MONTHLY NEWSLETTER 12

DRAGON CAPITAL

ECONOMY REVIEW AND OUTLOOK

From turtle to hare: GDP's quarterly climb

In 2023, Vietnam's economy grew by 5.1%, one of the highest growth rates globally. The year overcame a challenging Q1 and culminated in a robust 6.7% GDP growth rate in Q4 (fig. 2), outpacing the earlier quarters of 3.4%, 4.3%, and 5.5% respectively.

430 billion reasons to celebrate Vietnam's economy

The size of the economy has reached $430bn and Vietnam's GDP per capita increased to $4,284, approaching the upper middle-income threshold. Despite the negative impact of the local corporate bond and property markets, final consumption improved modestly, growing by 3.5% YoY, contributing 2.1% to the overall GDP growth. Fixed asset formation added another 1.3% to the growth, increasing by 4.1%. Furthermore, a record trade surplus of almost $28bn (fig. 3) helped contribute to maintaining the Vietnamese dong's resilience.

Balanced economic management spurs credit growth

Q4 witnessed a significant surge in credit growth, rising from 5.9% at the end of Q3 to 13.7% by year-end. The promotion of public investment resulted in a Q4 increase of 21.2% YoY. Trade also recovered on higher export activities driven by the resurgence of global demand. Vietnam's economic progress is accompanied by the sound management of key macroeconomic factors; CPI remained stable at an average of 3.3% YoY, while the exchange rate declined 3.0%, modest for a year of high volatility globally. There were four interest rate cuts in 2023, totalling 150 basis points, along with the implementation of other measures to stimulate the economy, including Decrees on debt restructuring and pushing credit disbursement to stimulate the economy. As a result, interest rates for bank loans have decreased significantly from a range of 14-16% to 8-9% in December 2023.

Record FDI in wake of diplomatic upgrades

Vietnam witnessed strong manufacturing FDI flows and tourism in 2023. Total registered FDI reached $36.6bn, +32.1% YoY, and dispersed capital was $23.2bn (fig. 4), +3.5% YoY. These figures are a testament to Vietnam's growing appeal following its recent 'Comprehensive Strategic Partnership" agreements with the United Sates, South Korea, and Japan. The total number of visitors reached 12.4m in 2023 vs 3.7m in 2022, increasing on a monthly basis.

Global demand key to re-stock the shelves for growth

2023 was marred with unexpected developments including large US banks defaulting, escalated Middle-Eastern tensions, higher-than-expected Fed rate hikes, and a dampened worldwide demand. We believe the Fed's mid-cycle rate adjustment and a recovery in global demand will be key for Vietnam to continue its economic stimulus across both fiscal and monetary policies. The US and EU import markets will need to pivot from destocking to restocking for Vietnam's exports to recover, setting the stage for domestic growth in 2024.

Fig. 1 ECONOMIC FORECASTS

31-Dec-23	Unit	2021	2022	2023E	2024F
Real GDP Growth	%	2.6	8.0	5.1	6.0
Nominal GDP	$bn	366.1	408.8	430.0	463.0
CPI (average)	%	1.8	3.2	3.3	4.0
Export Growth (cif)	%	19.0	10.6	-4.4	9.8
Import Growth (cif)	%	26.7	8.4	-9.2	10.2
Trade Bal (cif)	$bn	3.3	12.4	28.0	29.3
FX Reserves	$bn	106.5	85.0	89.0	105.0
FDI Disbursed	$bn	19.8	22.4	23.2	24.2
VND:$	1	22,800	23,550	24,250	24,750

