



## ECONOMY REVIEW AND OUTLOOK

### Exports and services kindle momentum

Trade activity was a bright spot in October as Vietnam's economy continued to recover. Exports escalated to \$32.3bn, up 5.3% YoY, and imports increased to \$29.3bn, up 2.9% YoY. Thanks to outstanding performance from exporting electronic components and agricultural items, the trade surplus reached \$3bn in October and \$24.6bn YTD. However, some businesses faced a lack of orders, particularly textiles and smartphones, leading to layoffs and shrinking production, reflected by October PMI data inching down to 49.6 from 49.7 in September. The strong foundation for trade performance is industrial production, increasing 5.5% MoM and 4.1% YoY. Services flourished, with retail sales up 1.5% MoM and 7.0% YoY as inbound visitors neared 10 million in 10M23, 4.2 times higher than 10M22.

### Inflation and currency composure

Regional central banks in Thailand, the Philippines, and Indonesia have resumed interest rate hikes to defend FX, but we do not project the same from the SBV. Inflation rose modestly by 0.1% MoM and 3.6% YoY, posing no immediate alarm, with the uptick in rice and fuel prices being offset by a decrease in pork prices. Capital inflows to Vietnam have been resilient on both trade, remittance, and investment, especially after President Biden's state visit; committed FDI investment in October surged to \$5.5bn, doubling the five-year average. We maintain the viewpoint that the VND is fundamentally solid and the SBV will continue its commitment to prioritising growth while securing major economic stabilities.

### Foreigners took chips off Asian table as dollar rose

Despite a YTD reduction in VND lending rates of 2.0–2.2%, several variables continue to drive up financial costs for businesses. The strengthening dollar triggered capital outflows from Asia, adding volatility in the FX market. As of 31 October, the VND lost 1.1% MoM and 4.4% since end of June, in line with regional currency trends. Furthermore, post the Fed's recent rate-pause, the Fed funds rate remains at 5.25-5.50%, meaning borrowing costs now need to play catchup as floating rates reset. Reassuringly, Vietnam's exposure is relatively low at only 35% of GDP. However, local companies will require prudent cash flow management and debt refinancing as rates adjust, finding an optimal balance of domestic vs. foreign leverage.

### Legislative stepping stones to growth

The National Assembly's ongoing session in Hanoi, setting the socio-economic objectives for 2024 (fig. 4), include a GDP growth rate target of 6.0-6.5%. This translates to a GDP per capita between \$4,700 and \$4,730, while maintaining the State budget deficit under 4% of GDP. Average inflation is set to be maintained below 4.0-4.5%, with credit growth at 15+%. Significant regulatory enhancements are also on the docket, with the Land Law, Housing Law, and Real Estate Law poised for substantial amendments, acting as crucial levers in propelling Vietnam towards its 2024 economic growth objectives.

Fig. 1

### ECONOMIC FORECASTS

| 31-Oct-23           | Unit | 2021   | 2022E  | 2023E  | 2024F  |
|---------------------|------|--------|--------|--------|--------|
| Real GDP Growth     | %    | 2.6    | 8.0    | 5.0    | 6.0    |
| Nominal GDP         | \$bn | 366.1  | 408.8  | 446.4  | 489.8  |
| CPI (average)       | %    | 1.8    | 3.2    | 4.0    | 4.0    |
| Export Growth (cif) | %    | 19.0   | 10.6   | -5.5   | 12.0   |
| Import Growth (cif) | %    | 26.7   | 8.4    | -9.9   | 11.8   |
| Trade Bal (cif)     | \$bn | 3.3    | 12.4   | 26.4   | 30.2   |
| 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 | 24,500 | 24,300 |

