MONTHLY NEWSLETTER 11

DRAGON CAPITAL

MARKET REVIEW AND OUTLOOK

Index hit a new low before rallying when foreigners piled in

The market had a volatile Nov, with the Index hitting an intraday low of 872, before recovering to end the month 2.9% higher (TR$) at 1048. Cross-margin calls driven by plunging real estate stocks were the main culprit. Then foreign buying kicked off a sharp recovery. Offshore investors snapped up a net $662m, which was the second-biggest monthly net inflow in the market's history. The Government made positive statements about improving the liquidity situation, and took some modest actions too, prompting locals to join the rally. Average daily turnover rose 0.5% on HOSE to $470m, and 0.1% on the combined exchanges to $506m.

Margins calls, bond-fund redemptions threatened to create a doom-loop

Fallout from the VTP investigation was acute early in the month as brokers continued reducing their margin exposure to property stocks. Developers like NVL, PDR, HPX went limit-down for over ten consecutive sessions with no bids, reflecting the uncertain outlook for roll-over of their outstanding bonds. Since brokers could not exit these positions under any circumstances, they were forced to sell margin clients out of other stocks to recover loans. Bond funds also came under heavy redemption pressure, leading secondary yields to hit 30-40%.

Foreigners came to the rescue and developers found solutions

As capital markets were roiled by fears of a doom-loop, foreign investors made their entry to tap valuations which had fallen to 10-year lows. Institutional funds were active, spending cash piles built during the downturn, and they were supported by new money from Taiwan-based ETFs. Troubled developers were able to find solutions to restructure debt repayments and secure new equity capital. Meanwhile the Government mused about revising Decree 65, governing new bond issuance, and it floated the possibility of higher loan-growth quotas. The SBV issued a circular allowing selected corporate valuable papers to be used in its OMO operations. At this point the bond market started to improve, and yields stabilized at 18-20%.

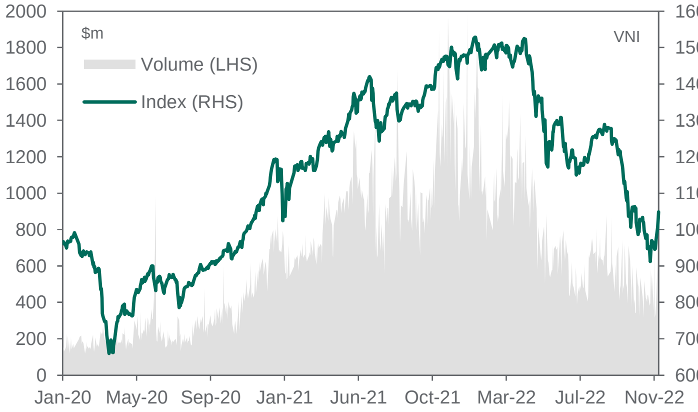
Worst may be over, market is in better shape to consolidate through potential global recession

At this point, peak pessimism has subsided. The Government is looking for ways to help companies through the issues in the corporate-bond market, the margin wash-out is over and China re-opening impends. But sentiment is likely to be vulnerable as the property sector remains depressed and global recession continues to gather force. Vietnam's own macro-indicators point to an export-driven slowdown. And high domestic rates have yet to peak, even if flagging dollar strength brings some relief. We have revised earnings lower, but still find ample scope for stock selection, given that some companies will weather the downturn better than others. And with the decline equities have staged, the forward PER is barely 9.4x, well behind peers. If the panic is over, that will be a powerful base to spring from once recessionary forces abate.