Fig. 2 VIETNAM'S GDP BY QUARTER

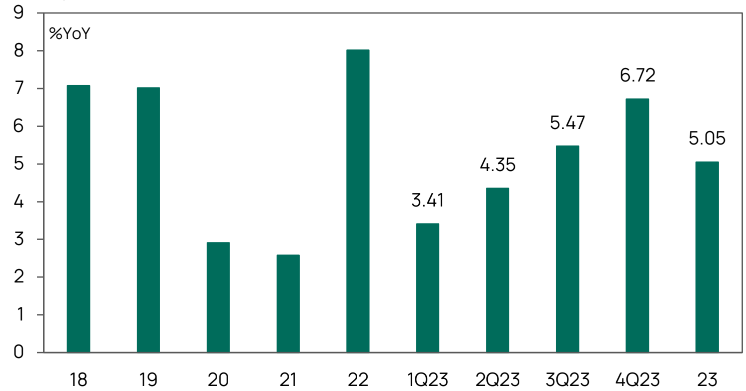


Fig. 3 RECORD TRADE SURPLUS IN 2023

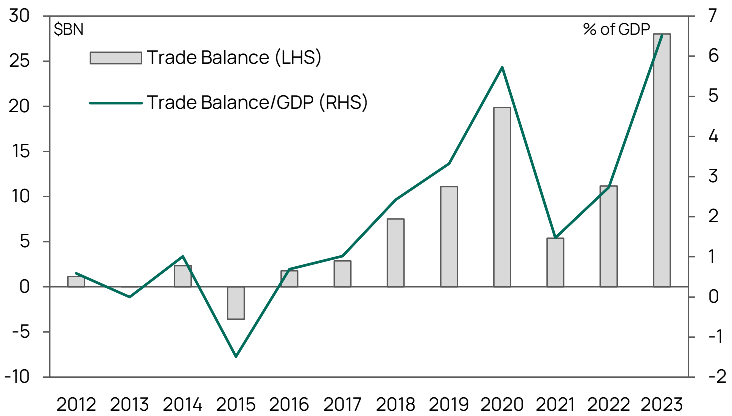
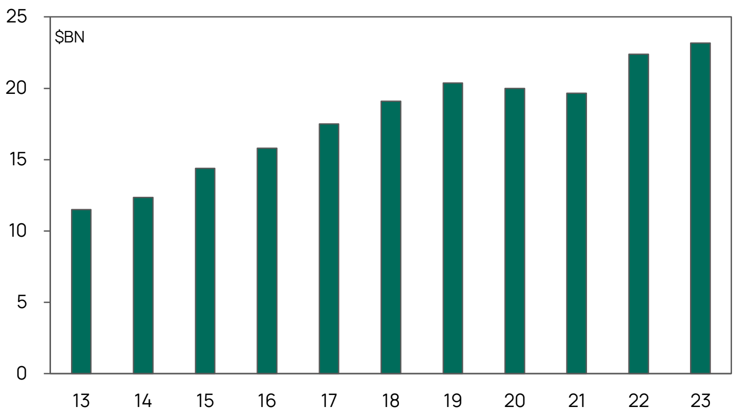


Fig. 4 RECORD FDI INVESTMENT OF $23.2BN



MARKET REVIEW AND OUTLOOK

Cyclical turning point against stable economic backdrop

2023 marked the initiation of a recovery market cycle as Vietnam emerges from the turbulence of bond market reform. Our monthly indicators monitoring real economic activities, including consumption metrics (air travel, grocery and discretionary spending), manufacturing parameters (container throughput, power usage), and real estate activities, collectively signalled a positive shift, with clearer recovery toward year-end. Equity markets, which often price forward the real economy by 4-6 months, benefitted from a favourable setting, with easing macro policies and stability in inflation and FX rates. Government support in the real estate and banking sectors propelled the market to a peak return of 23% by mid-September. Despite a solid foundation and positive catalysts, the year was marked by a lack of meaningful earnings growth. Global volatility, stemming from surging US Treasury yields in September, prompted the VNI to retreat from its year-high, resulting in a more modest full-year return of 11.1% (TR$). Nonetheless, in comparison to regional markets like Thailand's SET (-11.45%), Singapore's STI Index (+6.3%), the Philippines PCOMP (+1.5%), and China's SHCOMP (-3.9%), Vietnam demonstrated relatively robust performance. As the VNI may now be exiting the Contraction phase and into Recovery, cyclicals, mid-caps, and cheap P/B (fig. 3) emerged as the best-performing factors in 2023.