Fig. 2

### INFLATION IS NOT IMMIDENT

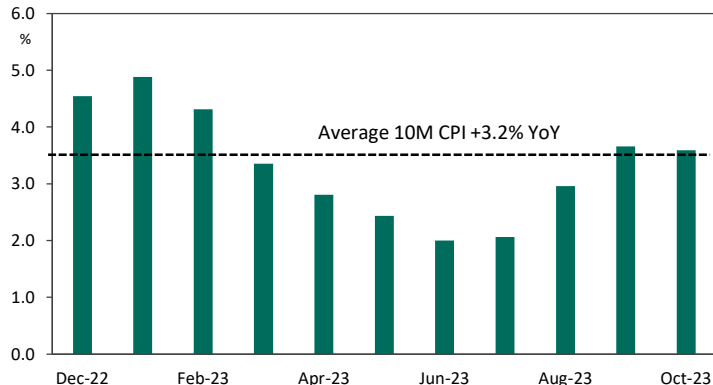


Fig. 3

### COMMITTED FDI RECORDED \$5.5BN IN OCTOBER

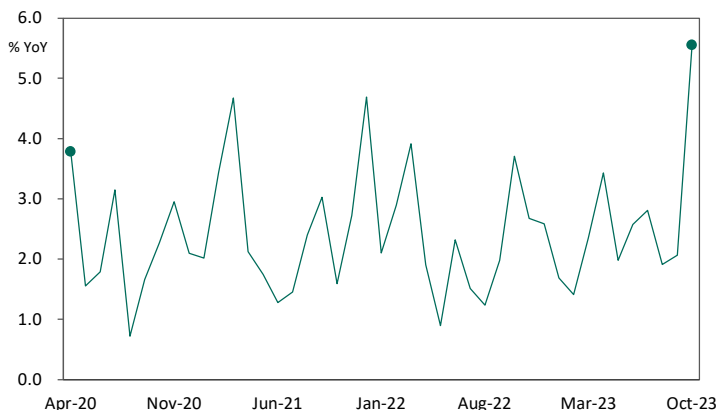


Fig. 4

### KEY TARGETS FOR SOCIO-ECONOMIC PERFORMANCE

| Items  | Unit    | 2024 Target  |
|--|---------|--------------|
| Real GDP Growth  | %       | 6.0-6.5%     |
| GDP Per capita   | USD     | ~4,700-4,730 |
| Ratio of manufacturing & processing in GDP   | %       | 24.1 - 24.2  |
| Fiscal Deficit (Govt's plan)   | %       | Under 4%     |
| Credit Growth (Govt's plan)  | %       | 15+          |
| Unemployment in urban areas  | %       | <4           |
| Number of doctors per 10,000 ppl   | Doctors | ~13.5        |
| Collection & treatment of urban solid waste from households meeting standards                  | %       | 95           |
| Industrial parks & export processing zones having concentrated wastewater treatment facilities | %       | 92           |



## MARKET REVIEW AND OUTLOOK

**Sentiment departs from statistics as SBV net injects**

October saw the VNI continue to fall from September, dropping **11.7% (TR\$)**, the worst one-month decline since September 2022. Vietnam was not singular in its negative performance, with most regional peers also withdrawing. Concerns that dampened sentiment in September, such as the money management operations in the form of SBV bills and rising interbank rates, misinterpreted as policy tightening, continued to spook investor sentiment throughout October. During the latter half of October, however, \$4.5bn of the bills expired with new issuances of \$2bn, representing a relative net injection of \$2.5bn.

**Potential hedging tipped the scales**

The spectre of rising DXY and Fed rate concerns continued to overshadow performance. The VNI found support at the 1,085-1,100 level, still managing to outperform most EM markets, but on 26 October a large volume of VHM sell orders hit the market after parent company Vingroup issued 5-year exchangeable bonds with the option to convert into Vinhomes shares. This is likely due to the delta hedging strategy used by some international investors who participated in the bond. Although this is a standard practice, the large sell order hit the market amid low liquidity and weak sentiment, triggering another round of panic selling on the VNI. This tipped the scales in its final days, closing the month from an open of 1,155 to 1,028.

**Rising EBIT amid FX drop**

All 80 Companies in our coverage universe have now reported Q3 earnings, and the aggregated growth for NPAT remains flat at +0.5% YoY and -7.0% QoQ. Encouragingly, both revenue and EBIT growth are on the rise, with revenue increasing by approximately 5% YoY and EBIT by nearly 9% YoY. However, following the 4.4% currency depreciation since June 23, the bottom line was affected by increased loan provisions from some large cap stocks with USD denominated debt. This underlines the fact that while we may be exiting the nadir, the road to earnings recovery is not clearly signposted.

**Financials outshine a mixed picture**

Financials, particularly the banking sector, continue to be significant contributors to earnings. Results, however, are slightly behind our quarterly forecast, partially from the impact of earnings sacrifice from State-Owned Commercial Banks to support the economic recovery with referential rates. Elsewhere, there's a mixed picture. IT, energy, metals, and industrials are showing robust results, while consumer, conglomerates, chemicals, and utilities are underperforming. The property sector is in line with expectations, accounting for 12% of overall earnings.

**Market's P/B at Covid lows**

While we are more cautious on commodity prices and credit growth, the trailing P/B of the total VNI is ~1.5x (fig. 3), levels not seen since Covid. In light of easing monetary policy, we believe the VNI is now oversold, evidenced by the switch from foreign net selling to net buying of \$15.9m from 30 October to 7 November, who are seeing it as a good re-entry point.

