



Market Strategy

Mar 2023

**STAY DEFENSIVE,
STAY SELECTIVE**



Executive summary

VN-INDEX closed at 1,054.28 pts (-5.1% mtd, +4.7% ytd) in Feb-23. We believe that the correction of the market can come from the following reasons (1) Rising concerns about the extension of Fed rate hike following the US inflation was higher than consensus in Jan-23 and (2) The news that some real estate companies are late to pay interest and principal on bonds raises concerns about the risk of default. Average trading value of three bourses fall 2.2% mom (-57.0% yoy) to VND11,857bn. Foreign investors net bought dropped sharply 70.5% in Feb-23 to VND1,237bn.

The market will remain under pressure from the Fed's rate hike. Higher-than-consensus Inflation in the US in January 2023 and lower risk of a mild recession could lead the FED to raise interest rates more aggressively than market previously expected.

We expect the deposit rate to peak out in 1Q23 and then cool down since 2Q23, based on the following arguments: (1) FED's policy rates will peak out in 2Q23, which will ease the pressure on Vietnam's exchange rate and interest rates, (2) SBV will be more proactive in supporting market liquidity through open market channel or buying foreign exchange reserves and (3) weak lending demand due to economic slowdown and murky residential property market. However, the decrease will not be strong as it may put pressure on the exchange rate. We lower our forecast that the average 12-month deposit rate will drop to 7.5%/year by the end of 2023, lower than the previous forecast of 8.0-8.5%/year and the current level of 7.8%/year.

Pay special attention to the impact of Fed's meeting in Mar: Particularly noteworthy factors in Mar include (1) the Fed's policy meeting on Mar 20-21, (2) movements in the US government bond yields and the dollar index (DXY) and (3) transactions of foreign investors, especially restructuring activities of VNM ETF and FTSE ETF in mid-March.

Stay defensive, stay selective. In the context of not much supportive macro information and policies and increasing external risks, VN-INDEX will be under downward pressure in Mar 2023. The nearest support zone of VN-INDEX is around 1,000 pts and the strong support zone of the market is around 950pts. Due to short-term correction trend, investors should prioritize portfolio risk management and actively lower the proportion of margin and stocks. Upside catalysts include the government issuing policies to support the real estate market (revising Decree 65, debt relief, credit package for social housing, etc.). Downside catalysts include the Fed's more hawkish stance on monetary policy, information regarding corporate bond defaults.

Market strategy. There are selective opportunities related to themes about public investment disbursement, China's reopening and profit growth of specific industries and businesses.

Macro outlook

Mar 2023

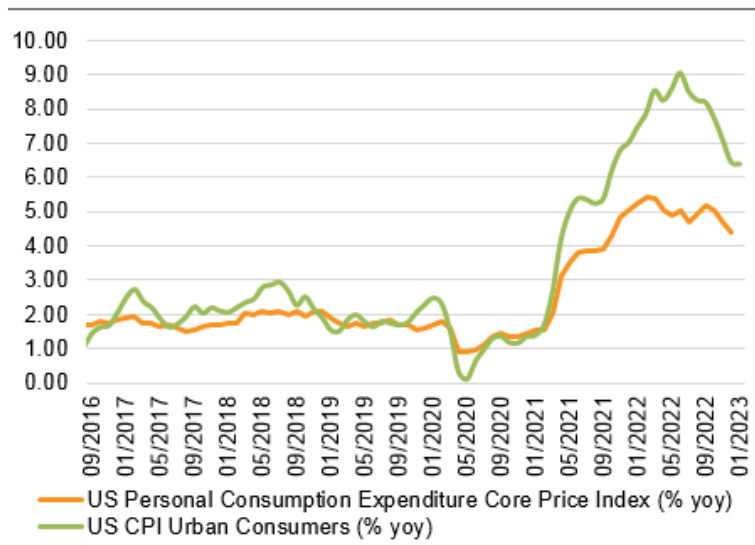
Waiting for the inflection point of interest rates



