MONTHLY NEWSLETTER 1

DRAGON CAPITAL

MARKET OUTLOOK AND REVIEW

The VN-Index came out swinging

The VN-Index rallied 10.34% MoM to 1,111. Market momentum was up across a broad base of sectors on the back of strong foreign inflows, a welcome boost to retail investor confidence.

Some sectors hit it out of the park, some struck out

Earnings saw the banking sector lead the index with earnings growth of 22.2% YoY. However, internal divergence emerged between State and private banks due to private banks' bond exposure, with SOCBs outperforming both the VN-Index and privates. Energy and Utilities also beat expectations with good results. Conversely, the real estate sector posted poor results, as investors are unconvinced the headwinds have sufficiently calmed, evidenced by slow sales.

Sector rotation emerges on the back of infrastructure mega-budget

Public investment is the spotlight with many important projects and progress on construction of Long Thanh International airport. This quickly become a popular investment theme providing positive sentiment and expectation for many infrastructure developers (up 20-35%) with sizable backlogs and construction materials such as steel and cements industries(up 15-20%). Besides, Government progressively pushing for the reform of 65 Decree to resurrect the bond market, posing positive sentiment for the real estate sectors.

Retail investors found comfort in foreign conviction and China reopening

Foreign net buying continued for the third consecutive month with $161m. Though buying pace was slower, it without doubt contributed to the market rally, despite the strong net selling from individual investors on heavily reduced margin of 30% QoQ. China's reopening will also render an uptick in spending, supporting domestic consumption and feeding through to the tourism and services industries. As travel and demand statistics are slowly released, this will provide an extra layer of comfort.

Political maneuvering not dissuading the retail market

Weak 4Q22 earnings threw up no surprises, but investors chose to look forward believing the worst is behind them, buoyed by the anti-corruption drive finding the top and foreign inflows supporting the market.

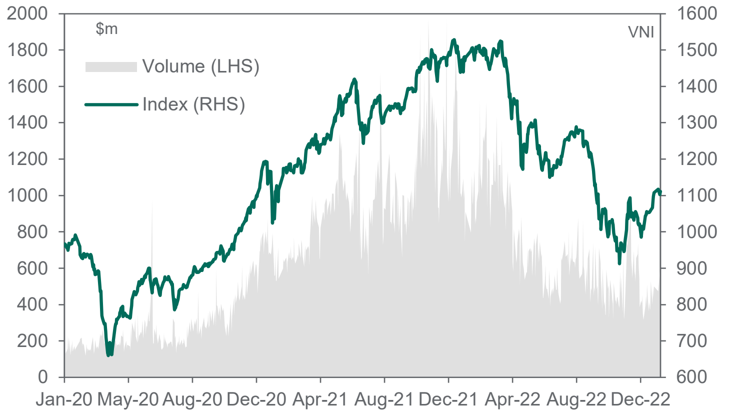
Reading the tea leaves: More liquidity, less volatility

If the worst is indeed past, the salient question is at what pace earnings will recover, and what the index will look like in 2023? The answer to this lies in the Government's acquiescence to market feedback on Decree 65 and the introduction of Circular 26. This is a positive move for capital markets, allowing the real estate sector to gain much-needed access to liquidity. This alleviates pressures on banks that now have 2023 credit limits of 14-15%, translating to a more stable systemic environment, pouring oil on the choppy waters of retail investor sentiment.

DC TOP-80 FORECASTS

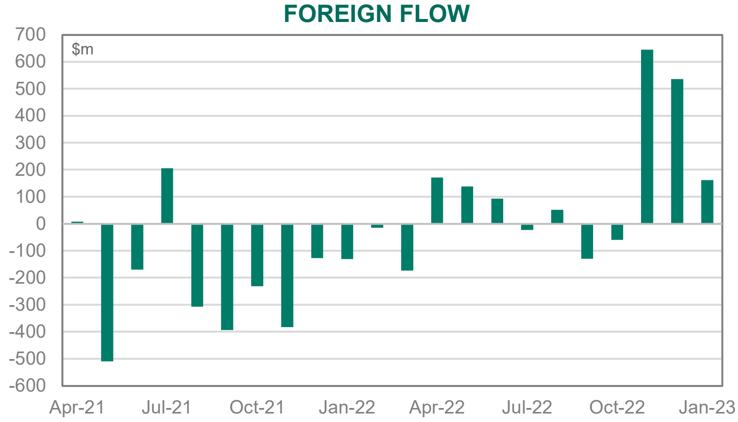
31-Jan-23	Unit	2020	2021	2022	2023F
PER	x	13.9	14.6	9.1	9.7
EPS Growth	%	5.6	38.9	0.1	4.5
PEG	x	2.5	0.4	64.6	2.2
Sales Growth	%	2.2	22.0	12.2	0.8
EBIT Growth	%	3.2	50.8	3.9	12.6
PBT Growth	%	5.8	38.0	3.0	5.7
NPAT Growth	%	5.9	41.9	1.5	4.6
Net DER	x	0.4	0.3	0.3	0.1
Yield	%	1.4	1.0	1.8	1.6

MARKET PERFORMANCE



VNINDEX PE TRAILING 5Y

FOREIGN FLOW



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

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ECONOMY REVIEW AND OUTLOOK

Services on the up, PMI exits stage left, pursued by inflation

The year of the Cat opened to mixed reviews. New Year festivities helped the services sector's ongoing recovery. Foreign visitors reached 870k, +23% MoM, pushing retail sales by +5.2% MoM, 20% YoY. However, industrial production decreased by 8% YoY due to a decline in new orders, with PMI of 47.4, the 3rd consecutive month of contraction. Trade reached $46.6bn in January, 17.3% MoM, while inflation rose by 0.53% MoM, the highest January hike since 2016.