Fig. 1

### DC TOP-80 FORECASTS

| 31-Oct-23    | Unit | 2021 | 2022 | 2023E | 2024F |
|--------------|------|------|------|-------|-------|
| PER          | x    | 14.5 | 9.1  | 9.9   | 8.2   |
| EPS Growth   | %    | 37.1 | -1.4 | 0.1   | 20.3  |
| PEG          | x    | 0.4  | Neg  | 90.0  | 0.4   |
| Sales Growth | %    | 22.0 | 12.3 | 3.0   | 11.2  |
| EBIT Growth  | %    | 50.8 | 2.5  | 8.4   | 20.1  |
| PBT Growth   | %    | 38.0 | 1.5  | 2.0   | 20.0  |
| NPAT Growth  | %    | 41.9 | 0.0  | 1.8   | 20.3  |
| Net DER      | x    | 0.2  | 0.3  | 0.19  | 0.14  |
| Yield        | %    | 1.0  | 1.9  | 1.6   | 1.5   |

Fig. 3

### VNI TRAILING 5Y PB

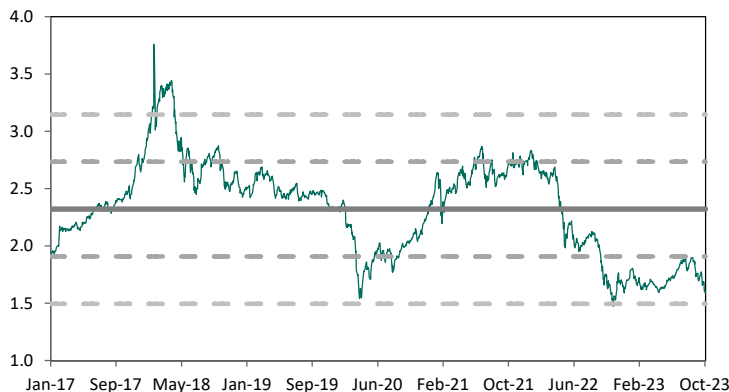


Fig. 2

### MARKET PERFORMANCE

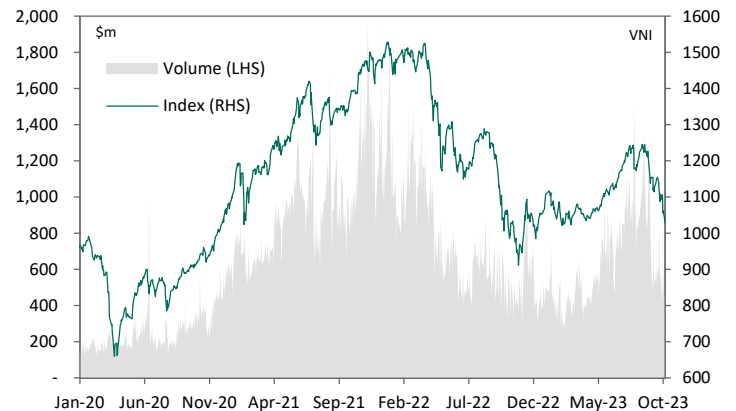
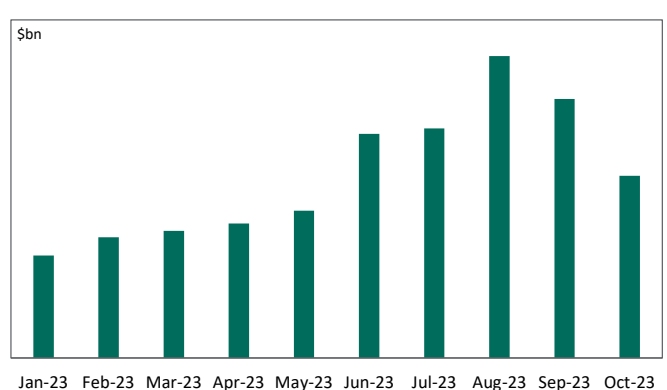


Fig. 4

### VNI MONTHLY VOLUME





## DISCLAIMER

This document has been prepared by DCVFM.

This document is not an offer or invitation to apply for shares, and neither this document nor anything contained herein shall form the basis of any contract of commitment whatsoever.

The information contained in this document is for background purposes only, and is subject to updating, revision and amendment, and no representation or warranty (express or implied), is made, and no liability whatsoever is accepted by DCVFM or any other person, in relation thereto.

Any investment must be made on the basis of the relevant offering documents alone. Past performance is not necessarily a guide to the future.

You are advised to exercise caution in relation to this document. If you are in any doubt about any information contained in this document, you should obtain independent professional advice.

The information contained in this document is strictly confidential and is intended only for the use of the individual or entity to whom DCVFM has provided the report. No part of this report may be divulged to any other person, distributed, and/or reproduced without the prior written permission of DCVFM.