Sector Outlook 2020 Q3

Content

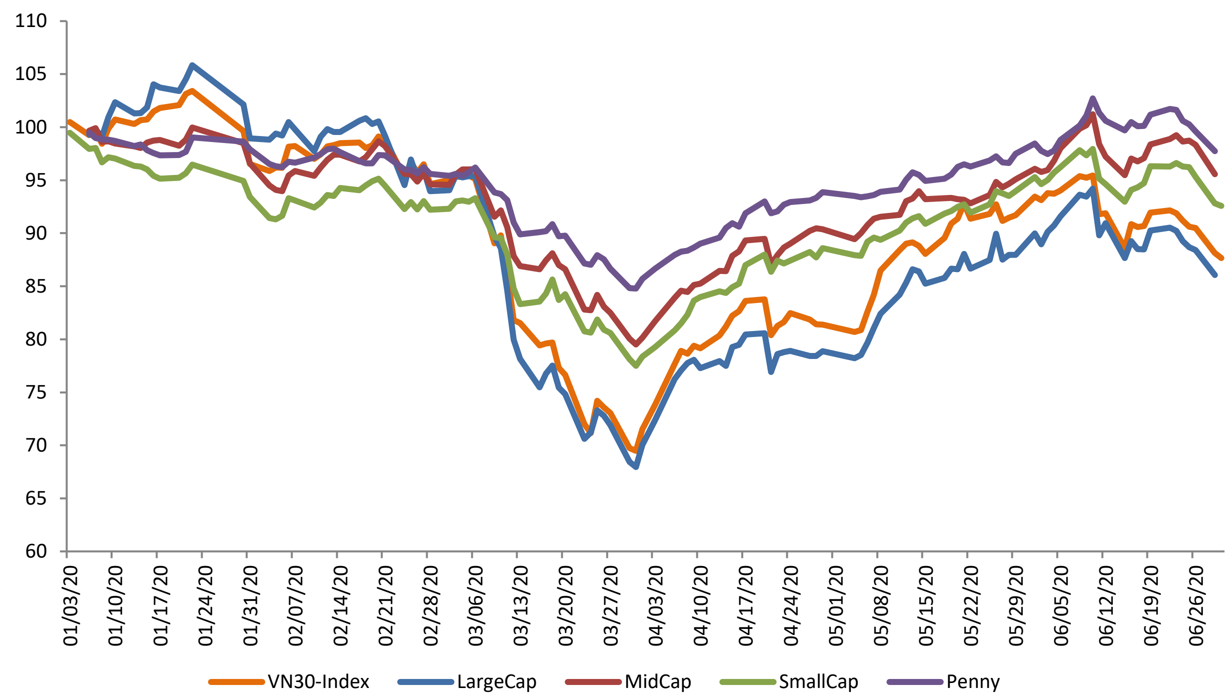
Stock market movement in 6M2020

- **Indexes.** Accumulated to June 2020, the recovery momentum of the VN-Index from the beginning of April had showed a slowdown when the number of COVID-19 cases in the world showed signs of increase again and the risks came from the "second wave". The number of cases was constantly increasing in the world's centers of the pandemic such as the United States, Brazil, and India, making the global socio-economic situation continue to be in a difficult situation. Domestic investor sentiment was stable when foreign investors returned to be net buyers on the HSX in June. The monetary and fiscal support actions of central banks and governments around the world as well as in Vietnam helped the market recover somewhat. As of June 30, 2020, the VN-Index decreased by -39.4 points compared to the end of last month (-4.6% MoM) while the HNX-Index was almost unchanged. By the end of the second quarter, the VN-Index increased +162.58 points (+ 24.5% QoQ), and the HNX-Index increased +17.12 points (+ 18.5% QoQ).
- **Market movement.** Considering the Q2, the average liquidity on both exchanges increased sharply +33.03% compared to Q1 and maintained at 6,204 billion VND/session, equivalent to 272 million USD/session. Average liquidity in the first 6 months increased sharply +25.4% yoy, with cash flow focusing on stocks with small, medium and micro capitalization. In 6M2020, there were 140 gainers, 242 losers and 2 unchanged stocks on the HSX, 5 supporting stocks of VN-Index including HPG +14.04 (contributing 2.54 points), CTG + 3.11% (contributing 0.7 points), KDC + 46.02% (contributing 0.65 points), DBC +115.76 (contributing 0.64 points), and NVL + 3.56% (contributing 0.55 points). Stocks which caused the VN-Index to decline the most include VIC -22.61% (-25.48 points), GAS -26.36% (-13.8 points), SAB - 29.85% (-12.62 points), and VCB -17.88% (-10.92 points), and BID -17.88% (-9.74 points).
- **Stocks.** The recovery performance of stock groups by capitalization had a clear differentiation. Leading recovering stocks are small-, medium- and micro-cap stocks while large-cap stocks and VN30 are recovering at the slowest pace. In Q1, foreign investors was focusing on net selling of large-cap stocks and VN30, causing this group to drop strongly. By Q2, foreign net selling pressure eased in June but was not enough to revive the recovery speed of these two groups. The VN30, large-cap, mid-cap, small-cap and pennies groups recorded the performance declines of -12.4%, -14.7%, -4.4%, -7.4% and -2.8%, respectively. In 6M2020, the market had witnessed 15/19 industries decreased in points, in which Insurance saw the strongest drop with performance of -26.8% due to the adjustments of BVG and BIC with -33.02% and -21.96% declines, Retailing decreased by -25.3% (MWG -28.0 %, HTM -33.48%), and Tourism and Entertainment dropped by -23.22% (HVN -23.85%, VJC -26.13%).
- **An outlook on the information affecting VN-Index and Vietnam stock market in 2H2020.** The complicated pandemic situation at the end July, when consecutive cases of Covid-19 cases were recorded, raised concerns about the second outbreak that may force the government to enact social distancing. Along with pandemic control, how the government responds to the second outbreak (with partial isolation concentrating in the outbreak area, or widespread social distancing) is a critical factor for the economy and market sentiment. Along with that, the speed of disbursement of public investment in the second half of the year continues to be the focal point in our country's economic support measures. Some other exogenous issues such as the speed of recovery of major economies, or US-China tensions continue to need to be monitored.

- **Macro economy recovered positively after the social distancing period in April ended. However, GDP of the second quarter of 2020 was still negatively affected, increasing by only 0.36% (the lowest**

increase of the second quarters of the years in the 2011-2020 period). In June, PMI recovered to 51.1 points. The adjusted inflation dropped to 2.83% on average in the second quarter, mainly due to a sharp drop in the transport group price index by -20.12%. In the first half of 2020, the average inflation reached 4.19%, above the government's target of 4%. Import and export activities plummeted by -1.38%. Merchandise exports increased by only 0.2%, while imports of goods decreased by -2.9%. In the first half of 2020, service exports continued to decline sharply by -50.3%, with the transport sector plummeting by -70.6%. Retail sales of consumer goods and services decreased by -0.8%. Disbursement of state budget capital reached 33.1% of the plan, private and private investment increased by 4.6%, and foreign direct investment decreased by -3.8%. Production and business activities were still negatively affected by Covid-19, although it recorded a positive recovery in the last two months of the second quarter.

Price Movements of Stock Groups



Source: BSC Research

Event timeline

Month	Date	Vietnam	Day	International
1	16	Futures contracts maturity	11	Taiwan general election
	17	ETF VFM VN30 change portfolio weights	28-29	FED meeting, monetary and interest rate
	18	ETF VN30 review	23	ECB meeting, monetary and interest rate
	20	Q4 financial statement deadline		
2	25/01-02/02	Lunar New Year Holiday	28	Ishare MSCI review
	20	Futures contracts maturity		
3	6	ETF FTSE VN's portfolio announcement	12	ECB meeting, monetary and interest rate
	13	ETF VNM's portfolio announcement	17-18	FED meeting, monetary and interest rate
	19	Futures contracts maturity	23-27	FTSE Russell announce Market Classification
	19-20	ETF VNM, ETF FTSE transactions		
4	16	Futures contracts maturity	15	Legislative elections in Korea
	20	Q1 financial statement deadline	28-29	FED meeting
	17	ETF VFM VN30 change portfolio weights	30	ECB meeting
	30	Southern Vietnam Liberization		
	30	Financial statements of the year Deadline		
5	1-2	International Labour Day	31	Ishare MSCI review
	21	Futures contracts maturity		
	May	12th Communist Party Central Conference		
6	5	ETF FTSE VN's portfolio announcement	4	ECB meeting, monetary and interest rate
	12	ETF VNM's portfolio announcement	9-10	FED meeting, monetary and interest rate
	18	Futures contracts maturity	22-26	MSCI announce Market Classification
	18-19	ETF VNM, ETF FTSE transactions		
	June	Congress meeting		
7	13	ETF VN30 review	1-2	OPEC meeting
	16	Futures contracts maturity	28-29	FED meeting, monetary and interest rate
	17	ETF VFM VN30 change portfolio weights		
	20	Q2 financial statement deadline		
8	15	6M financial statement deadline		
	20	Futures contracts maturity		
	26	Ishare MSCI review		
9	17-18	ETF VNM, ETF FTSE transactions	15-16	FED meeting, monetary and interest rate
	17	Futures contracts maturity	23-27	FTSE Russell announce Market Classification
10	15	Futures contracts maturity	29-30	FED meeting, monetary and interest rate
	18	ETF VFM VN30 change portfolio weights		
	20	Q3 financial statement deadline		
	October	13th Communist Party Central Conference		
11	19	Futures contracts maturity	3	US presidential election
	30	Ishare MSCI review	4-5	Fed meeting
	November	Congress meeting	21-22	G20 Summit
12	17	Futures contracts maturity	15-16*	FED meeting, monetary and interest rate
	17-18	ETF VNM,ETF FTSE transactions	23-27	MSCI announce Market Classification

Top highlighted stocks Q2/2020

TOP 5 LEADERS OF VN - INDEX

Code	Price 30/06/2020	Change in Price 6M (%)	Index pt
HPG	26,800	+14.04%	2.542
CTG	21,550	+3.11%	0.7
KDC	28,400	+46.02%	0.653
DBC	44,400	+115.76%	0.646
NVL	61,500	+3.36%	0.556

TOP 5 LEADERS OF HNX - INDEX

Code	Price 30/06/2020	Change in Price 6M (%)	Index pt
SHB	13,000	+141.80%	10.167
DGC	39,500	+61.89%	1.176
SHS	11,800	+53.25%	0.61
NTP	31,700	+25.02%	0.258
S99	13,400	+57.65%	0.234

TOP 5 LAGGARDS OF VN - INDEX

Code	Price 30/06/2020	Change in Price 6M (%)	Index pt
VIC	89,000	-22.61%	-25.5
GAS	69,000	-26.36%	-13.8
SAB	157,000	-29.85%	-12.6
VCB	80,300	-10.98%	-10.9
BID	37,900	-17.88%	-9.7

TOP 5 LAGGARDS OF HNX - INDEX

Code	Price 30/06/2020	Change in Price 6M (%)	Index pt
PVS	11,900	-32.00%	-1.4
PGS	14,300	-49.65%	-0.5
MBG	5,200	-73.87%	-0.4
NVB	8,500	-9.57%	-0.4
CEO	7,300	-22.34%	-0.3

TOP 5 INCREASING STOCKS ON VN-INDEX

Code	Year Beginning Price	Price 30/06/2020	%Chg
GAB	8,530	730	-91%
SVT	17,300	2,970	-83%
DBC	24,800	10,100	-59%
DAH	39,447	22,250	-44%
DGW	85,000	49,300	-42%

TOP INCREASING STOCKS ON HNX

Code	Year Beginning Price	Price 30/06/2020	%Chg
DNM	183,560	39,500	365%
SHB	31,434	13,000	142%
PCE	30,819	15,800	95%
IDJ	22,458	11,800	90%
BXH	31,538	17,400	81%

TOP 5 DECREASING STOCKS ON VN-INDEX

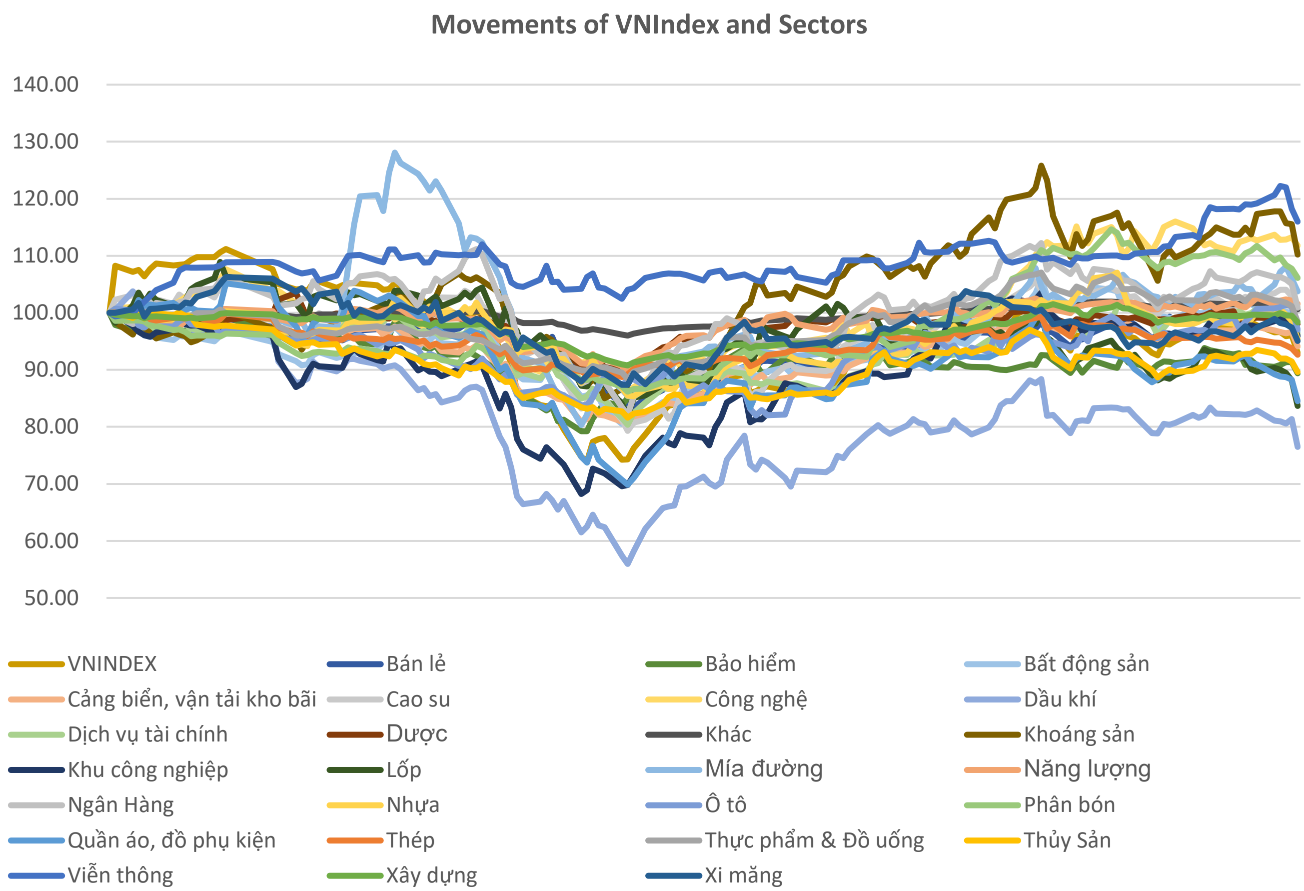
Code	Year Beginning Price	Price 30/06/2020	%Chg
DTL	4,114	10,100	-59%
PGD	21,000	28,500	-46%
DPG	27,200	22,250	-44%
AST	24,500	49,300	-42%
ST8	35900	11800	-39%

TOP 5 DECREASING STOCKS ON HNX

Code	Year Beginning Price	Price 30/06/2020	%Chg
BST	3,434	12,500	-73%
VCM	5,516	17,100	-68%
HCT	4,723	10,400	-55%
VGP	4,907	10,600	-54%
PGS	7,200	14,300	-50%

Nguồn: Bloomberg, BSC Research

Sectors' growth vs VN-Index 6M2020 Comparison

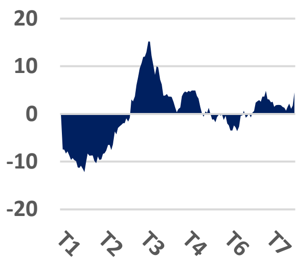


Source: Bloomberg, BSC Research*

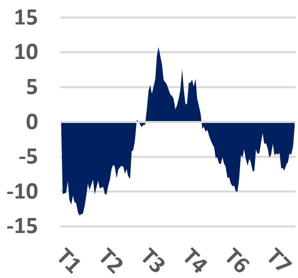
Note: Using the calculation method: the average performance of stocks in comparison with that at the beginning of the year (excluding the proportion of stocks to VN-Index)

In general, after a sharp drop in March, the industries saw a relatively good recovery, however there was clear division among industries. Stocks with (1) more stability, (2) less affected directly by Covid-19 and (3) being in the group benefited by the government's stimulus package recorded recovery recovered better than VN-Index, such as Technology, Rubber, Retail (essential consumer goods), Real Estate Industrial Park, Telecommunication and Pharmacy. Meanwhile, the stock groups that have been affected directly by the Covid-19 epidemic recorded lower performance levels than the market such as Fisheries, Textiles, Petroleum, Cement, Steel, and Aviation. However, we also note that the performance of stocks in the industry will have a large differentiation depending on financial health as well as the ability to recover business results after the pandemic. The average performance of some stocks we noted in the industry prospect report 2020 shows that the similar performance reached a decrease of -16.1% compared to a decrease of -17.1% VN-Index as of July 30 / 2020.. (Link).

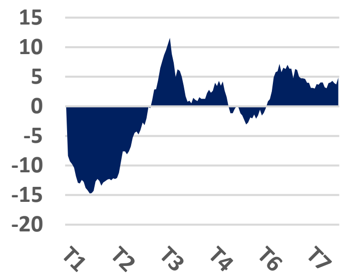
Retail vs VNIndex



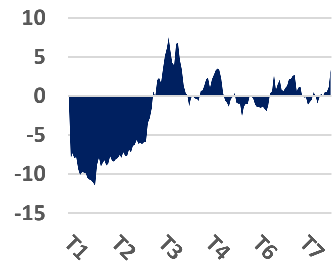
Insurance vs VNIndex



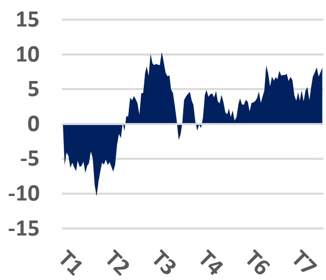
Real Estate vs VNIndex



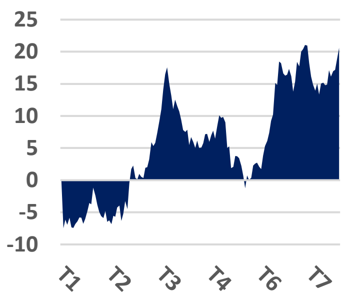
Seaport, transportation, warehouse vs VNIndex



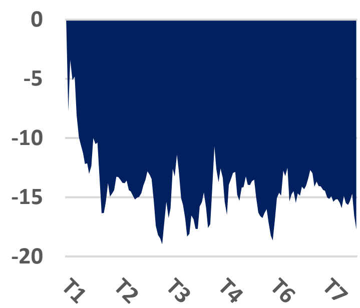
Rubber vs VNIndex



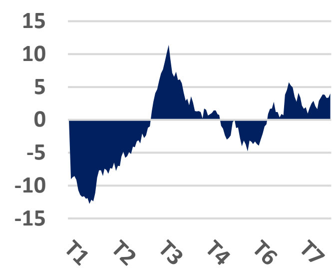
Technology vs VNIndex



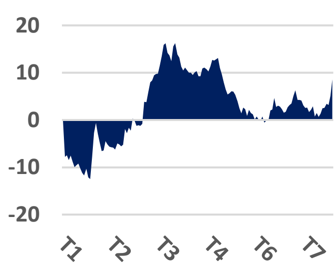
Oil&Gas vs VNIndex



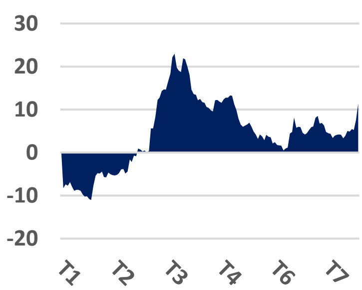
Financial services vs VNIndex



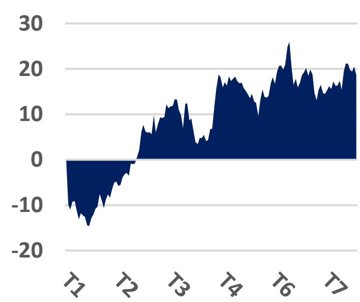
Pharmaceutical vs VNIndex



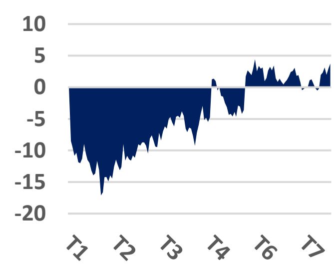
Others vs VNIndex



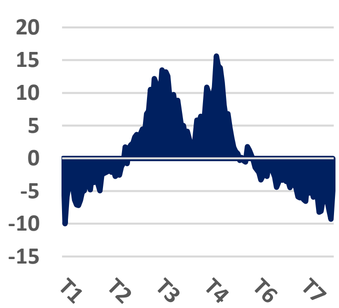
Mineral vs VNIndex



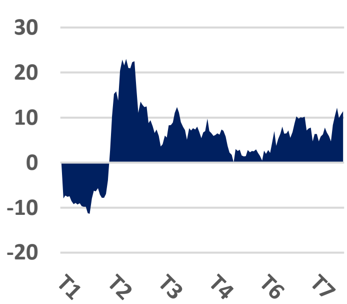
Industrial Park vs VNIndex



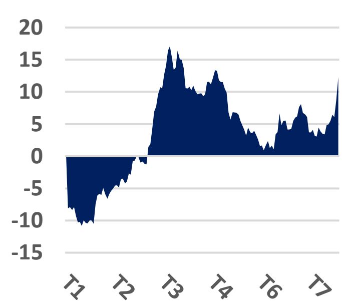
Tire vs VNIndex



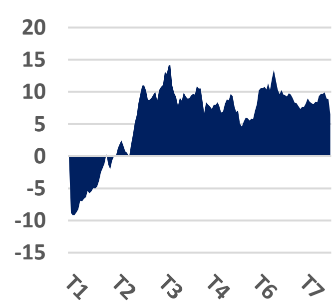
Sugar vs VNIndex

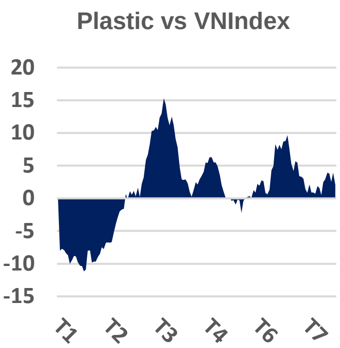


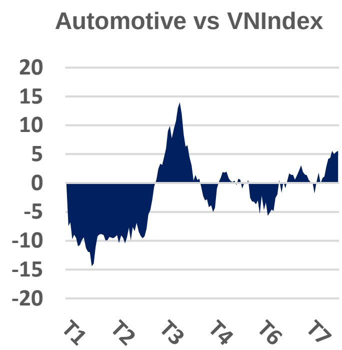
Energy vs VNIndex

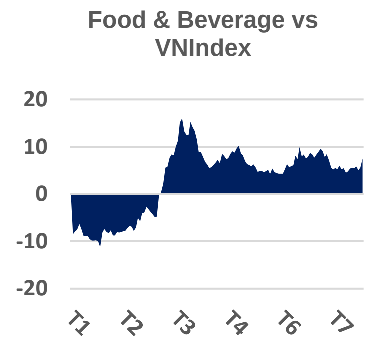


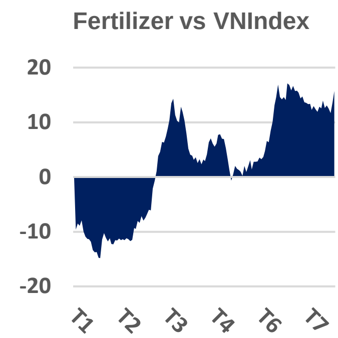
Banking vs VNIndex




Plastic vs VNIndex
20
15
10
5
0
-5
-10
-15
T1
T2
T3
T4
T6
T7


Automotive vs VNIndex
20
15
10
5
0
-5
-10
-15
-20
T1
T2
T3
T4
T6
T7


Food & Beverage vs VNIndex
20
10
0
-10
-20
T1
T2
T3
T4
T6
T7


Fertilizer vs VNIndex
20
10
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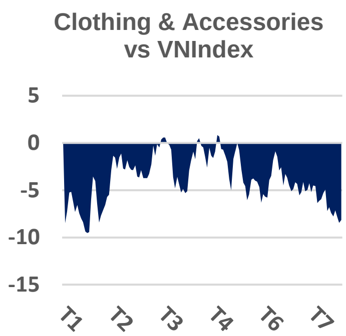
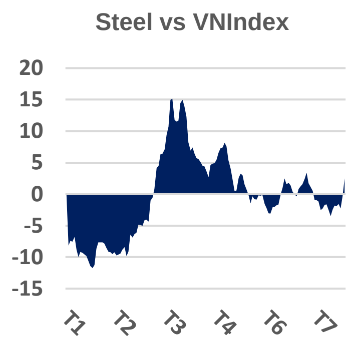
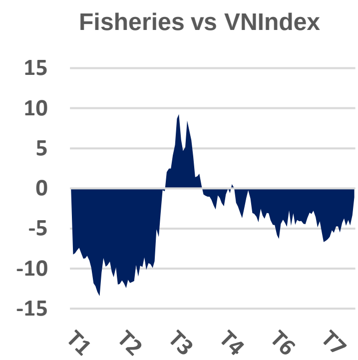
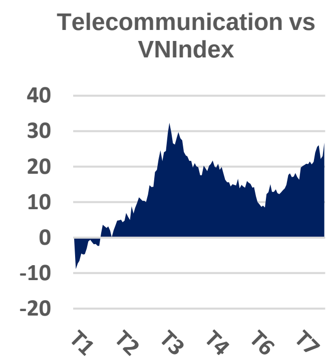
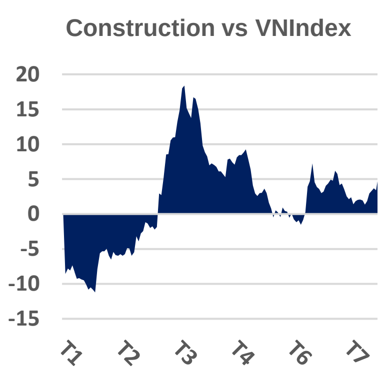
-10
-20
T1
T2
T3
T4
T6
T7

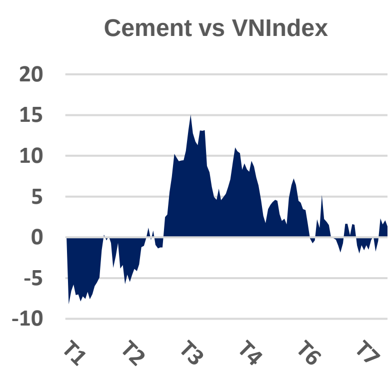

Clothing & Accessories vs VNIndex
5
0
-5
-10
-15
T1
T2
T3
T4
T6
T7


Steel vs VNIndex
20
15
10
5
0
-5
-10
-15
T1
T2
T3
T4
T6
T7


Fisheries vs VNIndex
15
10
5
0
-5
-10
-15
T1
T2
T3
T4
T6
T7


Telecommunication vs VNIndex
40
30
20
10
0
-10
-20
T1
T2
T3
T4
T6
T7

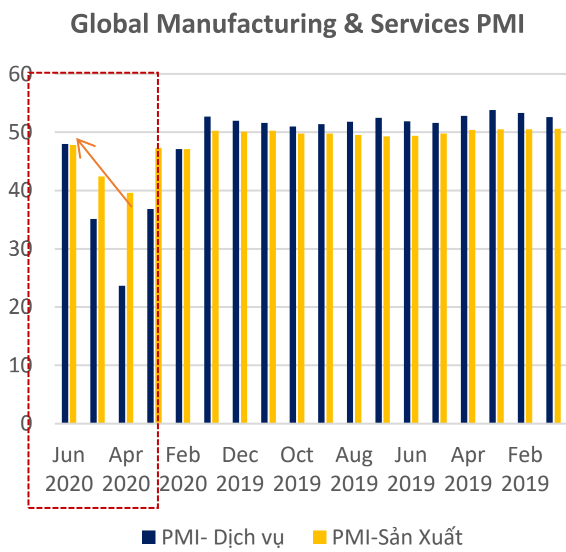

Construction vs VNIndex
20
15
10
5
0
-5
-10
-15
T1
T2
T3
T4
T6
T7

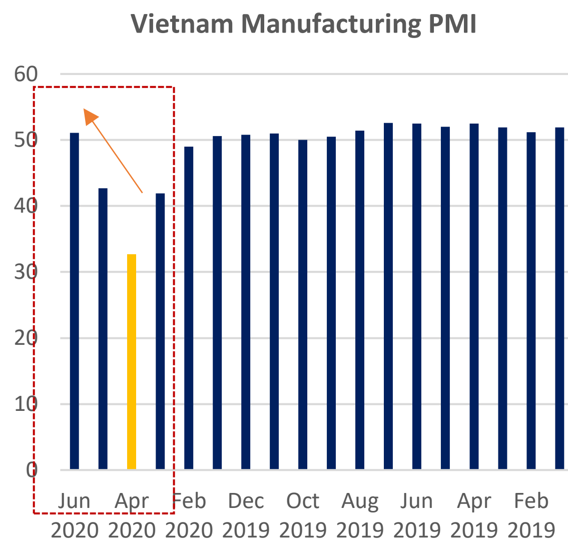

Cement vs VNIndex
20
15
10
5
0
-5
-10
T1
T2
T3
T4
T6
T7

	Code	Day price 30/7/2020	Giá ngày 31/12/2019	Up/Down (HPR)	KLGD TB 3T2020
Banking	ACB	22,200	22,800	-3%	3,899,437
	MBB	15,650	20,800	-25%	5,777,521
	TCB	18,150	23,550	-23%	2,089,264
	VCB	77,500	90,200	-14%	1,032,804
Insurance	BMI	20,500	24,800	-17%	222,054
	PVI	30,000	30,800	-3%	35,809
Oil & Gas	GAS	63,500	93,700	-32%	682,533
	PVD*	8,900	15,050	-41%	4,903,782
	PVS	10,800	17,500	-38%	4,470,017
Electricity	POW	9,200	11,450	-20%	4,771,229
	GEX	18,900	19,350	-2%	2,643,973
	PC1	16,500	17,500	-6%	589,328
	REE	32,000	36,300	-12%	512,202
Commercial Real Estate	HDG	17,000	30,000	-43%	654,911
	KBC	12,950	15,450	-16%	3,054,600
	VHM	74,000	84,800	-13%	2,379,689
	NLG	25,200	27,500	-8%	1,151,874
Industrial Real Estate	IDC	18,700	18,900	-15%	103,800
	NTC	199,900	165,700	-19%	41,391
	BCM	26,000	30,100	-44%	33,482
Steel	HPG	23,690	23,500	-7%	14,629,540
	HSG	9,830	7,810	26%	11,277,870
	NKG	6,240	6,900	-10%	2,093,370
Tiles	CVT	17,500	20,550	-15%	254,529
	VGC	18,800	18,400	2%	443,521
Cement	HT1	12,250	14,950	-18%	263,999
Plastic	BMP	48,800	45,200	8%	191,418
	NTP	26,600	32,300	-18%	53,314
Rubber	PHR	50,700	38,200	33%	1,460,319
Tire	DRC	15,000	23,300	-36%	608,922
Automotive	VEA	41,900	45,000	-7%	233,114
Technology	FPT	44,550	58,300	-24%	1,819,659
	MWG	73,000	114,000	-36%	1,058,107
Textile	TCM	19,300	19,200	1%	980,499
	TNG	10,500	14,900	-30%	1,266,069
	MSH	26,300	44,300	-41%	175,092
	VGT	7,100	8,900	-20%	120,531
	VGG	33,200	51,900	-36%	13,897
Pharmaceuticals	DBD	46,000	54,800	-16%	24,601
	DHG	92,800	91,500	1%	17,709
	PME	61,000	54,300	12%	17,311
Retail	PNJ	51,500	86,000	-40%	738,065
	VNM	106,000	116,500	-9%	1,255,602
Sugar	SBT	13,200	18,500	-29%	2,833,231
Seaport	GMD	17,800	23,300	-24%	337,901
	VSC	29,350	27,250	8%	194,001
Transportation	PVT	9,400	16,800	-44%	1,457,454
Aquaculture	VHC	43,250	39,650	-12%	650,423

Investment Strategy Q3/2020

The recovery and reconstruction of production and service activities in each country in the world has shown the " bright spot" in the context of the Covid-19 epidemic continues to be complicated. After the necessary stages of "social distancing" to control the epidemic in many countries around the world, governments have started to "restart" the economy. The June Purchasing Managers' Service (PMI) index of many countries in June witnessed a strong recovery compared to the previous month. Specifically, the service PMI of the world improved from 35.1 points in May 2020 to 48 points in June 2020.