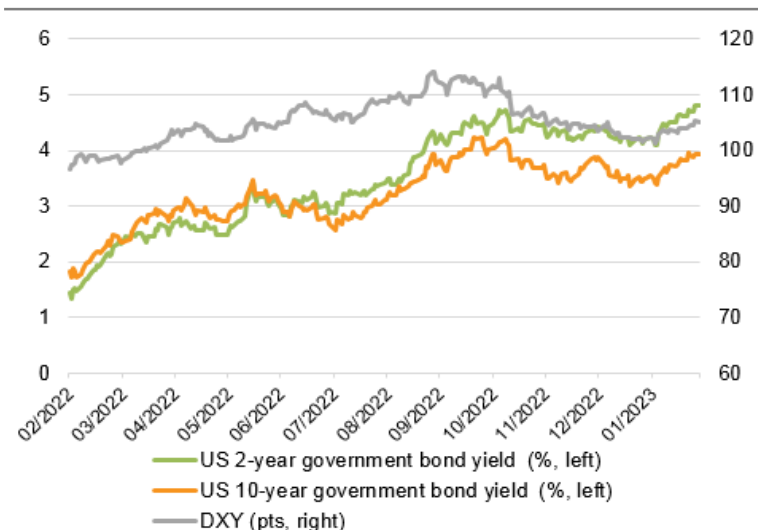
US annual inflation slowed less than forecast in Jan 23

We expect that there will be no FED's rate cut till 1Q24F

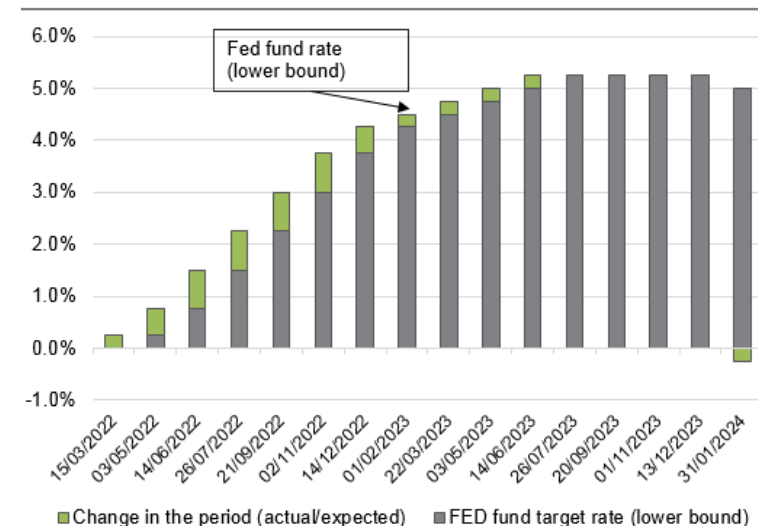
US inflation was decelerated, but still higher than consensus



US Treasury yields and the DXY rebound in Feb 2023



We expect that there will be no FED's rate cut till 1Q24F



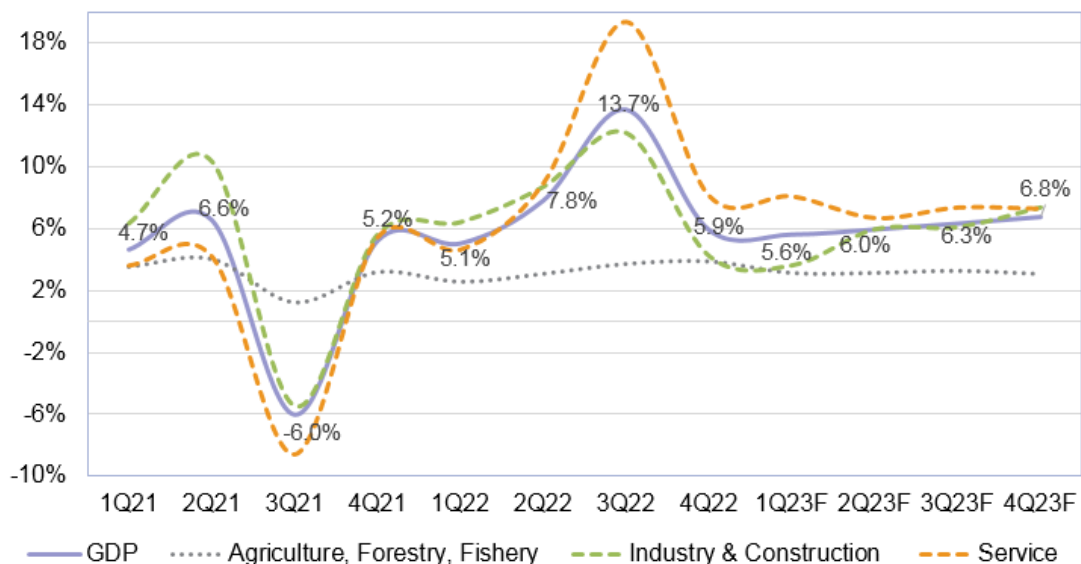
- U.S. CPI fell to 6.4% yoy in Jan 2023 (the lowest annual increase since Oct 2021). However, that was higher than consensus of 6.2%.
- Markets are now betting that the Fed will raise the benchmark interest rate by a total of 75 basis points at its next three meetings (25 basis points each), thus lifting FED's terminal rate to 5.25-5.5%. Concerns about higher Fed policy rates have dragged US Treasury yields and the DXY up in Feb 2023.
- We do not expect any rate cuts in 2023 unless the U.S. economy enters recession after all. With no-recession in forecast, we expect the Fed only implements a first gentle 25bps cut in 1Q24 (refer to right figure).

