VIETNAM MONTHLY REPORT

31 May 2023

DRAGON CAPITAL

ECONOMY REVIEW AND OUTLOOK

Trade openness: a double-edged sword

Vietnam's latest economic data underscores the intricate interplay between global demand and its trade performance, with internal and external factors contributing to the recent slowdown. If proof were needed, 5M23 exports reached $136.2bn, down 11.6% YoY, while imports stood at $126.4bn, down 17.8% YoY. May's PMI of 45.3 (see fig. 2) reflected this contractionary trend. The good news is the Government has taken prompt action to address these challenges.

Exporters wait for demand recovery

Post-Covid inventory destocking, a consequence of excessive lockdown orders, has presented challenges to trade dynamics. Notably, the electronic devices sector, constituting nearly 35% of exports, has experienced a substantial decline of 20% YTD. Tighter global lending standards and higher rates have further dampened international purchasing power. Consequently, Vietnam's EU and US exports have respectively decreased by 17% and 20% YoY, significantly impacting export-oriented industries such as fisheries, down 28%, and textiles, down circa 20%.

As businesses wrestle with red tape..

Local enterprises have also had to confront funding difficulties due to elevated financing costs, jumping significantly from 8-9% to 14-16% in 2H22, and delays in receiving VAT refunds have done nothing to help cashflow. At the more granular administrative level, Vietnamese businesses are having to overcome cumbersome day-to-day hurdles. Examples include fire prevention protocols and the adoption of higher import standards designed to promote greener production methods. While important, these higher standards require longer processing times.

..the Government delivers the scissors

Acknowledging these challenges, the Government has proactively taken measures to help soften their impact. The SBV has implemented three policy rate cuts totalling 100bps from March to May 2023 (see fig. 4). The Prime Minister also released an urgent dispatch focussed on addressing administrative obstacles, while incentivising businesses to explore potential markets such as the Middle East, Latin America, and India. These initiatives highlight the Government's commitment to promoting economic growth and enhancing the business environment, and it is our belief that exports will soon improve once those issues are solved.

Strategic rethink: not all FDI is born equal

In our view, now is the time for Vietnam to rethink its FDI structure. The country is transitioning away from accepting labour-intensive manufacturers seeking tax incentives, and is instead prioritising long-term commitment, targetting high value investments aligned with environmental sustainability. Promoting domestic enterprises, protecting local brands, upgrading the legal framework, and fostering technology integration will help ensure Vietnam adapts to international standards, luring in new businesses to realise its long-term vision for economic growth.

Fig. 1 **ECONOMIC FORECASTS**

30-Apr-23	unit	2021	2022	2023F	2024F
Real GDP Growth	%	2.6	8.0	5.5	6.5
Nominal GDP	$bn	366.1	408.8	450.7	450.7
CPI (average)	%	1.8	3.2	4.0	4.0
Export Growth (cif)	%	19.0	10.5	-6.0	12.0
Import Growth (cif)	%	26.7	7.8	-7.4	11.6
Trade Bal (cif)	$bn	3.3	12.4	15.5	18.7
FX Reserves	$bn	106.5	85.0	95.0	110.0
FDI Disbursed	$bn	19.8	22.4	20.9	22.0
VND:$	1	22,800	23,550	23,450	23,300