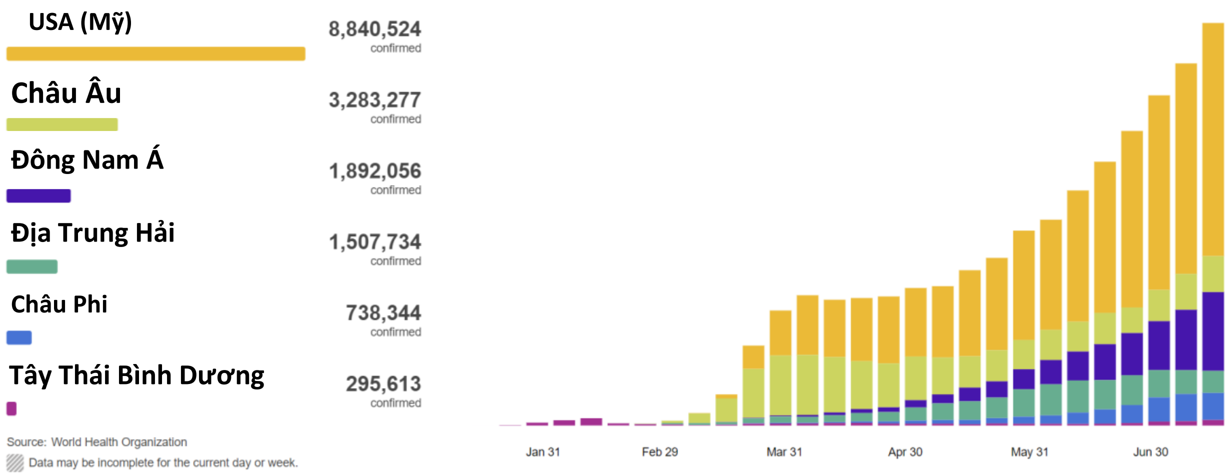




Source: IHS Markit

Low interest rates, globalization reversals and geopolitical tensions will be important factors affecting the gender economic structure and shaping the new post-Covid-19 growth trend. (1) Interest rates are expected to be kept at or below zero in the next few years by central banks in the coming years to support economic development as our previous analysis report. In addition, the inflation index of many large countries in the world still maintained relatively low level, creating a space for central banks of countries to maintain the interest rate environment as currently. (2) Globalization reversal and (3) geopolitical tensions have rekindled in the last few years (Brexit, the Sino-US trade war) and the Covid-19 pandemic acting as an agent for this "reaction process" to happen faster. The dependence of global supply chains on China and the increasing pressure of costs in China have led many countries to come up with options to relocate their factories to emerging countries like Vietnam, India and the Philippines ... We think this is a good opportunity for these countries to take advantage of the opportunities and advantages available to support economic growth.

The scale of the Covid-19 epidemic has spread all over the world but only peaks in some areas and the risk comes from the "Second Wave". Currently, signs of a "second wave" are also rekindling in previously eased regions such as Asia and Europe through rising numbers of infections in certain countries. We assess that although this brings the risk of production being delayed, the governments of these countries have sufficient experience and ability to control the epidemic and subdue the negative impact from the "second wave". In addition, the positive news from the vaccine preparation process which is expected to be successful test in early 2021 is also the motivation to support the world stock market in the recent period.



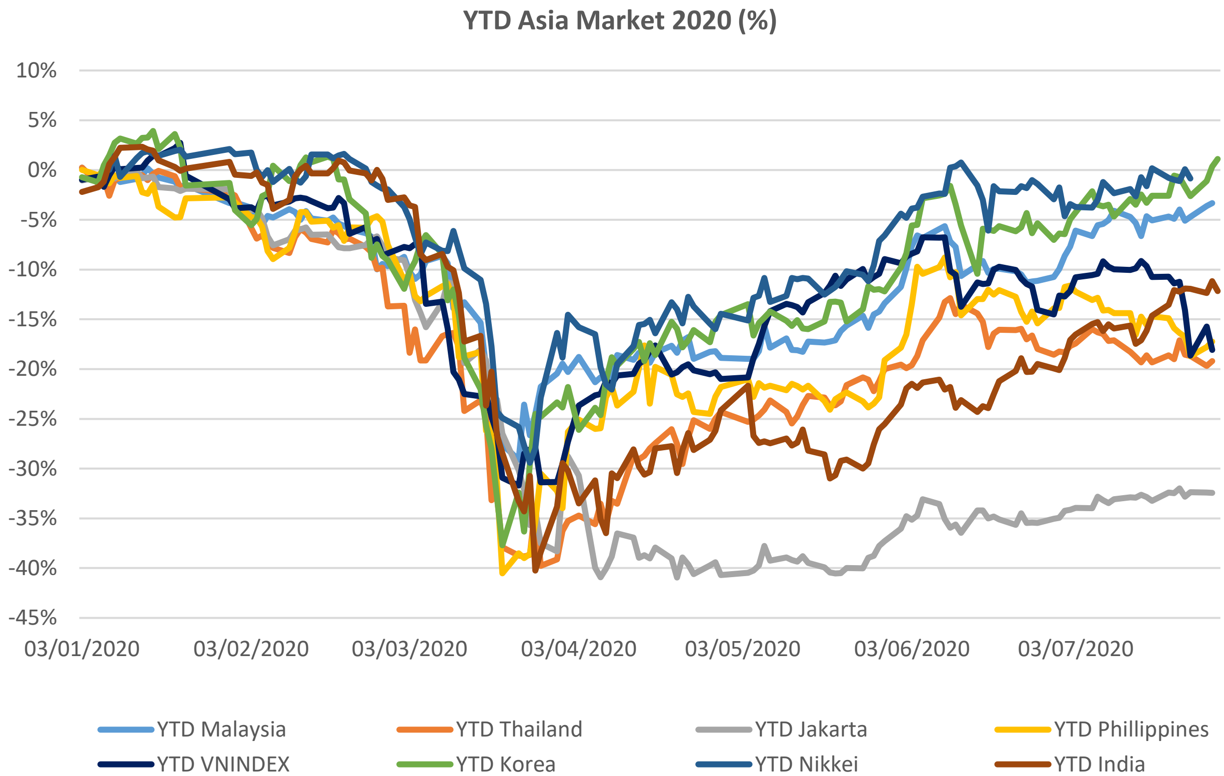
Nguồn: WHO, BSC research

World economic growth is expected to recover in 2021. According to forecasts of many financial institutions around the world, world economic growth will return to a state of slow recovery in 2021. According to forecast data of the International Monetary Fund (IMF), the world GDP growth in 2021 is expected to reach 5.4% YoY compared with the decrease of -4.9% YoY in 2020. In particular, the main driving force for growth comes from the group of developing and emerging countries, which are expected to increase 5.9% with strong recovery of China (+ 8.2% YoY), India (+ 6.0% YoY) and Asean countries (+ 6.2% YoY), while the group of developed countries are expected to recover by 4.8% YoY.

Vietnam is a bright spot in the control of the Covid-19 epidemic in phase 1, however Vietnam is continuing its resilience to the "second wave" at the center of the Da Nang - Quang Nam epidemic. Vietnam has been and is one of the countries with relatively good control of Covid-19 epidemic in the world. During the last week of July 2020, the government has taken quick measures to successfully control the "second wave" that appeared in Da Nang - Quang Nam through (1) Social distancing (2) Focusing on tracing F1, F2 and F3, (3) Carrying out extensive testing to quickly localize infections. Accordingly, we expect that with the experience from the first phase, this second epidemic wave will soon be under control and the economy will then show signs of recovering as shown in 6M2020.

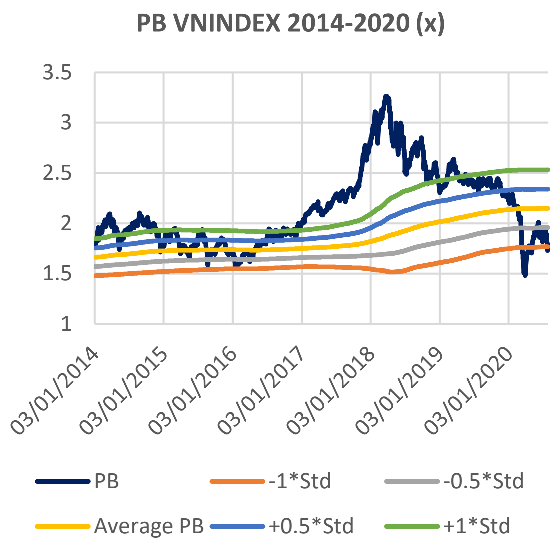
After the "Social distancing" period, the macro data show positive signs of recovery such as (1) GDP of the first 6 months of 2020 recorded a positive growth of 1.81%, (2) The PMI index recovered from 42.7 points in May 2020 to 51.1 points in June 2020, (3) The number of domestic travel flights will recover 80% capacity. For Vietnam's GDP growth in 2020, BSC makes a forecast in two scenarios: positive (4.16% YoY) and negative (2.81% YoY). In addition, BSC also forecasted Vietnam GDP growth in 2021 expected to reach 7.74% based on a number of important factors including (1) Consumption and retail to maintain a positive state, (2) Real estate activities business activities in big cities did not fall into the "social isolation", (3) Credit growth recovered in the second half of 2020 and (3) Progress of disbursement of public investment projects was pushed.

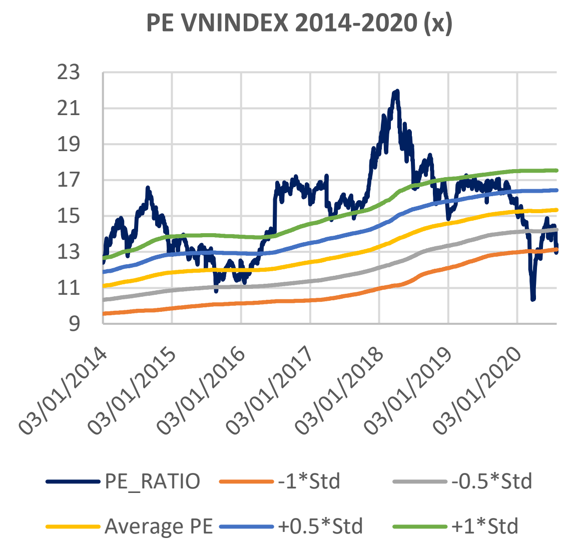
How Vietnamese stocks has recovered after the storm. The VN-Index in particular and the world stock market in general have experienced many fluctuations with a sharp decline in March and a strong recovery in April. Accumulated to the end of July 2020, VN-Index's performance, compared to the beginning of the year, is still performing better than most in Southeast Asia (ranked second after Malaysia), and inferior to other Asian countries (Japan, Korea, India, China).

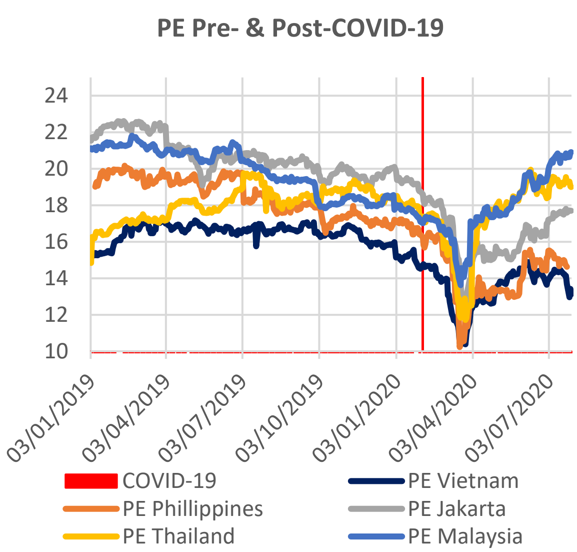


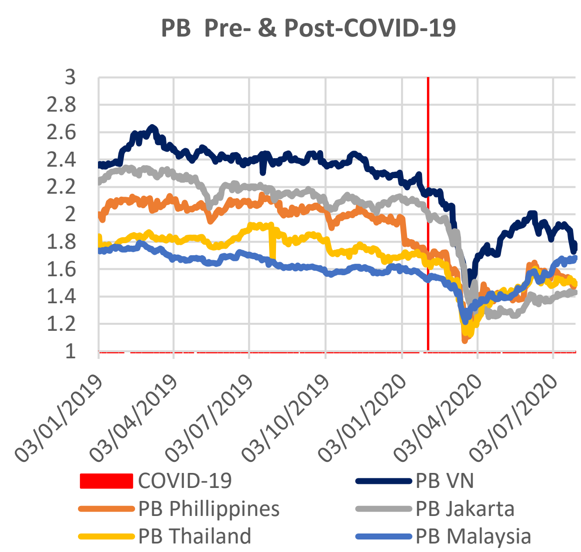
Nguồn: Bloomberg, BSC research

P/B of VN-Index is having a significant discount compared to the 5-year average (-21.2%) and the 3-year average (-26.8%). In the first 6 months of 2020, the market witnessed a significant recovery of scores under the "V" model after the valuation was at relatively low levels as stated in our previous report. From the perspective of P/E valuation index, VN-Index is trading at about 13.1 times, 14.3% lower than the 5-year average. In addition, Vietnam is also delivering at a relatively low P/E compared to other countries in the region. *However, BSC believes that the "black swan" event of Covid-19 negatively impacted on business results of enterprises only in short-term in 2020*. With the expectation that vaccine will be successfully produced in 2021 and as the business results recover, *the EPS index will be relatively volatile, thus distorting the view on the P / E valuation*. Therefore, BSC uses a viewpoint based on P/B valuation. **VN-Index is trading at P/B 1.72 times, 21.2% lower than the 5-year average, and 26.8% lower than the 3-year average**. We believe that, although the prospect of 2H2020 business results will be relatively dependent on the ability to control and control the "second wave", the prospect of recovery in business results as well as EPS will be recognized and better growth in 2021 is relatively feasible. **Therefore, based on the low business results of 2020, BSC thinks that the stock market is at a relatively attractive level under the condition that the disease will be well controlled by the end of 2020**.









Source: Bloomberg, BSC Research

Investment Theme for Q3/2020 and 2020

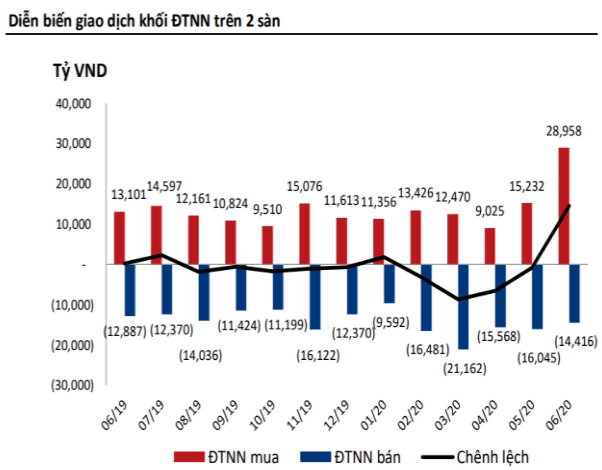
Over six months with the negative impact of the Covid-19 pandemic on the economy in general and the stock market in particular, with the risk of the "second wave" is showing signs of coming back, the prospects of almost all sectors remain relatively negative as mentioned in our previous report (Link). Therefore, our investment theme will not change too much compared to the preceding quarter, mainly focusing on updating the latest developments of the previously mentioned topics. We believe that although a number of recent disease-related events return to Vietnam for the second time, the Vietnamese government and health team have had certain experience in disease control, therefore, we can expect the epidemic to be controlled soon and Vietnam's economy will return to its "new normal" state. Along with that, the disease is expected to create certain pressures for the economic stimulus package to be implemented faster and more drastically, creating momentum to promote the recovery of Vietnam's economy in 2021.

The disbursement progress of public investment in the first half of 2020 is still relatively slow, the expectation to promote public investment will gradually shift to the second half of 2020 and 2021, which is expected to be further promoted in 2020 thanks to the conversion of 8 projects from PPP to public investment. Accumulated to June 2020, disbursement of public investment only reached 33.1% of the plan for 2020, equivalent to VND 154,362 billion. The Government has also issued drastic directives with a strong determination to complete the 100% disbursement plan for public investment in 2020 and the preceding years. Accordingly, the National Assembly has decided to change the mode of investment from PPP to public investment of 3 component projects (Mai Son - Highway 45, Vinh Hao - Phan Thiet, Phan Thiet - Dau Giay) and supplemented. The investment capital is not over VND 23,461 billion, while the remaining projects will continue to follow the old plan. (Details of the size of the projects mentioned in our previous report). BSC believes that the aforementioned three projects and a series of other projects will be the main driving force for the support of construction materials industries (Steel - Cement - Asphalt), construction industry and some other industries that benefit indirectly from implemented infrastructure such as Real Estate (VHM, DXG, NVL, DIG, NLG) and Industrial Parks (GVR, D2D, SZL).

Speeding up the disbursement of public investment will solve the bottleneck of transportation costs, thereby helping to attract FDI inflows and the wave of factory relocation from China to Vietnam. Despite the advantage of location and cheap labor costs, government tax incentives, we recognize transportation costs and transportation infrastructure are among the bottlenecks that have yet to meet the current needs of foreign businesses. In the long term, Vietnam will still be an attractive destination for FDI. Industrial real estate continues to maintain its position as a clear sector benefiting from this shift. We note that this process may slow down in 2020 due to the Covid-19 epidemic that delayed field work and surveys

The promotion divestment of state-owned enterprises groups. In late Q2 / 2020, the Prime Minister approved a list of state-owned enterprises to divest until the end of 2020. Most recently, SCIC announced auctions of 46 million FPT shares, with an estimated total value over 2,200 billion. In addition to SCIC-owned stock groups mentioned in our previous report, stocks related to ministries/departments are also being divested (Ministry of Construction, Ministry of Industry and Trade, and Ministry of Defense). We believe that accelerating the divestment will give the government more revenue to support the disbursement of public investment projects in the coming period. Some notable stocks on the topic of divestment can be accelerated (Reference link) such as DBD (13.3%), DVN (29%), SAB (36%), VGC (38.6%), PLX (75.9%), HVN (86.2%), IDC (36%)...

Expectations for foreign cash flow in the second half of 2020. Accumulation of 6M2020, Vietnam recorded a net selling from foreign investors of US $102 million, and in Q2/2020 only we recorded a net buying of US $ 610 million in the context of most emerging markets and border market countries recorded relatively large net sales. However, excluding the relatively large deal of VHM for KKR, the Vietnamese market recorded a net selling of about USD 680 million. Investors can expect the return of foreign cash flow by the end of 2020 when MSCI is about to upgrade Kuwait to an emerging market by November 2020. In addition, Vietnam has a relatively good epidemic control, an attractive investment environment and market valuation which are also the prerequisites that can help attract foreign cash flow in the second half of 2020 and in 2021.



Nguồn: BSC Research

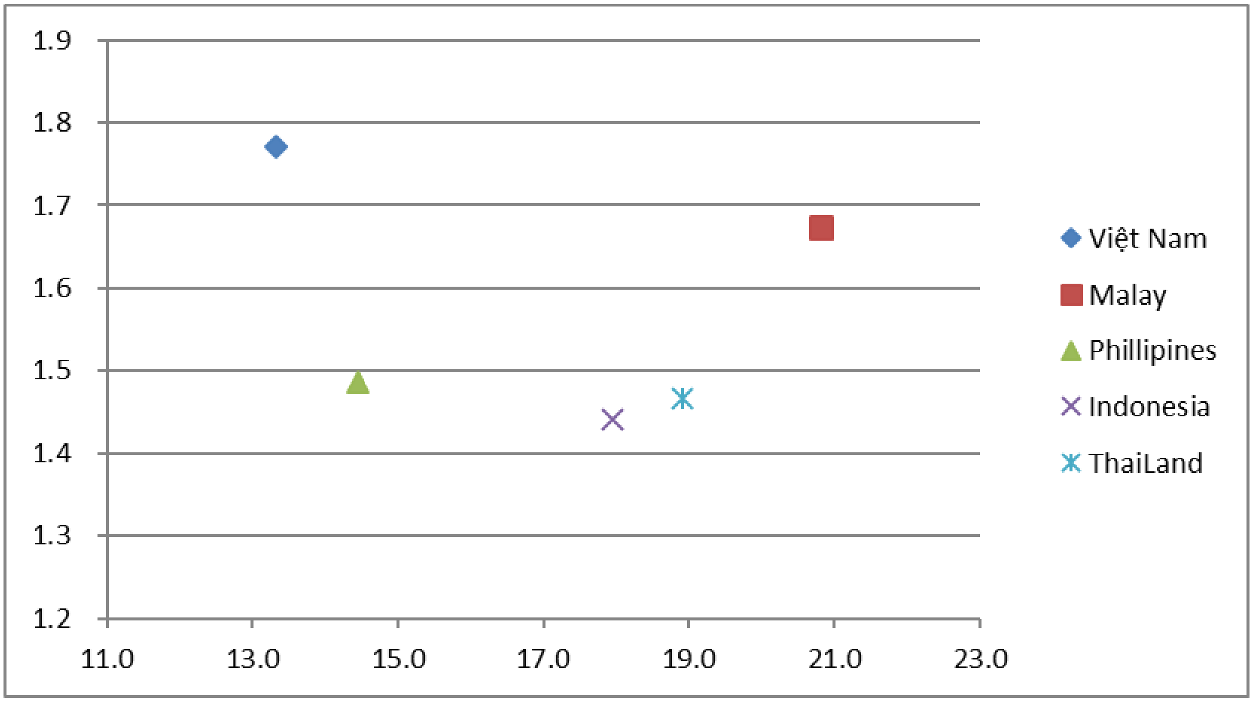
Khối ngoại mua bán ròng 6 tháng (Mio.USD)

Quốc gia	Quý II	6 tháng
India	4,419	(2,184)
Indonesia	(326)	(1,039)
Japan	(8,068)	(61,482)
Malaysia	(1982)	(3,772)
Philippines	(680)	(1,326)
Korea	8	(21,672)
Sri Lanka	(83)	(112)
Taiwan	(963)	(18,841)
Thailand	(3,161)	(6,800)
Pakistan	(139)	(275)
Vietnam	610	(102)

Nguồn: Bloomberg, BSC Research

However, the discount rates vary from industry to industry and most P/E adjustments are relatively low compared to the past. This results in a P/E valuation of most industries which are quite discounted compared to the median P/E of the Southeast Asian countries (Indonesia, Malaysia, Philippines, Thailand) except for (1) Consumer services, (2) Health and (3) Oil and gas.

P/E & P/B of Vietnam compared to other Southest Asian Countries



Valuation of industry groups according to ICB standards of countries in the region

30/07/2020	Vietnam		Trung vị		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
Financial services	14.44	1.10	**14.40**	**1.11**	46.27	30.59	12.45	1.10	9.79	1.12	16.4	0.8
Consumer goods	17.39	1.20	**23.46**	**1.62**	20.06	1.87	26.87	3.43	15.17	1.38	27.2	1.0
Industry	10.74	0.90	**18.41**	**1.10**	14.41	0.96	18.12	1.79	22.67	1.16	18.7	1.0
Oil & gas	16.39	1.31	**9.86**	**0.67**	9.86	0.41	25.22	3.50	N/A	0.25	9.3	0.9
Consumer service	22.06	1.71	**21.73**	**1.75**	21.55	1.44	7.53	2.06	21.92	2.15	27.2	1.0
Raw materials	12.98	0.70	**17.32**	**0.89**	19.89	0.88	14.75	1.89	4.62	0.90	26.8	0.7
Utilities	15.61	1.58	**16.53**	**1.47**	14.72	0.59	37.21	1.37	7.86	1.57	18.3	1.8
Technology	12.03	1.23	**20.79**	**1.26**	28.59	1.38	n/a	n/a	n/a	n/a	13.0	1.1
Healthcare	25.03	1.85	**23.65**	**2.02**	14.27	1.71	97.16	2.02	n/a	n/a	23.6	2.8
Telecommunication	9.27	2.06	**25.25**	**3.26**	35.23	2.11	25.25	3.99	25.25	3.99	15.4	2.5

Source: Bloomberg, BSC Research

Policies and Macro Information Affecting Industries in 2020

The domestic and foreign macroeconomic news, together with the amendments and supplementary policies after the Covid-19 pandemic, will have different impacts on the stock market in general and on businesses in particular. BSC has listed important policies and events in 2020:

No.	Published policies and information	Effective date	Effect	Degree	Stage as of 29/07/2020
International Macro and Economic Policy under the Covid-19 influence					
	Monetary Policy				
1	FED: The US economy was negatively impacted by Covid 19, recording a negative growth in quarter 2/2020 (down 33% YOY), FED kept current interest rates at 0-0.25%		Negative	Very strong	Influencing
2	PBoC: China's economy recovered after Covid-19, RMB maintained its value around 7 CNY/USD		Positive	Very strong	Influencing
3	ECB: Continuing easing policy			Strong	Influencing
4	The price of raw materials decreased and remained at a low level, especially oil prices		Interwoven	Strong	Influencing
Regional Macro Policy					
6	Asian economies negatively impacted by Covid-19		Negative	Strong	Influencing
7	OPEC meeting reduced oil supply by 7.7 million barrels in August 2020	08/2020	Interwoven	Strong	Not yet influenced
8	G7 meeting	09/2020	Interwoven	Medium	Not yet influenced
Domestic Macro and Economics Policy					
	Policy to amend the law				
1	Law on investment by public-private partnership (PPP)		Interwoven	Strong	Not yet influenced
2	Amend investment law, enterprise law, construction law		Positive	Strong	Not yet influenced
3	Amend Securities law	01/01/2021	Positive	Strong	Not yet influenced
4	Food prices, gasoline prices rise		Negative	Medium	Influencing
5	Việt Nam nâng hạng thị trường sơ cấp FTSE Russell		Positive	Strong	Not yet influenced
6	MSCI extended the deadline for upgrading Kuwait, the proportion of Vietnamese	11/2020	Interwoven	Strong	Not yet influenced

No.	Published policies and information	Effective date	Effect	Degree	Stage as of 29/07/2020
	stocks in Frontier basket remained unchanged				
7	Increase equitization and divestment of state-owned enterprises		Neutral	Medium	Influencing
	Monetary Policy				
8	Volatile USD/VND		Interwoven	Very strong	Influencing
9	Minimum capital adequacy ratio of banks is at 8%	01/01/2020	Interwoven	Medium	Already influenced
10	SBV reduced lending and deposit rates		Interwoven	Very strong	Influencing
	Securities Policy				
11	Allow securities to be sold while waiting for delivery, then deployed T + 0 operation		Positive	Strong	Not yet influenced
12	Depository certificates and depository certificates with no voting rights		Positive	Strong	Not yet influenced
13	Scheme of classification of listed stocks, loosening of amplitude		Interwoven	Strong	Not yet influenced
14	Listing of joint stock commercial banks and Agribank divestment		Positive	Strong	Not yet influenced
15	Enhancing public company conditions		Interwoven	Medium	Not yet influenced
Free Trade Agreements					
1	Vietnam – EVFTA	2020 summer	Positive	Strong	Not yet influenced
2	Vietnam – Israel FTA	Under negotiation	Positive	Strong	Not yet influenced
3	RCEP ASEAN	Under negotiation	Positive	Strong	Not yet influenced

Source: BSC Research

BANKING - OUTPERFORM

With these changes, we adjust TOI growth to be 8.5% YoY and PBT to be -0.3% YoY (respectively 3.3% and 16.8% lower than Q1/2020 industry report) with the change of assumptions:

- Credit growth of the whole industry to be at 10.5%.
- Continue to adjust downward the forecast of lending rates and mobilization of businesses to support interest rates for businesses affected by the disease.
- Adjusted the industry average NPL forecast to 1.7%. Provision expenses in 2020 + 26% YoY.

