MONTHLY NEWSLETTER 09

DRAGON CAPITAL

MARKET REVIEW AND OUTLOOK

VNI dropped 13% in Sep as global recession fears deepened

The market had a difficult September, with the VNI falling 13.1% to a 2022 low of 1132 (TR$). External pressures continued to hammer stocks as US inflation remained at high levels and the Fed doubled down on hawkish statements. Domestically, the news was not encouraging on banks' loan quotas or on amendments to Decree 153, governing corporate-bond issuance. Despite a reduction in settlement times, from T+3 to T+2½, average daily turnover fell. It slipped by 15.1% on the HOSE to $570m, and by 16.5% on the combined exchanges, to $661m. Foreigners became net sellers again, offloading $136m worth of equities, bringing the 9MO exodus to $147m.

Rate hikes slammed sentiment on bank and property stocks

As the DXY carried on strengthening, and the SBV was forced to defend the Dong with higher rates, sentiment rapidly soured in banks and developers. Investors worried about NIM compression for banks, and higher borrowing costs for developers. Banks collectively fell 13% while most developers lost 15-25%. The government issued Decree 65 on bond issuance, amending and supplementing Decree 153, and it was more conservative than expected. It appeared to put tight curbs on who can buy corporate bonds and on what sort of capital-raising bonds can be used for. This has left issuers waiting for guidance circulars to clarify the Decree, and these may take a few more months to appear. For developers needing to fund projects, and hoping to roll over existing obligations, this was sub-optimal news.

Defensive names offered some modest protection

Defensive sectors offered some protection, with health-care and F&B stocks only dropping 2-4%. Insurance companies also fell less than the VNI as they will typically benefit from rising rates. Retailers got a boost from high demand for the new iPhone model, whose sales in Vietnam are expected to double even though global demand for the product seems sluggish. This was seen as a proxy for resilient consumer sentiment.

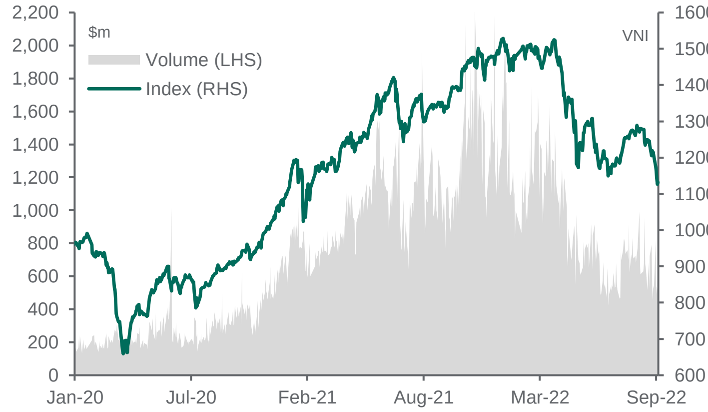
A lot of risk is priced into valuations, but interest rates and global events still need to be watched

The market has been unable to insulate itself from rising risk overseas, where recession fears are proliferating. Yet despite external pressures, economic growth is robust, with 9MO GDP up 8.8%, the trade surplus hitting $6.3bn and inflation still around the Government target of 4%. It can be hoped that the authorities will show more flexibility on corporate bond issuance – and on loan quotas – as it becomes clear that too much restrictiveness is harming legitimate borrowers. Meanwhile, after the market's 27% plunge ytd, its PER has dropped to a historically low level of 8.8x. The number of stocks above their 50-DMA – barely 2% – is also near an all-time bottom, and the RSI is getting to COVID levels. A lot of risk is now priced in. But it remains to be seen how much higher rates will go and what sort of further crises may develop internationally.