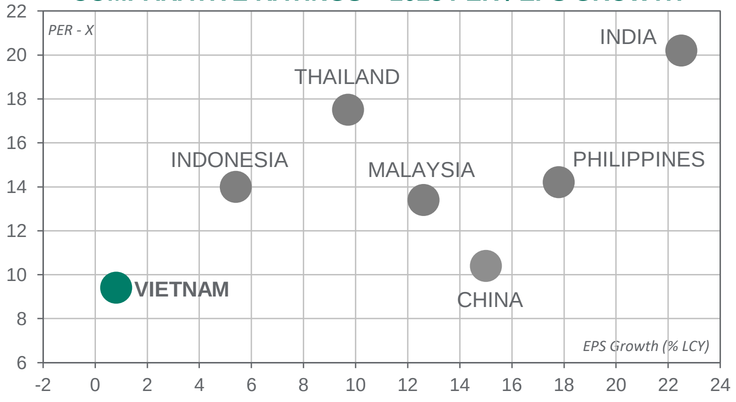
DC TOP-80 FORECASTS

30-Nov-22	Unit	2020	2021	2022	2023F
PER	x	13.9	14.7	9.5	9.4
EPS Growth	%	5.6	38.9	2.7	0.8
PEG	x	2.5	0.4	3.6	12.2
Sales Growth	%	2.2	22.0	14.1	-0.5
EBIT Growth	%	3.2	50.8	8.2	9.8
PBT Growth	%	5.8	38.0	6.1	1.5
NPAT Growth	%	5.9	41.9	4.1	0.8
Net DER	x	0.4	0.3	0.1	0.1
Yield	%	1.4	1.0	1.5	1.6

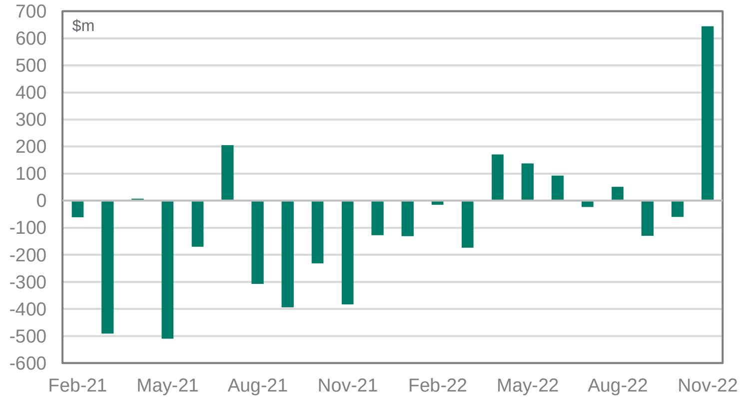
MARKET PERFORMANCE



COMPARATIVE RATINGS – 2023 PER / EPS GROWTH



FOREIGN FLOW



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

ECONOMY REVIEW AND OUTLOOK

Domestic economy maintains recovery but…

The domestic economy kept up its recovery momentum in Nov. Retail sales were +17.5% yoy at $21.4bn. Travel also continued to surge, with air, rail, road and ship passengers reaching 4.5m people, or 96.3m ytd, more than in all of 2019, and equivalent to almost 100% of the country's population. International arrivals were robust too – visitors were +23.2% mom. Meanwhile, inflation stayed under good control at +4.4% yoy, about the same as Oct.

…industrial activity slumps as recession forces build – FDI in robust shape though

The problem was that industrial activity slumped, as global recession forces carried on accelerating. Exports and imports both fell yoy in Nov, by around 8%. They were still up 13.4% and 10.1% ytd, respectively, but that was well off the 15-20% seen in previous months. And there was still a trade surplus of $0.8bn in Nov, making for $10.6bn ytd, but clearly the machine is sputtering. In the same vein, industrial production was only +5.3% yoy and the PMI fell to 47.4, from 50.6 in Oct. There was a silver lining though. Disbursed FDI was estimated to be $19.7bn, a record high. In addition, Vietnam and Korea officially upgraded their relationship to "comprehensive strategic partnership". To mark this, Korean companies immediately pledged to invest $15bn in new plants, including $6bn from LG and Samsung. So top FDI exporters are still bulking up capacity even if right now they are shipping fewer goods.

Prospect of less aggressive Fed hikes spur VND recovery – with uptick in 2023?