While the epidemic has adversely affected the profitability of the entire banking industry, many banks are doing very well in maintaining the quality of assets as well as the support from the state, reducing the pressure on provisioning. Therefore, BSC retains OUTPERFORM opinion to the Banking industry in 2020 and recommends BUY VCB, ACB which are banks with good asset quality. We also adjust the target price of banks to reflect market risk.

IT - TELECOMMUNICATIONS - OUTPERFORM

We maintain our OUTPERFORM stance on stocks of the IT - Telecommunication sector. For IT stocks, we expect Software exports to recover gradually in the last months of the year (FPT) and Telecommunications (fixed broadband) to continue growing well in 2020 (FPT, CMG). For the postal sector (VTP) stocks, we expect the online shopping trend to continue to be stronger as the Covid-19 epidemic ends as the main growth driver for VTP orders.

NON-LIFE INSURANCE - NEUTRAL

We maintain our opinion that the non-life insurance industry will remain NEUTRAL in 2020 with the view that: (1) deposit interest rates will continue to decline, reducing financial profit, (2) growth of Non-life insurance premium declines due to disease (forecast at 9% -10%), however, the high competitiveness as well as high combination ratio makes core profit not contribute much, and (3) the prospect of divestment and cheap valuation is a positive point for businesses in 2020

COMMERCIAL REAL ESTATE - NEUTRAL

We maintain our NEUTRAL view on commercial real estate stocks in 2020 despite being indirectly affected by the disease based on (1) Real estate enterprises' profits in 2020 will be clearly differentiated based on the number of products delivered by projects launched in 2017-2018, (2) The financial health structure is relatively healthier than the crisis period in 2008. We expect that boosting public investment as well as legal clearance will also make the prospect of real estate businesses in 2021 more optimistic. However, we also note that the "second wave" scenario from the Covid-19 epidemic will make real estate businesses face more difficulties in cash flow if open sale activities is delayed or the market demand decreases significantly.

INDUSTRIAL PARK REAL ESTATE - NEUTRAL

We maintain a NEUTRAL assessment of Industrial Park Real Estate 2020 since new contracts signing activities are delayed by the pandemic, however in the long term industrial zones will continue OUTPERFORM thanks to (1) pandemic Covid-19 promotes the motivation to move factories out of China (2) the trade war is still a concern for manufacturers in China (2) the effective EVFTA Agreement will attract FDI inflows, (3) domestic rental rates increased on average from 7-15% YoY. Industrial real estate enterprises with large land fund are ready to take advantage of opportunities (KBC, BCM, IDC, GVR, PHR...). We expect this process to slow down in 2020 due to limited travel for field surveys and cautious market sentiments, but if the pandemic is well controlled on a large scale, the business outlook will be positive in the long term.

RUBBER & TIRES - NEUTRAL

We rate NEUTRAL for the rubber industry because (1) rubber prices are on a downward trend making rubber business difficult, however (2) rubber companies have other income (land transfer, liquidation of rubber tree) that is not much affected, ensuring business results and (3) historical dividend payment of enterprises is always high at 40-50%. In addition, BSC assesses NEUTRAL tire industry due to (1) tire industry's output depends largely on automobile production demand which is slowing down due to Covid-19 pandemic, however (2) raw material cost is reduced and average selling prices do not drop sharply, helping businesses improve profit margins. We believe that the fact that the cost of raw materials is still on a downward trend will have a positive impact to offset the decline in sales volume, helping businesses still have positive business results.

SEAPORTS - NEUTRAL

BSC maintains a NEUTRAL assessment for the Seaport industry in 2020 due to pandemic outbreaks in cities with major ports such as Da Nang and Ho Chi Minh. Infrastructure issues and port dredging continue to be growth bottlenecks. However, if the epidemic continues for a long time, the impact on the economy will be greater, slowing down the process of production recovery and dragging the prospect of the whole industry.

PHARMACEUTICAL - NEUTRAL

We continue to maintain a NEUTRAL view on pharmaceutical stocks in 2020. Despite the sudden growth in Q1/2020, pharmaceutical businesses are unlikely to benefit in the long term thanks to the Covid-19 pandemic. At the same time, P/E valuation of pharmaceutical enterprises is also high compared to the P/E valuation of the whole Vietnamese stock market (16.7 compared to 15.5) and low liquidity also makes pharmaceutical stocks less attractive than other industry stocks.

CEMENT - NEUTRAL

We maintain NEUTRAL recommendation for cement businesses due to the industry's assessment of the impact of good and bad factors:

(1) The demand for cement may decrease due to the impact of construction activities slowing down due to epidemics, especially for export activities. However, we expect cement consumption will be supported by public investment in the near future.
(2) Coal price is on a downward trend, helping reduce production costs for businesses.

BSC will continue to monitor the impact of these factors on the business activities of the industry and update in the next reports.

STEEL - NEUTRAL

We maintain NEUTRAL recommendation for steel enterprises based on the following points:

(1) BSC estimates domestic demand for steel in 2020 may decrease from 14-16% YoY due to the impact of slowing construction activities. The export of products such as corrugated iron maintains a downward trend and is also affected by the unfavorable factors of the world epidemic situation.
(2) Input prices such as iron ore and coke tend to decrease due to weakening world demand.

The level of impact as well as interaction of these factors will determine the direction of business performance of the industry. We will continue to monitor and update the above developments in the next reports.

PLASTIC - NEUTRAL

We maintain NEUTRAL recommendation for plastic businesses based on the following points:

(1) Plastic resin prices tend to fall along with oil prices, helping save costs for businesses.
(2) Consumption of construction plastic products may decrease due to the impact of reduced construction demand. For plastic packaging products, the demand is more stable due to the relatively essential industry.

AUTOMOBILE - NEUTRAL

We rate NEUTRAL on automobile stocks. In 2020 vehicle sales decline, however thanks to the government's stimulus policies, the business results of enterprises will partly recover. In the long term, BSC believes that (1) automobile enterprises will grow strongly again thanks to the large potential of Vietnam's automobile industry with car ownership rate of only 2% of households having cars, lower than with regional countries (Malaysia - 82%, Thailand - 51%, Philippines - 6%).

CONSUMPTION - NEUTRAL

BSC maintains the recommendation of NEUTRAL for the retail consumer industry in Q3/2020. Under the impact of social isolation in the COVID-19 epidemic phase in Q2/2020, for the retail sector, we think that revenue and profit of retail businesses such as MWG, FRT, PNJ... will be negatively affected due to (1) Close stores to limit the spread of infection in April 2020 and the risk of continuing to close stores in case of the outbreak of Covid-19; (2) The spending demand is sharply reduced for high-class products in the context of people's income is greatly affected. However, in the last 6 months, we expect a new normal scenario will help the retail industry to recover partly from the influence of 1H2020.

For food and beverage industry, we think that there will be differentiation according to the essential level of products such as milk, meat, instant noodles, drinking water…, therefore some businesses that have growth in 1H2020 will be able to maintain the growth momentum in the last 6 months such as VNM, MSN... In addition, some businesses that witnessed sudden growth (such as MCH and DBC) thanks to increasing demand for essential goods and rising pork prices 1H2020 may find it difficult to maintain good growth in 2H2020 when the economic opening situation has returned to normal.

FISHERIES - NEUTRAL

We maintain a NEUTRAL rating for the fishery in the last 6 months of 2020. We expect seafood exports to gradually recover in the last months of the year when the consuming markets remove the blockade orders: the export output after the blockade also showed a rapid recovery. Although selling price is still low (causing negative growth in business results in 2020), BSC believes that the worst has passed and the situation will become more positive in 2021. However, BSC noted that the risks of the “second wave” of Covid-19 will increase again, which will negatively affect the recovery speed of enterprises.

OIL AND GAS – UNDERPERFORM

We downgrade the industry outlook from NEUTRAL to UNDERPERFORM for oil & gas stocks in 2020 with the assumption that Brent price in 2020 will remain around USD 38/barrel. The main reason for us to downgrade the industry outlook is mainly from (1) The impact of the Covid-19 epidemic caused strong demand short-term decline, estimated at up to 30 million barrels a day, while (2) The scale of output cut agreements from OPEC + groups is not enough to offset the decline in demand. For the Vietnamese market, crude oil reserves have a tendency to decline from the Bach Ho fields (Cuu Long basin), while the exploration and exploitation process is facing many obstacles, which directly affects the performance of upstream and downstream business groups. In particular, the biggest pressure will affect downstream groups with the main profit revenue depending on the fluctuations of oil prices (such as GAS, BSR, PLX, and OIL). As for the upstream group, BSC believes that this group (PVD, PVS, PXS) will be indirectly affected by the decline in service prices as well as the decline in demand, which limits exploration activities.

AVIATION - UNDERPERFORM

BSC holds an UNDERPERFORM stance for the aviation industry in 2020 due to concerns of direct impact from the epidemic to the activities of enterprises in the industry. During the COVID-19, we think that it will take more time to recover due to (1) the unpredictability of Covid-19 epidemic and (2) the disease recurs in the peak season of the year, affecting consumer sentiment (3) The travel restriction continue

TEXTILE AND GARMENTS - UNDERPERFORM

Although we expect the business results of textile enterprises to recover in the last 6 months of 2020, the main reasons why BSC will continue to maintain NEUTRAL views on the Textile industry in 2020 are (1) complicated movements of Covid-19 cause textile enterprises to lose their cash flow balance, which is a very risky at the moment, and (2) the expected recovery level is not too strong.

MARINE TRANSPORT - UNDERPERFORM

BSC holds an UNDERPERFORM stance with the marine transport industry due to concerns about disease resulting in a drop in transport demand in the context of (1) high competition in the industry and (2) high debt ratio (average debt/equity > 1). The positive impact from the declining oil price is limited due to the reduction in cargo volume, freight rates and number of ship arrivals. For liquid transportation companies such as PVT, low oil prices and demand for oil have worsened the prospect of maintaining this firm's steady growth momentum this year.

CONSTRUCTION - UNDERPERFORM

BSC maintains UNDERPERFORM opinion for construction industry in 2H2020. We believe that for the civil construction industry, it will continue to be difficult when the real estate supply situation is still limited and the competitive situation makes profit margin still relatively narrow. While the number of civil construction enterprises accounts for 47% of total businesses in the industry as of Q1/2020, , many leading enterprises experienced less satisfactory Q2 business results such as CTD (DT -31% YoY), HBC (DT - 45% YoY). Since then, CTD and HBC are also embarking on the infrastructure construction industry to look for new growth engines but they require a lot of time and capital to prove the construction capacity.

Infrastructure construction enterprises alone account for 53% of the total number of construction enterprises, we assess that they will benefit from accelerating the disbursement of public investment if they can prove their capacity, and thereby their contract value may increase in the end of the year or in early 2021. We recommend tracking the codes: C4G, LCG, and FCN.

SUGAR - UNDERPERFORM

BSC maintains a poor investment view for the sugar industry in 2H2020. Under the impact of the Covid-19 pandemic, we believe that sugar consumption in production and consumption of people will continue to decrease by 100,000 tons year in 2020. Besides, sugarcane and sugar will also decrease in the crop year of 2020/2021 when the market size decreases due to competition with other countries such as Thailand with better selling price than Vietnam. Thereby, the sugar stocks (QNS, SBT, SLS, LSS...) will be differentiated market shares, companies such as QNS and SBT continue to compete with the world while small market share companies such as SLS, LSS, and KTS… continue to face difficulties. We recommend investors to choose sugar stocks that still have growth momentum from changing business strategies in the next phase 2H2020-2021.

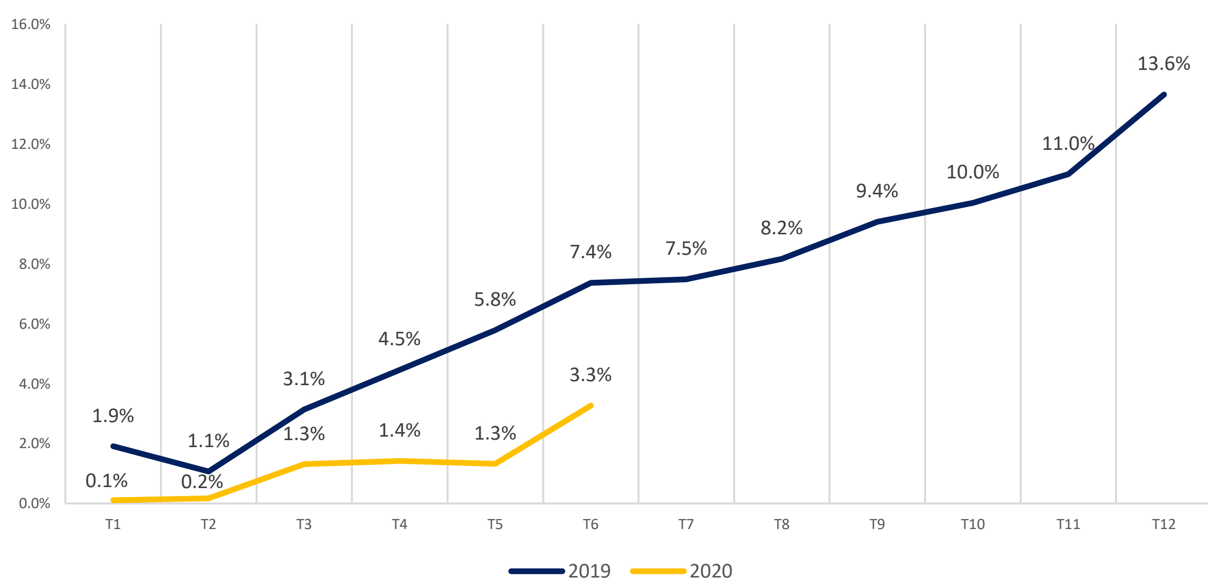
Banking Industry [OUTPERFORM]

- BSC maintains the forecast for credit demand of the whole economy at 10.5%.
- The Government has issued many policies to support the economy and the banking industry.
- Non-interest income continues to grow well, and is a source of compensation for the decline in interest income.
- NIM is adjusted downward due to lower interest rates to support businesses affected by the disease.
- Non-performing loans are likely to increase due to disease.
- Many banks are expected to be listed in 2020.
- We maintain OUTPERFORM opinions for the banking industry and recommend investing in businesses with good asset quality and high profitability such as VCB, ACB...

BSC maintains its forecast of credit demand at 10.5% in 2020.

Credit in 1H2020 increased by 3.3% ytd, a sharp decrease compared to 7.4% in 2019 because businesses were facing difficulties and had to narrow their production and business activities due to the impact of COVID-19 epidemic. Vietnam is experiencing positive recoveries in June 2020 and is expected to return to a new normal state in 2H2020.

Figure 1: Slowing credit growth in 1H2020



Source: SBV, BSC Research

Although credit growth in 1H2020 remains low, we still maintain our 2020 credit growth expectation at 10.5% coming from (1) reducing demand for credit from the commercial, manufacturing, tourism and consumer services sectors (accounting for a large proportion of the current loan structure), (2) reducing the need for loans from FDI enterprises due to the reduction in import and export, (3) the epidemic is likely to prolong by 3 -6 months before it can be controlled in the world while Vietnam is a rare country that controls the epidemic well, thereby helping to recover the economy faster, (4) SBV has provided credit growth to small and medium banks, pushing the credit ceiling in 2020 to around 11.5%.

Figure 2: Loan structure in commercial and industrial sectors which are heavily affected by COVID-19

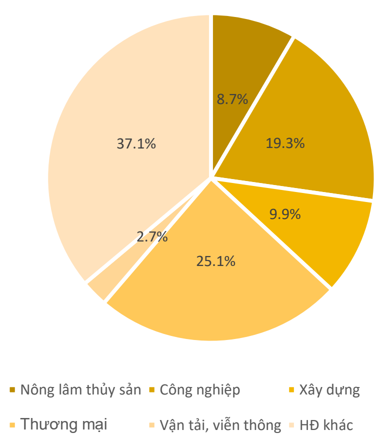
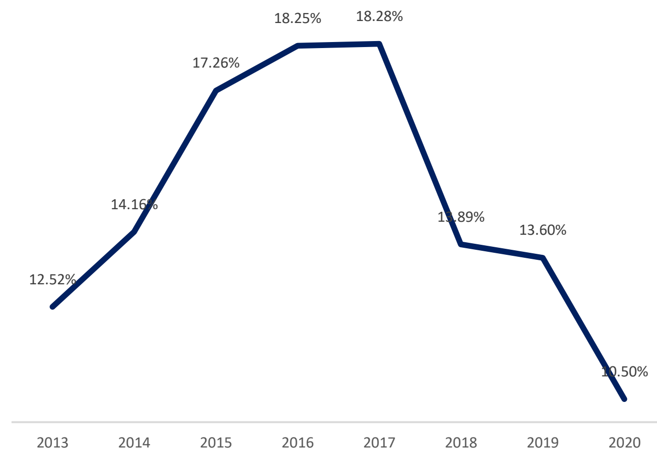


Figure 3: Expected credit growth at 10.5%



Source: SBV, BSC Research

SBV continued to cut interest rates, at the same time granted more credit to support economic growth.

In Q2/2020, SBV continued to cut the interest rates by 0.5%, specifically:

	New rate	Old rate	Change
SBV interest rates for Commercial banks			
Re-finance rate	4.5%	5.0%	-0.5%
Re-discount interest rate	3.0%	3.5%	-0.5%
Interbank overnight rate in electronic payments	5.5%	6.0%	-0.5%
Required reserve deposit interest rate	1.0%	1.0%	0.0%
Open market operation interest rate	3.0%	3.5%	-0.5%
Commercial banks interest rates for Clients			
Interest cap on demand deposits and terms of less than 1 month	0.2%	0.5%	-0.3%
Interest cap on deposits for terms from 1 month to 6 months	4.25%	4.75%	-0.5%
Short-term VND lending rate cap - 6 priority industries	5.0%	5.5%	-0.5%

Source: SBV, BSC Research

After the decision of the SBV, many banks have lowered interest rates of terms from 1 to 6 months by 0.3%-0.5% and lower interest rates for priority industries to 5.0%. BSC estimates that the SBV's lowering of interest rates in May 2020 will cause interest income of the whole industry to decline to around 2,700 billion VND.

The lowering of interest rates will help the businesses affected by epidemics, helping to supply enough capital to the market, creating a premise for a recovery in the coming time. If the epidemic situation continues to deteriorate, BSC believes that the SBV will continue to cut the interest rates once again in 2H2020.

In June 2020, the SBV also provided more credit to small and medium banks, increasing credit levels to ~ 11.5% in 2020. This has helped many banks that have used up most of their credit rooms (VPB, VIB, TPB...) as well as helping to provide capital to the economy when credit in 1H2020 was only 3.26%.

In July 2020, the SBV has just announced that it will grant more credit to commercial banks, increasing the credit growth target from 10.2% (early this year) to around 11.5%.

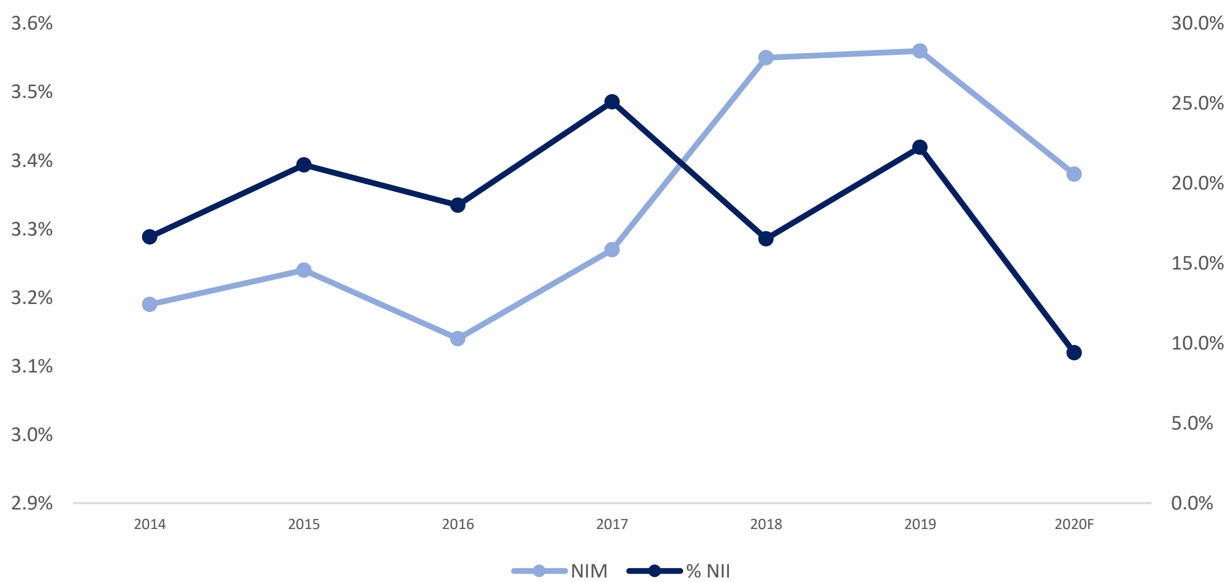
	Credit limit 2020 (old)	Credit limit 2020 (new)	Change (+/-)
VCB	10%	10%	0%
BID	9%	9%	0%
CTG	8.5%	8.5%	0%
TCB	13%	19% - 23%	6% - 10%
ACB	11.75%	11.75%	0%
EIB	9%	9%	0%
VPB	13%	19% - 23%	6% - 10%
MBB	11.75%	11.75%	0%
VIB	10.5%	19% - 23%	8.5% - 12.5%
TPB	11.5%	19% - 23%	7.5% - 11.5%
HDB	11%	19% - 23%	7% - 12%
Total	**10.1%**	**11.5%**	**1.4%**

Source: SBV, Listed Commercial Banks

Reducing NIM forecast due to lowering interest rates to support businesses affected by the pandemic.

The support of interest rates, along with the non-recognition of restructuring interests in the net interest income of banks (TT01), affected NIM of the whole system. Therefore, we continue to reduce NIM forecast of the whole system to 3.38% (-18 bps compared to the most recent report).

Figure 4: NII decline due to lower credit growth and NIM



Source: BSC Research, Banks' Financial Statements

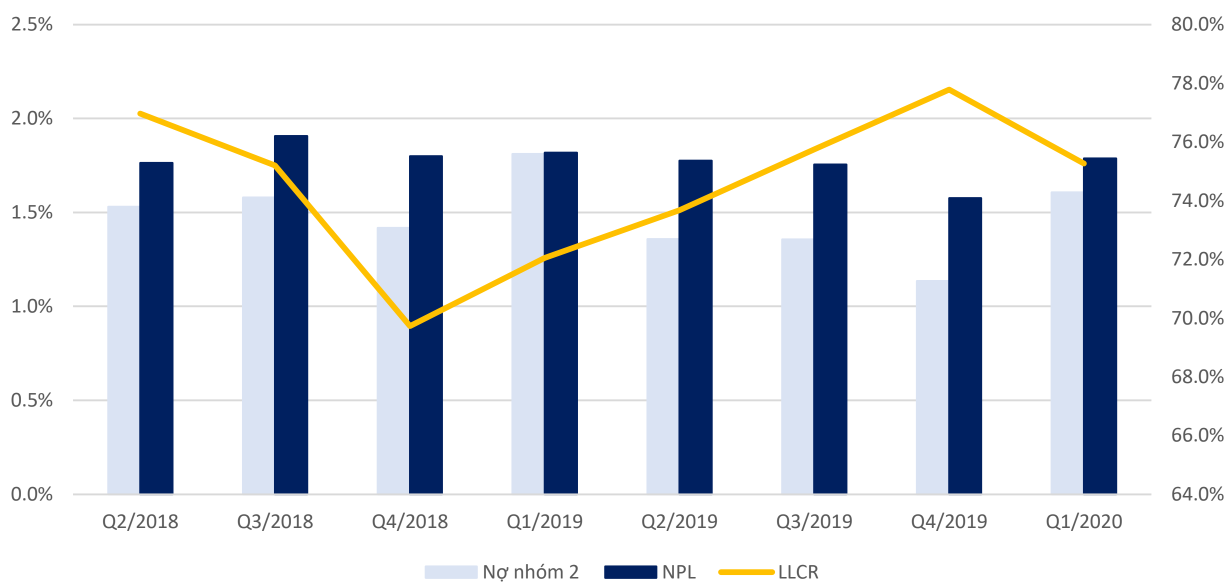
Asset quality declined due to unpredictable disease developments.

In Q1/2020, the asset quality of banks deteriorated due to the impact of the epidemic. Sector-wide NPLs increased sharply to 1.8% (+ 0.2% compared to the end of 2019).

At the end of March 2020, SBV issued a draft to amend Circular 01 to help banks reduce pressure on provisioning. Through this draft, the SBV allowed credit institutions and foreign bank branches to restructure the repayment period, interest exemption and reduction, keeping the group of eligible debts with disbursed debts from January 23, 2020 to before April 25, 2020. This helps banks reduce pressure on provisioning, as an estimated VND 2.5 million of loans are affected by COVID-19 (~ 30% of current outstanding loans).

Many banks have implemented debt restructuring according to Circular 01 of SBV, estimated to restructure the whole system of around 7% of loans in 2020, starting from Q2/2020. Moreover, provision expenses increased sharply by +33.4% YoY in Q1 / 2020. Therefore, we believe that debt rescheduling helps banks reduce pressure on provisioning. We estimate that in 2020, provision expenses of the whole industry will increase by +26% YoY and NPLs of the whole industry will remain at around 2.0%.

Figure 5: Declining asset quality, increasing provision expenses for banks



Source: BSC Research, Banks' Financial Statements

Reducing expectation of non-interest income growth of the whole system to 10% - 15% YoY.

In 2020, BSC reduces its expectation of non-interest income growth to 10% - 15% YoY for the whole system due to (1) service fees and bancassurance slowdown due to social distancing orders, (2) difficulties in the collection of bad debts, (3) revenue from bonds and foreign exchange being the main growth driver in 2020, (4) upfront fees from bancassurance (VCB, TPB, HDB).

Q1/2020 business results are affected by the pandemic.

In Q1/2020, banks monitored by BSC recorded TOI of 80,352 billion VND (+16.3% YoY) and PBT of 27,725 billion VND (+6.1% YoY). This is the lowest growth result in recent years due to the sharp increase in provisioning expenses (+33.4% YoY).

INVESTMENT VIEWPOINTS - OUTPERFORM

With these changes, we reduce forecasts for TOI growth to 8.5% YoY and PBT growth to -0.3% YoY (3.3% and 16.8% lower than Q1/2020 industry report, respectively) with the changes of assumptions:

- Credit growth of the whole industry being at 10.5%.
- Continue to adjust downward the forecast of lending and deposit rates for businesses to support businesses affected by the pandemic.
- Adjust upward the industry average NPL forecast to 1.7%. Provision expenses in 2020 increases +26% YoY.

While the epidemic has adversely affected the profitability of the entire banking industry, many banks are doing very well in maintaining the quality of assets together with the support from the state, reducing the pressure on provisioning. Therefore, BSC retains **OUTPERFORM** opinion for the Banking sector in 2020 and recommends **BUY** VCB, ACB which are banks with good asset quality. We also adjust the target price of banks to reflect market risk.

