MONTHLY NEWSLETTER 9

DRAGON CAPITAL

ECONOMY REVIEW AND OUTLOOK

Services shine as GDP slowly climes

Vietnam's 3Q23 GDP expanded by 5.3% YoY, showing recovery is gaining momentum on a quarterly basis (+3.3% YoY in 1Q23, +4.1% YoY in 2Q23) (fig. 2). This resurgence can be largely attributed to the services sector, improving 6.3% YoY. Total retail sales in the third quarter rose by 7.3% YoY, while passenger and freight transportation both increased by 13.1% and 14.6%, respectively. International visitors to Vietnam are estimated at 8.9m YTD, and although 4.7 times higher than 9M22, it still only accounts for 69% of 9M19 figures. The industrial construction sector increased by 5.2% as global demand remains weak, the property market slowly recovers, and the financial markets had a shaky third quarter.

USD pitches a swerve ball to Asian banks

Global markets' focus was pulled to the strengthening of the DXY from 103.6 to 107. This increase, coupled with rising 10Y UST yields from 4.1% to 4.8%, came as the Fed signalled rates could remain higher for longer. While most Asian central banks maintain negative rate differentials with the Fed to stimulate economic activities, these external factors led to currency depreciations across the board in Q3, including the THB (-3.5%), JPY (-3.5%), TWD (-3.5%), IDR (-3.1%), and KRW (-2.8%) (fig. 3). In a bid to mitigate further currency depreciation, some banks increased interbank rates, including China's PBoC, Bank of Malaysia, Philippines and Indonesia, or hiked policy rates to narrow the negative gap in the case of the Bank of Thailand.

The SBV steps up to the plate

This also applies to the SBV. Although the fundamentals remain strong, the same factors caused the VND to fall 3.3% in 3Q23 to nearly 24,400 VND, and the SBV issued bills totalling $5.7bn, leading to the 1-month interbank interest rate raising from 0.7-0.8% in early September to around 2% as of 6 October. We believe the devaluation to maintain competitiveness and bill issuances are normal operations, not a sign of policy change; the SBV has issued numerous bills in the past as a means of money supply management. Excess liquidity in the banking sector is evident, however, as some banks reported a drop in deposit rates of 10-20bps last month. Despite this, domestic interest rates could become volatile if global market movements continue to fluctuate, particularly in the case of a rising USD and 10Y UST yields setting new records.

Global fluctuations temper growth

Battling the headwinds of higher rates and a muted China, global economies, inclusive of Vietnam, need more time to recover. A confluence of external pressures on the VND, compounded by September's inflation uptick of +1.1% MoM, suggests that shifts in the SBV's monetary policy will be minimal. Factoring in these constraints, we've adjusted our FY23 GDP forecast down to 5.0%, before the benefits of recent economic agreements and diplomatic relations bring growth back to its long-term trajectory of 6.0-6.5% next year.

Fig. 1 **ECONOMIC FORECASTS**

30-Sep-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 **3Q23 GDP EXPANDED 5.3% YOY**

