MONTHLY NEWSLETTER 10

DRAGON CAPITAL

MARKET REVIEW AND OUTLOOK

Another sharp drop as VNI fell 13% on developer arrests

The VNI fell 12.7% in Oct to 1028, and briefly touched a low of 986, following the arrest of the head of Van Thinh Phat, a large property developer. Average daily turnover fell by 16% on the HOSE to $477m and by 18% on the combined exchanges, to $517m. Foreigners continued to be net sellers, offloading $60m worth of equities, bringing the 10mo exodus to $79m.

Arrests ignited investor panic

The person of interest, Mme Truong My Lan, is the Chairwoman of Van Thinh Phat, which has major real estate projects all over Vietnam, and is a leading bond issuer. Her arrest stoked investor fears about a property-sector implosion that would suck in the financial sector.

Bank run controlled, but bond- and stock-market anxieties are harder to manage

A run started on SCB, but the Government acted quickly to guarantee customer deposits there, and the crisis was stanched. SBV also sent senior managers from SOCBs and private banks to SCB to help it stabilize the situation. A run on corporate bonds, particularly developer bonds, was less easy to control. Liquidity in that market disappeared, and remains non-existent, except when issuers use cash reserves for early buy-backs. Developer stocks were hammered, with small- and mid-cap names falling 20-40%. Banks showed a similar pattern, though a couple majors involved in corporate bond distribution were slammed: TCB -30% and MBB -15%. The concern is anyone involved in selling bonds will now be forced to redeem them. Adding fuel to the fire, some brokers have reduced margin lending for certain property stocks.

3Q results had no impact on sentiment

Sentiment was not helped by 3Q results. Our Top 80 NPAT, adjusted for free float, rose 4.2% yoy but fell 9.4% qoq. Banks continued to show good numbers yoy, with NPAT +52%, but their qoq posting was also negative 4.1%. Higher input costs, rising interest expenses and FX losses wiped out robust sales growth. Commodities were hit by fluctuating global prices, with oil retailers and refiners seeing their profit plunge, and steelmakers booking losses. Steel giant HPG was an extreme case, recording the biggest quarterly loss in its history of $72m. This reflected surging input costs, and translation of USD denominated debt, combined with a downturn in sales driven by falling exports and the slowing property sector at home.

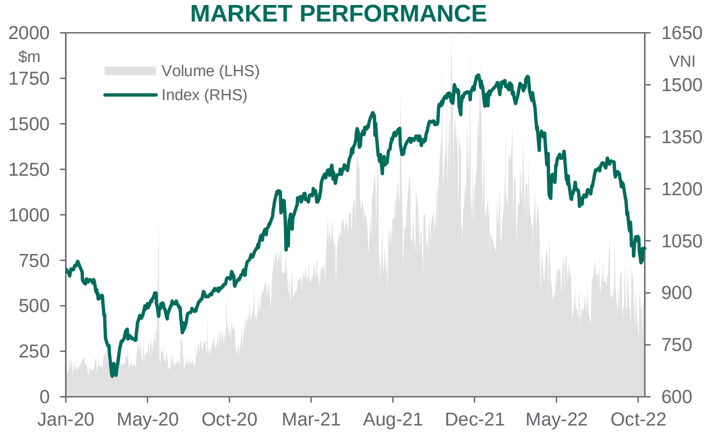
Cloudy outlook but exceptionally attractive valuations

Amid restrictive monetary conditions, we maintain our cautious view on developers and anticipate a subpar outlook for banks. Thus, we expect modest earnings growth next year. However, valuations are close to a 10-year low: 10.7x 2022 trailing PER, and 7.9x 2023. A lot of risk is being priced in. But it remains to be seen how much higher rates will go and what sort of further crises may develop globally. And, most importantly, what the Government finally does on financial-sector policy.