	TOI 2020	% yoy	PBT 2020	% yoy	EPS 2020	P/E fw	P/B fw	ROA 2020	ROE 2020	Closing price 01/07/2020	Target price	Upside
VCB	51,355	12%	20,899	13%	5,635	14.8	3.2	1.6%	22.9%	83,400	90,000	7.9%
ACB	17,933	11%	6,402	7%	3,500	6.8	1.4	1.6%	22.2%	23,700	27,000	13.9%
MBB	26,843	9%	8,130	4%	3,426	5.0	0.8	1.9%	18.6%	17,100	22,000	28.7%
TCB	24,958	18%	10,827	7%	3,093	6.5	1.0	2.5%	16.0%	20,250	25,000	23.5%
CTG	41,402	2%	9,463	0%	2,542	9.2	1.0	0.7%	11.8%	23,450	30,000	27.9%

Source: BSC Research

The performance of listed banks in Q1/2020

Q12020	ACB	BID	CTG	HDB	LPB	MBB	STB	TCB	TPB	VCB	VIB	VPB
SCALE												
Chartered capital (bn VND)	16,627	40,220	37,234	9,810	9,769	24,370	18,852	35,001	8,566	37,089	9,245	25,300
Shareholder's equity (bn VND)	29,412	79,269	78,811	21,388	13,065	43,984	27,547	64,591	13,863	85,072	14,285	44,524
Total assets (bn VND)	387,396	1,446,044	1,222,652	231,774	202,930	406,803	459,076	391,808	176,632	1,144,270	193,314	393,209
Shareholder's equity /Assets	7.6%	5.5%	6.4%	9.2%	6.4%	10.8%	6.0%	16.5%	7.8%	7.4%	7.4%	11.3%
GROWTH												
% Credit	1.8%	-2.7%	-0.4%	5.9%	2.7%	-1.4%	3.5%	3.7%	9.5%	2.8%	4.0%	7.9%
% Asset	1.0%	-2.9%	-1.5%	1.0%	0.4%	-1.1%	1.2%	2.1%	7.4%	-6.4%	4.8%	4.2%
% Loan	2.3%	-1.0%	-1.2%	4.2%	2.8%	-0.9%	3.5%	0.5%	5.1%	2.7%	4.4%	2.6%
% Deposit	1.5%	-1.2%	0.3%	5.4%	5.2%	-11.7%	1.2%	1.6%	-3.0%	0.6%	0.7%	0.8%
% TOI	25.4%	5.9%	10.9%	27.8%	9.2%	16.2%	9.6%	37.2%	27.5%	4.4%	31.9%	24.4%
% PPOP	19.3%	1.9%	15.2%	16.2%	-12.2%	26.5%	-5.8%	39.8%	32.3%	-0.1%	27.4%	32.8%
% PBT	12.8%	-28.0%	-5.7%	13.5%	18.0%	-9.4%	-6.9%	19.2%	18.4%	-11.1%	32.8%	63.3%
ASSET QUALITY												
Group 2 debt ratio	0.3%	2.3%	0.9%	1.6%	1.0%	1.9%	0.5%	1.0%	2.7%	0.7%	1.6%	5.2%
NPL ratio	0.7%	1.7%	1.8%	1.5%	1.4%	1.6%	2.0%	1.1%	1.9%	0.8%	2.2%	3.0%
NPL ratio (+VAMC)	0.7%	1.7%	1.8%	1.5%	1.5%	1.6%	10.4%	1.1%	1.9%	0.8%	2.2%	3.0%
Doubtful debt ratio	0.0%	2.5%	1.3%	2.1%	1.4%	2.0%	9.7%	0.8%	3.1%	-0.4%	2.8%	6.8%
Bad debt provision/Total debts	1.0%	1.5%	1.4%	1.1%	1.2%	1.6%	1.3%	1.3%	1.4%	1.9%	1.0%	1.6%
Loan life coverage ratios	148.3%	86.1%	77.3%	74.5%	82.3%	97.6%	68.2%	117.9%	76.0%	235.0%	47.3%	52.0%
Bad debt provision/Group 2-5	99.3%	37.5%	52.6%	35.6%	49.0%	44.5%	54.6%	61.0%	31.5%	129.3%	27.3%	19.1%
Accrued interest/Loan	1.1%	1.3%	0.8%	2.2%	3.4%	1.4%	6.1%	2.9%	1.7%	1.1%	1.3%	2.1%
LIQUIDITY RISK & CAPITAL AQUEDACY												
LDR	79.1%	87.8%	88.4%	74.4%	78.6%	74.1%	73.3%	74.4%	63.8%	77.9%	77.5%	78.7%
Liquid assets/Total assets	27.1%	21.8%	21.7%	29.4%	24.7%	34.3%	23.7%	34.8%	37.7%	32.8%	28.1%	27.2%
Liquid assets/Deposits	33.6%	28.7%	29.6%	51.2%	34.8%	58.0%	26.8%	58.0%	74.2%	40.1%	44.1%	49.7%
HĐ từ interbank/Tổng HĐ	3.8%	6.2%	8.0%	20.6%	5.5%	19.2%	0.9%	19.2%	31.3%	4.1%	18.8%	18.3%
Leverage	13.2	18.2	15.5	10.8	15.5	9.2	16.7	6.1	12.7	13.5	13.5	8.8
CAR Basel I	12.0%	6.7%	10.5%	12.5%	12.5%	10.6%	10.5%	15.6%	15.1%	11.2%	10.0%	10.7%
BUSINESS PERFORMANCE												
TOI	4,378	11,339	10,685	3,151	1,495	6,339	3,883	6,030	2,430	12,285	2,260	9,906
Net profit bef.Credit provision	2,018	7,855	7,367	1,543	566	4,288	1,406	3,893	1,334	7,375	1,231	6,623
PBT	1,925	1,814	2,974	1,251	604	2,196	988	3,121	1,009	5,223	1,075	2,911
Net interest income/TOI	74.6%	75.0%	81.0%	87.8%	91.9%	72.7%	63.9%	65.5%	66.7%	75.9%	76.5%	82.8%
CASA	16.5%	15.0%	14.9%	12.1%	11.4%	33.1%	15.7%	32.2%	13.9%	29.4%	10.4%	12.2%
Average gross interest rate	8.9%	7.4%	7.0%	10.2%	8.2%	8.3%	9.1%	7.1%	8.2%	6.5%	8.3%	14.7%
Average deposit interest rate	5.0%	5.0%	4.5%	4.9%	6.0%	3.7%	5.2%	3.4%	4.5%	3.3%	5.2%	6.1%
Net interest rate	3.9%	2.4%	2.4%	5.3%	2.2%	4.6%	3.9%	3.7%	3.7%	3.2%	3.0%	8.6%
NIM	3.5%	2.6%	2.7%	5.0%	2.9%	4.8%	3.1%	4.3%	4.0%	3.3%	3.6%	8.9%
Provisioning/PPOP	4.6%	76.9%	59.6%	19.0%	-6.6%	48.8%	29.7%	19.8%	24.3%	29.2%	12.7%	56.0%
CIR	52.2%	36.4%	38.1%	46.0%	63.8%	38.0%	64.7%	34.5%	39.7%	35.3%	42.8%	33.0%
ROAA	1.6%	0.5%	0.8%	1.6%	0.8%	1.9%	0.5%	2.7%	1.9%	1.5%	1.8%	2.4%
ROAE	21.6%	10.1%	12.0%	17.7%	13.1%	18.2%	8.8%	16.5%	23.9%	21.1%	25.1%	21.1%
PRICING												
EPS (VND/share)	3,710	1,971	2,510	3,766	1,715	3,134	1,271	2,985	3,760	4,849	3,762	3,621
Book value (VND/share)	17,689	19,709	21,166	21,802	13,374	18,048	14,612	18,454	16,184	22,937	15,452	17,599

Source: BSC Research, Banks' Financial Statements

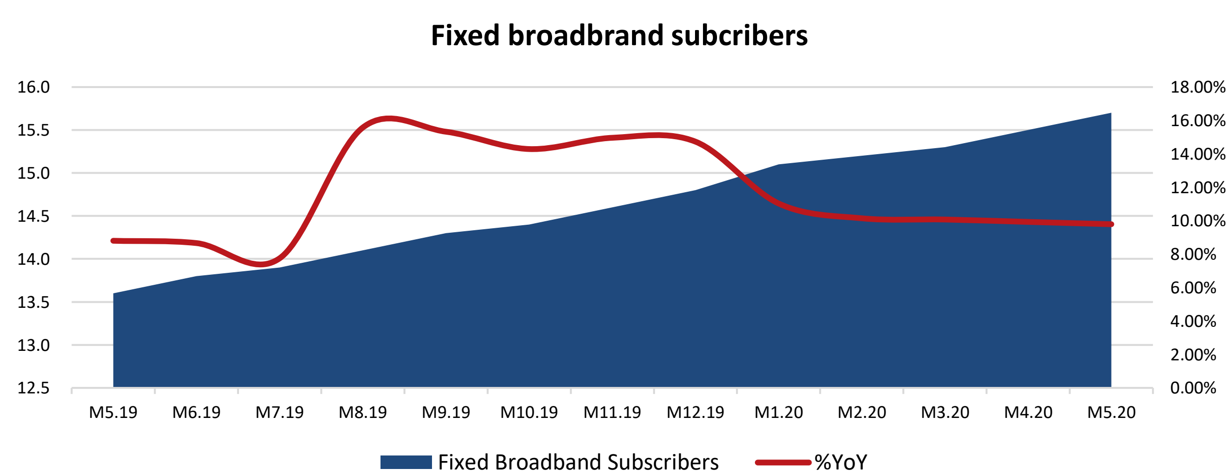
Technology – Telecommunication [Outperform]

- Telecommunication enterprises doing business in fixed telecommunication services will benefit from the order of social distancing in the first 6 months of 2020 and will continue to benefit in the last 6 months of the year.
- The deployment of Mobile Money will have a positive impact on Telecommunication companies in Vietnam: (a) Telecommunication companies create new revenue sources in the context of the saturated telecommunications industry (b) Telecommunication industry is expected to enhance its position in the digital payment process in Vietnam.
- Technology – Telecommunication firms will be less affected by the Covid-19 waves in Vietnam.
- We maintain our **OUTPERFORM** recommendation on Technology – Telecommunication sector in 2020.

Telecommunication enterprises doing business in fixed telecommunication services will benefit from the order of social distancing in the first 6 months of 2020 and will continue to benefit in the last 6 months of the year..

+ The social distancing and isolation make the revenue of fixed products grow well while the revenue of mobile products decreases due to the decrease in communication demand (because people are restricted in travel and mainly stay at home). According to the report of Ministry of Information and Communications, the total revenue of telecommunication services by the end of May was 52,849 billion Dong (-4.85% YoY). Specificly, the revenue of May was 10,259 bilion Dong (+4.47% YoY), includes: revenue from mobile telecommunication services was 7,404 billion VND (-11% YoY), revenue from fixed telecommunication services was VND 2,854 billion (+32% YoY). For companies in the stock exchange, FPT also showed that the business results of the Telecommunication segment grew significantly: revenue +13% YoY, profit before tax increased by 27% YoY.

+ BSC expects that in the last 6 months of the year, the demand for telecommunication services will continue to be high when the Covid - 19 epidemic is still complicated. Da Nang's record of new and rapidly spreading Covid-19 cases to other provinces could prompt the government to issue a social isolation in order to cope with the disease. This continues to support the need for fixed telecommunication services when people are mainly at home.

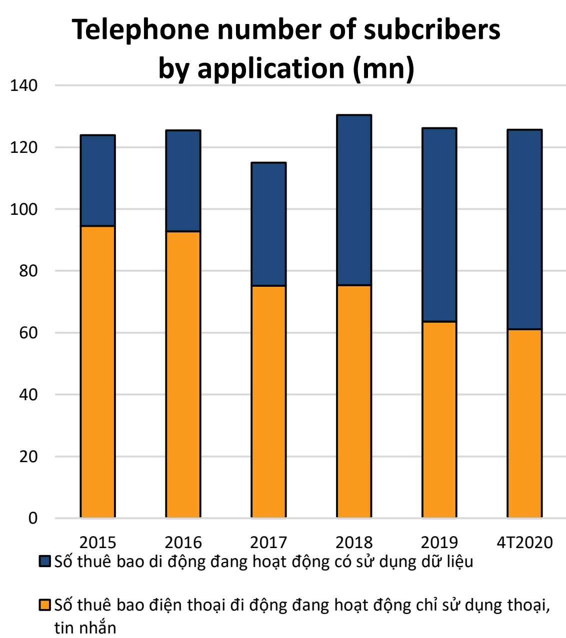


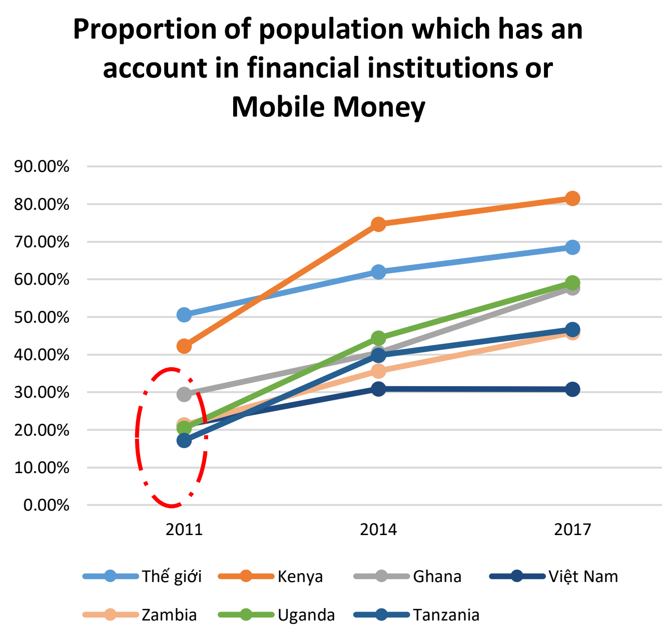
Source: Vnta

The deployment of Mobile Money will have a positive impact on Telecommunication companies in Vietnam:

+ Mobile Money service has various potential for development because of (a) a large population with a high economic growth rate in the region (b) a high percentage of people owning a phone while the rate of having a bank account is still low (c) The Vietnamese Government is promoting the application of Mobile Money in the near future (BSC's Report on Mobile Money: (Link)

+ The Mobile Money service has a positive influence in telecommunication businesses (Viettel, VNPT, Mobifone) because (a) Telecommunication companies create new revenue sources in the context of the saturated telecommunications industry (b) Telecommunication industry is expected to enhance its position in the digital payment process in Vietnam.





Source: Vnta, WorldBank

BSC believes that technology – telecommunication firms will be less affected by the Covid-19 waves in Vietnam. In a complicated epidemic situation, people not tend to travel are still a factor supporting the growth of the Telecommunication group. Besides, Delivery is a distinct industry, so it will still be given priority to operate in the period of social distancing. From the other side, Software exports, Express delivery (especially supplies from China) will be negatively affected when the partner countries are locked-down.

INVESTMENT OUTLOOK – OUTPERFORM

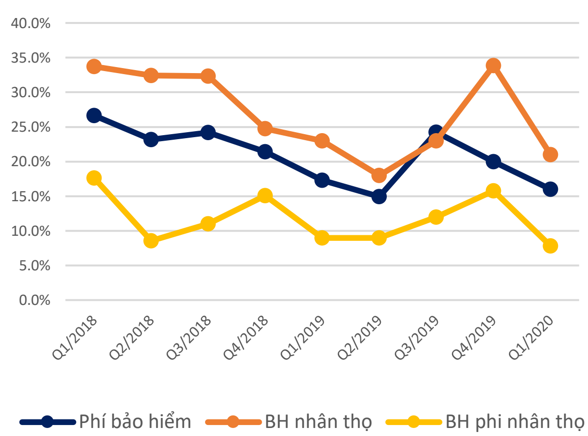
We maintain our **OUTPERFORM** recommendation on Technology - Telecommunication sector. For IT stocks, we expect the software exports to recover gradually in the last months of the year (FPT) and Telecommunication (fixed broadband) to continue growing well in 2020 (FPT, CMG). For the postal sector stocks (VTP), we expect the online shopping trend to continue to be stronger as the Covid 19 epidemic ends as the main growth driver for VTP orders.

Non-life Insurance [Neutral]

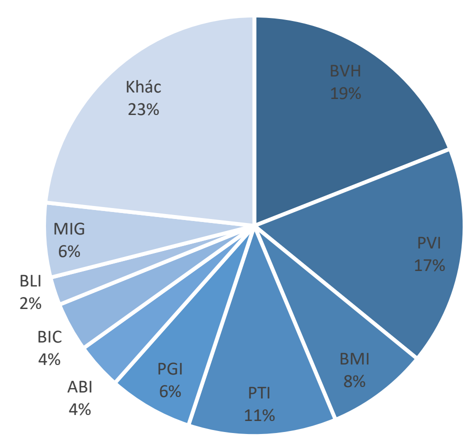
- Non-life insurance market is forecasted to grow by 9% - 10% in 2020.
- Profit of the whole industry will reduce the growth rate in 2020.
- The decrease in deposit rates of banks in short terms affects the profitability of the insurance industry in 2020.
- The divestment in insurance companies are continued to deploy in 2020.
- We maintain a **NEUTRAL** rating for the non-life insurance industry in 2020. Buying recommendation: PVI, BMI.

BSC forecasts that the growth of original premium of the whole non-life insurance industry will be at 9% - 10% due to the impact of the epidemic and social distancing. According to the General Statistics Office, in Q1/2020, the insurance premium revenue was VND 37,683 billion (+16% yoy), in which non-life insurance premium revenue was VND 13,302 billion (+7.8% yoy).

Hình 1: Original cost growth is affected by disease



Hình 2: Market share is fragmented and intense competition



Source: General Statistics Office, BSC Research

The market share of the top 5 leading companies accounts for more than 61.2%, and is continuing to increase. Specifically, BVH and PVI are the two leading companies with 19% and 16.9% respectively, followed by PTI with 11.4%. Besides, larger non-life insurance companies are actively increasing the diversification of products to gain more market share from small parties (BVH, PTI, PVI, ..). BSC stated that the insurance industry's original fee growth in the first quarter was affected by epidemic and social distancing, as well as the deteriorating economic situation that caused the economy to stagnate, many businesses had to close and Unemployment rate increased to ~5%. In 2020, BSC forecasts that the original fee growth of the whole non-life insurance industry will be at only 9% -10%, down slightly from 12% -13% in the previous report due to (1) overall growth of the insurance industry at 11%, (2) the ratio of insurance usage per capita in Vietnam is low, and (3) many diverse products.

The combined ratio is high. The combined ratio of the whole industry is high (about 97%) which reduces the growth and the proportion of income from core activities. We expect that in 2020, businesses will continue to reduce administrative costs, but the increase in compensation costs tends to continue, making the combined rate will continue to remain at 97%. - 98%.

Deposit rates are expected to continue to decline in 2020. Banks continue to cut down short-term deposit rates by 0.5% in Q2/2020. This will partly affect the financial income of non-life insurance companies as the structure of short-term deposits (<1 year) is accounting for a large proportion in the structure of investment assets. We estimate that every 0.1% reduction in deposit interest rates will affect VND 140 billion of financial revenue of listed insurance companies. (5.3% of EBT in 2019).

Divestment attracts the attention of foreign investors.

In 2019, PVI is in the progress of divestment of PVN but so far the divestment has not been implemented, so we expect PVN to continue its divestment efforts at PVI in 2020. Apart from PVI, they I expect, BMI after being transferred to the super committee from SCIC will also be on the list of state divestments in 2020. With the non-life insurance industry of our country still maintaining high growth rates, and there is plenty of room for development, divestments in non-life insurance businesses are expected to attract a great deal of attention from investors.

INVESTMENT OUTLOOK – NEUTRAL

We maintain our opinion that the non-life insurance industry will remain NEUTRAL in 2020 with the view that: (1) deposit interest rates will continue to decline, reducing financial profit, (2) growth Non-life insurance premium declines due to epidemic (forecast at 9% -10%), however, the high competitiveness as well as high combined ratio makes core profit not contribute much. (3) The prospect of divestment and cheap valuation are positive points for businesses in 2020.

Performance of non-life insurance companies in Q1/2020

	ABI	BIC	BLI	BMI	MIG	PGI	PTI	PVI	VNR
SCALE									
Total Assets	2,680	5,262	1,992	5,992	5,123	5,975	7,872	23,603	7,028
Equity	929	2,259	689	2,302	1,508	1,464	1,917	7,192	2,866
Investment Assets	2,092	3,723	1,220	2,986	3,075	3,030	4,095	10,983	3,889
Investment Assets /Total Assets	78.1%	70.7%	61.2%	49.8%	60.0%	50.7%	52.0%	46.5%	55.3%
PERFORMANCE									
Maket share	3.6%	3.8%	2.2%	7.8%	5.7%	6.5%	11.4%	16.9%	4.7%
Revenue on premium	412	511	309	1,206	630	767	1,431	2,445	593
% yoy	17.6%	9.9%	5.5%	25.2%	33.7%	15.1%	40.9%	2.5%	23.5%
NI from insurance business	69	40	28	40	(5)	43	11	68	13
Payment rate	25.9%	25.1%	25.4%	32.7%	31.8%	37.2%	29.5%	30.7%	21.6%
Other expenses	25.7%	41.1%	45.6%	59.7%	53.1%	41.3%	54.6%	52.9%	67.7%
% SG&A	31.1%	23.5%	15.8%	3.3%	16.2%	15.1%	14.9%	10.5%	7.4%
Combined rate	82.7%	89.7%	86.8%	95.7%	101.0%	93.6%	99.0%	94.1%	96.7%
Financial income	33	41	(11)	10	40	8	40	48	(3)
% yoy	22.7%	-29.5%	-165.1%	-66.1%	57.6%	85.2%	146.6%	-69.8%	-105.5%
Gross investment interest	6.2%	7.7%	7.7%	7.4%	7.4%	2.2%	5.3%	7.4%	8.2%
Net investment interest	6.2%	6.6%	4.8%	4.5%	5.7%	1.8%	2.0%	4.9%	5.1%
EBT	102	81	17	51	35	53	59	140	23
% yoy	29.9%	16.3%	-73.2%	-12.7%	-4.4%	8.6%	26.2%	-52.2%	-73.8%
Solvency	2.3	4.4	2.2	1.9	2.4	1.9	1.3	2.9	4.8
Valuation									

EPS	6,879	1,865	95	1,936	1,080	1,933	1,585	2,484	1,787
BVPS	24,439	19,261	11,483	25,194	11,600	16,506	23,840	30,703	21,862

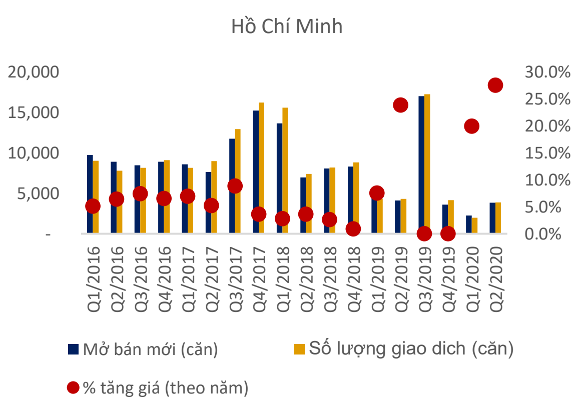
Source: BSC Research, FS of insurance industry

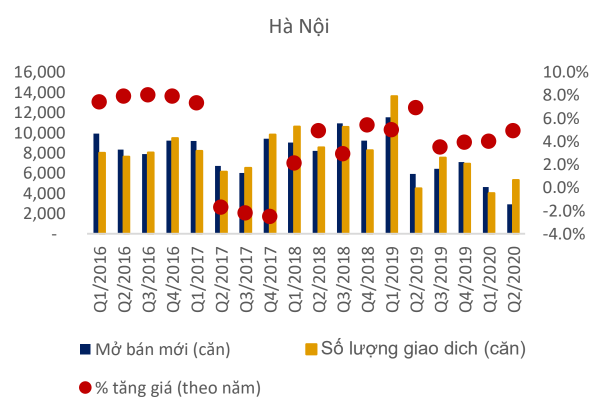
Commercial Property [Neutral]

- The real estate market was gloomy in Q2/2020, continuing to record low sales rate due to the impact of the Covid-19 epidemic.
- Relatively high absorption rate of projects in the context that the selling price of projects is still increasing, indicating a relatively large market demand when the supply is tight.
- It is forecasted that the supply of commercial real estate market in 2H2020 will recover gradually but remain at a low level compared to the same period in the condition that Vietnam controls well the Covid-19 epidemic.
- The trend of moving from real estate in the city center to the provincial area and the associated "risks".
- Real estate - tourism group continues to be seriously affected.
- BSC maintains a NEUTRAL view on the Commercial Property sector in 2020

The real estate market was gloomy in Q2/2020, continuing to record low sales rates due to the impact of the Covid-19 epidemic. Under the negative impact of the Covid-19 epidemic and the "Social distance" directive from the Government in April 2020, the sale schedule of most real estate enterprises has been postponed to the end of 2020. This leads to the number of products launched in Q2/2020 continuing to record a downward trend.

- According to JLL's data, Ho Chi Minh City recorded a new number of 3,820 units (-7% YoY, +69% QoQ), but mainly came from Akari City (48%), we noted that this project has been introduced since Q3/2019 and has recorded a reservation rate of 100%, therefore the number of projects launched in Q2/2020 is relatively small.
- Meanwhile, the Hanoi market recorded a total of 2,910 new products (-51% YoY, -36.7% QoQ), in which the majority of new products came from the next phase of fully legal projects that have been opened before. According to JLL, the Hanoi market recorded a tighter grip on legal issues and construction permits similar to those in Ho Chi Minh last year.





Source: JLL, BSC Research

Relatively high absorption rate of projects in the context that the selling price of projects is still increasing, indicating a relatively large market demand when the supply is tight. As noted by JLL, most of the transactions in Q2 came from previous projects, reaching 3,855 units (~ 101% of the absorption rate) in Ho Chi Minh City and 5,298 units (~182% of the absorption rate) in the Hanoi market. The average selling price in Ho Chi Minh City and Hanoi market recorded a slight increase of 5.3% QoQ and 2.0% QoQ respectively. We noticed that price increases mainly in the mid-end segment while the luxury segment recorded a sharp decline. This shows that the actual demand for housing of the market is relatively high while the investment demands are clearly differentiated in the segments.

It is forecasted that the supply of commercial real estate market in 2H2020 will recover gradually but remain at a low level compared to the same period in the condition that Vietnam controls well the Covid-19 epidemic. The total expected supply in 2020 of the Ho Chi Minh market is forecasted to record about 20,000 products (down about 33% compared to the total supply in the period 2017-2019), while the Hanoi market is expected to record about 10,000 products. Some firms have started to implement marketing programs for projects such as (1) Gem Sky World (DXG), (2) Aqua City (NVL), (3) Water-Point (NLG), (4) Vinhomes Grand Park (VHM)…

Real estate - tourism group continues to be seriously affected. Under the influence of currently frozen international flights, the occupancy rates of hotels in Ho Chi Minh and Hanoi decreased by 57.6% YoY and 56.1% YoY respectively, according to CBRE data. We expect that (1) domestic tourism and (2) business tourism will be the driving force for growth in tourism real estate, helping to bring in cash flow to pay for fixed costs. The recovery rate of the international channel is relatively low and will depend heavily on the subsequent developments of the Covid-19 epidemic.

The trend of moving from real estate in the city center to the provincial area and the "risks" for firms currently having many projects in the provincial area or high-class apartments that are "highly speculative"due to the influence of the epidemic will have a negative impact on future housing demand when cash flow and income are affected. Real estate stocks that focus on the mid-end/affordable segment "towards real needs" and have a healthy balance sheet will be our favorite options**. Therefore, the key point of enterprises in improving cash flow will come from the "absorption level" of new launches after the epidemic is under control.**

INVESTMENT OUTLOOK – NEUTRAL

We maintain our **NEUTRAL** view on commercial real estate stocks in 2020 despite being indirectly affected by the disease due to (1) Real estate enterprises' profit in 2020 will be clearly differentiated based on the number of products delivered by projects launched in 2017-2018, (2) The financial health structure is relatively healthier than the crisis period in 2008. We expect with improving public investment as well as legal clearance will also make the prospect of real estate businesses in 2021 more optimistic. However, we also note that the "second wave" scenario from the Covid-19 epidemic will make real estate businesses face more difficulties in cash flow if the sale schedules is delayed or the market demand is decreased significantly.

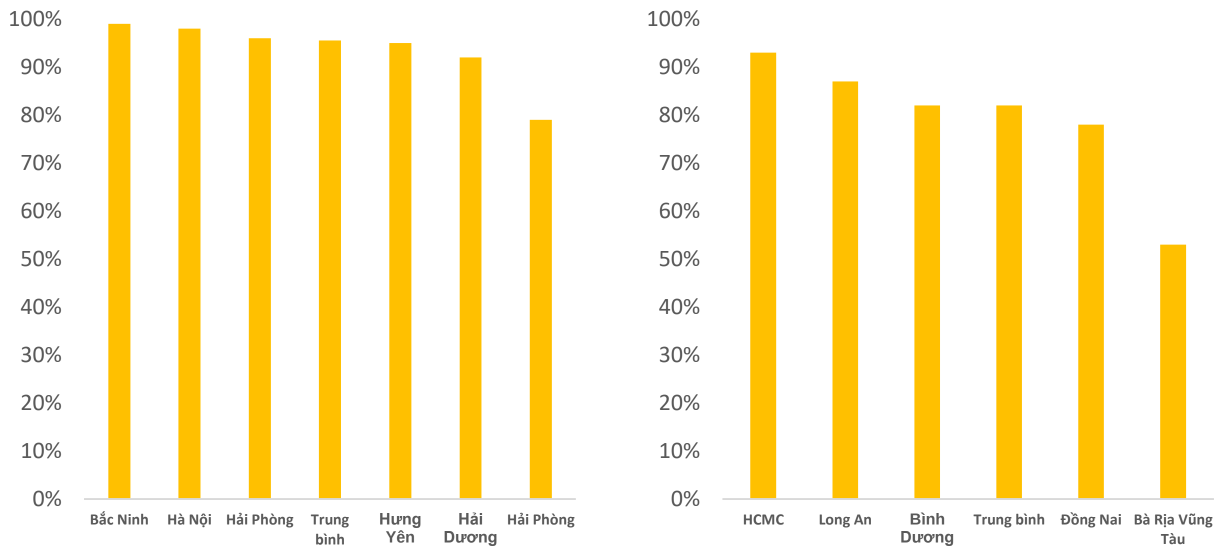
Industrial Park [Neutral]

- Vietnam's industrial park market is expected to benefit in the long term from increased demand due to relocation of production from China to other countries.
- The average occupancy rate of industrial parks in the whole country in 3M2020 was 74.3% (down from 75% in 2019) and rental rates showed a growth (in the North +5-9% yoy, in the South +8.4-15% yoy) due to limited supply and weaker demand for land rent in 2019.