Meanwhile, Fed hints that it would reduce the magnitude of rate hikes clipped the wings of the dollar. Money flowed into riskier assets like EM/FM or commodities, and Vietnamese equities got their fair share of this. The VND enjoyed a sharp recovery, rising 4.4% from its low to 23,783:$1, cutting the year's decline to 4.9% from 9.7%. Although the current account is still in deficit, and errors and omission remain elevated, diminishing US rate hikes take some of the pressure off the dong and we think it will keep ticking up in 2023. The SBV should now have greater scope to concentrate on other problems, in the form of Vietnam's constrained liquidity – shown by M2 this is only +3.4% ytd and interest rates that are steadily rising.

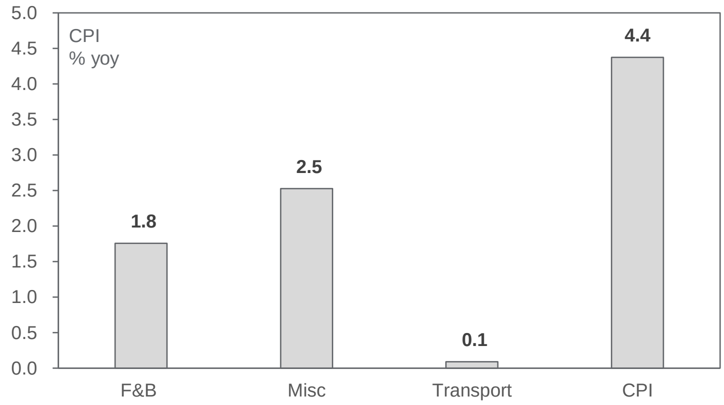
Tight liquidity will aggravate the effects of global recession, but the Government is working on solutions

The Government is searching for ways to resolve the liquidity issue, which largely flows from its crackdown on corporate bonds. It has topped up loan-growth quotas by a further 1.5-2.0%, and talked about other initiatives, such as amending Decree 65, to relax some of its more drastic curbs on bond issuance. Infrastructure spending would be the easiest and most productive way of putting money into the system. Funds marked for public works are piled up at State banks, but local governments are passing resolutions to demand that projects are accelerated. We expect that ways to relieve the liquidity crunch will be found. GDP may slip for a while in 2023, but as external circumstances improve, Vietnam can put its growth policies back into high gear.

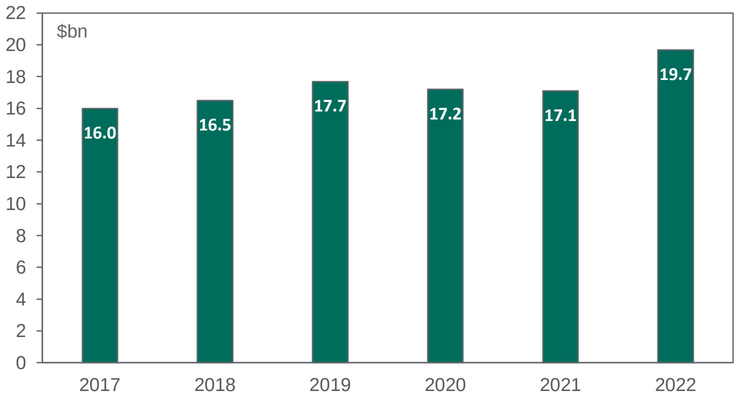
ECONOMIC FORECASTS

30-Nov-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	10.6	8.7
Import Gro (cif)	%	3.6	26.7	8.4	7.6
Trade Bal (cif)	$bn	19.1	3.3	11.0	12.0
FX Reserves	$bn	98.0	106.5	85.0	95.0
FDI Disbursed	$bn	20.0	19.8	21.8	22.2
VND:$	1	23,085	22,800	23,500	23,000

CPI WELL-CONTROLLED IN NOV



11M DISBURSED FDI: RECORD HIGH



VND VS PEERS