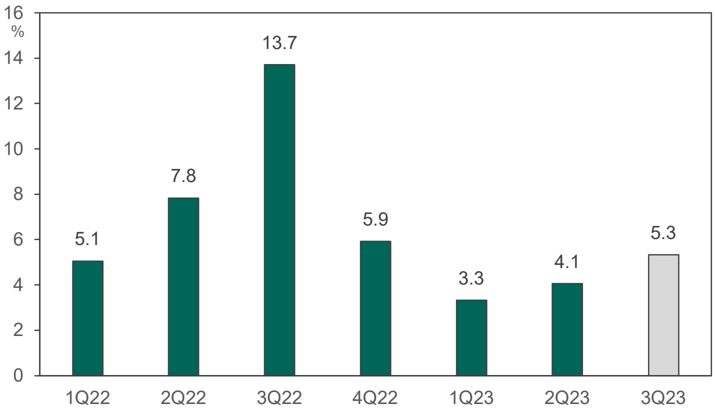


Fig. 3 **VND DECLINED IN LINE WITH ASIAN CURRENCIES**

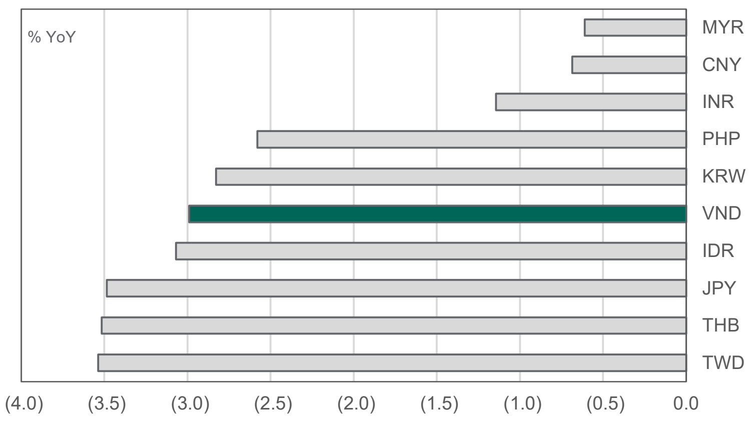
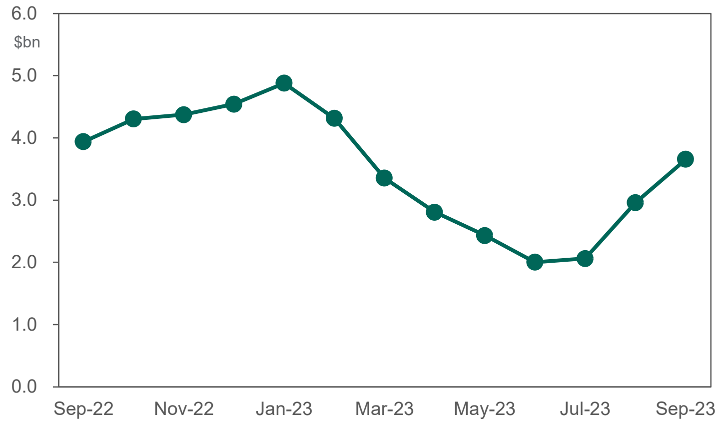


Fig. 4 **CPI TICKS UP BUT STILL UNDER CONTROL**



MARKET REVIEW AND OUTLOOK

VNI sold off from a one-year high

September proved a challenging month for the VNI, dropping 6.6% in TR$ terms. The early positive momentum, which peaked at a near one-year high of 1,245.5 in the first week, succumbed to a blend of domestic and international pressures, prompting heavy profit taking.

Emerging markets see increase in outflows

The negative return was triggered by the Fed hinting there could be more hikes down the road to combat inflation. As a result, bond yields surged to break 15-year resistance levels as the market tried to play catch up with the 'higher for longer' narrative. Vietnam, as observed in other EM markets, immediately saw an increase of foreign selling as the DXY strengthened. For the whole of September, foreigners net sold $185m on the VNI, up 72.9% MoM, whereas Thailand, Indonesia and South Korea saw outflows of $616m, $263m and $1.7bn, respectively.

Macro factors drive market mood

During such macro-driven selling, Vietnam's equity markets tend to strongly correlate with the US. With the exception of energy, all sectors were down for the month, as local investors feared that the easing of domestic monetary conditions could not be sustained, and chose to cut down risk. This is typical momentum-driven behaviour rather than any particular market or sectoral concern. Market sentiment was not helped by the SBV's bill issuance, and major brokers scaled back on margin lending, leading to volume trailing off at the end of the month.

Sectors muted ahead of Q3 earnings

The real estate sector was the worst performer on the VNI, down 15.6% MoM in September, as (1) a major developer continued to struggle with bond restructuring, a stark reminder that it will not be an overnight process, and (2) investors started swapping from turnaround stories driven by policy support towards stronger asset quality and clearer earnings visibility.

In our coverage universe, preliminary Q3 results are weaker than expected. The banking sector is finding it difficult to increase credit growth, but NPLs are anticipated to decrease from Q4 after peaking in Q3, and companies with foreign loans battle with FX loss due to a falling VND. The silver lining is positive QoQ momentum in retail, brokerages, steel, and chemicals.

