MONTHLY NEWSLETTER 09

30 Sep 2021

DRAGON CAPITAL

MARKET REVIEW

VNI +0.8% in Sep as market anticipates re-opening buts keeps focus on small-cap's

The VN Index inched up 0.8% ($TR) in Sep to 1342, with the dismal Sep macro numbers being virtually ignored. But gains were disproportionately driven by smaller names, as the churning in second-line stocks continued. Market volumes consequently slumped: average daily turnover was -9% mom at $928m for the HOSE and -7% mom at $1,172m for the combined exchanges. Investors are signaling that they like equities in principle, as they look through the grim 3Q to a better 4Q. But they still prefer trading for the moment, rather than buying for the future, while global macro prospects – and their impact on Vietnam's economy – remain unsettled.

Big-cap's lacking special themes suffer; property majors, selected banks are hardest-hit

Big-cap stocks dragged if they lacked special themes, and the disinterest of locals was compounded by yet more foreign outflow, which rose 30% mom to $395m. Property majors suffered the most, with VinGroup -6.5%, VinHomes -3.0% and NovaLand -2.3%. Most smaller names fell too. Banks did not lag as much, after their significant correction in Jun-Aug, and they traded mixed rather than generally weaker. But overall, the sector was marginally down in Sep, and gainers were mostly animated by their own catalysts, i.e., VPBank +7.0% on announcement of a generous stock dividend, Tien Phong Bank +22.0% on a private placement opening FOL room that was pre-sold at high prices. Banks were still dogged by concern about results, with Government pressure not to show "excessive" profits during the pandemic.

Re-opening and commodity themes drove a few big-cap's, but mostly SMEs

Stocks that moved were primarily driven by the re-opening or the commodities theme. Some big-cap's benefitted from this: GAS, HPG, VRE, MWG, PNJ, which rose 4-15%. But more noticeable were the multitude of lesser names in retail, shipping, sheet steel, building materials, minerals, fertilizers, oil and gas services, etc., that rose 15-60%. One set of smaller-cap stocks that did not do well, however was the formerly high-flying brokers. With rights issues all coming at once, they fell sharply from their mid-month peaks and ended Sep flat to weaker – though this could well be a one-off.

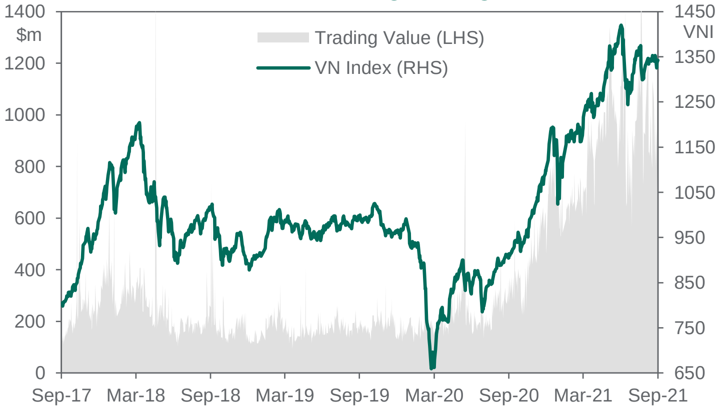
Market may just keep consolidating in absence of direction from global economy

The market is delicately poised now and may just continue to consolidate. The growth/value equation remains compelling, COVID has been beaten back and the lockdown is easing. Brokers are preparing to offer more margin as rights issues end. On the other hand, there is some concern that as the economy re-opens, cash will flow out of the market back into property, working capital and other alternatives. Also, if liquidity does not pick up, and foreigners keep selling, this could crimp prices generally. Direction from the global economy would help, to indicate how soon supply-chain snags can be resolved, relieving growth constraints as well as longer-term inflationary pressures that might find their way into Vietnam.