The implemented FDI has tended to improve compared to the first months of the year and the decrease in Vietnam is still much lower than the world situation when the Covid-19 pandemic has not been controlled in many countries. Realized FDI reached US $8.65 billion in 1H2020 (-4.9% yoy) mainly due to the impact of the Covid-19 pandemic in the first months of the year, causing many commercial and investment activities to be delayed. FDI capital concentrated in the fields of processing and manufacturing industries, with 45.8% of the total value and real estate business, with 17.8% of the total value. Provinces such as Ho Chi Minh City, Ba Ria - Vung Tau, Hanoi, Binh Duong, and Hai Phong are the regions with the highest FDI collection in 1H2020, and we expect these to continue benefit in the long run. Vietnam's industrial real estate market is still expected to benefit from increased demand due to the relocation of production from China to other countries.

The average occupancy rate of 3T2020 industrial parks in the country was 74.3%, down from 75% in 2019 due to (1) the supply of new industrial parks increased slowly due to the strict management of the Government, enterprises in industrial park have problems in legal handling and (2) disbursed FDI capital is decreasing, demand for industrial park land is lower than in 2019 due to the Covid-19 pandemic. We notice that the central areas have a high occupancy rate,therefore the surrounding areas with supply to meet tenants will be the next destination for manufacturers, the North has Hai Phong (KBC with Trang Due Industrial Park 3) with a 79% occupancy rate, which is lower than the central areas (96%), in the South there is Ba Ria - Vung Tau with the occupancy rate of 53%, lower than the regional average (82%), in addition, Ba Ria - Vung Tau (with SZC, IDC has industrial park) has a good location advantage with good road connectivity to seaports and large rivers, in Long Thanh (Dong Nai), Enterprises (GVR, SZL) benefit from public investment projects.

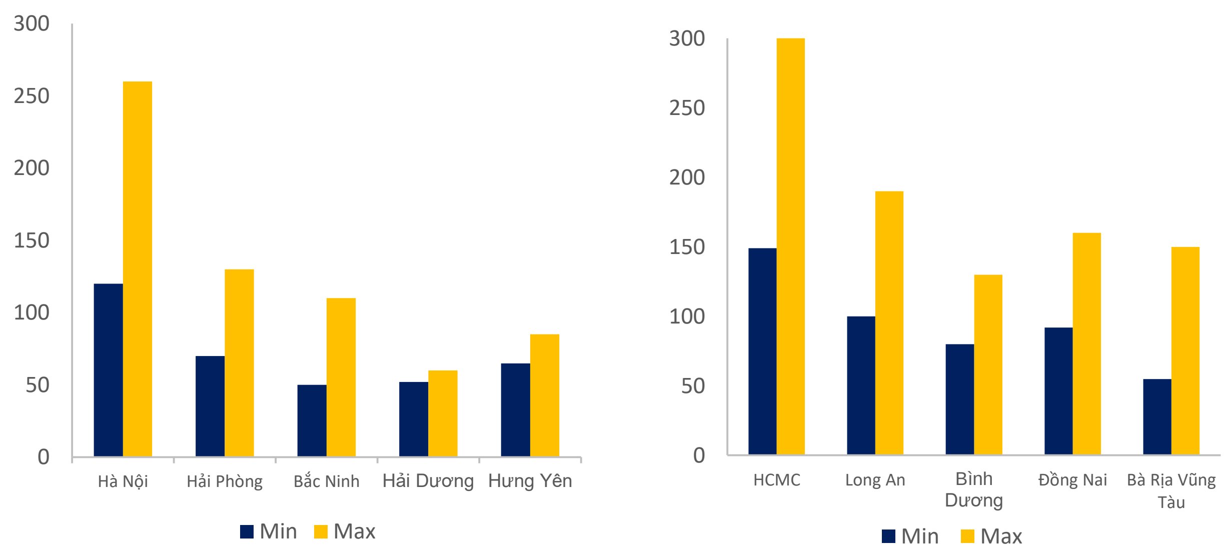
Occupancy rate in the South and the North



Source: CBRE, BSC Research

Rental rates in the central areas have strongly increased due to limited supply, which makes investors accept high prices to rent in convenient transportation areas. In the Northern provinces (Hanoi, Bac Ninh, Hai Duong, Hai Phong, and Hung Yen), the rental price increased by 5.0% - 9.1% YoY, leading rent prices are in Hanoi, Hai Phong, and Bac Ninh because these areas have convenient transportation, developed infrastructure and high occupancy rate, pushing up rental prices sharply. Meanwhile, in big provinces in the South, the average rent price increased by 8.4% - 15% yoy.

Land price in the South and the North (USD/m2/lease term)



Source: CBRE, BSC Research

BSC expects the Covid pandemic - 19 will further motivate plans to move out of China, reducing the supply chain sub-focus to one region. We expect this process to slow down in 2020 due to limited travel for more cautious field surveys and market sentiments, however if the pandemic is well controlled on a large scale, the prospects of businesses will be positive in the long term. Some projects have clearly shown this shift: Apple of America started to move production from China to Vietnam and increase the number of headphone production in Vietnam (with about 4 million headsets being produced in Q2/2020), Google and Microsoft are also moving some production lines from China to Vietnam. With the advantage of geographic location, cheap labor costs, government rental incentives, attracting FDI from economic agreements, and good disease control, Vietnam is expected to be an acttractive destination in this shifting sequence. Industrial real estate enterprises with large land fund are ready to take advantage of opportunities (KBC, BCM, IDC, GVR, PHR ...)

INVESTMENT OUTLOOK – NEUTRAL

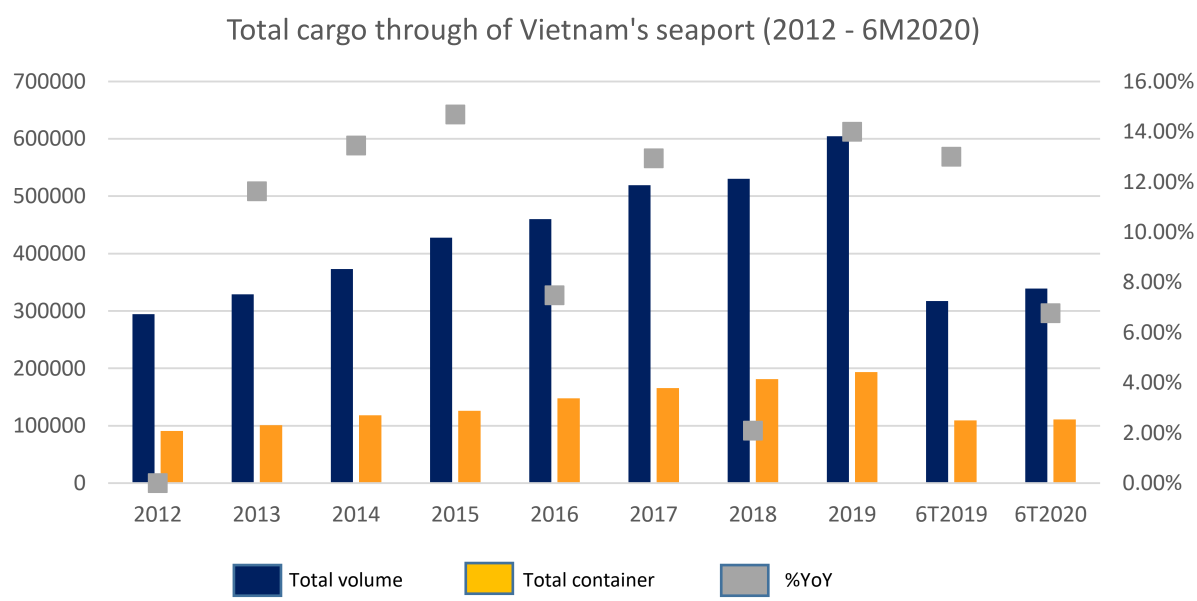
We maintain a **NEUTRAL** rating on the Industrial Park real estate in 2020 as new contracts are delayed due to a pandemic so the 2H2020 earnings of this group can record low growth. However, in the long-term, industrial parks will continue to **OUTPERFORM** due to (1) The Covid-19 pandemic, boosting the motivation to move factories out of China (2) Trade war is still a concern for manufacturers in China (3) EVFTA Agreement will attract FDI capital into the country (4) The average renting price will increase by 7-15% yoy.

Seaport [Neutral]

- The negative impacts of the Covid pandemic increase operational cost
- EVFTA 2020 provides a long-term positive prospects for the seaport industry
- Constraint of logistics infrastructure
- Difficulties in handling seaport dredging
- BSC maintains a **NEUTRAL** view for the Seaport industry in 2020

BSC has a neutral view on the prospect of seaport industry in 2H2020 from (1) Many expenses incurred due to the Covid-19 epidemic, (2) Seaport lost the growth momentum as the demand for transporting and exporting goods to other countries decreased.

+) Output of goods through seaports in 6M2020 reached 339 million tons (+7% YoY) of which, exports reached nearly 85 million tons (+11% YoY) and imports reached over 108 million tons (up more than 10%), domestic products reached 145 million tons (+2% YoY). This is the lowest increase in recent years when many import-export orders to Europe decreased.



Source: Vinamarine, BSC

+) The covid-19 epidemic increase operational costs and difficulties in operation for seaport enterprises: cleaning, disinfection and isolation cost.

BSC forecasts that the seaport industry will increase by 8% - 10% YoY in 2H.2020 when (1) EVFTA takes effect, (2) Constraint of logistics infrastructure, (3) Slow in dealing with seaport dredging

+) EVFTA will take effect on August 1, 2020, which reduces 65% of export tax and 71% of import tax and the re-opening European economies will contribute to increase seaport cargo volume.

+) BSC assesses that seaports continue to have difficulties in dredging 15 planned maritime routes for large capacity vessels to enter the port when the legal issue of dumping has not been resolved through two methods (1) Submerge material at sea, (2) Find a dumping site onshore.

+) We believe that the growth of seaport output will continue to be difficult due to the **lack of infrastructure connectivity** between the seaport, roads, rail and air. The reliance on road transport has caused congestion in the Ho Chi Minh and Hai Phong routes, slowing the growth of the seaport industry. In Hai Phong, the Lao Cai - Hanoi - Hai Phong railway project is still in the approval process, National Highway 5 (the main transport route) has been overloaded. In Ho Chi Minh City, the city propose to collect fees (<10%) to reinvest in port infrastructure.

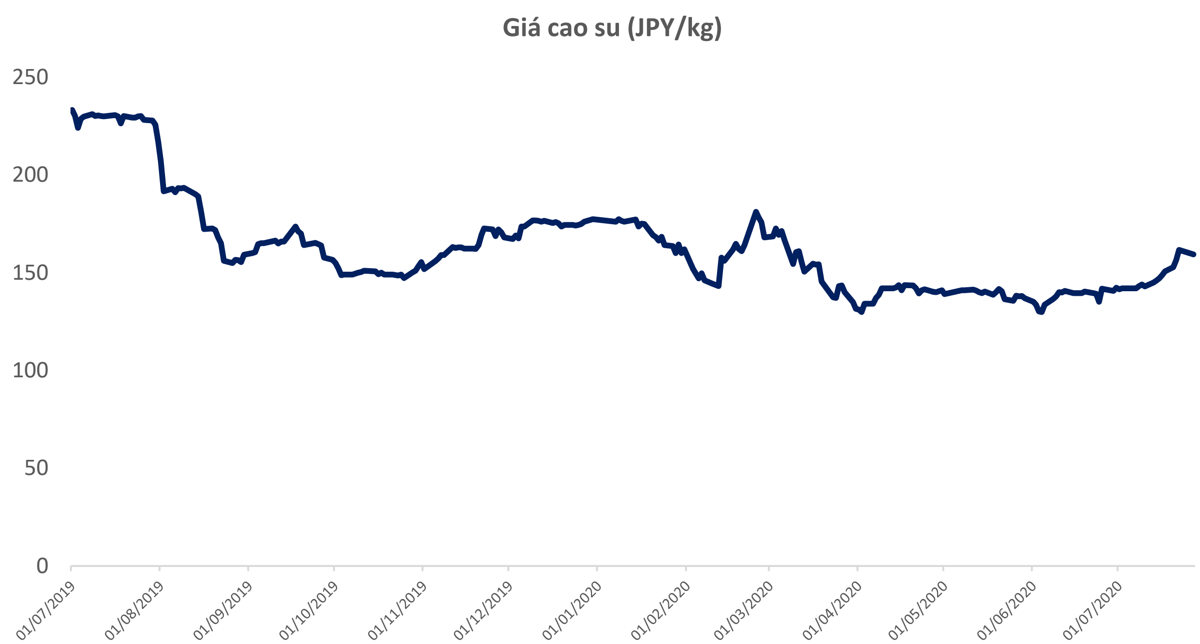
INVESTMENT OUTLOOK – NEUTRAL

BSC maintains a **NEUTRAL** outlook for the Seaport industry due to (1) EVFTA open economies and trade agreements (2) Delays in seaport dredging (3) Lack of connectivity between logistics infrastructure.

Natural Rubber [Neutral]

- World rubber price in 7T2020 was at low level, with average of 149 JPY/kg (-26% YoY and -20% YTD)
- The export market of tires decreased due to the Covid-19 pandemic (DRC) but the gross profit margin still increased from 14% (in 2019) to 15% because of the lower raw material prices and the slightly lower selling price.

The rubber industry is negatively affected by the Covid-19 epidemic because it depends largely on automobile production demand. The automotive supply chain in the world was interrupted, mainly because China temporarily stopped production until the end of April. Global automobile manufacturing demand is strongly affected by the epidemic, combined with rubber price in the first 7 months of 2020 also decreased at an average of 149 JPY/kg (-26% yoy and -20% average of 2019), we believe that the price of 2H2020 rubber will be flat and at a low level of -15-20% over the same period. Accordingly, enterprises that have main business of rubber latex will be affected (DPR's net income decrease by -43% yoy, DRI's net income decrease by VND -32 billion). Businesses with other income from land transfer will not be much affected, largely depending on the legal progress of land transfer (PHR’s net income was 3 times over the same period). We believe that the price of 2H2020 rubber will be more flat and at a low level of -15-20% over the same period.



Source: Bloomberg, BSC Research

Tire companies are forecasted to decline slightly in earnings due to **(1) Decreased export volume because of the Covid-19 pandemic**, exports to major markets in Brazil and the United States faced difficulties however **(2) BSC expects domestic tire market to improve slightly in the last 6 months of 2020** as the increasing demand for locally assembled cars (CKD) due to the reduction of registration fees for assembled cars (applied until the end of 2020) increases consumer demand and (3) 6M2020 profit margin improved from 14% (average in 2019) to 15.4% due to lower raw material prices (rubber price -26% yoy - accounting for 40% of the structure, coal price -27% yoy - accounting for 15% of the structure, ...) and selling prices of some products (heavy, light and special truck tires) increased by 2-4% yoy and selling price of radial tire dropped slightly by -0.2% yoy, we expect the price of raw material price will drop in Q3/2020, supporting tire companies continue to benefit from improving gross profit margin (4) **The US investigates dumping sale of light truck tires**: with DRC producing light truck tires serving the domestic market and Asian countries, therefore businesses will not be affected by this regulation while CS exports passenger car tires and light trucks to the US, if there is tax, will be fined -23%, this rate is still 3 times lower than the tax rate on products from China, Thailand and Korea.

INVESTMENT OUTLOOK – NEUTRAL

We give a **NEUTRAL** rating for the rubber industry because (1) rubber prices are on a downward trend making rubber business difficult, but (2) rubber companies have other income (land transfer, liquidation of rubber tree) which is not much affected, ensures earnings and (3) dividend payment history of enterprises is always high at 40-50%. BSC assesses **NEUTRAL** tire industry because (1) tire industry's output depends largely on automobile production demand which is slowing down by the Covid-19 epidemic, but (2) raw material cost is reduced and the average selling price does not drop sharply, helping businesses improve profit margins. We believe that raw material costs are still on a downward trend will have a positive impact on offsetting reduced consumption, which will help business results remain positive.

Pharmaceutical [Neutral]

- Positive effect of Covid-19 epidemic has been shown in the first quarter of 2020 (i) The business results in Q1.2020 increased strongly compared to the past growth rate (3-4%/year).
- Pharmaceutical enterprises are unlikely to record a sharp growth in the last quarters of the year (i) Drug consumption is likely to decline from the second quarter (ii) Domestic enterprises face the tendency of declining drug prices at the hospital channel. (iii) Business results of pharmaceutical enterprises in Q2.2020 did not maintain the same sudden growth as in Q1.2020.
- BSC believes that what changed our forecast is the possibility of the Covid-19 epidemic coming back and booming in Vietnam.
- BSC maintains a **NEUTRAL** view for the Pharmaceutical industry in 2020.

BSC believes that the positive effect of Covid-19 epidemic has been shown in the first quarter of 2020, therefore pharmaceutical companies are unlikely to record a sharp growth in the last quarters of the year.

(i) Positive effect of Covid-19 epidemic has been shown in the first quarter of 2020:

+ The business results in Q1.2020 increased strongly compared to the past growth rate (3-4%/year). Total revenue and net profit of 21 companies on stock exchange in Q1.2020 was 11,420 billion (+11% YoY) and 627 billion (+8% YoY). Enterprises with a high proportion of sales through the OTC channel showed sudden growth: DHG (+31% YoY), DHT (+28% YoY), OPC (+23% YoY).

+ The growth in the import value and raw materials of pharmaceuticals has shown that (i) the demand for consumption has recovered in the short term (ii) enterprises have increased inventory in the context of increasing prices of pharmaceutical materials. According to the General Department of Customs, pharmaceutical imports turnover was $1.6 billion (+5.1% YoY). Most of the import markets for pharmaceuticals increased again in Q3.2019: France (253 million USD, +31.8% YoY); Germany (188 million USD, +28.8% YoY). For pharmaceutical materials, Vietnam's import turnover was 232 million USD (+ 11.5% YoY), of which, Q2.2020 imports increased sharply to 24% YoY.

(ii) Pharmaceutical enterprises are unlikely to record a sharp growth in the last quarters of the year.

+ Drug consumption is likely to decline from the second quarter due to (a) the demand for drug storage is no longer mutant (although, the demand for masks and disinfectants is still high when the Covid-19 epidemic returns) (b) health care is guaranteed due to travel restrictions and the fear of the risk of cross-infection which makes people less likely to visit the hospital.

+ Domestic enterprises face the tendency of declining drug prices at the hospital channel. Bidding price for the first phase of 2020 is the fourth consecutive year that bidding prices have fallen and BSC thinks that the price reduction trend will still be available in the coming years due to (a) Vietnam Social Security usually sets a target of 10-15% discount compared to the previous year's auction (b) the market becomes more and more competitive as more businesses turned to Hospital channels.

Name	Unit	Phase 2.2017	Phase 1.2018	Phase 2.2018	Phase 1.2019	Phase 1.2020
Canpaxel 150	Potion	1,129,560	973,318	826,725	n.a	n.a
Canpaxel 300	Potion	2,808,941	2,391,577	n.a	n.a	n.a
Fludacil 500	Potion	46,760	35,984	n.a	n.a	n.a
Methotrexat	Potion	n.a	n.a	68,627	66,990	63,200
Vancomycin	Potion	26,803	27,888	24,344	20,979	17,957

Source: Vietnam Social Security

+ The business results of pharmaceutical enterprises in Q2.2020 did not maintain the sudden growth as in Q1.2020. 15 pharmaceutical companies published their financial statements of Q2.2020 showing a decrease with revenue of 3,772 billion VND (-15% YoY) and profit after tax of 487 billion VND (-2% YoY).

(iii) BSC believes that what changed our forecast is the possibility of the Covid-19 epidemic coming back and booming in Vietnam (Currently, cases of infections from Da Nang are complicated and are rapidly spreading to other provinces and cities, especially Hanoi and Ho Chi Minh). This will re-stimulate the needs to buy drugs through the Pharmacy's channel (especially masks, antiseptics, resistance medicines, antipyretic analgesics,...).

INVESTMENT OUTLOOK – NEUTRAL

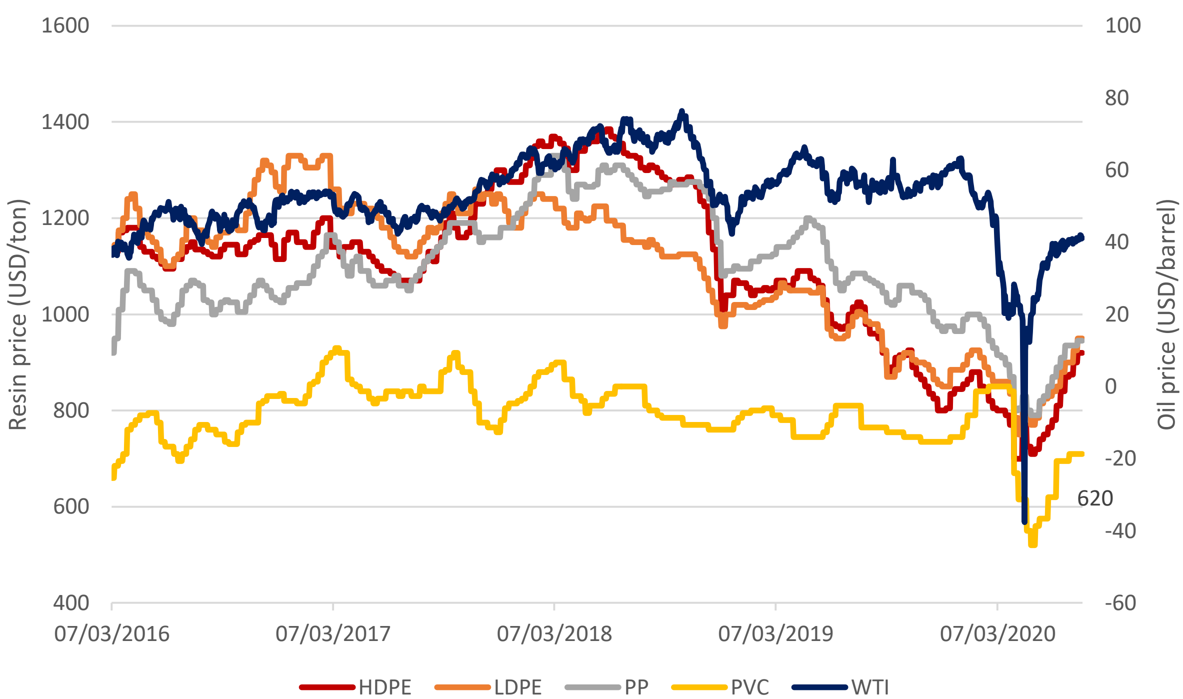
We continue to maintain a **NEUTRAL** view on pharmaceutical stocks in 2020. Despite the sudden growth in Q1.2020, pharmaceutical businesses are unlikely to benefit in the long term by the Covid-19 epidemic. At the same time, P/E valuation of pharmaceutical enterprises is also high compared to the P/E valuation of the whole Vietnamese stock market (16.7 compared to 15.5) and low liquidity also makes pharmaceutical stocks less attractive than other industry stocks.

Plastic [Neutral]

- Plastic resin prices broke the historic bottom when oil prices plunged (sometimes down to below zero in April 2020). For the first 6 months, the price of PVC resin -7.5% YoY, HDPE -24.3% YoY, PP -16.9% YoY.
- The import of plastic materials in the first 6 months was 3,158 million tons (+5.7% YoY). BSC believes that inventory stocking during the low price period pushed the import volume.

Plastic resin prices hit a historic bottom when oil prices plunged, sometimes falling below zero in April 2020. In the first 6 months, the price of PVC -7.5% YoY, PVC -24.3% YoY, PP -16.9% YoY, and PVC-resin beads decreased according to the decline of oil price (-16-37% YoY). Among the main plastic materials, PVC has the lowest decrease due to a low correlation with the oil price. Although plastic resin prices have recovered significantly in June 2020, however, the gloomy prospects of the economy and world oil prices (based on the average forecast of organizations in the world, the oil price ranges from 36 to 46 USD/barrel to Q2/2021), BSC expects that plastic resins price will continue to remain low until the end of 2020.

The price movements of oil and plastic resins



Source: Bloomberg

The import of plastic materials in the first 6 months was 3,158 million tons (+5.7% YoY), however, the value decreased by 10.6% to 3.92 billion USD because most of the plastic resin prices decreased. The increase in the imported volume in 1H2020 may due to inventory stocking in some firms. Many businesses identified the opportunity of low plastic resins prices, so they increased inventories for production. Our update at some plastic enterprises such as NTP shows that trend.

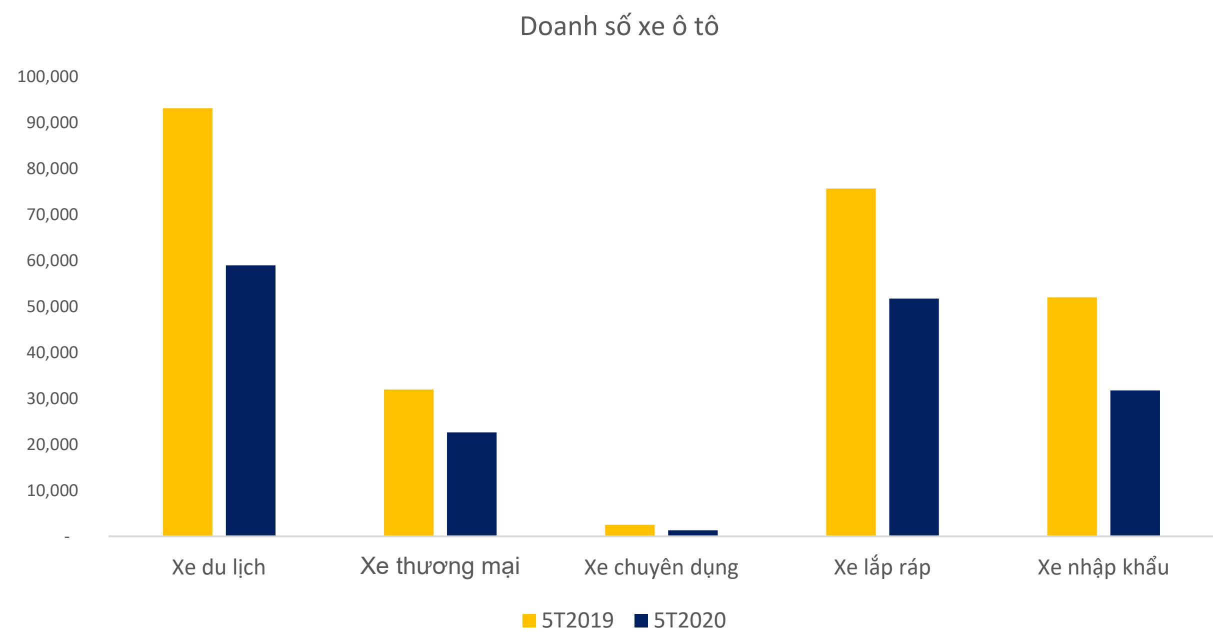
INVESTMENT OUTLOOK – NEUTRAL

We maintain a **NEUTRAL** view of the plastic industry in the context of slow growth, especially in the construction plastic segment. However, the price of plastic resins follows the tendency of falling oil prices will continue to support the profits of companies in the industry. In particular, businesses that have increased their inventories of plastic resins in the period of low prices will gain greater benefits in production costs.

Automobile [Neutral]

- Sales of Vietnam's automobile Industry during 1H2019 reached 82,823 units (-35% YoY) due to the Covid pandemic, the demand for vehicles decreased.
- The Prime Minister signed Decree 70/2020 stipulating the registration fee rate equal to 50% of the rate set in the previous Decree No. 20/2019

The Covid epidemic caused a decline in demand for vehicles, leading to a decrease of 30-47% yoy in sales of most vehicles. The vehicle sales of the whole market in 1H2019 reached 82,823 vehicles (-35% YoY). In terms of origin, domestic assembled automobile sales -32% YoY, imported automobile -39% YoY. In terms of features, tourist automobile -37% YoY; Commercial vehicles -29% YoY and specialized vehicles -47% YoY



Source: VAMA, BSC Research

BSC expects the prospect of 2H2020 to improve its average annual car sales volume which will decrease by -20-25% yoy thanks to government regulations that stimulate consumption. On June 28, 2020, the Prime Minister signed Decree 70/2020 stipulating the registration fee rate equal to 50% of the rate specified in the previous Decree No. 20/2019. As follow, domestically manufactured or assembled automobiles will receive a 50% reduction of the registration fee (the old rate is around 10-12% of the cost of vehicles). This is one of the solutions proposed by the Ministry of Industry and Trade to the Government to support enterprises to recover production, business and stimulate domestic consumption. In which, there are 2 main groups of enterprises benefiting: automobile manufacturing group (VEA, VIC) and automobile distribution group (HAX, SVC).

Automobile manufacturing group. (1) VEA. With VEA, Toyota Vietnam is the unit in the three joint ventures that benefit most with a strategy to focus on domestic assembled vehicles with a proportion of 78% in the first quarter of 2020, rise up from 57% in 2019. **(2) VIC** with Vinfast is an enterprise with all domestically manufactured vehicles (Fadil, Lux A2.0TC, Lux SA2.0 TC, Lux SA2.0 CC, etc.) will directly benefit from this regulation.

Automobile distribution group. (1) HAX is one of three exclusive Mercedes-Benz agents in Vietnam, with a market share of about 38% (in 2018). Currently, the growth of luxury car segment in Vietnam is still quite modest, while Mercedes-Benz cars always have high price. Therefore, when the registration fee is reduced, consumers will save about 5-6% of the cost and support the demand for this price-sensitive product with the main assembly cars: Mercedes C-Class, Mercedes E-Class, Mercedes S-Class and Mercedes GLC. In addition, according to the HAX plan, which could be one of three Vinfast car agents in the South, BSC expects the company to benefit from Vinfast's many sales promotion policies **(2) SVC.** In terms of revenue structure in 2019, Toyota, Ford and Hyundai respectively accounted for 43.5%, 31.5% and 13.3% of total revenue of goods and services. BSC believes that SVC will indirectly benefit from the reduction of registration fees for domestic assembled vehicles of 3 brands Toyota, Ford and Hyundai, accounting for the majority of 88% of total revenue in 2019.