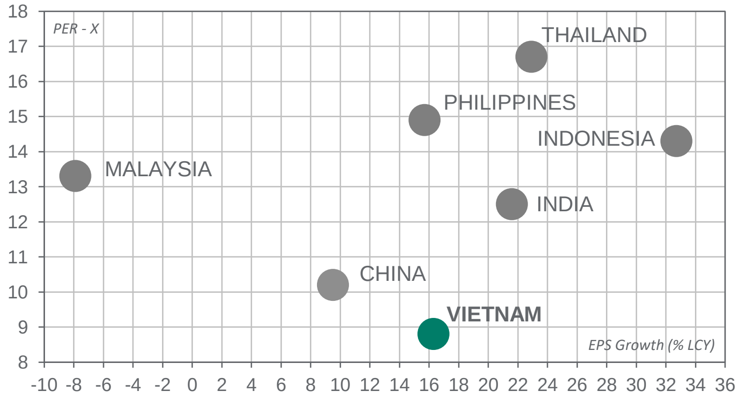
DC TOP-80 FORECASTS

30-Sep-22	Unit	2019	2020	2021	2022F
PER	x	11.8	13.9	14.7	8.8
EPS Growth	%	11.4	5.6	38.9	16.3
PEG	x	1.0	2.5	0.4	0.5
Sales Growth	%	10.0	2.2	22.0	19.4
EBIT Growth	%	15.1	3.2	50.8	15.8
PBT Growth	%	13.2	5.8	38.0	19.7
NPAT Growth	%	12.9	5.9	41.9	17.9
Net DER	x	0.3	0.4	0.3	0.1
Yield	%	1.7	1.4	1.0	1.3

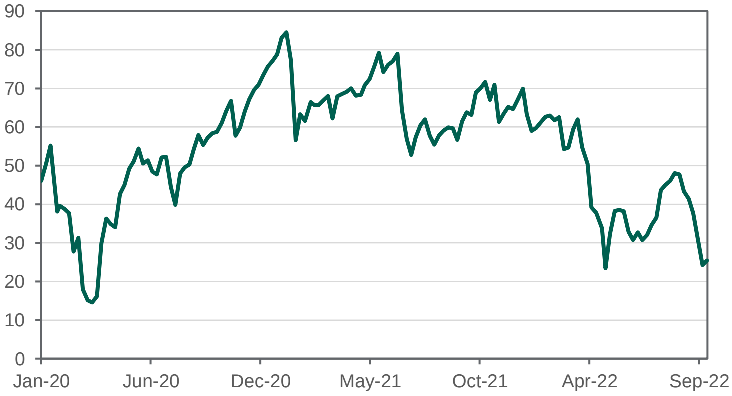
MARKET PERFORMANCE



COMPARATIVE RATINGS – 2022 PER / EPS GROWTH



RSI APPROACHES COVID BOTTOM



Sources: DC, Bloomberg, Credit Suisse / Refinitiv – all adjusted for free float

ECONOMY REVIEW AND OUTLOOK

Economy grew robustly in 3Q, and trade surprised on the upside

The economy performed well in September. GDP for 3Q22 was a record +13.7%, bringing the 9MO result to +8.8%. Domestic indicators were all strong, but of particular interest was trade: 9MO exports were +17.3% yoy, led by FDI-type products, while imports were +13.0%, giving a surplus of $6.5bn. This was a stunning reversal from the deficit of $1.9bn last year. It showed that inventories of input goods have been cleared, that supply-chain snags have been minimized, and that demands for Vietnam's increasingly higher-value manufactures is steady.

Inflation nearing 4% but that is an acceptable result

Less encouragingly, the CPI increased 3.94% yoy, with the second-round effects of energy prices pumping up food and services. Year-end inflation is going to exceed the sub-4% target, and many think it is under-reported even so. But inflation is being managed at moderate levels, as elsewhere in Asia, and it remains strictly imported, not home-grown.

Bond markets still under pressure; new rules on issuance likely to be tough

Decree 65 on bond issuance, amending Decree 153, was finally released and was more conservative than expected. Strict criteria were imposed for investors to be considered as professionals and thereby eligible for participation in private offerings. For issuers and brokers, further rules were applied to increase transparency and disclosure, and to tightly govern use of proceeds. Guiding circulars are also still needed. So the corporate bond market has now ground to a halt while a tougher regulatory regime is awaited. With further pressure from rising rates, we expect bond issuance to decline in 2023, putting pressure on debt rollover.

Loan quotas may be raised, mitigating bond-market freeze

Meanwhile, banks got ever closer to the 14% loan quotas set for 2022, with only about 2.5% left. More will be given to banks that have helped the Government on restructuring bankrupt peers, specifically MBB, VPB, VCB and HDB. They are major lenders, so this could help mitigate the liquidity issue caused by lower bond market activity. But lending rates will continue rising, to forestall inflation and protect the currency.

