DRAGON CAPITAL

ECONOMY REVIEW AND OUTLOOK

A mixed domestic picture, with tourists and manufacturers providing the colour

February macro figures reflected the service sector's resilience as the country welcomed 1.8m arrivals, helping 2M23 retail sales grow 13.0% YoY. With almost one million visitors per month, the 2023 target of 10m international travellers is entirely achievable, boding extremely well for foreign receipts and tourism-related businesses. Standalone February numbers do not tell much of a story due to seasonal holiday effects, but combined with January we can see 2M23 industrial production fell by 6.3% YoY, and total trade decreased 12.6% YoY to $96.1bn. These may not be stellar numbers, but on a brighter note trade balance remained solid with a surplus of $2.8bn, and PMI rose to 51.2, its first positive month after a fallow three months of retraction.

Public spending misses the target by some distance

FDI investments slowed in February, with just $2.6bn of disbursements in 2M23, down by 4.9% YoY. Notwithstanding the improvement in the final months of 2022, public investment only reached 6.6% of the annual target in January and February combined. As infrastructure has been touted as one of the main vehicles for economic growth in 2023, the Government needs to change gears and accelerate spending in order to realise its ambitions of the $33bn target.

Policy revision to aid real estate and bond market progress

The Government has revised Decree 65 on corporate bond issuance with immediate effect, allowing issuers to renegotiate terms by up to two years, and giving holders the option to receive cash or assets as repayment. The Decree has also delayed until year-end the requirement for professional investor status, professional credit rating requirements, and extends the time between each issuance from 30 to 90 days. While not a panacea for all the difficulties faced by the real estate and corporate bond markets, it shows the Government is aware of the issues and is actively working on solutions to ensure a high-functioning capital market.

Fresh credit quotas do not translate to immediate liquidity

The State Bank of Vietnam (SBV) has granted the first 2023 tranche of credit quotas to banks, with an average allocation of 9.0%, down from 11.0% in 2022. The new credit room announcement will not significantly affect lending activities or the banking system's liquidity. As a result of improving fungibility and weaker borrowing demand, the lending rate has dropped by a moderate 0.4% YTD, and 6M+ deposit rates have been reduced by 0.5% to 1.5% YTD.

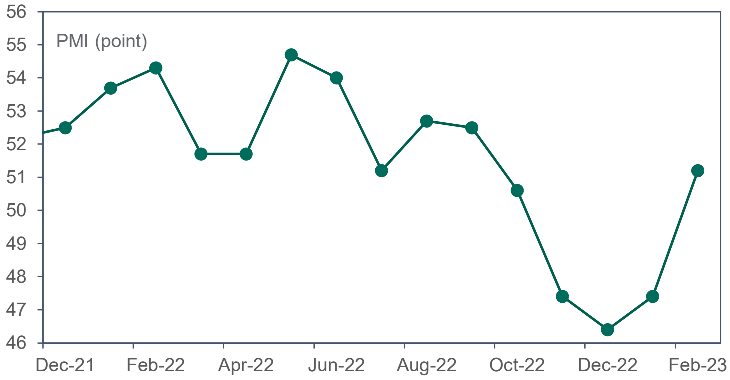
Commentators bullish on rates cuts may need a reality check

However, rates could remain at their current level for months due to inflationary and external pressures. 2M23 CPI increased 4.6% YoY, and may average 4.2%-5.0% in 2023, as baseline items such as electricity and healthcare may be adjusted up, combined with foreign tourist demand. In addition, not only are the Fed and ECB showing no signs of pivoting in 2023, they may indeed raise rates, making it difficult for the SBV to deviate from the major central banks.