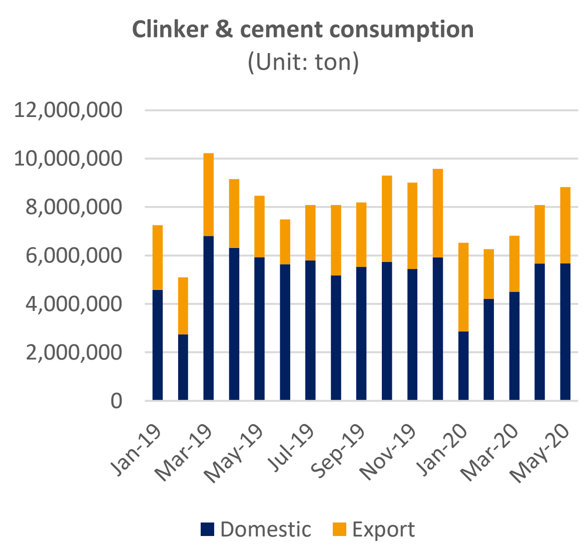
INVESTMENT OUTLOOK – NEUTRAL

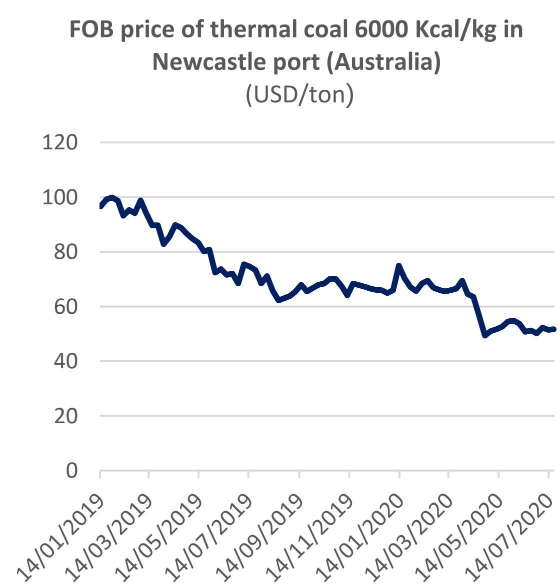
We give a **NEUTRAL** rating on automobile stocks, vehicle sales will decline in 2020, however due to the stimulus policies of the Government, the business results of the enterprises will partly be recovered. In the long term, BSC believes that (1) automobile enterprises will grow strongly again due to the huge potential of Vietnam's automobile industry with vehicle ownership rate of only 2% of households having cars, much lower than regional countries (Malaysia - 82%, Thailand - 51%, Philippines - 6%).

Cement [Neutral]

- Cement consumption decreased because of low construction demand, and the postpone and reschedule of many projects. The output of 5M2020 reached 35.5 million tons (-11.7% YoY), of which domestic consumption was 22.93 million tons (-13.1% YoY), cement and clinker exports were 12.6 million tons (-9% YoY).
- The thermal coal price is on a downward trend, while electricity price was cut in Q2/2020, helping businesses cut costs.
- We maintain a NEUTRAL view of the cement industry in 2020.

Cement consumption decreased because of low construction demand, and the postpone and reschedule of many projects. According to the Vietnam Cement Association, the output of 5M2020 reached 35.5 million tons (-11.7% YoY), of which domestic consumption was 22.93 million tons (-13.1% YoY), cement and clinker exports were 12.6 million tons (-9% YoY). In the domestic market, many projects that were scheduled to restart after the Tet holiday have delayed or expanded the construction period. Some had to close during the social distancing period, resulting in a reduction in the demand for construction materials. Export activities were frozen in the very first months of the year with a decrease in turnover in all major export markets such as China (-7% YoY), Southeast Asia (-36.3% YoY). The export price was also dropped sharply in the context of oversupply and weak demand: the average export price of cement and clinker in 5M2020 was 37.1 USD/ton (-13.2% YoY).[1] (According to the General Department of Vietnam Customs).





Source: FiinPro

Source: Bloomberg

The thermal coal price is on a downward trend, while electricity price was cut in Q2/2020, helping businesses cut costs. FOB coal price at Newcastle Port (Australia) -32% YTD, or -27.3% YoY. According to our update with some cement companies, coal price has dropped sharply since the beginning of the year. For example, Ha Tien 1 (HT1) recorded the average coal price in 6M2020 decreased by 10% YoY. Thermal coal accounts for about 30% of cement production cost, so the falling coal price will help cement businesses to maintain profits in the context of severe competition. Besides, electricity price (10-15% of production cost) was cut by 10% in Q2/2020 to support manufacturing companies during the epidemic period.

INVESTMENT OUTLOOK – NEUTRAL

We maintain a **NEUTRAL** view of the cement industry in 2020 because of the following factors:

- Domestic consumption decreased due to stagnant in construction demand. Export activities were interrupted due to epidemic and low demand in the main export markets, export prices fell sharply. Difficulties in export activities caused many companies to return to the domestic market, which will increase competition.
- Meanwhile, falling coal and electricity prices help reduce costs for companies.

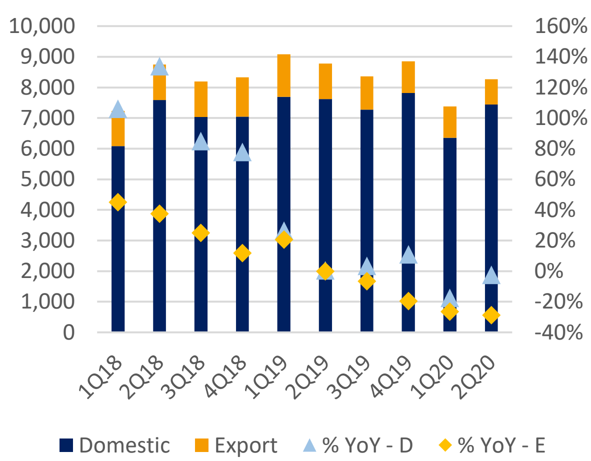
BSC believes that under the current situation of the industry, companies with unhealthy financial position (high debt, low cash balance, weak cash flow, thin profit margin) will face many difficulties in maintaining operations (such as QNC). Meanwhile, businesses with a healthy financial situation will survive through the difficult period, and increase their market shares.

Steel [Neutral]

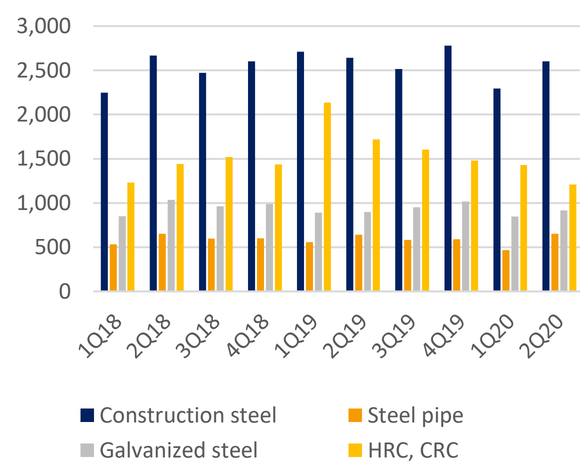
- The consumption of steel products in 1H2020 was 10.4 million tons (-10.7% YoY). Galvanized steel consumption had the lowest decrease in steel products (-1.2% YoY).
- The export of finished steel products decreased in general, while the export of steel billets increased sharply; China became the largest importer of Vietnamese steel products.
- The trend of protecting production for steel products in export markets is complicated. The Ministry of Industry and Trade has agreed to extend the import of steel pipes and long steel products to Vietnam for an additional 3 years (from March 22, 2020).
- Steel prices in the domestic market continued the downward trend, especially in April 2020 when demand for construction materials slows down due to pandemic.
- The price of input materials of the steel industry fluctuated strongly, generally in a downward trend despite recovering from May 2020.
- We maintain a **NEUTRAL** view of the steel industry.

Consumption of steel products (*) 1H2020 was 10.4 million tons (-10.7% YoY). Although the consumption of steel products still decreased compared to the same period of 2019, the reduction has improved from a 15-30% YoY reduction in the first 4 months to 5.3%-5.8%. Domestic consumption of 1H2020 was 8.56 million tons (-11.2% YoY), a significant improvement in May and June when construction works resumed after the social distancing period. In terms of regions, the North experienced the strongest decrease in consumption while the Central region did not change much over the same period.

Consumption output by market
(Unit: thousand tons)



Consumption output by product
(unit: thousand tons)



Source: FiinPro, BSC Research

(*) Data include: construction steel, steel pipe, galvanized iron sheet, hot rolled and cold rolled steel

- **Construction steel**: Output of 1H2020 was 4.89 million tons (-8.6% YoY). The average monthly output is about 816 thousand tons (about 8-8.5% lower than the average in 1H2019 and 2019).

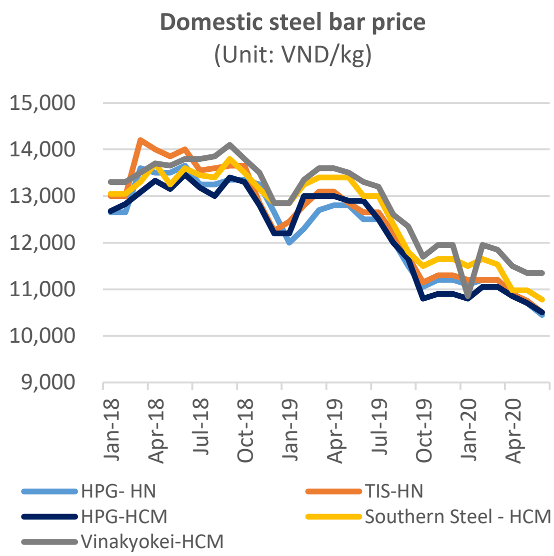
- **Galvanized steel:** Consumption in the first 6 months was 1.76 million tons (-1.2% YoY), the domestic market recorded an increase of 6.7% YoY, accounting for 65% of total output due to civil construction activities in many localities were more active in the first 6 months of the year, despite the epidemic. Meanwhile, exports continued to decline by 13% YoY.
- **Exports:** Finished steel export decreased overall, whereas billet export increased strongly with the main contribution from Hoa Phat; China rose to be the largest import market for Vietnamese steel products. According to the General Department of Vietnam Customs, the export of all steel products in 6M2020 was 3.91 million tons (+14.7% YoY), worth 2 billion USD (-5.6% YoY). In which, construction steel, steel pipe and galvanized steel recorded a decline of about 12%, hot-rolled coil and cold-rolled steel -53% YoY. In contrast, crude steel exports reached 1.3 million tons, increase sharply over the same period in 2019 with a large contribution from 750 thousand tons billet of Hoa Phat. China ranked first among the steel import markets of Vietnam with an output of 1.06 million tons (15 times as much as that of the same period). The average export price to China was 400 USD/ ton (-22.3% YoY) because the output was mainly billet. BSC believes that the significant increase of steel exports to China in 1H2020 was due to (1) From May to June 2020, China's steel demand increased significantly since manufacture recovered, construction activities were pushed and some steel traders increased inventories in concern of supply shortage in 2H2020 and (2) the low Vietnam domestic demand motivated enterprises to boost export with thinner margin. We expect export to China will decline over the next few months because the country's construction activities decline due to floods in the Southern area and the second wave of the epidemic impacts the economy. However, demand will return after the epidemic is under control and investment stimulus policies take into effect.

The trend of protecting production for steel products in export markets is complicated. Accordingly, India and Thailand have decided to impose tax on some flat steel products originating in Vietnam (Table below). In addition, Turkey, Malaysia, Australia, Canada, and the US have also initiated an anti-dumping investigation with Vietnam's export flat steel products. The strengthening of trade defense measures with flat steel products makes the origin issues more concerned and domestic steel manufacturers will have an advantage (FHS, and in the near future, HPG). As for Vietnam's safeguard measures, the Ministry of Industry and Trade has agreed to an additional 3-year extension of HRC and billet products (from March 22, 2020) with a 2% reduction on HRC and 1.5% for billet compared to the applicable tax rate (Refer more on Industry Report Q1.2020).

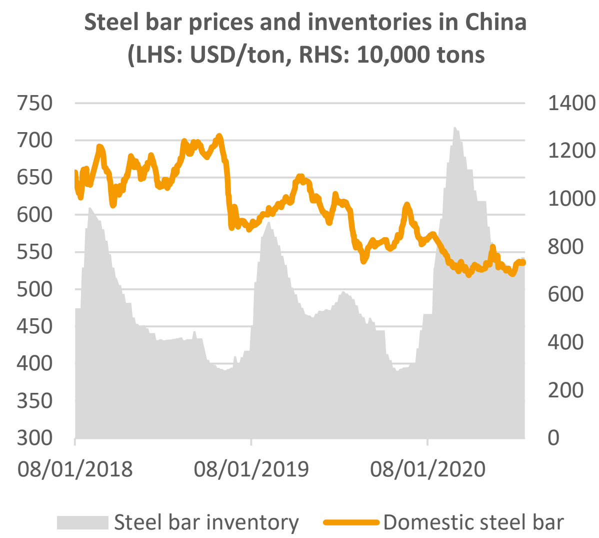
Trade protection policies affects Vietnam's steel exports in 1H2020

Date	Country	Tax Rates	
June 23,2020 (Effective until October 15, 2024)	India	13.07-173.1 USD/tons	HRC, galvanized, coated with aluminum and zinc alloys products
February 17,2020	Thailand	6.97%-51.61% (CIF price)	Cold rolled steel, alloy steel stainless

Steel prices in the domestic market continued a downward trend, especially from April 2020 when (1) demand for construction materials slowed down due to social distancing and epidemic impact. In addition, steel prices are also under pressure from (2) lower raw material prices as demand for construction and production weakens, steel prices in the largest markets and China also fall and are expected to face even greater downward pressure in the near future when high inventories together with the influence of rainy season.

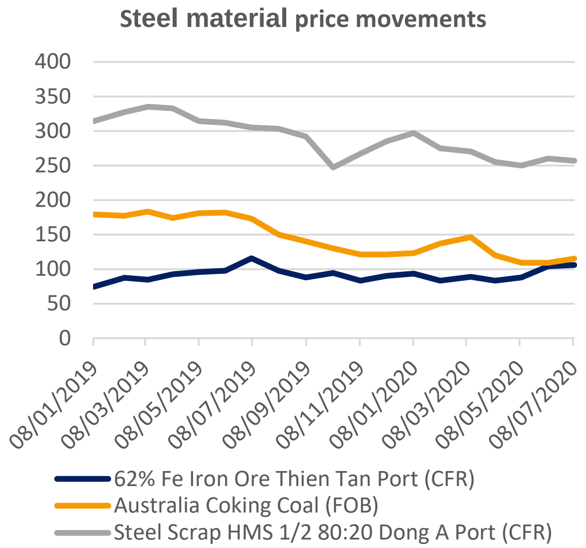


Source: FiinPro, BSC Research

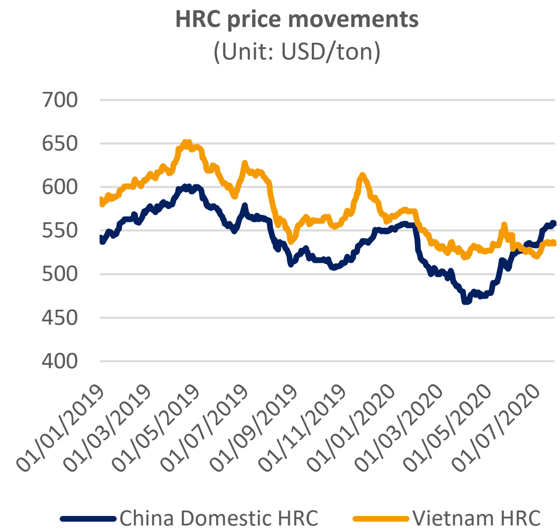


Source: Bloomberg, BSC Research

The price of input materials of steel industry fluctuated strongly, generally in a downward trend despite recovering from May 2020: average iron ore price of 62% Fe CFR at Tianjin port is 92.3 USD/ton in 6M2020 (equivalent to the same period), the export price of Australian coke coking coal was about 123 USD/ton (-31.2% YoY). On average in 1H2020, the spot domestic HRC price in China was 510 USD/ton, CFR HRC price of Formosa was 540 USD/ton (-12% YoY).



Source: VSA



Source: Bloomberg

INVESTMENT OUTLOOK – NEUTRAL

We maintain a **NEUTRAL** view of the steel industry in 2020. Construction demand (civil, infrastructure, industry) is forecasted to decline in 2H2020 as the epidemic is complicated, production, and business activities still had many difficulties. BSC forecasts total domestic consumption for steel products to decrease by 9-10% YoY in 2020 (adjusted up from the previous forecast in the Q1/2020 industry report due to a positive recovery in May and June). In that condition, the decrease in input material prices such as coking coal and HRC will help many steel companies cut costs. For the public investment sector, BSC expects the VND 700-billion package will strongly push construction activities from 2021.

Fishery Sector [Neutral]

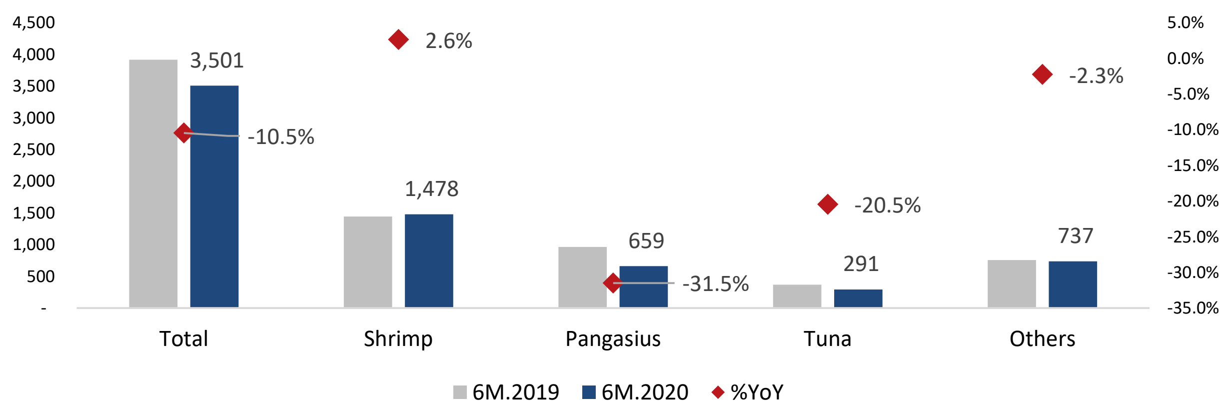
- The first two quarters of 2020 is the worst time for fishery companies: (i) For the first 6 months of 2020, fishery turnover reaches ~ 3.5 billion USD (-10% YoY) (ii) Business performance in Q1.2020 of fishery companies dropped sharply when export-markets were in social distancing.
- BSC expects the business results of fishery companies to prosper again in the next 6 months of 2020: (i) The demand grows when the blockade is removed and the HORECA channel comes back to operation (ii) Positive effect when Vietnam - EU Free Trade Agreement (EVFTA) takes effect (August 1, 2020)
- BSC believes that the biggest risk for fishery enterprises is that the countries' blockade continues when Covid -19 returns, It will affect the recovery speed of the industry.
- BSC continues to maintain NEUTRAL views on the Fishery sector in 2020.

BSC believes that the first 6 months of the year is the worst time for the Fishery industry, and BSC expects business results to prosper again in the next 6 months of 2020.

(i) The first two quarters of 2020 is the worst time for Fishery enterprises:

<u>+ In the first 6 months of 2020, seafood turnover reached USD 3.5 billion (-10% YoY)</u>, of which: Shrimp keeps a slight growth (+ 2.6% YoY), other Fishery products dropped sharply from 20 - 31% YoY. BSC believes that the sharp drop was not unexpected when the Covid 19 epidemic caused the demand in China to decline in Q1.2020 and affect the US and European markets in Q2.2020.

Seafood exported value in 6M.2020 (unit: mn USD)



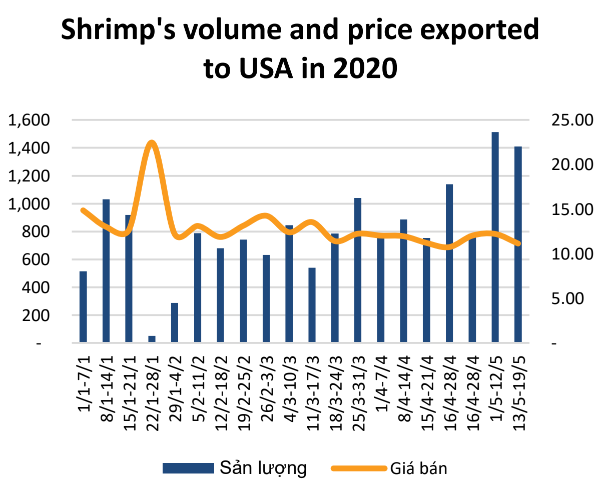
Source: Vasep

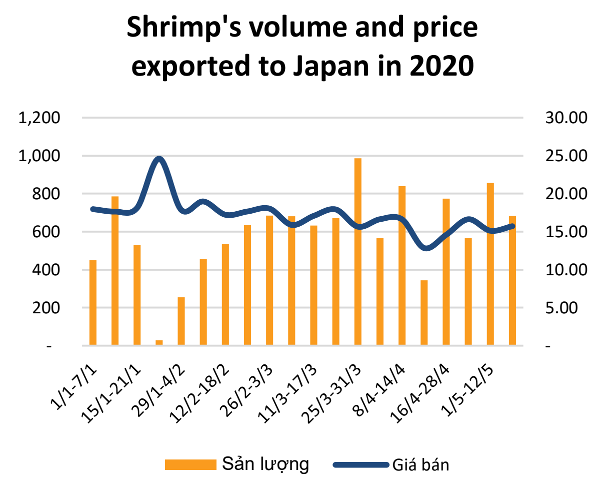
<u>+ Business performance in Q1.2020 of fishery companies dropped sharply when export-markets were in social distancing.</u> 19 fishery enterprises announced revenue and profit after tax of VND 9,390 billion (-13% YoY) and 295 billion VND (-61% YoY) respectively.

(ii) BSC expects the business results of fishery companies to prosper again in the next 6 months of 2020:

+ The demand grows when the blockade is removed and the HORECA channel comes back to operation. In addition, the low level of seafood stocks (shrimp, pangasius) in markets due to trade disruptions in the first 6 months of the year, seafood importers will increase their imports when the blockade order ends.

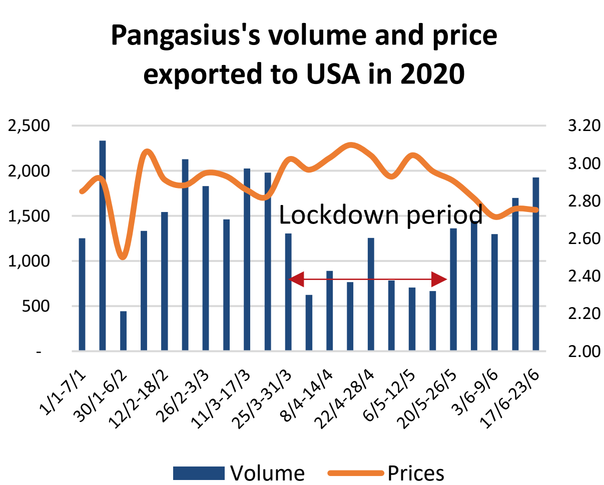
For shrimp products, export turnover of the industry still recorded a slight growth (+ 2.6% Yoy) in the context of other seafood products decline sharply. We believe that the competitor countries (India, Ecuador) not controlling the Covid - 19 epidemic as good as Vietnam, have suddenly affected the world shrimp supply. Therefore, BSC expects that the growth rate of shrimp industry will continue to be maintained until the end of 2020.

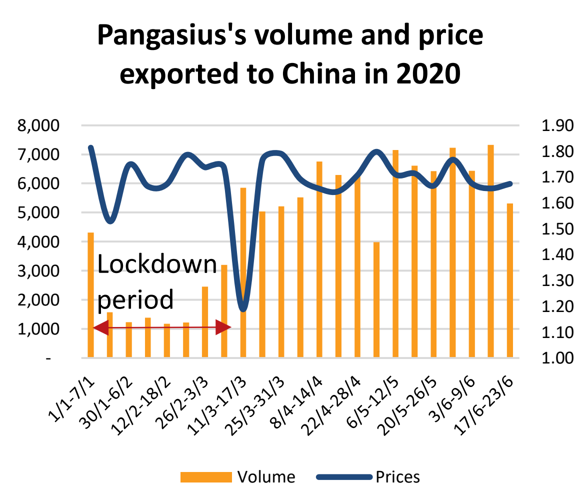




Source: BSC

For pangasius products, we found that the industry had the positive sign when export volume increased sharply again as soon as export markets removed the blockade. Although selling prices remain at the bottom in the last 3 years, BSC expects that the demand will continue to gradually increase towards the end of the year, leading to a more positive selling price in 2021..





Source: BSC

+ Positive effect when Vietnam - EU Free Trade Agreement (EVFTA) takes effect (August 1, 2020): Currently, the EU market accounts for 17% of the seafood market share (shrimp: 22%, pangasius: 11%, other products: 30-35%) and we expect the turnover to the EU will benefit from the tariff reduction roadmap for fishery products (shrimp products are expected to benefit the most). (BSC's EVFTA Impact Assessment Report: Link)

(iii) BSC believes that the biggest risk for fishery enterprises is that the countries' blockade continues when Covid -19 returns, It will affect the recovery speed of the industry. This happened to the Chinese market when pangasius export slowed down in June when news of corona virus appeared on the salmon chopping board at the seafood market.

INVESTMENT VIEWPOINTS – NEUTRAL

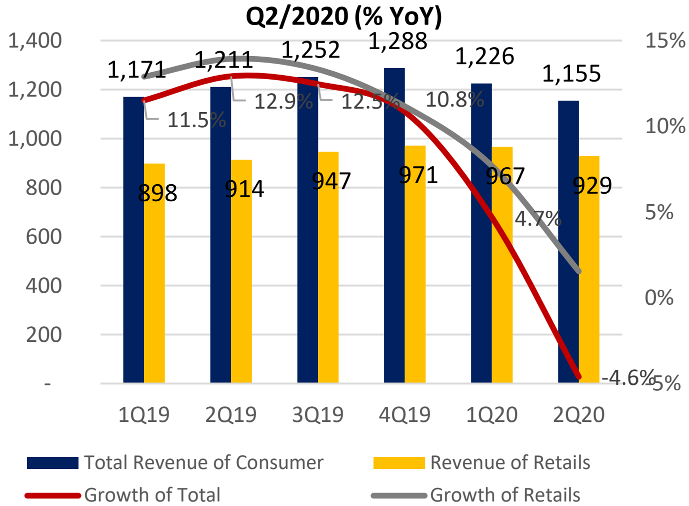
We maintain a NEUTRAL views on the fishery sector in the next 6 months of 2020. We expect the situation of seafood exports to gradually recover in the next months of the year when consumer markets remove the blockade orders: the export quantity after the blockade also showed a rapid recovery. Although the price is still low (making the 2020 business results decrease), BSC thinks that the worst has passed and the situation will become more positive in 2021. However, BSC reckons that the risk of the second wave of Covid -19 will negatively affect the recovery speed of enterprises.

Consumer & Retail Sector [Neutral]

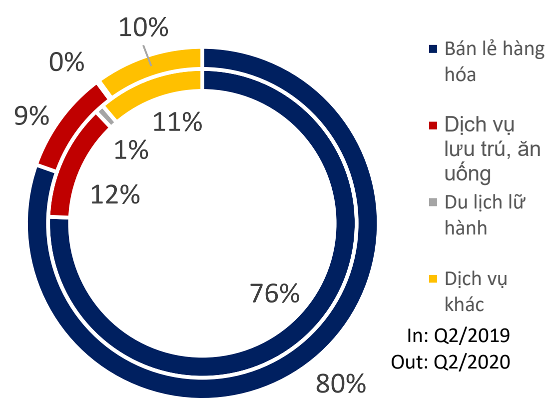
- Total sales of consumer goods and services reached VND 1,154.9 trillion (-4.6% YoY) due to the impact of social distancing in 04-05/ 2020.
- The trend of changing consumer behavior has helped the retail industry maintain growth of 4.6% in Q2/ 2020.
- Buying essential goods on e-commerce increased from 4% to 45% YoY during the period of social distancing.
- BSC maintains a NEUTRAL recommendation for the retail consumer industry in Q3 / 2020..

Total sales of consumer goods and services reached VND 1,154.9 trillion (-4.6% YoY) due to the impact of social distancing in 04-05/ 2020. According to the second quarter data of the General Statistics Office, the total sales of goods and consumer service revenue decreased by 4.6% over the same period due to **(1) Service group accounting for a proportion of 19.6% declined sharply,** the accommodation service group (-26.1% YoY), travel groups (-77.8% YoY), and other services (-14.4% YoY). (2) **Retail sales of goods still grew slightly by 1.2% YoY** and reached VND 928.5 trillion, accounting for 80.4% of total sales due to the need of people to store essential goods.