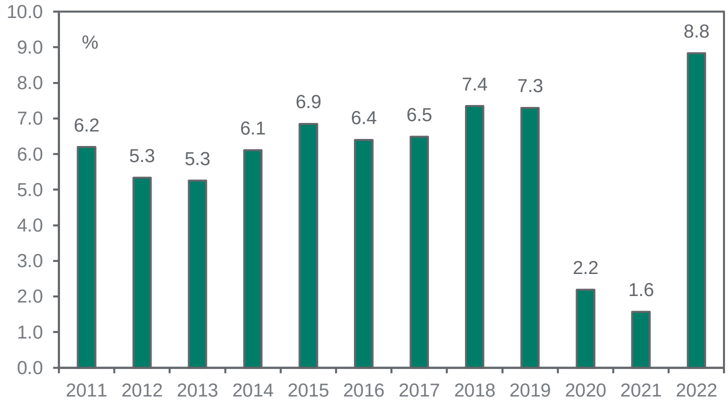
But rates will carry on rising, and can only partly offset the USD rampage

In September, the SBV hiked its policy rate by 100 bps, the first since 2011. Overnight interbank rates touched 8% and then fluctuated around 6-7%. The differential with the Fed Funds rate went to 3-4%, more appropriate than -2% at the beginning of the tightening cycle, so the SBV injected some liquidity. Nonetheless, depo rates have been sucked up by 180-200 bps ytd and lending rates by 200-220 bps. We expect rate hikes of 100 bps in Q4 and maybe as much again in 1Q23. This may only be damage control against the USD. The VND was depreciated by 1% to 23,925 at mid-month, nearly 5% ytd, and the SBV may take it down more by year-end. The problem is not one of Vietnam's own making, but bites no less hard for that.

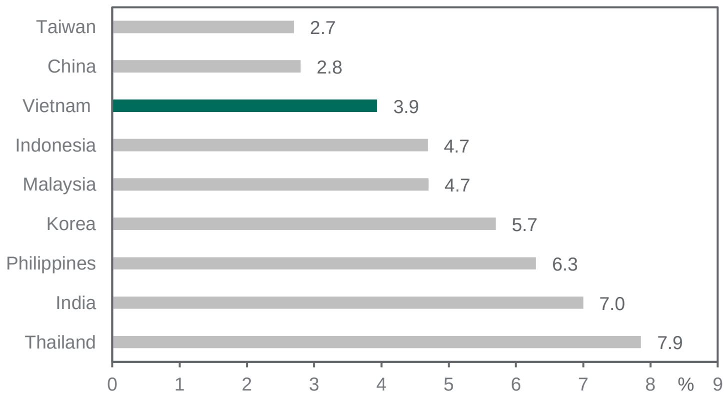
ECONOMIC FORECASTS

30-Sep-22	unit	2019	2020	2021F	2022F
Real GDP Gro	%	7.4	2.9	2.6	7.8
Nominal GDP	$bn	334.4	346.6	366.1	406.9
CPI	%	2.8	3.2	1.8	4.2
Export Gro (cif)	%	9.0	6.5	19.0	16.1
Import Gro (cif)	%	7.7	3.6	26.7	16.0
Trade Bal (cif)	$bn	9.4	19.1	3.3	4.2
FX Reserves	$bn	80.0	98.0	106.5	85.0
FDI Disbursed	$bn	20.4	20.0	19.8	23.8
VND:$	1	23,150	23,085	22,800	24,000

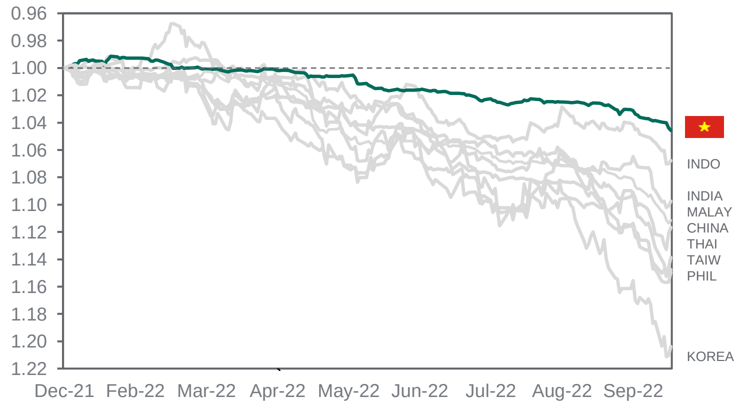
9MO GDP GROWTH: HIGHEST IN YEARS



VIETNAM'S INFLATION WELL WITHIN REGIONAL RANGE



AND VND IS STLL AHEAD OF PEERS



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