Source: FED, BLOOMBERG, VNDIRECT RESEARCH

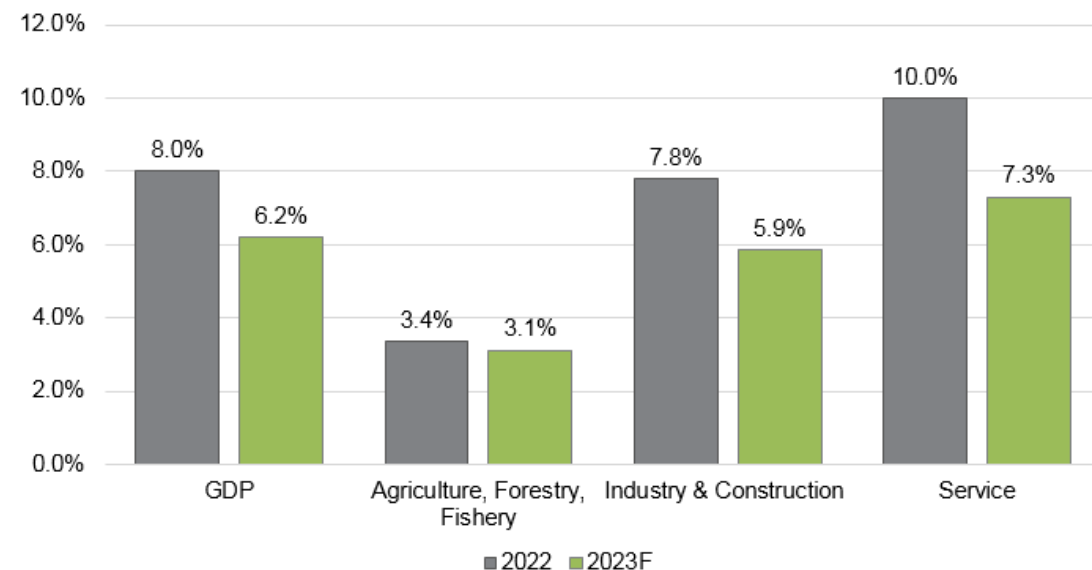
Vietnam Marco outlook

We forecast Vietnam's GDP growth to increase by 5.6% yoy (+/-0.3 pts) in 1Q23F , lower than 5.9% yoy in 4Q22.

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We keep our GDP growth forecast for 2023 unchanged at 6.2% (+/-0.3 pts)