Growth of sales of goods and services Q2/2020 (% YoY)



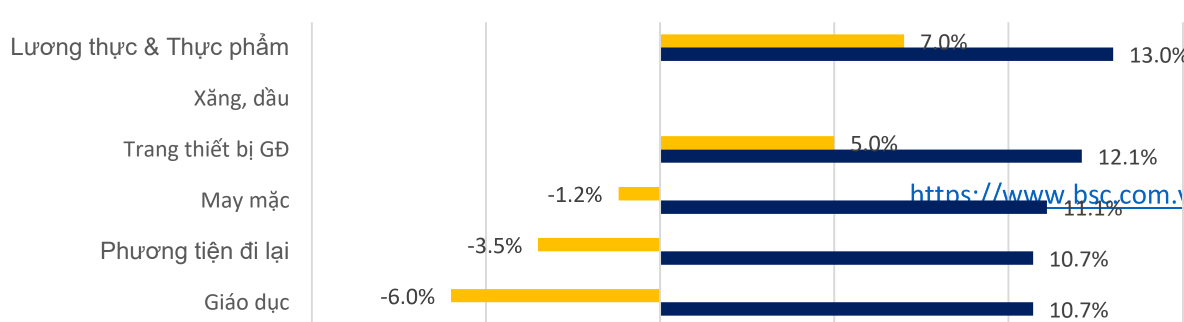
Structure of total sales of goods and services Q2/2020 (%)



Source: GSO

In the first 6 months of 2020, the retail sales of goods reached VND 1,895 trillion (+ 3.4% YoY) thanks to a 7% YoY increase in demand for food and essential food. The main growth drivers in the food and food industry (+ 7% YoY) and home appliances (+ 5% YoY) are due to the necessities and the use of some essential equipment for working at home. On the contrary, due to social isolation, some industries were directly affected by the sharp decline in demand such as garments (-1.2% YoY), vehicles (-3.5% YoY) and education (-6% YoY).

Growth of consumer goods in Q2 / 2020 (% YoY)

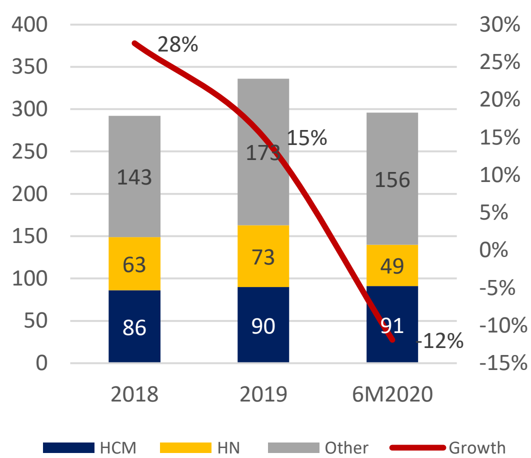


Source: GSO.

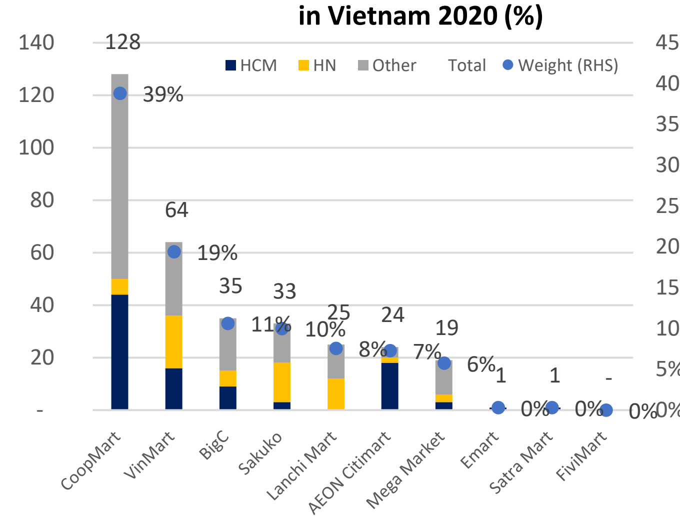
The trend of changing consumer behavior has helped the retail industry maintain growth. In the period of social distancing, the trend of switching from offline purchases gradually shifted to online purchases through e-commerce channels, thereby meeting the consumer needs of everyone. The main causes are (1) Psychology of restricting travel in crowded places, (2) saving time, and transportation and transportation costs (3) Competitive price.

For offline channels, consumers tend to shop at supermarkets and convenience stores/ mini supermarkets thanks to **(1)** Diverse product needs in COVID-19 outbreak (toilet paper, hand sanitizer, ...); **(2)** Payment without using cash; **(3)** Convenient location and less crowded than traditional markets. However, the number of supermarkets in Vietnam reached 296 supermarkets, closing 40 supermarkets – decllined 12% YoY. Mostly, Vinmart supermarket chain closed a lot in Hanoi area.

The number of supermarkets decreased by 12% YoY in 2020

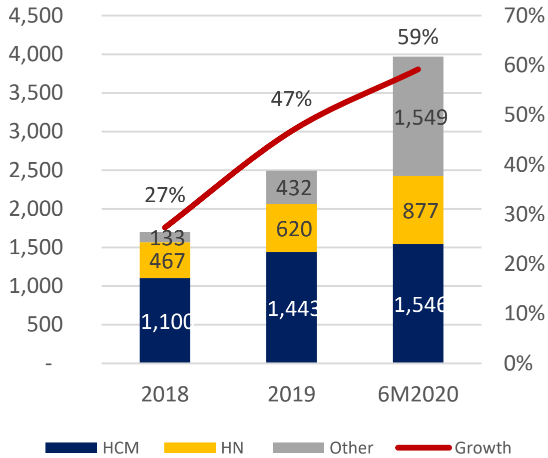


Number and market share of supermarkets in Vietnam 2020 (%)

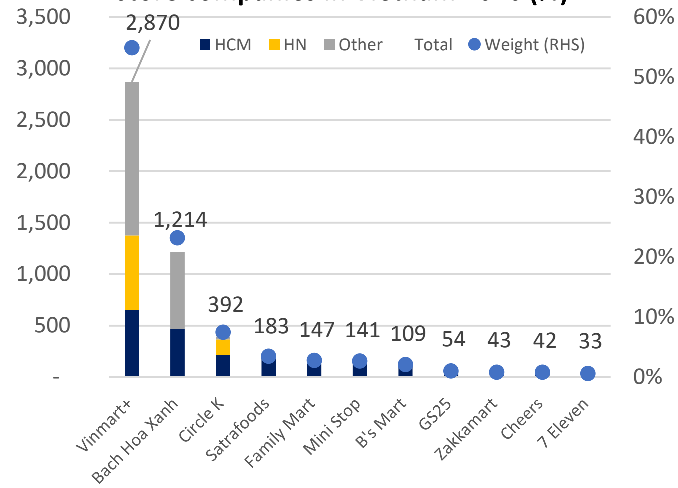


The number of convenience stores and mini supermarkets in Vietnam has grown strongly to 3,977 stores (+ 59% YTD) thanks to convenience for customers. Some areas increased strongly: Ho Chi Minh City (+ 7% YoY), Hanoi (+ 41% YoY) and other areas (+ 259% YoY). Bach Hoa Xanh mainly expanded in Tier 2 and 3 areas. Thereby, businesses are attacking tier 2 and 3 areas such as the Southeast, Central Highlands, Central, ... to find new growth engines. In contrast, the extent of expansion in Ho Chi Minh City and Hanoi is now more difficult due to fierce competition with many foreign rivals such as Circle K, GS25, ... BSC thinks that the competitive situation will continue due to the current companies are seeking to expand market share to achieve wide coverage, thereby optimizing chain operating costs such as logistics costs, DC costs, ...

Number of convenience stores/ mini supermarkets in VN 2020



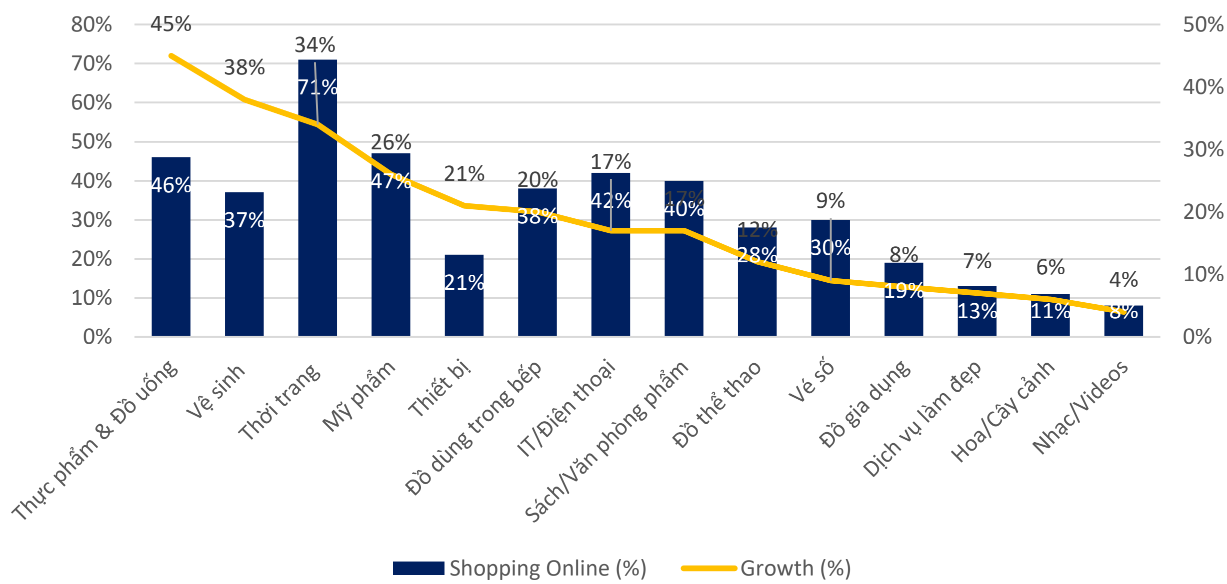
Number and market share of convenience store companies in Vietnam 2020 (%)



Source: Asia Plus Inc.

Buying essential goods on the online channel increased from 19% YoY, benefited from the change of consumption habits during the COVID period. According to the statistics of Q&Me, the growth rate of online shopping increased by an average of 19% during COVID-19, in which some essential goods having online shopping demand increased sharply during the period of social distancing are food and beverages (+ 45%), toiletries (+ 38%), fashion (+34%), etc. Therefore, BSC believes that the growth of e-commerce or online shopping will continue to grow on two digits in 2H2020.

Growth of online shopping goods (%)



Source: Q&Me.

INVESTMENT VIEWPOINTS – NEUTRAL

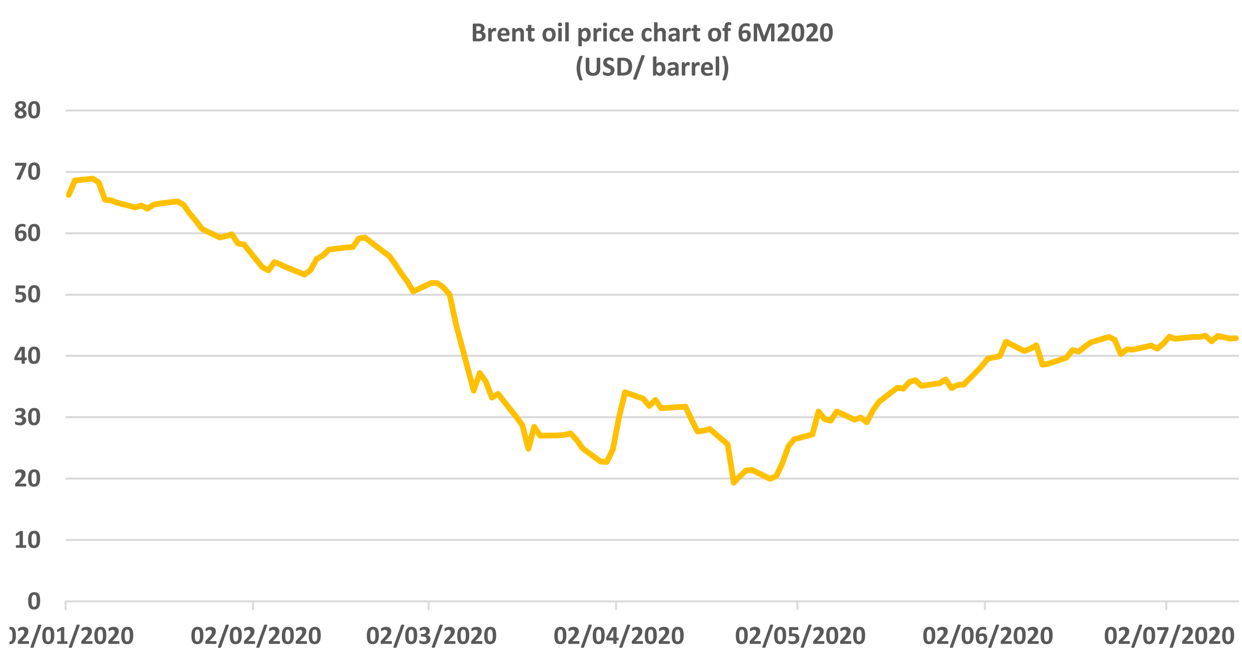
BSC maintains NEUTRAL recommendation with Retail & Consumer industry in Q3/ 2020. Under the impact of social distancing during the COVID-19 epidemic phase in Q2 / 2020, for the retail sector, we think that revenue and profit of retail businesses such as MWG, FRT, PNJ, ... will be negatively affected due to (1) Close stores to limit the spread of infection in April 2020 and the risk of continued closure in the event of an second outbreak of Covid-19 disease; (2) The spending demand is sharply reduced for high-class products in the context of the people's income is strongly affected. However, in the last 6 months, we expect a new normal scenario will help the retail industry to recover partly from the influence of 1H2020.

For food and beverage industry, we think that there will be differentiation depending on the essential level of products such as milk, meat, instant noodles, drinking water, etc. Therefore, some companies had good growth in 1H2020 will be able to maintain the growth momentum in the next 6 months such as VNM, MSN, etc. In addition, some businesses have sudden growth such as MCH and DBC thanks to increasing demand for essential goods and rising pork prices in 1H2020, it may be difficult to maintain good growth in 2H2020 when the economic opening situation has returned to normal.

Oil & Gas Sector [Underperform]

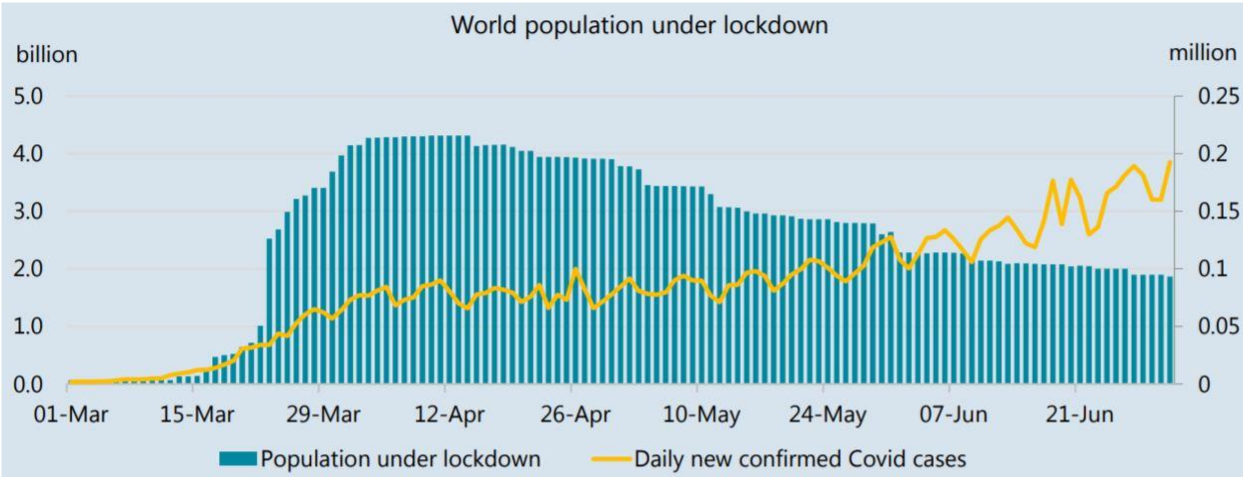
- Oil price (Brent) tends to improve after a sharp plunge in Q1/ 2020, but it is hardly to have strong increase momentum for the second half of 2020.
- We believe that oil price in 2020 will depend heavily on (1) course of COVID-19, in the context of (2) OPEC+ cutting production. Oil price is expected to reach to 35-41 USD/ barrel.
- The bright news from Ken Bau gas field could be a long-term motivation for the oil and gas industry in the future.
- BSC maintains recommendation of UNDERPERFORM in the oil and gas industry in 2020 due to adverse factors from COVID-19 epidemic in 2020 and oil price in 2020.

Oil price (Brent) tends to improve after a sharp plunge in Q1/ 2020, but it is hardly to have strong increase momentum for the second half of 2020 due to the risk of the "second wave" coming back, demand continued to remain low. By the end of the second quarter, Brent oil prices have increased by 81% compared to the end of Q1 / 2020. Positive changes came from (1) Oil demand in Asia showed signs of recovery in the second quarter due to the easing of social distancing regulations, in which China's oil demand reached 90% of the level before COVID at the end of April (according to IHS Markit) (2) The OPEC + group decided to extend the production cut agreement by the end of July (cutting about 9.7 million barrels/ day), which is expected to help create a "temporary" shortage freed up inventories during the Covid-19 outbreak. Therefore, total global oil production is expected to decrease by 7.2 mb/ d by 2020 and to increase by 1.7 million barrels/ day by 2021.



Source: Bloomberg

BSC believes that oil price in 2020 will depend heavily on the evolution of COVID-19, in the context of OPEC cutting production.



According to EIA, the demand for Brent oil in 2020 is adjusted to increase by 500 thousand barrels / day compared to the previous forecast, to 91.7 million barrels / day based on (1) expectation of demand for transportation, travel and public production to recover as many countries take measures for economic recovery and (2) Vaccine is expected to be successfully developed in 2021. We think that the forecasted increase in demand is still relatively low, so it is hard to help motivate oil price to recover strongly in the second half of 2020.

Most major organizations and institutions across the globe have raised the expected price of Brent oil in 2020 higher than forecast in the first quarter, to an average of about 35-41 USD/ barrel, the average price increased by 9.67 % compared to the average forecast in the first quarter of 2020 is 35 USD/ barrel. Therefore, we also use the average Brent oil price of 38.35 USD/ barrel as the base scenario for forecasting business results for the oil and gas industry in 2020.

Brent Oil	2019	2020	2021	Time
EIA	64.37	40.5	49.7	T6/2020
% compared to Q1/2020		*22.7%*	*10.4%*	
Morgan stanley	64.37	40		T5/2020
% compared to Q1/2020		*14.3%*		
JP Morgan	64.37	38.1	37	T5/2020
compared to Q1/2020		*5.7%*	*5.7%*	
Goldman Sachs	64.37	35	45	T6/2020
% compared to Q1/2020		*20%*		

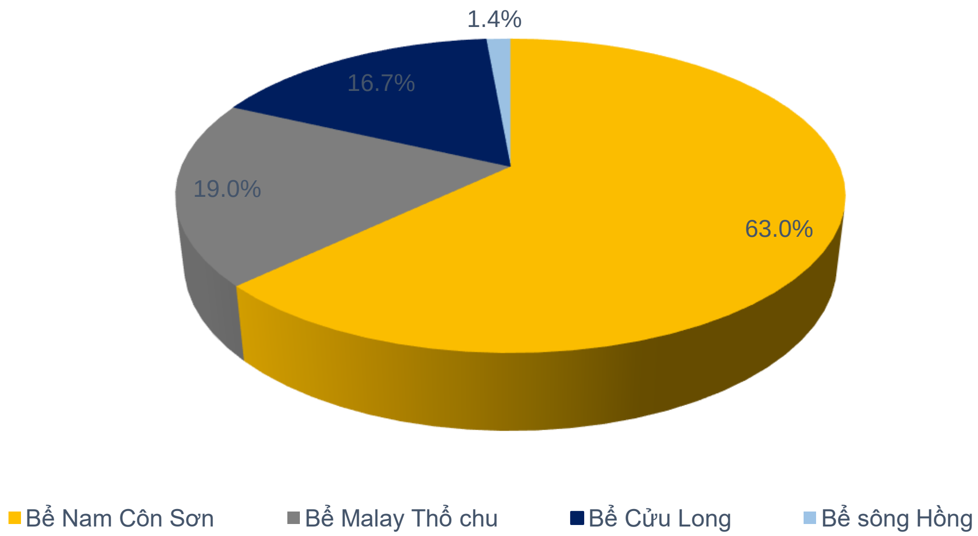
Source: BSC Research

Update the situation of upstream oil and gas industry.

The bright news from Ken Bau gas field could be a long-term motivation for the oil and gas industry in the future. The oil and gas industry is currently facing a decline in crude oil reserves from Bach Ho oilfields (Cuu Long basin) accounting for about 80% of the oil output, while the exploration and exploitation process are facing a lot of obstacles. In addition, gas exploitation projects are behind schedule, coming from the gas industry's characteristics, which are carried out in the chain of projects including upstream, midstream and downstream of the value chain. However, one of the positive bright news of the Oil and Gas industry in

2020, the successful discovery of the Ken Bau gas field with a reserve of 230 billion m3 of gas will become one of three new largest gas supply projects in Vietnam in recent years. In addition, with its location on the continental shelf and relatively close to the mainland (86km from Danang and 65km from Quang Tri province), the risks associated with the dispute are relatively low, which ensures that implementation of the project.

Figure: Proportion of exploited output of gas tanks



Source: PVN

Project	Characteristics	Progress	Exploiting time	Note
Sao Vang – Dai Nguyet (Lot 05-1b and 05-1c)	- Located in a offshore deep water area, complex geological conditions of nam Con Son basin in Vietnam's continental shelf. - Total gas reserves are expected to be 16 billion m3 (+5 million m3 of gas/ day)	The overall of Sao Vang truss project reached 91.14%. In which, the plan to launch, transport and install is moved to June 2020, the test connection work reached 15.74% and is currently continuing to complete the process	Expected to start exploiting the first commercial oil and gas flow in the third quarter of 2020	
Lot B – O Mon gas project	- Total investment $ 10 billion - Transporting and distributing natural gas	The project is implementing site clearance work	It is expected that in the second quarter of 2021, the site will be	- The project was 2 years behind schedule

	from Lot B, 48/95 and 52/97 in the southwest sea provides gas to industrial consumers in the southwestern region. The project has a total length of 70 km pipeline, of which, the part of Can Tho city is about 31 km		handed over to the contractor and put into operation by the end of 2023	- The plan to borrow foreign capital for the Lot B gas field development project and the Lot B - O Mon gas pipeline project has not yet been approved by the State Capital Management Committee at Enterprises and the Ministry of Finance.
Ca Voi Xanh (Lot 118)	- Exxon Mobil Corporation of America will invest, exploit and build a pipeline about 88km long connecting to Chu Lai coast - Reserves of about 150 billion m3 of gas and condensate, revenue from gas is 30 billion USD	The project is in the consulting stage of completing the Feasibility Study Report and planning to select the overall contractor of the project so that it can be approved as soon as FS is approved.	Progress of standard gas supply is expected in June 2024 with an operating life of 25 years	Progress of the first gas flow is nearly 9 months behind schedule
Ca Rong Do (Lot 07/03)	- Located in the Nam Con Son basin leased by Talisman-Vietnam - a subsidiary of Repsol for gas exploration - Reserves are estimated at 45 million barrels of crude oil, 235 billion m3 of natural gas and 2.4 million barrels of condensate.	temporarily suspended.		
Ken Bau Mine	- Located in Lot 114 area of Song Hong basin, northeast coast. Expected production: 230 m3 of natural gas (estimated)	Just discovered	It is estimated that by 2028, the project can go into operation	

Source: BSC Research

INVESTMENT VIEWPOINTS – UNDERPERFORM

BSC maintains our UNDERPERFORM outlook for the Oil & Gas industry stocks in 2020 with the assumption that Brent oil price in 2020 will remain around 38 USD/ barrel. The main reason why we downgrade industry prospects is mainly from (1) The impact of the Covid-19 epidemic caused short-term sharp declines in demand, estimated at up to 30 million barrels a day, while (2) The size of the agreement to cut production from OPEC+ group is not enough to offset the decline in demand. For the Vietnamese market, crude oil reserves tend to decline from Bach Ho fields (Cuu Long basin), while the process of exploration and exploitation is facing many obstacles, this directly affects the business results of upstream and downstream business groups. In particular, the biggest pressure will affect downstream groups with main revenue and profit will depend on the fluctuations of oil prices such as GAS, BSR, PLX, OIL. As for the upstream group, BSC reckons that this group (PVD, PVS, PXS) will be indirectly affected by the decline in service prices as well as the decline in demand, which also limits exploration activities.

Textile Sector [Underperform]

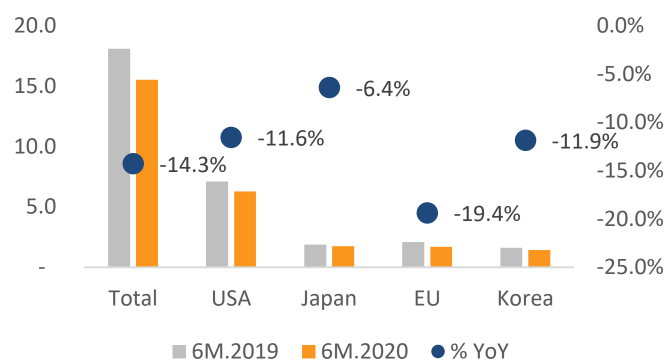
- The first two quarters of 2020 is the worst time for textile enterprises: (i) Textile export turnover plummeted (-14.3% YoY), due to the postponement/ cancellation of fashion orders by Covid - 19 (ii) 6M.2020 business results of some textile enterprises decreased by 15% of revenue and 27% of net profit.
- BSC expects the business results of textile companies to prosper again from the end of the third quarter and the fourth quarter of 2020 thanks to (i) Fashion orders came back from June to serve the main consumption demand at the end of the year. (ii) Positive effect when Vietnam - EU Free Trade Agreement (EVFTA) comes into effect.
- The biggest risk for Textile enterprises is the imbalance of cash flow from operations
- We maintain our UNDERPERFORM views towards the Textile industry in 2020.

BSC believes that the first 6 months of the year is the worst time for the Textile industry has passed and BSC expects business results to prosper again from the end of the third and fourth quarters of 2020.

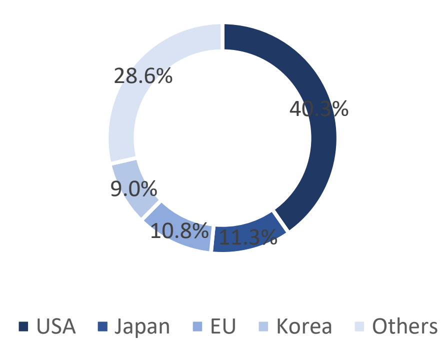
(i) The first two quarters of 2020 is the worst time for textile enterprises:

<u>+ Textile export turnover dropped sharply (-14.3% YoY) to 15.5 billion USD, mainly fashion orders were postponed/ canceled due to Covid -19</u>. All export markets recorded negative growth, in which, the EU market dropped the most (-19.4% YoY).

Vietnamese Textile value exported to major markets

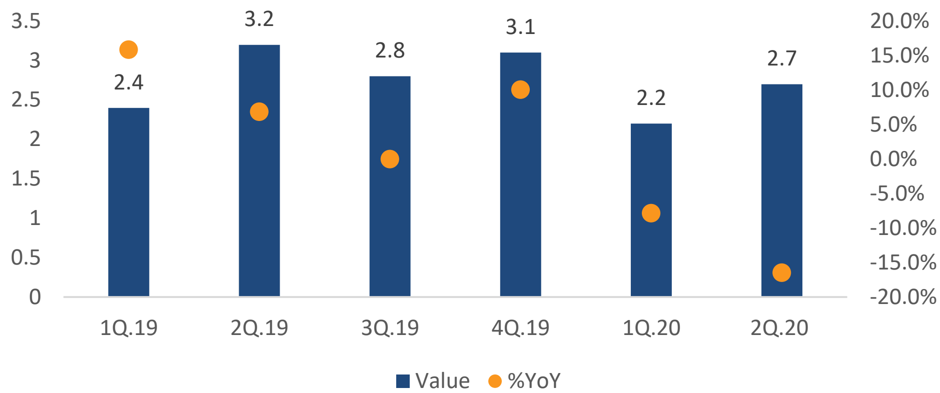


Market share by countries in 6M.2020



Source: General Department of Vietnam Customs

Vietnamese Textile raw materials imported from China



Source: General Department of Vietnam Customs

In the opposite direction, the demand for imported textile materials also decreased. In the first 6 months of 2020, textile import turnover reached US $ 5.5 billion (-15.9% YoY). China continues to be the main supplier market with 89% market share.

<u>+ 6M.2020 business results of some textile enterprises (which have released their financial statements) have dropped sharply.</u> The total revenue of 6 months is VND 6,357 billion (-15% YoY) and profit after tax is VND 268 billion (-27% YoY). In particular, small businesses, depending on some main customers recorded the strongest profit reduction (KMR: -88% YoY; TDT: -75% YoY)

(ii) BSC expects the business results of textile companies to prosper again from the end of the third quarter and the fourth quarter of 2020

<u>+ Fashion orders came back from June to serve the main consumption demand at the end of the year.</u> Some textile enterprises said that garment factories had orders until the end of October 2020. At the same time, the effective control of China 's disease also made the supply of raw materials more stable.

<u>+ Positive effect when Vietnam - EU Free Trade Agreement (EVFTA) comes into effect (01/08/2020).</u> Currently, the EU market accounts for 10.8% of the market share of textile turnover and we expect the turnover to the EU to benefit from the tax reduction schedule for textile products (42.5% of items are reduced to 0% right in the first year). (BSC's EVFTA Impact Assessment Report: Link)

(iii) The biggest risk for Textile enterprises is the imbalance of cash flow from operations. This risk increases when:

<u>+ Export countries re-blockade when Covid-19 returns.</u> The re-blockade will cause traditional production orders to be postponed/ canceled like the first Covid-19 wave phase.