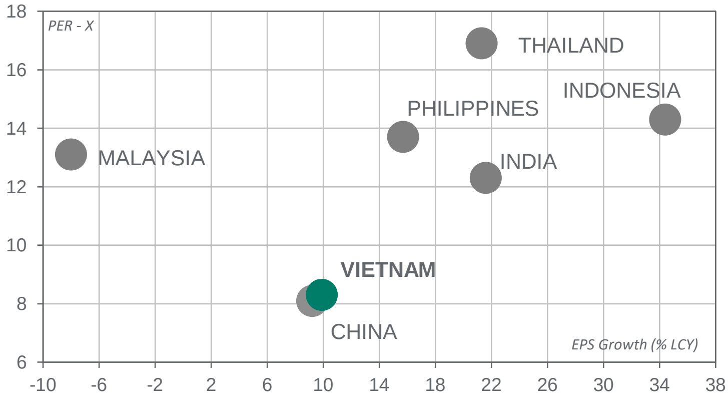
DC TOP-80 FORECASTS

31-Oct-22	Unit	2020	2021	2022F	2023F
PER	x	13.9	14.7	8.3	7.9
EPS Growth	%	5.6	38.9	9.9	5.2
PEG	x	2.5	0.4	0.8	1.5
Sales Growth	%	2.2	22.0	16.2	9.8
EBIT Growth	%	3.2	50.8	12.9	14.3
PBT Growth	%	5.8	38.0	12.6	5.8
NPAT Growth	%	5.9	41.9	11.3	5.2
Net DER	x	0.4	0.3	0.1	0.0
Yield	%	1.4	1.0	1.5	1.5

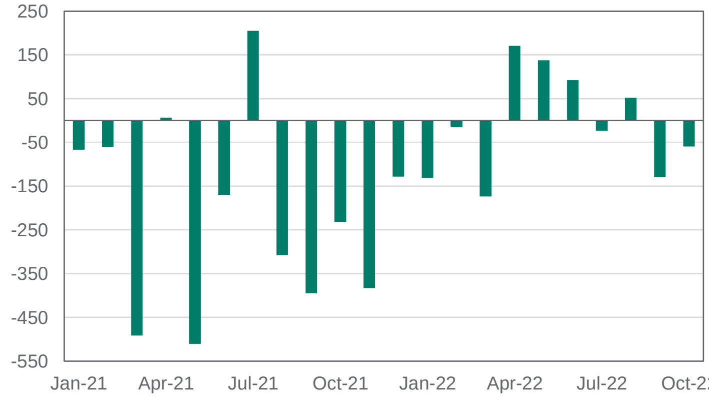
MARKET PERFORMANCE



COMPARATIVE RATINGS – 2022 PER / EPS GROWTH



FOREIGN FLOW



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

ECONOMY REVIEW AND OUTLOOK

2022 growth outlook is constructive, but concerns remain

The economy stayed on track for ca 8% growth in 2022. Industrial production increased 6.3% yoy in Oct and retail sales climbed 20.2%. Trade was impressive as 10M exports rose 16.0% yoy to $312.9bn, while imports were up 12.2% at $303.4bn, resulting in a surplus of $9.6bn, compared with $0.1bn in 10M21. Nov-Dec may be less buoyant, but a full-year surplus of $7-8bn looks feasible. Inflation ticked up to +4.3% yoy from +3.9% in Sep, so it remains on a rising trend, but no worse than in East Asian peers. The Government wants average inflation to be a maximum 4% in 2022 and that seems realistic. All good, but clouds are present on the horizon.

Underwhelming progress on infrastructure, near-static money supply

Infrastructure investment continues to fall short of targets, reflected in a 10M fiscal surplus of nearly $10bn. Infrastructure disbursement has amounted to only $13.7bn ytd, barely 55% of the official plan, and there is still $43bn of unspent Government money piled up at the State banks. This compounds the contractionary policies resulting from the corporate-bond crackdown and currency defense, with M2 up by just 3.1% ytd.

Still-weakening currency even though official flows appear to be strong

In terms of currency flow, things look robust on paper ytd, with $17.7bn of disbursed FDI, $9.0bn of remittances and the $9.4bn trade surplus. The current account is nonetheless in deficit – some $4.5bn ytd as of Jun. And errors and omissions were a colossal $11.4bn in 1H22, most probably continuing into 3Q. The inflow is being offset by repatriations, USD hoardings and skyrocketed trade service deficit. The same is true of trade-surplus proceeds. Hard currency is not making its way to the SBV. So the VND staged its biggest monthly drop since 2011, falling 4.1% in Oct to 24,842 against the USD.

Rate hikes and incremental depreciation will likely continue

To stabilize the FX market, the SBV undertook three key measures in Oct: (a) selling FX reserves; (b) widening the FX band from ±3% to ±5%; and (c) lifting the VND interbank rate by another 100bps. The latter move has translated into a 7.5-8.0% rate on 12mo deposits, giving positive real rates of 4-5%, which ought to help the VND. Going forward, the SBV will not be able to rely on liquidation of reserves. Policy from here will have to be a mix of rate hikes and incremental depreciation. If the Fed opts for a terminal 5% (or more), Vietnam will likely follow with another 100-200bps.

