722  
Fax: +84 4 2220 0669

### BSC Ho Chi Minh city office

146 Nguyen Cong Tru, District 1, HCMC  
Tel: +84 8 3821 8885  
Fax: +84 8 3821 8510

<https://www.bsc.com.vn>  
<https://www.facebook.com/BIDVSecurities>

### Bloomberg: RESP BSCV <GO>



#### For institution clients

Vu Thanh Phong  
Tran Thanh Hung  
Nguyen Hoang Duong  
Nguyen Hoang Nguyen

#### Title

Head of Institutional Sales & Broker  
Institutional Sales & Broker  
Institutional Sales & Broker  
Institutional Sales & Broker

#### Email address

phongvt@bsc.com.vn  
hungtt@bsc.com.vn  
duonghn@bsc.com.vn  
nguyenhn@bsc.com.vn