The good, the bad, and the Fed

With the Fed nearing the end of its hiking cycle and global economic conditions showing signs of weakness, we anticipate a lot of volatility both globally and domestically. Nonetheless, we believe that Vietnam's supportive monetary setting will remain in place. Our tracking systems of interbank rates, deposit rates, and corporate bond rates have yet to show signs of any red flags. Therefore, we believe that once Q3 earnings results are released and the global landscape calms, the VNI will return to its normalised alpha-driven direction.

Fig. 1 **DC TOP-80 FORECASTS**

30-Sep-23	Unit	2021	2022	2023E	2024F
PER	x	14.5	9.1	10.8	8.7
EPS Growth	%	37.1	-1.4	2.8	24.1
PEG	x	0.4	Neg	3.9	0.4
Sales Growth	%	22.0	12.3	2.5	13.8
EBIT Growth	%	50.8	2.5	8.7	23.7
PBT Growth	%	38.0	1.5	2.4	24.6
NPAT Growth	%	41.9	0.0	3.2	24.1
Net DER	x	0.2	0.3	0.2	0.2
Yield	%	1.0	1.9	1.4	1.3

Fig. 2 **MARKET PERFORMANCE**

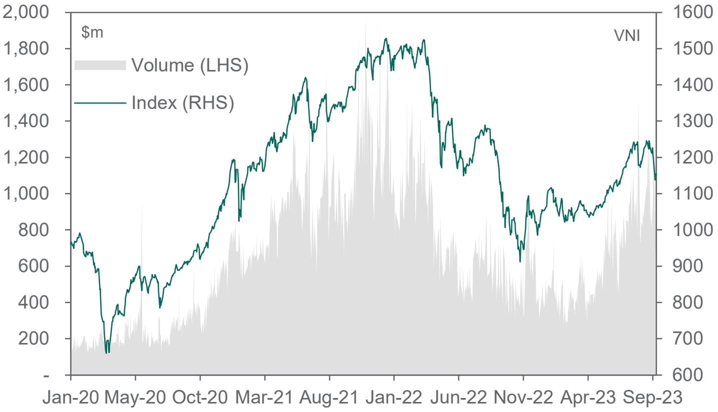


Fig. 3 **VNI TRAILING 5Y PE**

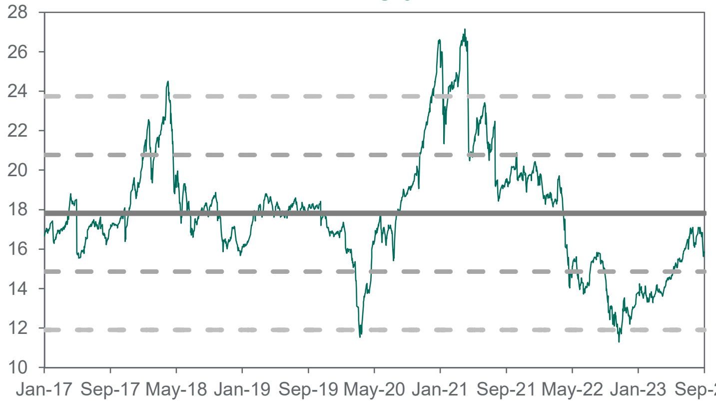
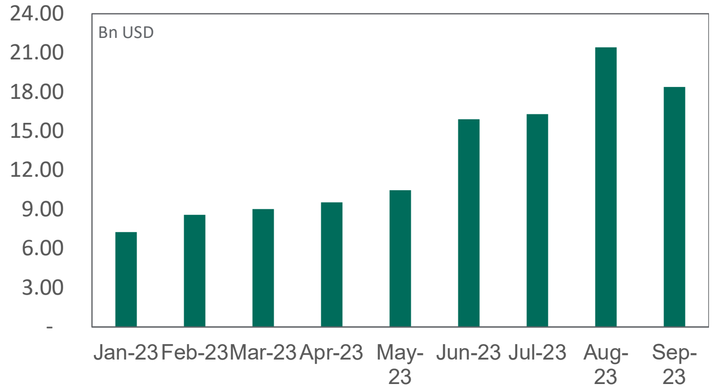


Fig. 4 **VNI MONTHLY VOLUME**



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

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.