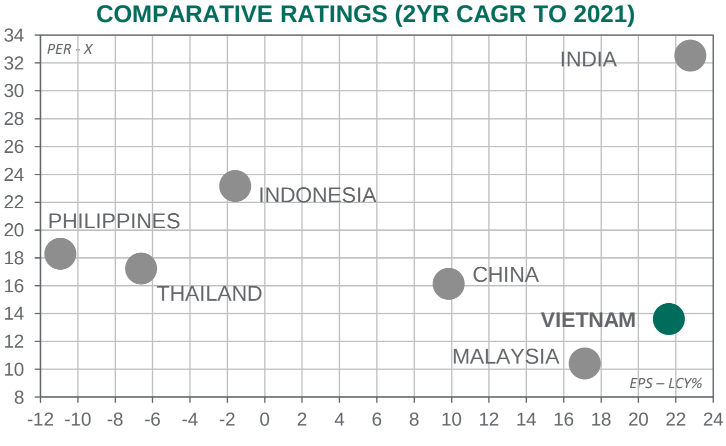
DC TOP-60 FORECASTS

30-Sep-21	Unit	2018	2019	2020	2021F
PER	x	12.8	11.9	14.1	13.6
EPS Gro	%	24.3	11.7	5.5	40.2
PEG	x	0.5	1.0	2.6	0.3
Sales Gro	%	15.0	10.0	2.2	24.2
EBIT Gro	%	19.7	15.1	3.1	47.1
PBT Gro	%	29.5	13.2	6.0	37.9
NPAT Gro	%	25.8	12.9	5.9	42.4
Net DER	x	0.4	0.3	0.3	0.3
Yield	%	2.2	1.7	1.4	1.1

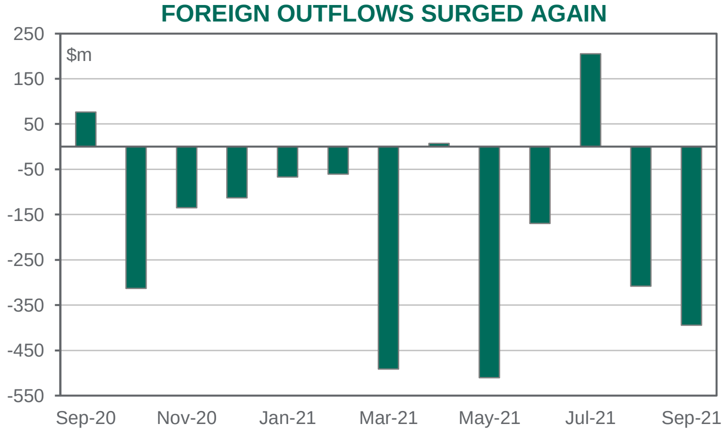
MARKET PERFORMANCE



COMPARATIVE RATINGS (2YR CAGR TO 2021)



FOREIGN OUTFLOWS SURGED AGAIN



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ECONOMY REVIEW

3Q GDP hit -6.2%, but obviously plumbing the bottom as re-opening commences

The headline macro number for Sep was an apparently grim one: 3Q GDP of -6.2%. But this is now history. Wave4 of the pandemic is being contained at last, thanks to lockdowns and accelerating vaccination, and re-opening of the economy is firmly underway. 3Q will be the bottom and even with the -6.2% result, 9MO GDP was +1.4%, showing the momentum that was building in 1H and should be able to renew itself. GDP for Oct-Dec will turn around sharply qoq, not to mention whatever it might do in 2022.

Despite depressed GDP, some of the macro numbers were encouraging

And the GDP print, while depressed, was attended by a few positive readings. With some sectors starting to unlock as early as mid-Sep, industrial output was +5.0% mom (albeit still -5.5% yoy). Also, exports were only -0.8% mom at $27bn, but imports were -3.9% at $26.5bn, as inventory restocking finally ended. This generated a $0.5bn surplus that cut the trade deficit to $2.0bn ytd. Meanwhile, domestic freight volumes increased by 26% mom, and retail sales rose 6.5% mom, as the Government rationalized COVID paperwork to facilitate in intra-city travel.

COVID in retreat as vaccinations pick up; Gov't targets back to normal by Jan 22

The retreat of COVID is shown in the dwindling daily caseload (an average 4,300 new patients during 1-5 Oct, versus a peak of 13,500 in early Sep), and in lower deaths (130 vs 390 during the same periods). In HCMC, the epicenter of the pandemic, vaccination has reached critical mass, with 100% of the adult population jabbed – of which an impressive 65% twice. The Government was slow off the mark to organize shots, but it remedied matters quickly. A monthly supply of 15-20m doses seems to be feasible, bringing 70% double-vaccination by Mar 2022. HCMC and neighboring provinces are allowing factories, businesses and shops to resume normal operations on a progressively widening basis, with a plan to return to full normalcy by mid-Jan 2022. This seems to factor in the key challenge of re-opening, which is ongoing labor shortages aggravated by incomplete vaccination outside of key cities and provinces.