VNI's resilient performance lags in earnings

Equities set to offer better returns in 2024 than alternative asset classes

Looking to 2024, challenges persist in the context of a global slowdown. Nonetheless, a more robust recovery is expected as Vietnam's historically low interest rates penetrate the economy, stimulating demand and eliciting the "greed" of both corporates and investors. The Government's commitment to fiscal measures and flexible monetary policy management is critical to reinforce the private sector's confidence. We anticipate 16-18% profit growth for our Top-80 universe, and a moderate return for the equity market. Notably, Vietnam's equity market is 88% driven by domestic retail investors, for whom investment channels are limited. Bank deposits, offering unattractive average returns of around 4.7% for 12-month deposits, make the current market yield of 10.9% based on our 2024F PER of 9.1x much more appealing. Real estate investment, while offering opportunities, comes with drawbacks compared to equity for retail investors, such as larger investment sizes, lower liquidity, and challenges in assessing legal status. Consequently, the equity market is poised to witness positive inflows. On the other hand, any market developments, such as the removal of pre-funding or further advancements related to the FTSE EM upgrade, could potentially trigger foreign inflows. Overall, it's a good time to be in the market.

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

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31-Dec-23	Unit	2021	2022	2023E	2024F
PER	x	14.4	9.0	11.3	9.1
EPS Growth	%	38.9	-1.4	-1.5	18.6
PEG	x	0.4	neg	neg	0.5
Sales Growth	%	22.0	12.3	2.3	11.3
EBIT Growth	%	50.8	2.5	5.8	21.5
PBT Growth	%	38.0	1.5	1.1	17.8
NPAT Growth	%	41.9	0.0	0.3	18.6
Net DER	x	0.2	0.3	0.2	0.2
Yield	%	1.0	1.9	1.5	1.5

Fig. 2 **MARKET PERFORMANCE**

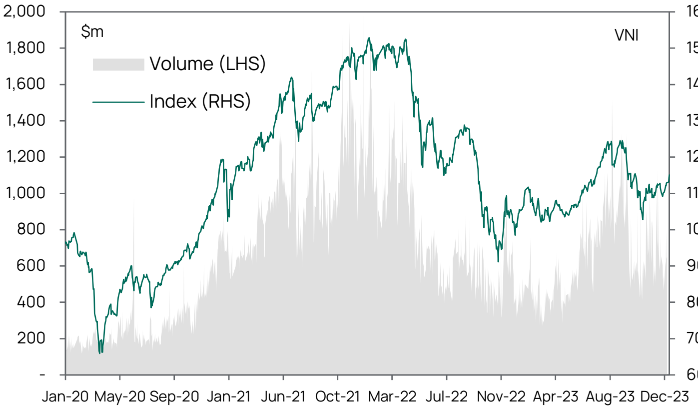


Fig. 3 **VNI TRAILING 5Y PB**

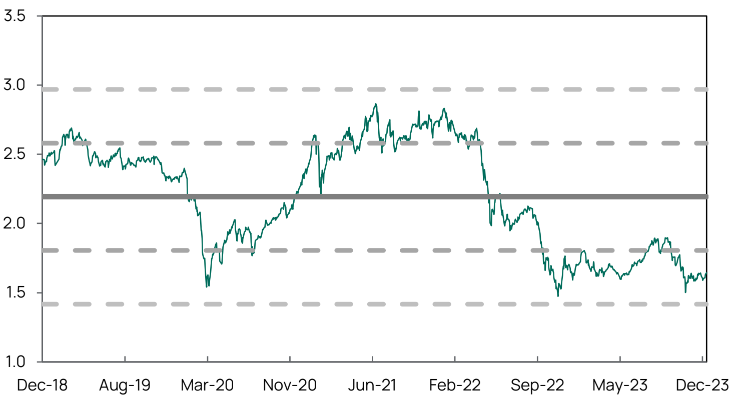
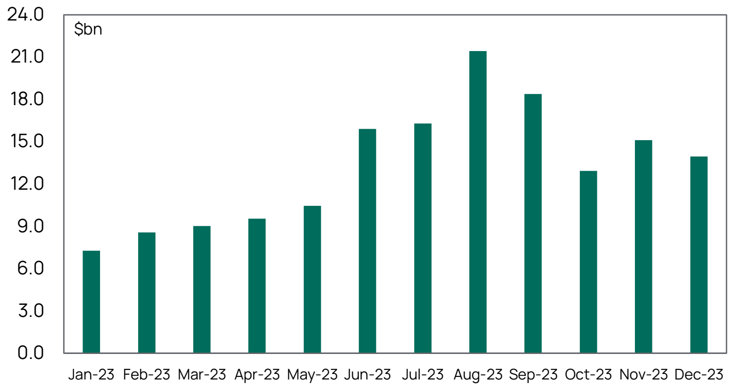


Fig. 4 **VNI MONTHLY VOLUME**



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

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