MONTHLY NEWSLETTER 12

DRAGON CAPITAL

MARKET OUTLOOK AND REVIEW

Markets may be down but GDP hits 8%

December was a relatively quiet month for the market when compared to the volatility of November, with the VNIndex trading in a narrow band of 5% to close at 1,007, 3.9% down MoM, but up 0.65% in TR$ terms due to the depreciation of the USD.

Foreigners go into bat, locals watch for results

Foreign investors remained very bullish with sustained net buying, the second consecutive month of strong net inflows, further signs of a turnaround in sentiment from that quarter. A total of $572M was net bought, of which $221M originated from institutional funds such as Fubon, VanEck, FTSE, and iShares. Liquidity told a different story, however, drying up in the last 2 weeks of the month due to the holiday season, but still marginally increasing 4% MoM.

Worst performance in over a decade but P/E remains one of the cheapest in the region

The VNI closed the year 32.7% down, in step with the decline of global benchmarks due to the all-too-familiar macro headwinds that have plagued the markets throughout 2022. Coupled with the domestic factors of credit restraints and regulatory crackdowns spooking the retail market this does indeed make for a tough year. The steep decline and cheap valuation notwithstanding, the market will still need to overcome the liquidity constraints imposed by the frozen bond market in recent months in order to reclaim these losses in the medium-term.

Decree 65 recurring?

Recognising that the aforementioned liquidity issue as a major concern for both investors and businesses, the government is proactively considering changes to Decree 65, potentially relaxing the requirements for both bond investors and issuers alike.

Hope springs (cautiously) eternal

This may come in the form of a delay for professional investor status until 2024, subsequently making the bond market immediately more accessible if enacted. This in turn would alleviate pressure from the banking sector to bridge the credit gap and help rejuvenate the faltering real estate and construction markets, which together make up two thirds of the VNI.

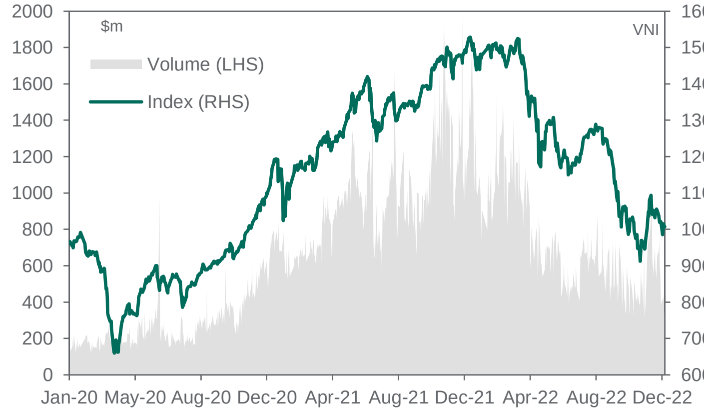
Prudent optimism for the economy as the SBV addresses domestic concerns

With Tet approaching, market liquidity is very likely to remain low in the short-term, as retail investors continue to remain on the sidelines until after the holiday to deploy capital, and the Vietnam market will not be immune to the global trends triggered by macro factors such as Fed rate decisions, China's reopening and global conflicts. Domestically, Q422 earnings will soon be published and are likely to strongly diverge between sectors, potentially underwhelming investors expectations. Looking ahead to 2023, a judicious approach is advisable, but with encouraging GDP and inflation numbers, coupled with the hoped-for relaxation of decree 65, 2H23 may well shape up to be something very encouraging.