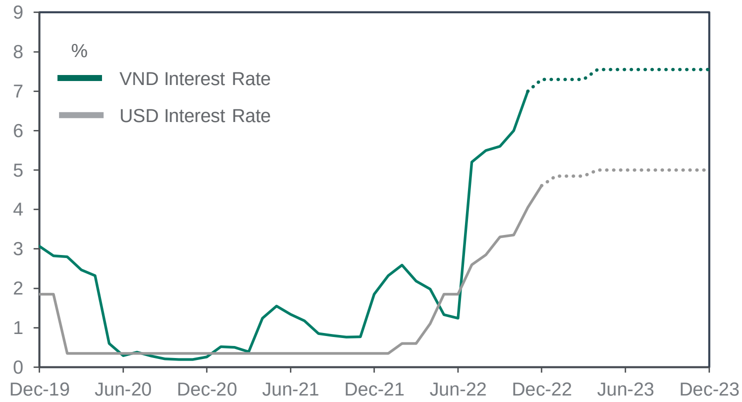
Fed's pause could ease liquidity in 1H23

Liquidity remains very tight, due to external and domestic factors, and the pressure is not over yet. But there should be some let-up once the Fed pauses, presumably sometime in early 2023. This will open the way for GDP to achieve the Government's target of 6.5% growth and inflation to be less than 4.5%.

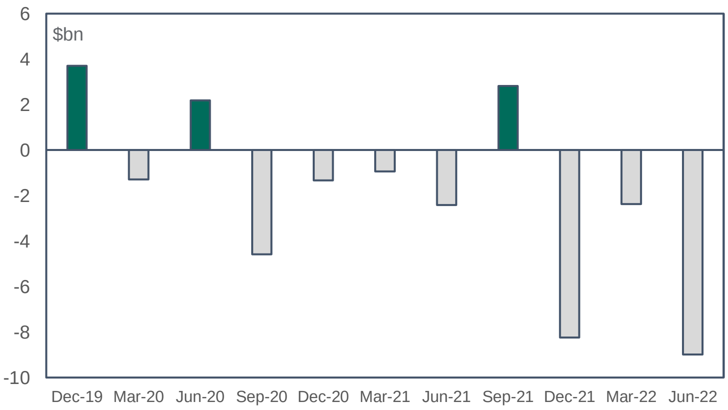
ECONOMIC FORECASTS

31-Oct-22	unit	2020	2021F	2022F	2023F
Real GDP Gro	%	2.9	2.6	7.8	6.5
Nominal GDP	$bn	346.6	366.1	373.3	403.4
CPI (average)	%	3.2	1.8	3.5	4.5
Export Gro (cif)	%	6.5	19.0	11.3	8.7
Import Gro (cif)	%	3.6	26.7	10.2	7.6
Trade Bal (cif)	$bn	19.1	3.3	7.4	12.0
FX Reserves	$bn	98.0	106.5	85.0	80.0
FDI Disbursed	$bn	20.0	19.8	21.8	22.2
VND:$	1	23,085	22,800	25,500	26,265

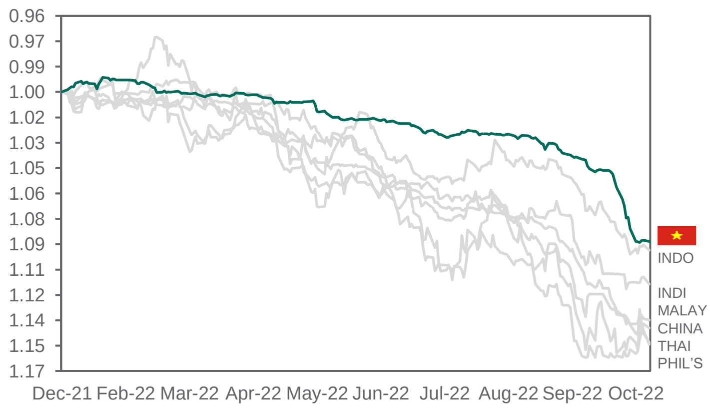
INTERBANK RATE HIKE: MAINTAIN USD-VND SPREAD



HUGE ERRORS AND OMISSIONS IN BOP



VND VS PEERS



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