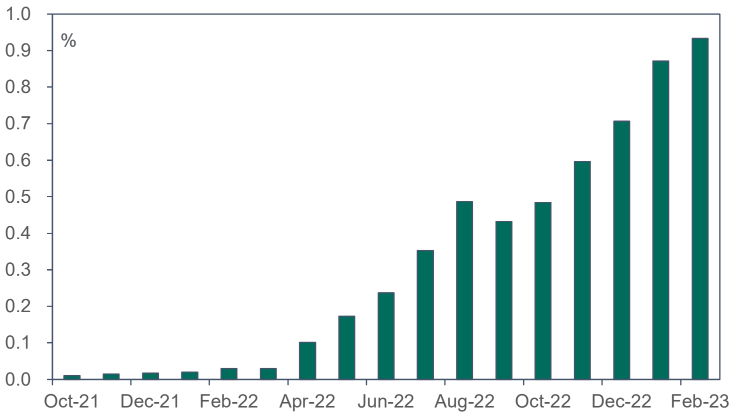
ECONOMIC FORECASTS

28-Feb-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	10.5	2.7
Import Gro (cif)	%	3.6	26.7	7.8	1.9
Trade Bal (cif)	$bn	19.1	3.3	12.4	14.4
FX Reserves	$bn	98.0	106.5	85.0	95.0
FDI Disbursed	$bn	20.0	19.8	22.4	20.9
VND:$	1	23,085	22,800	23,550	23,450

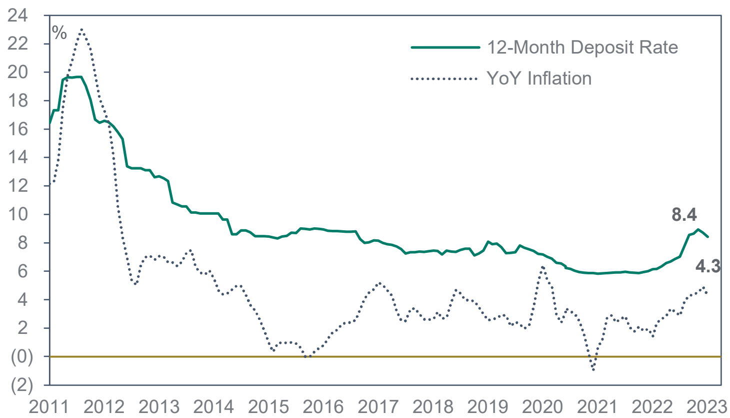
PMI BOUNDED BACK TO EXPANSION TERRITORY



INBOUND VISITORS ARE RETURNING



DEPOSIT RATE COOLED DOWN AS LIQUIDITY IMPROVED



VIETNAM MONTHLY REPORT

28 February 2023

DRAGON CAPITAL

MARKET REVIEW AND OUTLOOK

Homegrown factors depressed sentiment, foreign money awaits Government action

The VNI was unable to repeat January's strong performance, declining 9.0% MoM to 1,024 (TR$). Liquidity was also down 5.0% as investors voiced concern that the problems in the corporate bond market had yet to resolved, resulting in the first missed payment by a tier one developer, Novaland (**NVL**)**.** This triggered an increase in foreign outflows from blue-chips and real estate developers, with the real estate sector down 13.5%. Foreign outflows of $11m from both bourses was symptomatic of investors watching for new developments in the market. However, we expect flow to improve in March due to recent news that Fubon has received approval for another $160m quota for their fund, and VanEck increasing its Vietnam weight from 75% to 100%, translating to a $120m injection.

Banks not immune to bond woes but have appropriate vaccinations

The NVL missed payment was cause for concern among investors in private commercial banks which held NVL corporate bonds, explaining the negative sentiment seen in certain names such as **VPB** and **MBB**. It should be noted that the Decree 65 amendment is welcome news and a step in the right direction, but it is by no means an overnight fix. The banking system in general, however, is in a much stronger position than the downcycle of 2012. Satisfied international standard capital adequacy ratios, sound corporate governance, solid fundamentals, and higher provision buffers make for a much more resilient banking sector than that of ten years ago.

