



## MARKET REVIEW

**VNI +2.4% in Aug on high turnover, despite COVID, macro and overhang challenges**

**But there are risk points – buying is still rotational, mostly into smaller-cap’s**

**The buying is margin-funded, and foreign selling has resumed – some from strategics**

**But as lockdowns ease, trading will rotate back to the blue-chip leaders**

The VN Index continued to recover from its sell-off last month and rose 2.4% (\$TR) in Aug to 1331. This showed real resiliency, given the relentless spread of COVID-19, the effect of lockdowns on the economy and a \$1.5bn pipeline of rights issues and placings that is being worked through. The Index even tried a run back towards 1400. It only got as far as 1375, but the attempt showed that animal spirits were still alive. Liquidity was robust: average daily turnover on the HOSE was +13% mom at \$1.02bn, and on the combined exchanges, +19% at \$1.27bn. Investors still seem to be looking through a rocky 3Q to a better 4Q, when they think that lockdowns can probably ease. But the underlying patterns of trade show the confidence is somewhat wary, highlighting the vital importance of making progress on vaccination.

Buying action continued to be rotational in Aug, led by the retail move into second-line stocks. The small-cap index was +16.5% and the mid-cap index +5.7%, while the VN30 was -1.3%. Banks had foretold the shift in Jun-Jul, when big banks gave way to small ones, and then in Aug the whole sector slumped. Investors are unclear what to expect on bank earnings – lenders are in good shape, but the Government keeps saying that they must not book “excessive” profits during the pandemic. Meanwhile, property majors have yielded to mid-cap developers, especially of industrial parks. In steel, integrated giant HPG peaked back in Jun, while sheet producers have been running ever since. And a whole muddle of generally-ignored sectors have come to the fore: shipping, ports, sugar, fertilizers, pharma, utilities, etc. And brokers continued their incredible run, with gains of 10-55% in Aug, as turnover remained buoyant.

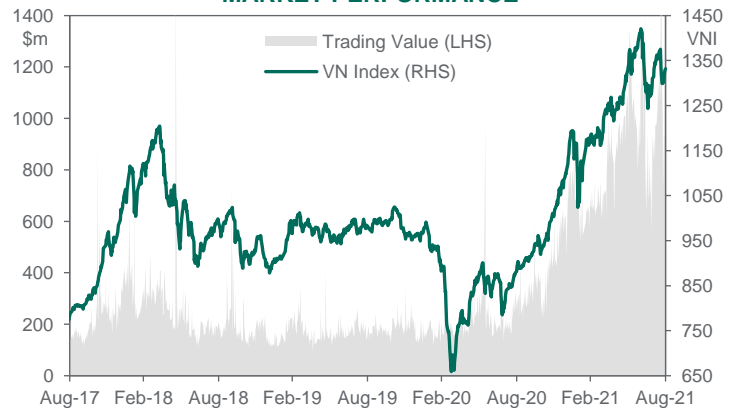
Much of the rotational movement seems to have been funded by margin lending, which returned to near-record levels in Aug as big-caps moved lower. Hopes of foreign institutional flows resuming, sparked by the \$200m of net buying in Jul, were dashed by a \$308m exodus in Aug. Some of this was from foreign strategics who announced that were beginning to unload their stakes – \$150m to come from KKR in VinHomes, \$109m from GIC in Masan, \$90m in Saigon Securities from Daiwa and DBJ.

Investors are hopeful that the market will work out, but they are hedging their bets by trading away from the former leaders. We think the VNI will consolidate at current levels, with a continued interest in smaller names, while indications are awaited on the battle against COVID. If vaccinations accelerate and lockdowns are relaxed in Oct, trading will rotate once again – back into the market’s bedrock stocks. They offer superior growth, value and quality for the longer term, even with a sequential earnings decline of ca 7% that we now foresee in 2H21.