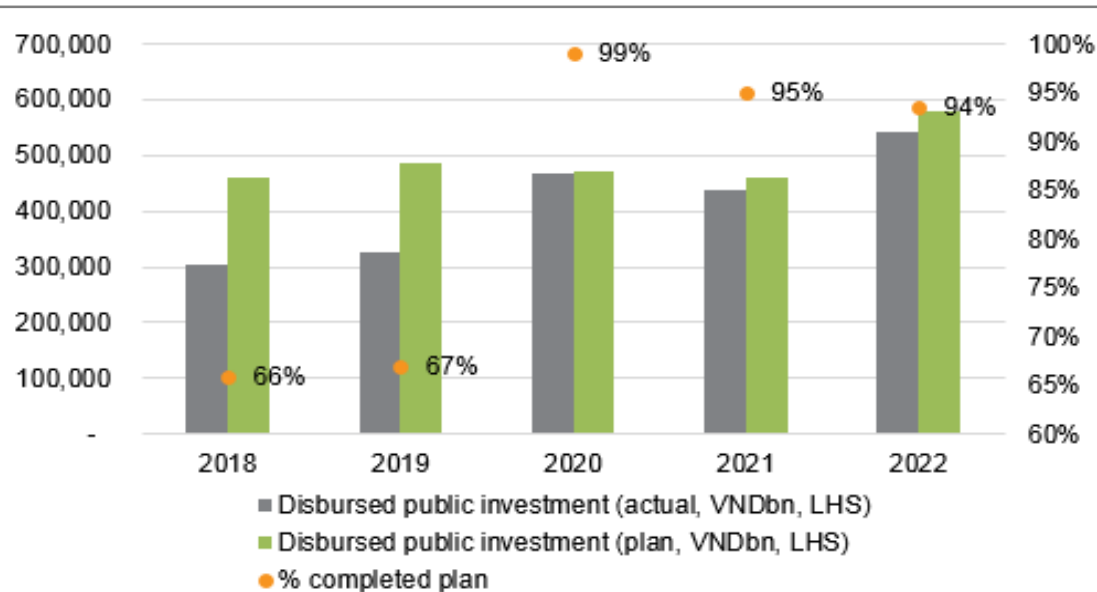


- We forecast Vietnam's GDP to grow by 5.6% yoy (+/-0.3 pts) in 1Q23F, lower than 5.9% yoy in 4Q22.
- The main growth driver in 1Q23 will come from the service sector (+8.1% yoy), while the industry and construction sector will face more difficulties (+3.6% yoy) due to the global economic slowdown and gloomy domestic real estate market.

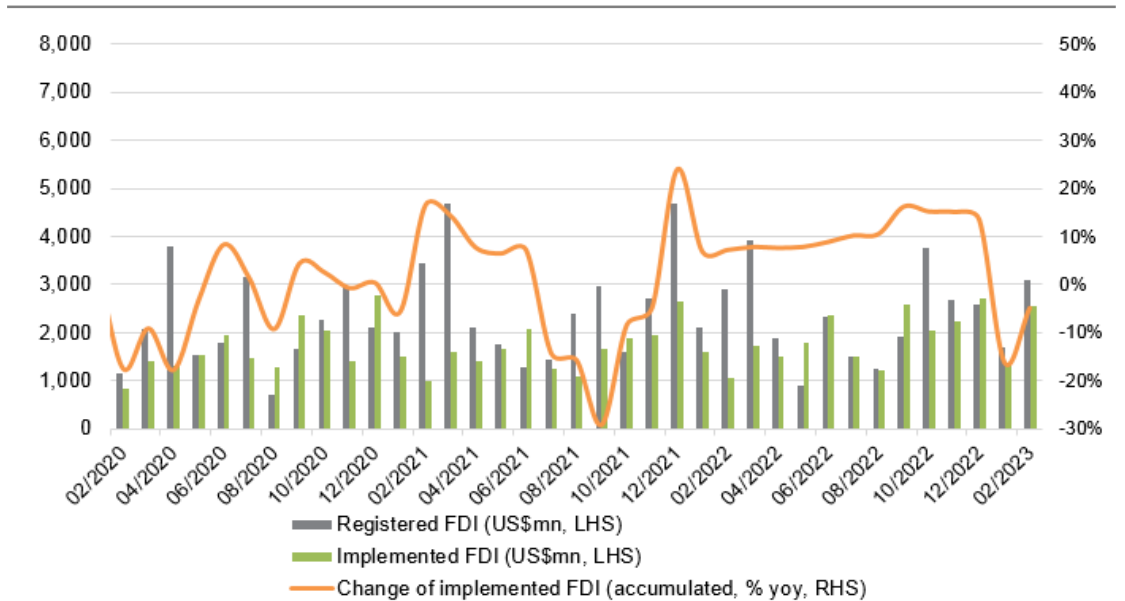
Vietnam Marco outlook

Vietnam's government promotes disbursement of public investment amid a decline of FDI inflows in 2M23.