Policies of some fashion brands in the world towards processing partners

The brands commit to pay for in-process/ completed orders	**The brands do not commit to pay for in-process/ completed orders**
Adidas (TNG), ASOS, H&M, Inditex (Zara), Levi Strauss &CO.(MSH), Nike (TNG), Target, Tesco, Under Armour, Uniqulo (M10),…	C&A (TNG), GAP, Li&Fung, Sears, The Children's Place, Walmart (Asda),…

Source: Covid-19 Tracker

+ Customers with financial difficulties must file for bankruptcy. In Q2.2020, NewYork & Co (MSH's customer) filed for bankruptcy due to COVID disease that made the business difficult and unable to pay debts.

INVESTMENT VIEWPOINTS – UNDERPERFORM

Although we expect the business results of textile enterprises to recover in the last 6 months of 2020 but (i) complicated movements of Covid-19 cause textile enterprises to lose their cash flow balance, which is a very big risk at the moment (ii) the expected recovery level is not too strong are the main reasons for BSC to maintain the UNDERPERFORM viewpoint on the Textile industry in 2020.

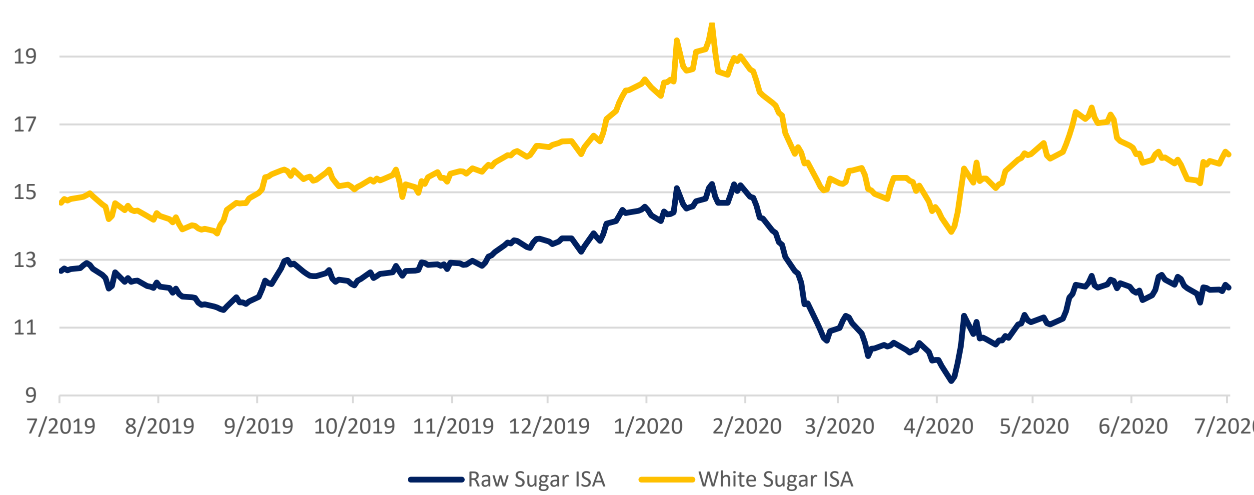
Sugar Sector [Underperform]

- The world sugar market in Q2/ 2020 continues to be contradictory as the COVID-19 pandemic is still complicated in major sugar producing countries like Brazil and India.
- Raw and white sugar price of the world recovered + 3.9-15.3% QoQ in Q2/ 2020 but the trend in the last 6 months is still unclear.
- Vietnam's sugarcane and sugar production in the season year 2019/2020 continues to decrease by -38% YoY and -36% YoY, respectively.
- BSC recommends UNDERPERFORM for the sugar industry 2H2020.

The world sugar market in Q2/ 2020 continues to be contradictory as the COVID-19 pandemic is still complicated in major sugar producing countries like Brazil and India. For the Brazil market, (1) Brazil's president re-calling for opening up the country despite the ongoing COVID-19 epidemic makes nearly 255-256 sugar mills resume operation and (2) Weather in the area Central region of Southern Brazil favored the crushing of sugarcane, resulting in a spike in sugar output in June reaching 5.41 million tons of sugar (+ 50% YoY). In contrast, India's second largest sugar production market is not favored by the weather (early monsoon), resulting in a reduction of 11.86% in sugar storage compared to the same period of 12.26%, and sugar consumption also decreased in Q2 / 2020.

Raw and white sugar price of the world recovered + 3.9-15.3% QoQ in Q2/ 2020 but the trend in the last 6 months is still unclear. According to the ISO sugar report, the world raw and white sugar prices on July 23, 2020 were at 12.18 cents / lb (-3.87% YoY and + 15.3% QoQ) and 16.11 cents / lb (+ 9.67% YoY and + 3.9% QoQ), the world sugar price recovered in the second quarter thanks to a sharp increase in Brazil's supply but the actual demand is not high and thereby causing the price of sugar to go flat in July 7/20. We believe that the COVID-19 pandemic will cause sugar consumption to remain low from now until the end of the year and forecast that the 2019-2020 sugar deficit will reach 3.7 million tons, down slightly from the estimated 5.4 million tons at the beginning of the year thanks to the declining Brazil sugar production in 2019/2020 (according to Datagro).

World raw and white sugar prices (cents/ lb)



Nguồn: Isosugar.

Vietnam's sugarcane and sugar production in the season year 2019/2020 continues to decrease by -38% YoY and -36% YoY, respectively. According to the Vietnam Sugar Association (VSSA), the 2019/2020 season of Vietnam's sugar industry only achieved an output of 7,387,610 tons sugarcane, down -38.4% compared to the previous season and the sugar output reached 79,169 tons of all kinds of sugar decreased -35.9% YoY due to many factors such as **(1)** Severe weather in many places causes sugarcane production to decrease; **(2)** Competition with imported sugar due to ATIGA; **(3)** Smuggled sugar with low sugar prices pull the market prices down. In addition, Vietnam's total sugar consumption in 2017 to 2019 gradually decreased from 1.6 million tons to 1.4 million tons, thereby we estimate that Vietnam's sugar consumption will continue to decrease in 2020 due to the impact of the COVID-19 pandemic.

Table: Sugarcane & Sugar output and consumption, and Vietnam's sugar deficit by 2017-2020 year (million tons).

Production output in Vietnam	Season 2017/2018	Season 2018/2019	Season 2019/2020
Sugarcane (Million)	**13.00**	**12.00**	**7.39**
Decrease (%)		*-7.7%*	*-38.4%*
Sugar (Million)	**1.25**	**1.20**	**0.77**
Decrease (%)		*-4.0%*	*-35.9%*
Consumed (Million)	**1.6**	**1.5**	**1.4**
Decrease (%)		*-6.25%*	*-6.67%*
Deficit (Million)	**0.35**	**0.3**	**0.63**
Increase (%)		*-14.3%*	*+110%*

Source: VSSA, Vietnambiz.

Table: The selling price of all kinds of sugar in Hanoi, Central and HCMC is higher than that of sumggled sugar (VND/ kg including VAT).

Area	Date	White Sugar	Refined sugar	Brown Sugar	Imported Sugar
Ha Noi	07/07/2020	*12.150-12.300*	*12.700-13.000*	*12.200-12.400*	*12.000-12.100*
	14/07/2020	*11.900-12.100*	*12.700-12.900*	*12.100-12.200*	*11.900-12.000*
Central	07/07/2020	*12.000-12.200*	*12.800-13.000*		*11.900-12.000*
	14/07/2020	*11.800-12.000*	*12.800-13.000*		*11.700-11.800*
HCMC	07/07/2020	*11.700-12.600*	*12.800-13.000*	*12.2*	*11.400-11.500*
	14/07/2020	*11.600-12.600*	*12.600-12.800*	*12*	*11.300-11.400*

Source: VSSA, Vietnambiz.

INVESTMENT VIEWPOINTS – UNDERPERFORM

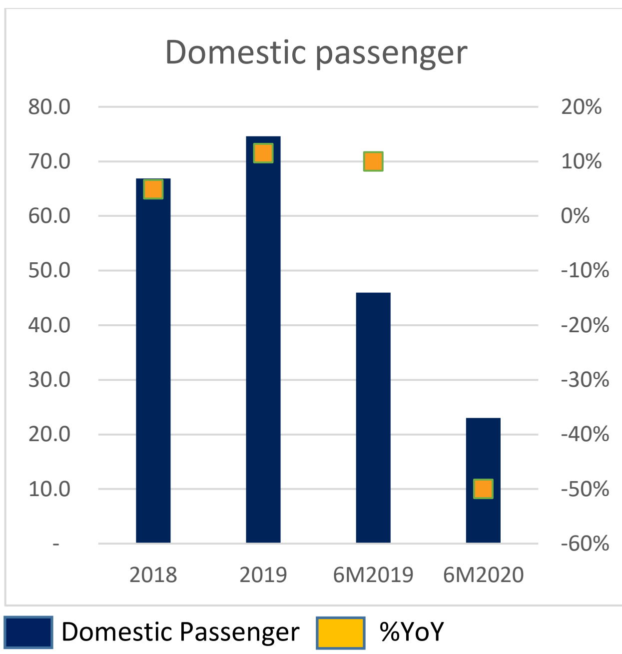
BSC maintains the **UNDERPERFORM** investment viewpoint for the sugar industry in 2H2020. BSC believes that sugar consumption will continue to decrease by 100,000 tons/ year in 2020 and sugar and sugar production will also decrease in the season year 2020/2021 when the market size decreases due to competition with other countries like Thailand. Thereby, the sugar stocks (QNS, SBT, SLS, LSS, ...) will have the differentiation of companies with large market shares (QNS, SBT) could continue to compete with the world and those having small market shares would face difficulties such as SLS, LSS, KTS, etc. We recommend investors to choose sugar stocks that still have growth momentum thanks to changing business strategies in the next phase 2H2020-2021.

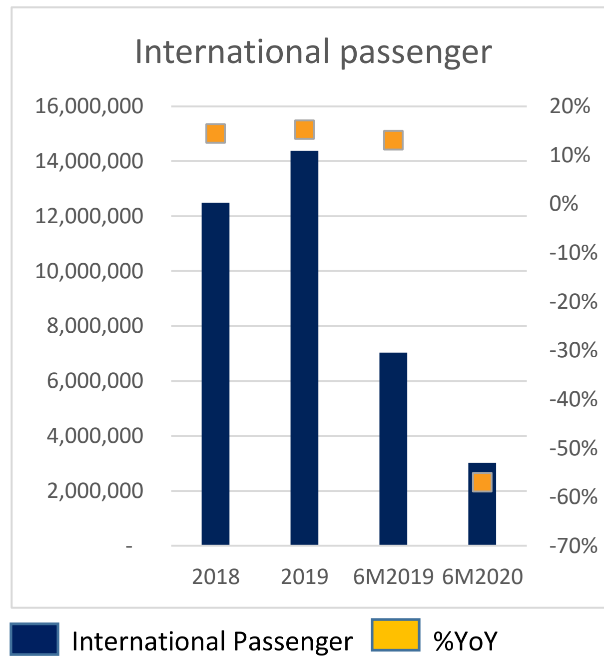
Aviation Sector [Underperform]

- The negative impact of Covid-19 epidemic seriously affected the business results of 1H.2020.
- 2H.2020, aviation industry could be the worst period before an early recovery
- Risk of disease recurrence in the cosmopolitan cities like Da Nang, Hanoi, and Ho Chi Minh City when the vaccine has not been successfully developed.
- We continue to maintain the viewpoint of UNDERPERFORM with the aviation industry in 2020

BSC assesses the negative impact of the Covid epidemic on the aviation businesses that have severely affected the business results in 1H2020. In 2H2020, we think it will be the worst period for the industry, before witnessing a recovery in early 2021.

In the first 6 months of 2020, domestic tourists reached approximately **23 million (-50% YoY)**. International passengers dropped sharply to **3.1 million (-57% yoy)**. Total flight of the whole industry reached **113,000 flights (-31.7%)**.





+) <u>Covid-19 reappear</u> in cosmopolitan cities like Ho Chi Minh, Da Nang, and Hanoi in the summer - the peak season of the aviation industry (April - September) causes (1) negative impact on domestic tourism (2) reducing people's travel spending.

+) <u>The policy "tourist restriction":</u> Internation flights only allowed Vietnamese and foreign experts to come to Viet Nam.

Due to the complicated disease situation, BSC assumes two scenarios: base cases (the epidemic is controlled in Q3.2020) and worst cases (the epidemic is controlled control in Q4.2020)

(i) BSC forecasts that the aviation industry will be hit hardest at the end of the year:

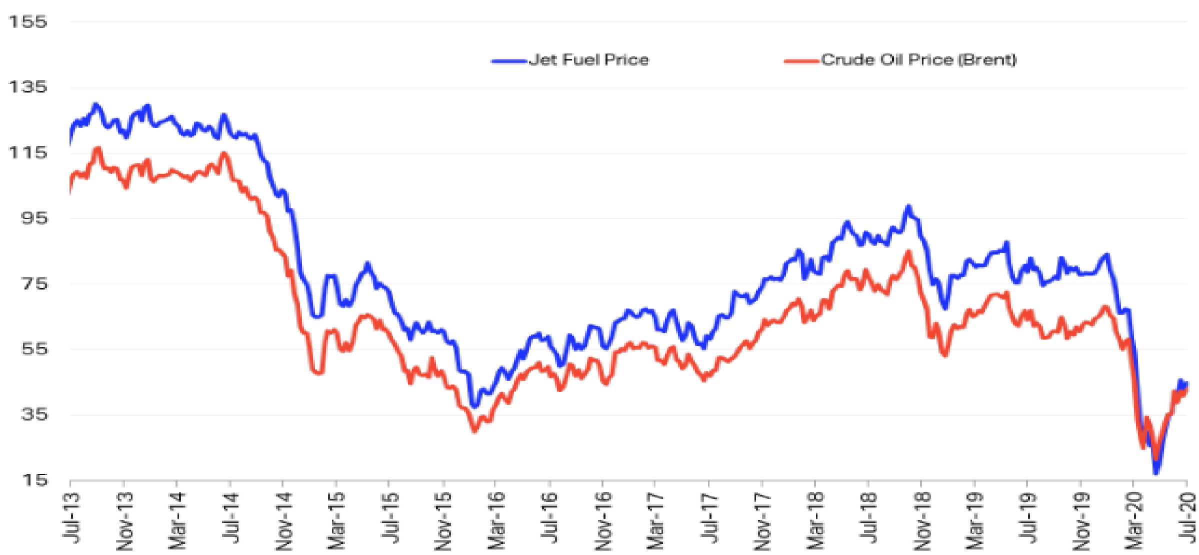
Scenario	Domestic tourists (million)		International tourists (million)		Explanation
	Quantity	%YoY	Quantity	%YoY	
2H.2020					
Base	43.2	-42%	4.5	-84%	Domestic passenger: A lot measures to stimulate demand for tourism, the tourism industry continue to be restructure in Q4.2020. International Passenger: Continue to restrict travel in 2H2020, implementing set of air bridges and travel bubbles with Northeast Asian countries.
Worst	36.1	-52%	3.5	-88%	Domestic passenger: Psychological concerns about social isolation and social distancing cause a sharp decline in passenger volume International passengers: Vietnam is no longer a safe destination, continues to restrict international travel.
2021					
Base	59.7	166%	14.2	305%	Domestic passenger: The economy is recovering, domestic passenger continues to be the driving force supporting the aviation industry. International passenger: I: Opening for tourist for China and Korea (key market) in early Q1.2020.
Worst	52.2	145%	12.4	255%	Domestic passenger: Slow recovery because the disease has not been completely controlled. International passengers: Open for tourism at the end of Q1.2020

(ii) However, we found positive signals for the aviation industry in early 2021:

Completing the repair of the runways at Tan Son Nhat and Noi Bai will be completed by the end of 2020 will help (1) Increase operational capacity to 30-35%, (2) Reduce flight delays.

Airlines get an improvement for profit margins when gasoline prices accounted for the majority of cost of HVN (31.35%) and VJC (32.4%) when (1) fuel price drops from VND 3,000/ liter to VND 2,100/ liter from August 1 to December 31, 2020, (2) Flight fuel oil price drops to US $44.2/ barrel (43.7%

YoY) when institute of professional association anticipate Brent oil price quotes in 2020 will fluctuate around 38 USD / barrel.



Source: PLatts, Data stream, BSC

INVESTMENT VIEWPOINTS – UNDERPERFORM

BSC holds an UNDERPERFORM perspective on the aviation industry in 2020 due to (1) a recurrence of the Covid epidemic wave (2) The decline in travel costs due to the economic downturn (3) Repair of runways In Tan Son Nhat and Noi Bai, the operating capacity is reduced in the short term.

Maritime Transport Sector [Underperform]

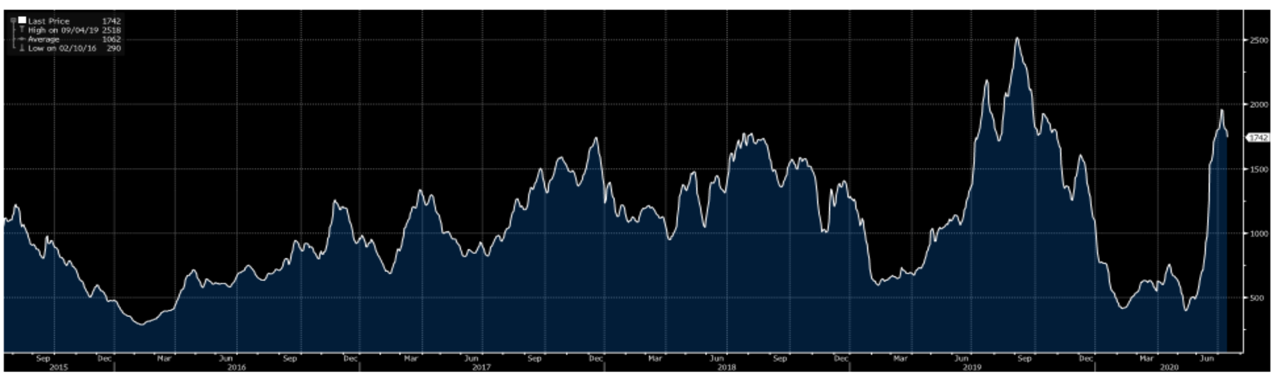
- IMO 2020 and the Covid epidemic incur many costs for the fleet
- BDI index shows a recovery in global freight rates
- Highly competitive international martitime transport

BSC believes that the first 6 months of the year is the worst time for the Maritime Transport industry has passed and expects business results to recover in 2H.2020.

(i) **Due to the effects of the Covid epidemic** Many costs incurred in maritime transport such as fumigation and isolation costs, we estimate PVT will incur 115 billion costs in 2020. At the same time from January 1, 2020 onwards, all ships will have to reduce sulfur oxides below 85% due to IMO 2020, the cost of doubling the price of old fuel.

(ii) **BDIY rates dropped 80% during** 1H2020 has a strong impact on the operations of transportation companies. Demand for transport decreased, many fleets of VOSCO, VINALINES had to lie on the shore.

BSC forecasts that the maritime transport industry will continue to face difficulties in 2H.2020 due to (1) BDIY freight rates recovered compared to the bottom of March, (2) Highly comepetive environment of international fleets, (3) Covid outbreak.



Source: Bloomberg, BSC

<u>Baltic Dry Index dry bulk transport index rebounded sharply to reach 1317 (-30.65% YoY)</u> when (1) the key economies reopened such as the US, Germany, China (2) PMI started to recover like China = 50.7 (1% MoM), Vietnam = 51.1 (+ 20%) MoM), US = 51.3 (3% MoM)

<u>BSC forecasts that the maritime transport industry will find it difficult to take advantage of EVFTA when</u> most of Vietnam's fleet is 16.6 years old (4.2 years younger than the world) with nearly 1600 ships, mainly small ships going short trips to China, Japan, Korea, Southeast Asia. Vietnam's international market share is 7% due to the fierce competition from the foreign sector.

INVESTMENT VIEWPOINTS - UNDERPERFORM

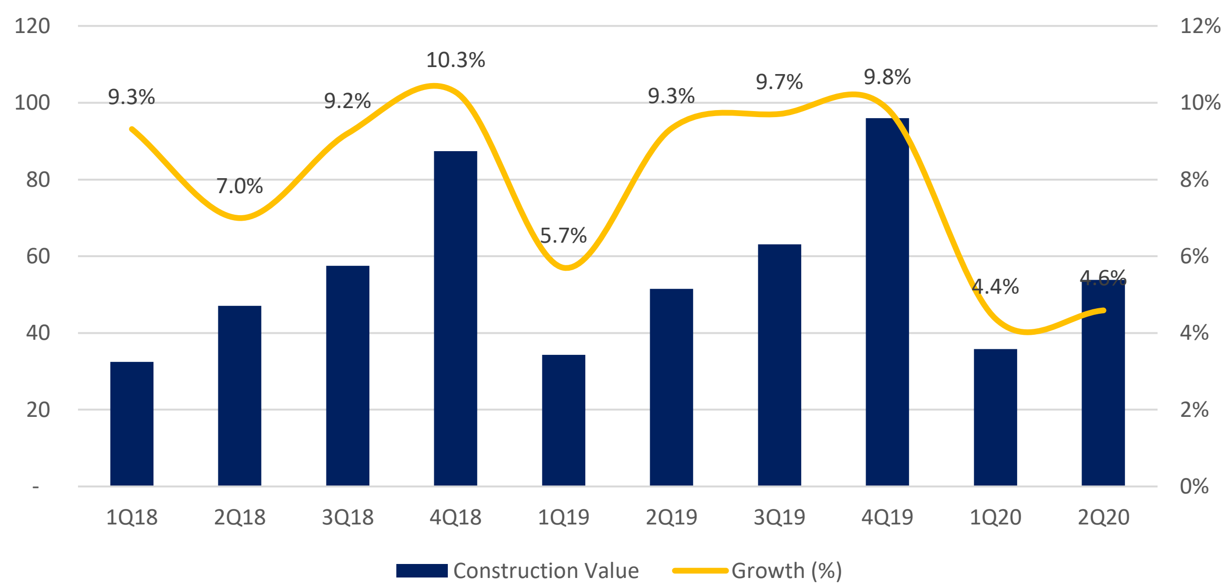
BSC maintain a **UNDERPERFORM** views on the maritime transport industry due to (1) Costs incurred by Covid, IMO 2020, (2) Low freight rates, decrease in shipping volume due to economic recession, (3 Vietnam's transportation fleet facign the competitive of international fleet.

Construction Sector [Underperform]

- The total value of the construction industry reached VND 53,822 trillion with a growth rate of + 4.6% YoY in Q2/ 2020.
- Vietnam is still a bright spot for countries to invest in 2020 when FDI in 6M2020 reaches VND 15.67 billion, equal to 84.9% of the whole 2019.
- Disbursement of public investment is still slow in the first 6 months of 2020, reaching only 34.96% of the plan of VND 700 trillion.
- BSC maintains the UNDERPERFORM recommendation for the construction industry in 2H2020 as the leading construction companies are facing difficulties due to the tightening of real estate supply (CTD, HBC), however infrastructure construction is expected to grow in 2021 thanks to public investment.

The total value of the construction industry reached VND 53,822 trillion with a growth rate of + 4.6% YoY in Q2/ 2020. According to the General Statistics Office, the value of the construction industry reached VND 53.8 trillion, up 4.6% over the same period in 2019 and 20 basis points higher than that of Q1 / 2020, thereby contributing to the GDP of Q2 / 2020. 6.06%. According to the Ministry of Construction, preliminary report of the first 6 months of 2020, the construction industry is still facing many difficulties, so it is still maintaining at a slow growth rate that has not reached as expected, in which the difficulties still continue such as: **(1)** Real estate market declines; **(2)** The implementation of construction contracts must be postponed or moderately executed; **(3)** Demand for domestic construction materials plummeted; **(4)** Exports faced many difficulties. Since then, **BSC believes that the growth motivation for the industry in the late 2020-2021 will be in the trend of shifting investment into Vietnam and public disbursement.**

Value of Vietnam's construction industry (VND thousand billion)

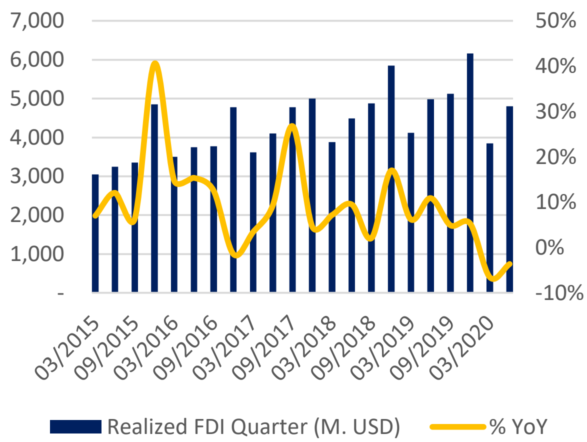


Source: GSO.

Vietnam is still a bright spot for countries to invest in 2020. According to the Government portal, accumulated until June 2020, the total newly registered FDI, adjusted and contributed capital to buy shares reached US $15.67 billion, equaling 84.9% over the same period. In particular, the largest proportion is processing industry accounting for 58.5%, commercial real estate accounted for 15.5% but mainly in 2021 due to weak supply, infrastructure construction accounts for a low proportion of 3.7%, ... Large scale projects such as the LNG Bac Lieu Natural Gas Power Plant **(US $4 billion)**, the Southern petrochemical complex project of Thai investors in Ba Ria-Vung Tau **(US $1,386 billion)**, and the Housing project textile machinery in Texhong Hong Kong industrial park **(US $ 214 million)**. Thereby, BSC believes that the construction industry can benefit from contracts to build factories, industrial parks as well as urban areas around economic zones thanks to foreign capital inflows.

Source: Bloomberg, GSO.

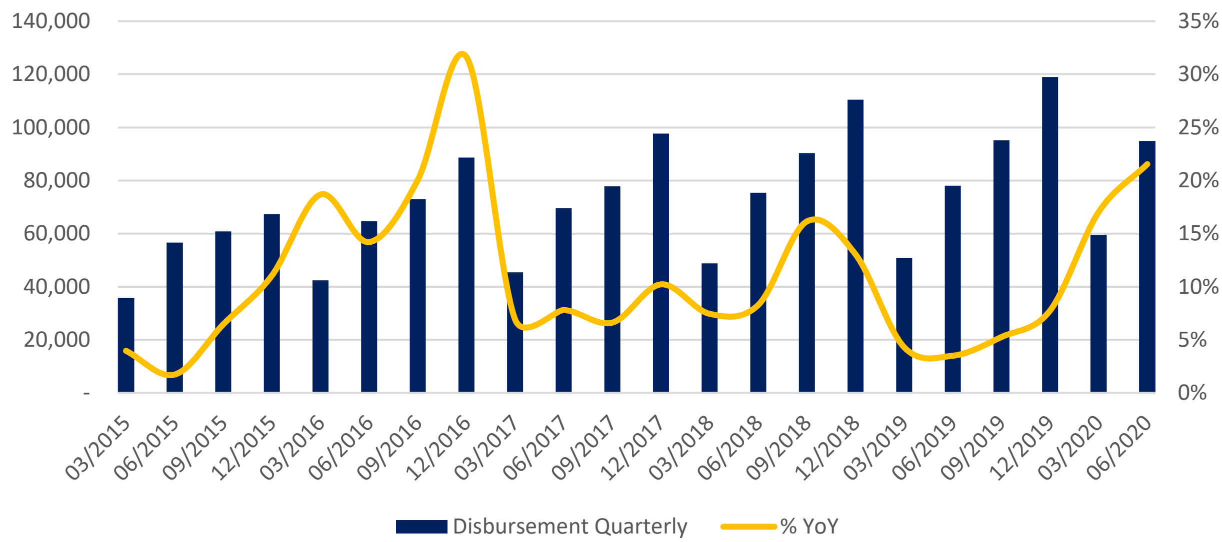
Realized FDI in Q2/ 2020 (Million USD)



Sector	Project number	Total registered investment capital (million USD)	Proportion (%)
Manufacturing and processing industry	14,789	220,303.9	58.5%
Real estate business	903	58,322.0	15.5%
Producing and distributing electricity, gas, water, air-conditioner	135	27,535.8	7.3%
Infrastructure construction	1,730	13,918.4	3.7%
Accommodation and food services	880	12,022.3	3.2%
Others	13,588	44,490	11.8%
Total	**32,025**	**376,592.0**	**100%**

Disbursement of public investment is still slow in the first 6 months of 2020. The disbursement results of public investment capital in the first 6 months of 2020 only reached **34.96% of the plan of 700 trillion VND**, not yet reached the target. Currently, the Ministry of Construction is pushing to remove obstacles in land clearance to quickly implement the project, It is expected that by July 2020, the disbursement of over 43% will be disbursed and it will be difficult to disburse the remaining 60% in the last 5 months of the year. BSC believes that infrastructure construction companies will increase the value of new contracts signed in Q3-Q4/ 2020 thanks to public investment projects, from which the contract value transferred to 2021 would increase. Therefore, **infrastructure construction companies will benefit if the disbursed state capital will be disbursed faster, helping to improve working cash flow for construction and reduce short-term debt.**

State capital disbursement Q2/ 2020 (billion USD)



Source: GSO.

INVESTMENT VIEWPOINTS – UNDERPERFORM

BSC maintains a **UNDERPERFORM** recommendation for the construction industry in 2H2020. We believe that the civil construction industry will continue to face difficulties given limited real estate supply and high competition keep profit margin relatively low. As of Q1/ 2020, the number of civil construction enterprises accounted for about 47% of the total number of enterprises in the industry, many leading enterprises with poor Q2 business results such as **CTD (-31% YoY), HBC (DT - 45% YoY).** Since then, CTD and HBC are also entering the infrastructure construction industry in search of new growth drivers but they would need a lot of time and capital to prove their construction capacity.

As for infrastructure construction businesses, which account for an estimated 53% of the total number of construction firms, we evaluate that they will benefit from the accelerated public investment period if they prove their capacity, and thereby value contracts of these companies may increase in the year-end or early 2021. We recommend the following stocks: **C4G, LCG, and FCN.**

Disclosure

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

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