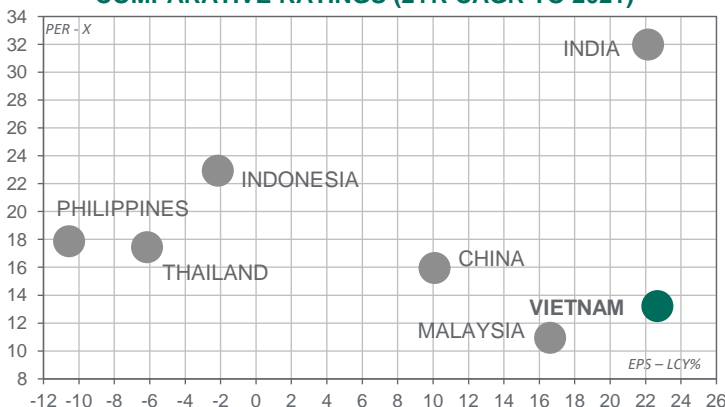
### DC TOP-60 FORECASTS

30-Jun-21	Unit	2018	2019	2020	2021F
Real GDP Gro	x	12.8	11.9	14.1	13.2
Nominal GDP	%	24.3	11.7	5.5	41.2
CPI	x	0.5	1.0	2.6	0.3
Export Gro (cif)	%	15.0	10.0	2.2	24.4
Import Gro (cif)	%	19.7	15.1	3.1	46.9
Trade Bal (cif)	%	29.5	13.2	6.0	38.3
FX Reserves	%	25.8	12.9	5.9	42.9
FDI Disbursed	x	0.4	0.3	0.3	0.3
VND:\$	%	2.2	1.7	1.4	1.2

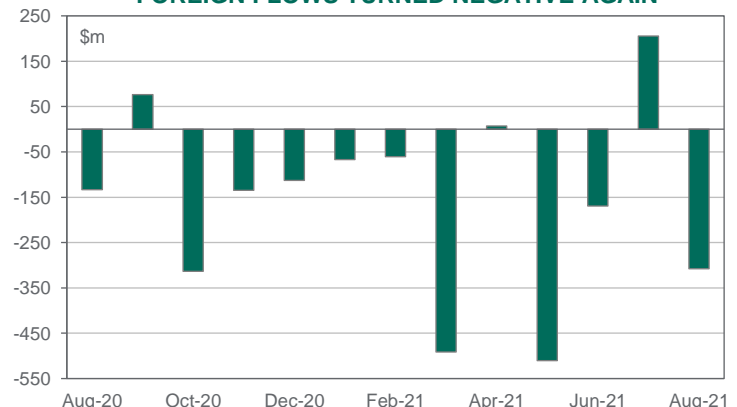
### MARKET PERFORMANCE



### COMPARATIVE RATINGS (2YR CAGR TO 2021)



### FOREIGN FLOWS TURNED NEGATIVE AGAIN





## ECONOMY REVIEW

**More grim macro numbers in Aug, led by trade- and current-account deficits**

**FDI flows intact; LG and Samsung expand investments, Apple steps up recruitment**

**VND also intact; no further rate cuts, but continued liquidity support**

**Wave 4 still rages, but vaccination is picking up; re-opening could start from early Oct**

Vietnam's pandemic-hit macro numbers for Aug were as dismal as Jul. Exports continued to heavily lag imports, with the former +21.2% ytd at \$212.6bn and the latter +33.8% at \$216.3bn, bringing the 8MO trade deficit to \$3.6bn. This in turn put the current-account ca \$2bn in deficit. The trend is strictly non-structural, but no less discomfiting for that. And external-account gaps for the full year now look unavoidable. On the home front, Aug retail sales were -33.7% yoy, the third month in a row of deep slump, while Aug IP was -7.4% yoy due to stay-at-home orders.

FDI remains a key bright spot in the macro picture, showing robust flatness in Aug. Even with travel restrictions, 8MO disbursed FDI was +2% yoy at \$11.6bn and registered FDI was -2.0% at \$19.5bn.. MNCs are periodically heard to grumble that after Wave4, they may have to re-think their investment plans, but if pandemic containment proceeds in a timely way, such an outcome is very unlikely. Vietnam fully retains all its crushing competitive advantages for FDI. On 31 Aug, LG confirmed it would invest \$1.4bn to expand production of OLED screens by 40% at its plant in Haiphong. The same day, Samsung said it planned to increase output of foldable devices by 50% at its plant in Bac Ninh. Also, Apple is now recruiting very actively for management staff.

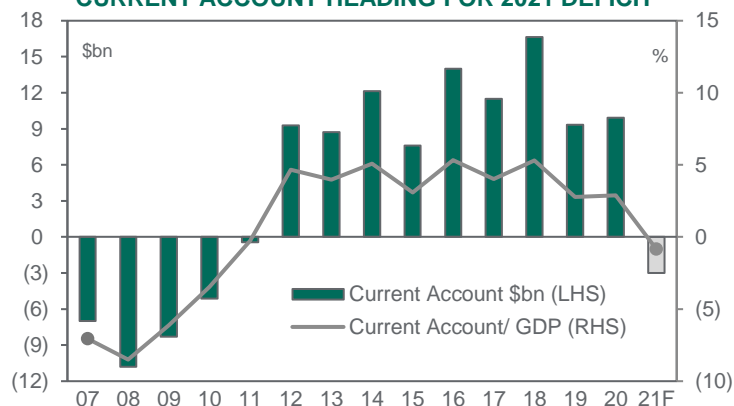
The currency is also in good shape. There is a surabundance of reserves with which to cover modest external deficits and domestic inflation is dormant. The VND has appreciated 1.4% ytd and the Government will want to keep it there to ensure that the "currency manipulation" dispute with the US does not recur. And if the US starts tapering soon, this should not be a problem given how lightly borrowed Vietnam is in hard currency (and the Dong too). Just to be doubly sure on the VND, the State Bank may avoid cutting rates again, while keeping liquidity abundant by continued interbank injections, like the \$6bn it did in Jul-Aug