Policy to benefit banks, SBV supports healthy Dong

The Government continues to loosen monetary policies. The SBV set the 2023 credit growth target of 14-15%. Also released was Circular 26, amending the Loan-to-Deposit ratio, including State Treasury bank deposits. With $10-12bn being considered for deposits into SOE banks, LDR will likely decline by 1-2%, which could incentivise inter-bank lending. The SBV bought approximately $3bn and injected an equivalent amount of VND into the market, thanks to strong inflows and a stable currency of VND 23,450/USD. As a result of better liquidity, rates cooled down from December by 25-50bps.

Government waves red flag at infrastructure bull

On the fiscal side, public investment has risen very well in recent months, kicking off numerous key projects. Accelerated disbursement in Q422 meant total FY22 figures reached $22.9bn, completing 80.6% of the Government's plan. This is a very good start after 2 years of sluggish momentum, and the carryover is critical to the economy's success in 2023. With a total budget of $32.2bn, this is an ambitious but achievable target, evidenced by the acceleration in Q422.

Bond market not out of the woods but MoF supplies the axe

In the fixed income market, there will be roughly $12.8bn of bonds maturing in 2023, most of which will be in the second and third quarter, raising roll-over and default risks, potentially causing slower global demand to filter through to Vietnam. Currently, it appears that the main solutions to the corporate bond issue would be additional credit, deleveraging, and the liquidation of corporate assets. This, however, takes time. The Ministry of Finance has suggested changes to Decree 65, giving bond issuers the flexibility to postpose principal payments by up to 2 years, and the option to convert bond equivalent value to assets.

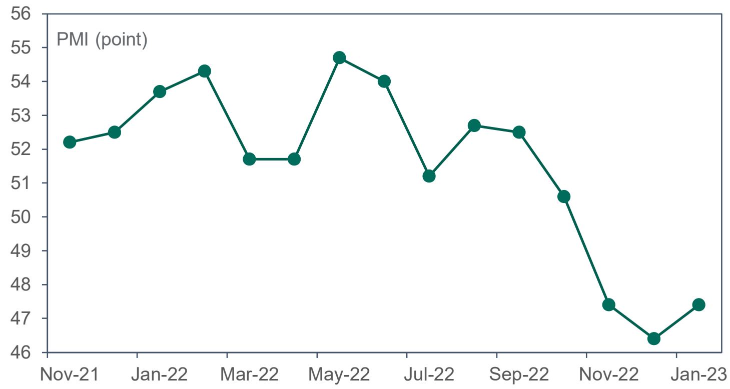
A smoother road ahead for Vietnam, the cat's pajamas?

2023 will not be without its challenges. However, with the improvement of market liquidity and the relaxation of monetary policy, in sync with ramped-up public spending, we are already seeing more measured retail investor sentiment in the market. While domestic and global risks have not left the scene, loosening Government policies can help minimise their impact.

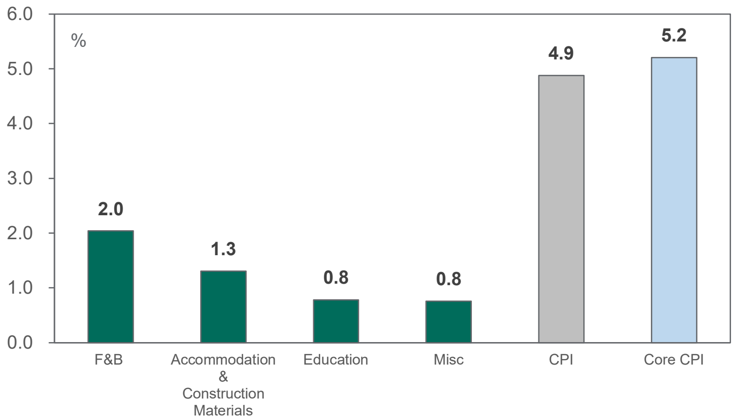
ECONOMIC FORECASTS

31-Jan-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

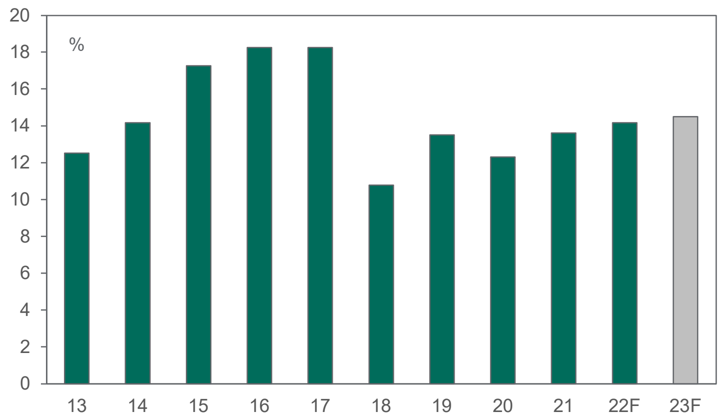
PMI IS UNDER 50 FOR THE THIRD MONTH IN A ROW



CONTRIBUTION BREAKDOWN OF JAN INFLATION



CREDIT IS LIKELY TO GROW BY 14-15% IN 2023



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