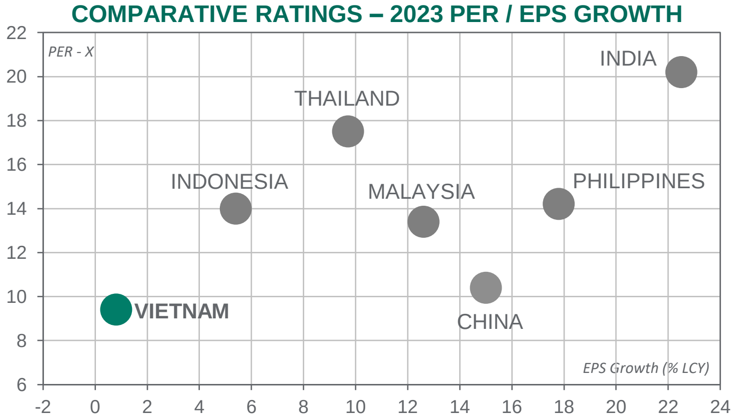
DC TOP-80 FORECASTS

31-Dec-22	Unit	2020	2021	2022	2023F
PER	x	13.9	14.7	8.9	8.7
EPS Growth	%	5.6	38.9	1.8	1.5
PEG	x	2.5	0.4	4.9	5.7
Sales Growth	%	2.2	22.0	14.3	-0.5
EBIT Growth	%	3.2	50.8	8.3	9.2
PBT Growth	%	5.8	38.0	5.2	2.2
NPAT Growth	%	5.9	41.9	3.2	1.5
Net DER	x	0.4	0.3	0.2	0.1
Yield	%	1.4	1.0	1.5	1.7

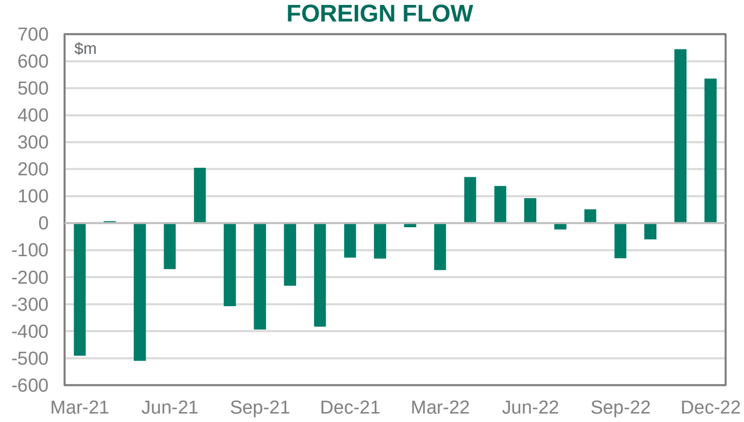
MARKET PERFORMANCE



COMPARATIVE RATINGS – 2023 PER / EPS GROWTH



FOREIGN FLOW



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

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ECONOMY REVIEW AND OUTLOOK

Domestic spending provides strong foundations

The economy rebounded by an impressive 8.0% in 2022, reaching $408.8bn, the fastest growth rate of the last 10 years. With a population of ~100mn, Vietnam's GDP per capita hit $4,110, up 10.8% YoY to officially enter the upper middle-income group (>$4,045). The services sector climbed by 10%, accounting for a solid 56.7% of the growth rate, followed by manufacturing grew of 7.8% and asset agricultural-fishery sector of 3.4%, accounting for 38.2% and 5.1%, respectively.

A firm hand on the tiller to steer Vietnam into calmer waters

The macro environment was resilient, benefitting mostly from Government price stabilisation, the SBV's monetary policies, and a stronger-than-expected external position thanks to $22.4bn of disbursed FDI, up 13.5% YoY. A 5.6% increase in remittance of $19bn also helped, while a positive trade balance of $11.2bn vs $4.0bn in 2021 reinforced the overall performance. YoY inflation remained under control at 3.2% and the VND depreciated by just 3.5% in 2022. As investor sentiment improves, there will be far less chance of anxiety in the financial markets in 2023.

As industrials drops anchor, historic FDI projects provide the lifeboat

4Q22 manufacturing growth slowed, demonstrating how a trade-open economy like Vietnam is sensitive to the downturn of key export markets like China, the EU and the US. New export orders continued to decrease, and several businesses cut staff, resulting in December PMI dropping below 50 for the second consecutive month to 46.4. Industrial output grew only 3.0% YoY in 4Q22, while the manufacturing inventory index rose by 13.9% YoY. We predict that the impact on Vietnam from the decline in global purchasing power will carry over into 1H23 as major central banks maintain their hawkish policies to battle inflation. As a counterpoint to this, however, we also anticipate that the nearly $43.2bn of FDI projects funded in 2021–2022 will provide Vietnam with a robust opportunity to attract new orders for Made-in-Vietnam products, helping to overcome this difficult period.