Wave4 is nonetheless still raging and as of 6 Sep, the country had 536,788 confirmed cases and 13,385 fatalities, mainly concentrated in HCMC and the 18 Southern provinces. But vaccination is starting to ramp up. Vietnam has received 33m vaccine doses and inoculated 20m people (of which about 3m twice). It is projected that 4Q21 deliveries will approach 20m/mo, allowing the authorities to accelerate shots to 1.5-2.0m/day, a rate which Vietnam achieved in mid-Aug when supplies were more plentiful. COVID-10 strategies in neighboring countries suggest that 90-100% first-shot coverage will be the threshold for relaxing lockdowns. HCMC and Hanoi will be at this level by mid-month, and their surrounding industrial zones might follow a couple weeks later. These conurbations account for 60% of GDP growth. As they unlock, a national re-opening could begin to phase in from early Oct.

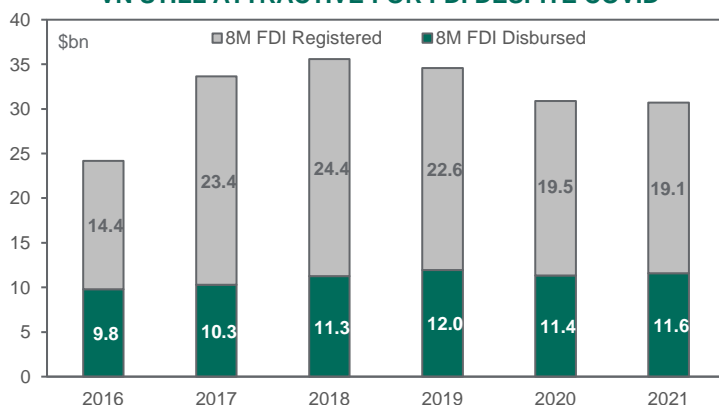
### ECONOMIC FORECASTS

30-Jul-21	unit	2018	2019	2020	2021F	
Real GDP Gro	%	7.1	7.0	2.9	3.7	
Nominal GDP	\$bn	313	335	343	357	
CPI	%	3.0	5.2	3.2	3.1	
Export Gro (cif)	%	13.8	9.1	6.5	17.5	
Import Gro (cif)	%	11.5	7.7	3.7	28.3	
Trade Bal (cif)	\$bn	6.8	9.4	19.1	(5.2)	
FX Reserves	\$bn	61.0	80.0	98.0	101.0	
FDI Disbursed	\$bn	19.1	20.4	20.0	18.7	
VND:\$		1	23,235	23,150	23,085	22,735

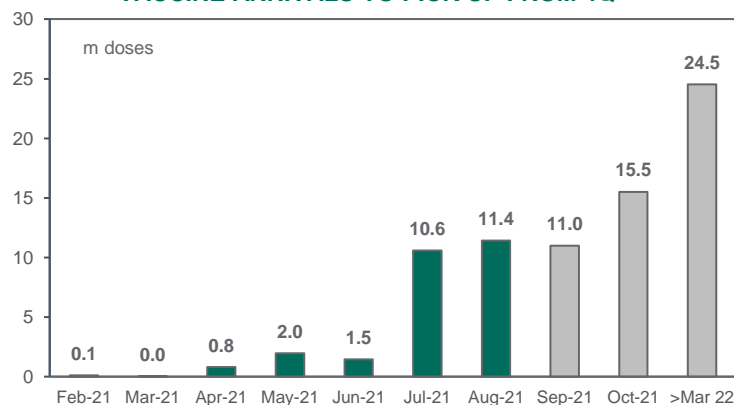
### CURRENT ACCOUNT HEADING FOR 2021 DEFICIT



### VN STILL ATTRACTIVE FOR FDI DESPITE COVID



### VACCINE ARRIVALS TO PICK UP FROM 4Q





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