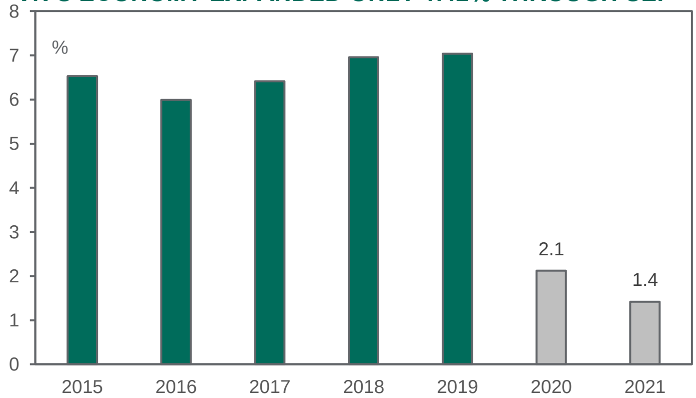
2022 GDP could be +10% off low 2021 base, though risks to that outcome do exist

We expect 4Q21 GDP to reach +3 to +5%, putting the full year at around +2.4%. From that low base, GDP could surge mightily in 2022 and we tentatively project +9.6%. Manufacturing will lead as factories mobilize to fil export demand, while services are likely to stay below pre-lockdown levels until air travel fully resumes, which is probably a 2H22 story. Risks to this scenario do exist. It remains to be seen how global supply-chain disruptions will affect Vietnam if they persist beyond the next few months. FED tapering may also induce over-cautiousness on monetary stimulus. And infrastructure spending needs to pick up – public investment at 48% of this year's plan is sub-optimal. But this reflects COVID work stoppages to a large extent, and if infrastructure does accelerate as we expect, this will make up for a lot of slack elsewhere.

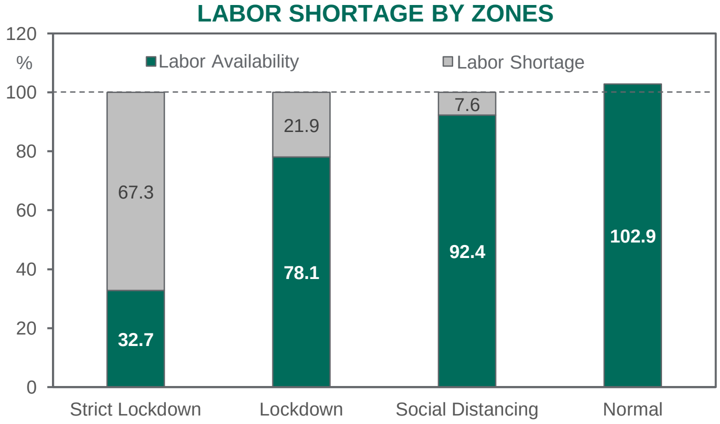
ECONOMIC FORECASTS

30-Sep-21	unit	2018	2019	2020	2021F
Real GDP Gro	%	7.1	7.0	2.9	2.4
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

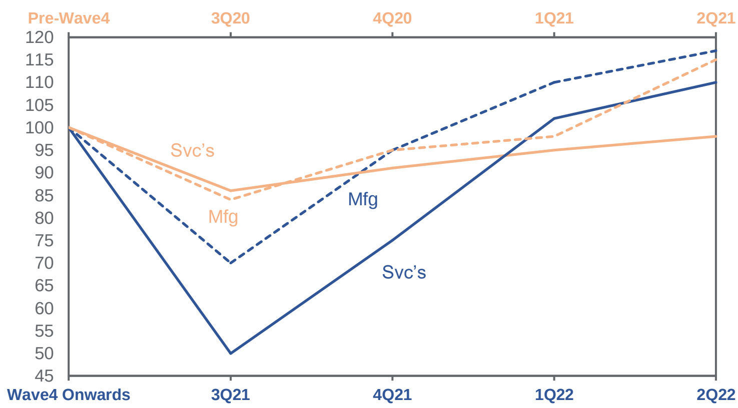
VN'S ECONOMY EXPANDED ONLY 1.42% THROUGH SEP



LABOR SHORTAGE BY ZONES



RECOVERY WILL BE MANUFACTURING-LED



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