Lower margin rates to incentivise investor trading

Brokers are reducing their margin lending rate from 14-15% to 13-14% to attract investors back to the market. Total outstanding margin has dropped significantly from its peak, indicating that retail investors are still in defensive mode, preferring to wait on the sidelines. We believe with time, as market noise reduces, retail investors will return, bringing stronger liquidity with them.

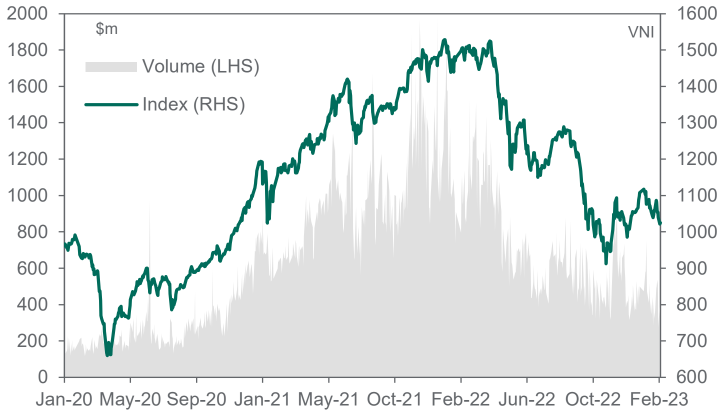
Government drive helps restore market confidence via updated decrees

The Prime Minster held a meeting with various agencies and real estate companies in February, focusing on resolving corporate bond issues and relieving legal bottlenecks. The resulting amendment to Decree 65, in the form of Decree 8, should help developers accelerate sales and restructure their balance sheets, giving much needed breathing room. The real-world changes this will bring are hard to predict, but an example can be seen in the current review of seven key projects in HCMC, a welcome sign of progress. The Government is also trying to push for more social housing initiatives with an expected package of $4.5bn. This will prove to be a popular move with the lower income bracket, encouraging developers to focus more on this segment with its huge untapped demand. Overall, the market sees the amendment to Decree 65 as a very positive step forward, creating a legal framework for developers to renegotiate bonds, thereby helping relieve the broader systemic liquidity pressure.

DC TOP-80 FORECASTS

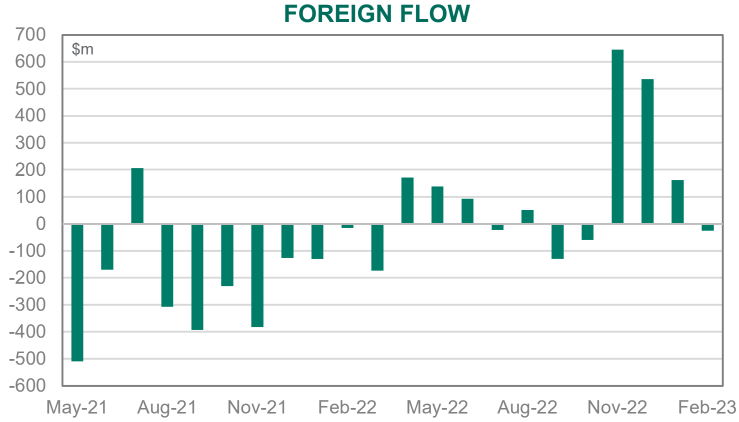
28-Feb-23	Unit	2020	2021	2022	2023F
PER	x	13.9	14.6	9.2	8.6
EPS Growth	%	5.6	38.9	-1.2	6.2
PEG	x	2.5	0.4	Neg	1.4
Sales Growth	%	2.2	22.0	12.3	3.1
EBIT Growth	%	3.2	50.8	2.4	16.0
PBT Growth	%	5.8	38.0	2.0	5.9
NPAT Growth	%	5.9	41.9	0.2	6.2
Net DER	x	0.4	0.3	0.3	0.1
Yield	%	1.4	1.0	1.8	1.6

MARKET PERFORMANCE



VNINDEX PE TRAILING 5Y

FOREIGN FLOW



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

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