Fig. 2 **PMI**

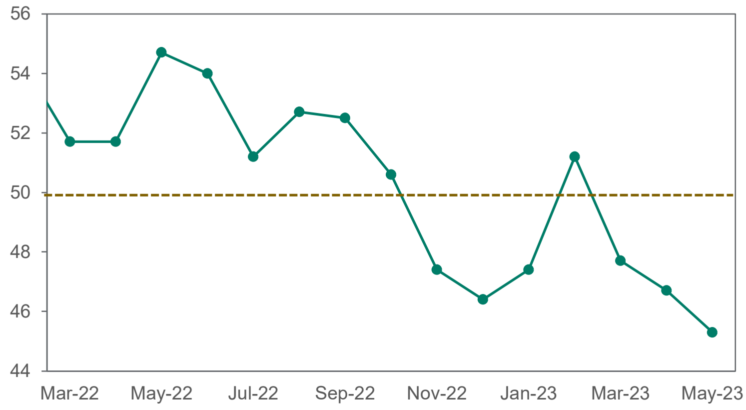


Fig. 3 **EXPORTS REGAINING MOMENTUM**

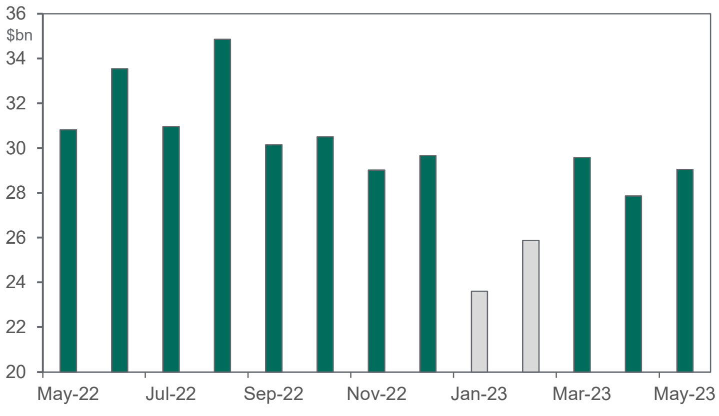
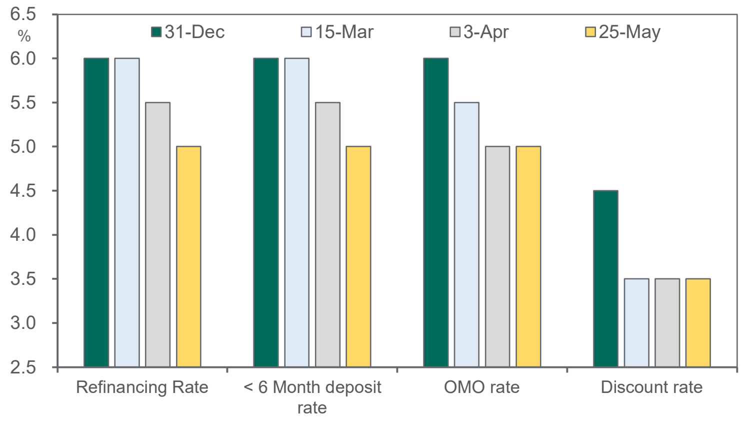


Fig. 4 **VIETNAM POLICY RATES**



MARKET REVIEW AND OUTLOOK

Who dares buys as VNI rallies

The VNI rallied by 2.5% (TR$) in May after another 50bps policy rate cut. Despite foreign net selling of $131m, retail investor confidence was exceptional, believing the worst has passed. This led to an increase in average daily liquidity on both exchanges of $591m, up 10.6% MoM.

Will 3Q23 fire the starting pistol for normalisation?

Given strong macro policy support, we see the beginnings of a recovery phase, with four out of five criteria turning positive: declining interest rates, stable FX, improving liquidity, and solutions for troubled real estate companies. Conspicuous in its absence is earnings improvement, but we believe quarterly earnings for our top 80 companies already bottomed out in 4Q22, and positive earnings growth should start to come back in 2H23, with normalised recovery possible in 2024.

Government helps stimulate the property market

Resolving the recent real estate issues remains a key objective for the Government, and the special working group created to support Novaland (NVL) is starting to bear fruit, with the company resuming of one of its key projects in Phan Thiet. Banks are also starting to finance NVL projects again, leading to buyers resuming their mortgages. Another positive sign is the uptick in real estate activity, both in the secondary and primary markets, as developers tentatively begin launching projects, with mid-segment developments attracting owner-occupier purchasers. Despite high mortgage rates, we are cautiously optimistic for the thawing of the property market, but patience is key as market consolidation can take time, often 18-24 months.

Over to Corporate bonds, negotiations are still ongoing between issuers and buyers, importantly with no further deterioration. Maturities will peak from June-August, and while continuing to monitor the situation, we are hopeful that the major bottlenecks are now mostly resolved.

An early Tet bonus for the equities market?

Moving away from bonds to cash, there will be VND bank deposits maturing in 2H23 equivalent to hundreds of millions of Dollars, and all that cash has to go somewhere. Our own brokerage surveys show a growing desire for margin. With 100,000 newly opened trading accounts in May and an uptick in turnover, we see an increase in appetite for riskier assets, especially as cheap valuations are offering attractive yields when compared to the recent decline in deposit rates.