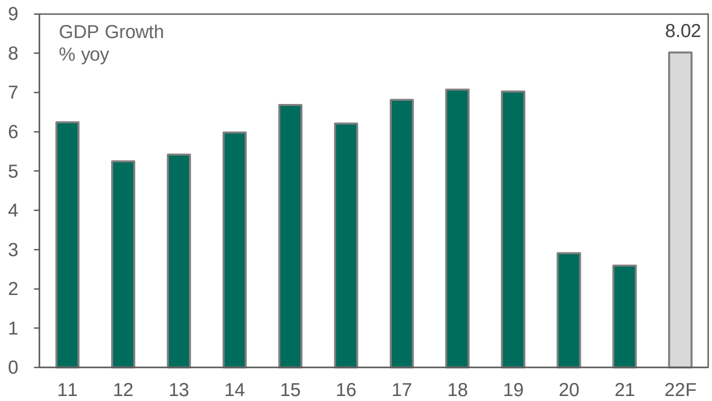
Monetary policy will have helping hands in 2023

The tourism and public investment sectors might be among the strongest growth drivers in 2023, with the 3.7mn visitors in 2022 a mere fraction of the 18.5mn before the outbreak. The now reopening China, accounting for 32% of Vietnam's tourists, as well as new markets being targeted such as India and Pakistan, will be a huge boon for this sector. Another factor that may bring a lot of favourable developments is public investment; with a total planned budget of nearly $30bn, Vietnam has set the bar high for 2023. In addition to helping Vietnam achieve its growth target of 6.0–6.5%, a surge in foreign tourism and the distribution of public funds is a powerful tool to be used in conjunction with monetary measures.

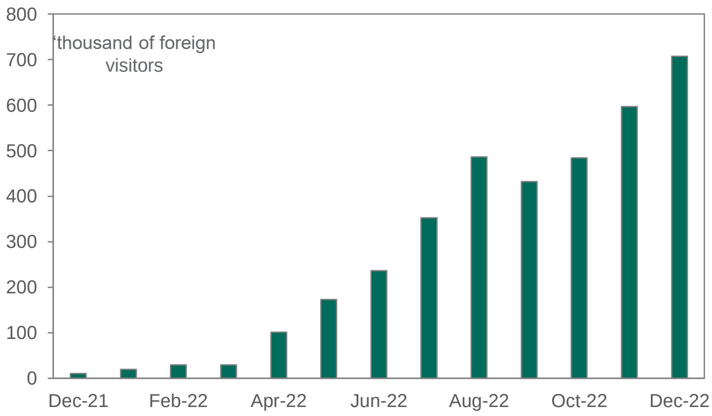
ECONOMIC FORECASTS

30-Dec-22	unit	2020	2021F	2022F	2023F
Real GDP Gro	%	2.9	2.6	8.0	6.5
Nominal GDP	$bn	346.6	366.1	408.8	455.2
CPI (average)	%	3.2	1.8	3.2	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	11.2	16.1
FX Reserves	$bn	98.0	106.5	85.0	95.0
FDI Disbursed	$bn	20.0	19.8	22.4	22.2
VND:$	1	23,085	22,800	23,550	23,200

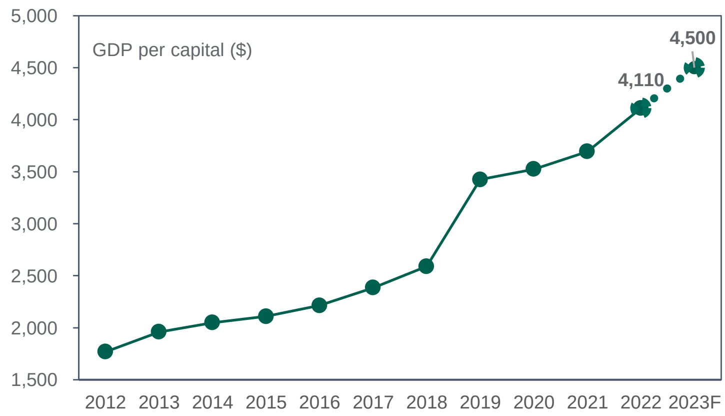
HIGHEST GDP GROWTH FROM 2011-22



THE RETURN OF FOREIGN VISITORS



GDP PER CAPITA REACH $4,100 IN 2022



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