Disbursement of public investment in 2022 reached 93.5% of the plan assigned by the Prime Minister



Implemented FDI declined by 4.9% yoy while registered FDI plunged by 38% yoy in 2M23



- According to Prime Minister Pham Minh Chinh, the disbursement of public investment in 2022 reached about VND542,000bn, completing 93.5% of the year plan and increasing by 23.5% compared to the actual disbursement in 2021.
- The government aims to disburse at least 95% of the total VND711,684bn of planned public investment in 2023. If the target set by the Government is achieved, the disbursement of public investment in 2023 will increase by 25% compared to the actual disbursement in 2022.

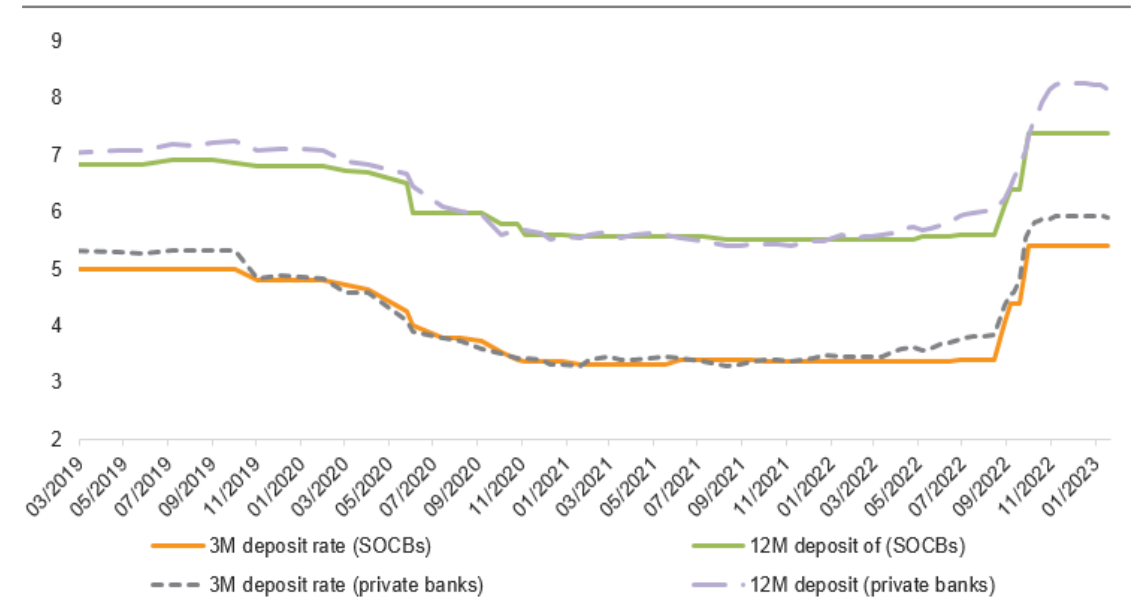
Vietnam money market outlook

Vietnam's government bond yields fell while deposit rates stayed flat since the beginning of 2023

Vietnam's government bond yields fell across all tenures (unit: %)



Deposit interest rates stayed flat across all tenures (unit: %)