Accumulation doesn't mean lack of upside

We maintain our view that 2023 is a year for accumulating good stocks. While investors should employ a cautious approach, they should be prepared to take advantage of buying the dip should the opportunity arise. If looking for reassurance, during years when interest rates decline but strong growth has yet to appear, the VNI's historical expected return is 15-17%.

Fig. 1

DC TOP-80 FORECASTS

31-May-23	Unit	2021	2022	2023F	2024F
PER	x	14.6	9.2	9.6	7.7
EPS Growth	%	38.9	-1.4	2.8	24.7
PEG	x	0.4	Neg	3.4	0.3
Sales Growth	%	22.0	12.3	4.9	13.5
EBIT Growth	%	50.8	2.5	12.3	19.4
PBT Growth	%	38.0	1.6	1.9	24.5
NPAT Growth	%	41.9	0.0	2.8	24.7
Net DER	x	0.3	0.3	0.2	0.2
Yield	%	1.0	1.8	1.4	1.3

Fig. 2

MARKET PERFORMANCE

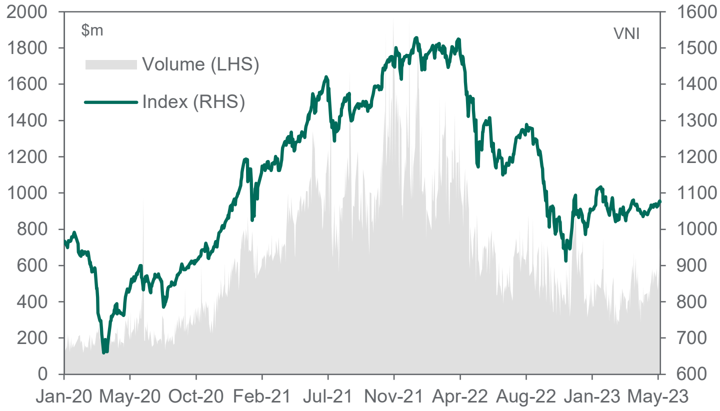


Fig. 3

VNI TRAILING 5Y PE

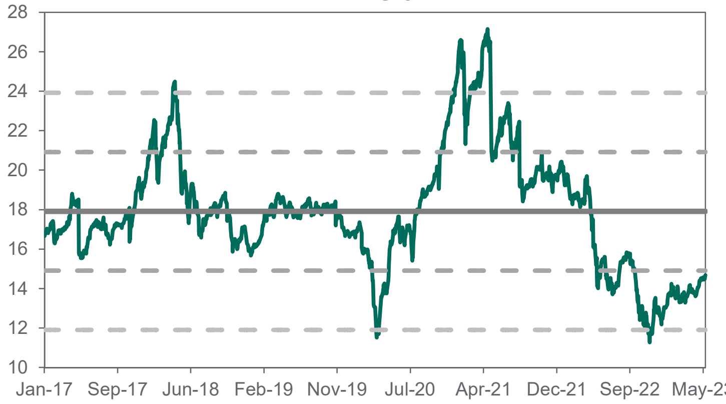
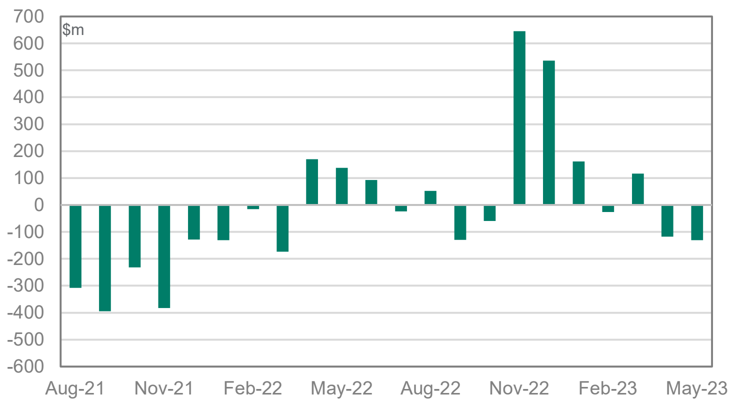


Fig. 4

FOREIGN FLOW



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

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