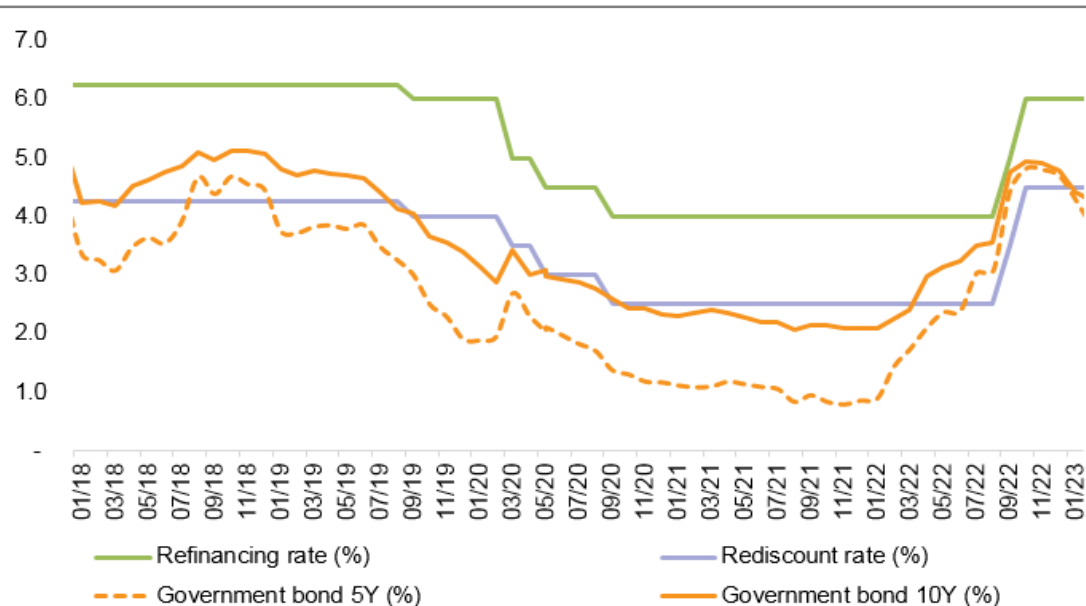


- As of Feb 21, 2023, on secondary market, Vietnam's 5-year and 10-year G-bonds yields decreased 89 and 53 basis pts ytd, to 3.8% and 4.3%, respectively. On primary market, 10-year and 15-year G-bond yields dropped 45 and 40 basis pts ytd, respectively.
- Meanwhile, deposit interest rates stayed flat across all tenures. As of Feb 21, 2023, the average 12-month term deposit rates of private banks and state owned banks were 7.4% and 8.2%, respectively. Basing on our perspective, the reversal trend of G-bond yields often heralds the turning point for of deposit rates.

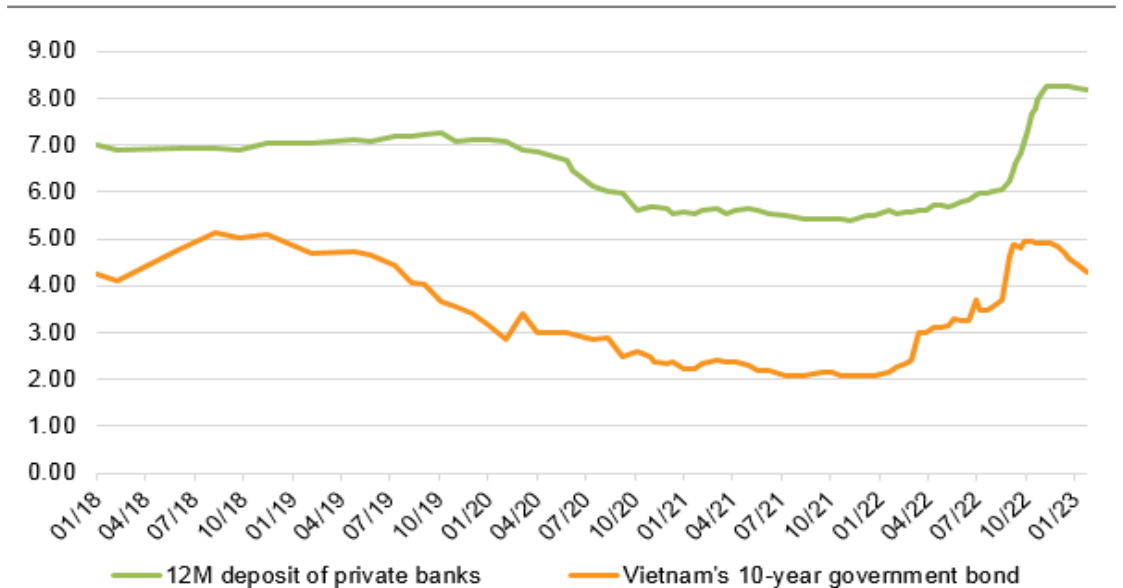
Vietnam money market outlook

We expect the deposit rate to peak out in 1Q23 and then cool down since 2Q23

We expect SBV's policy rate to keep unchanged in 2023F
(Unit: %)



The reversal trend of government bond yields usually precedes the reversal trend of deposit rates (Unit: %)

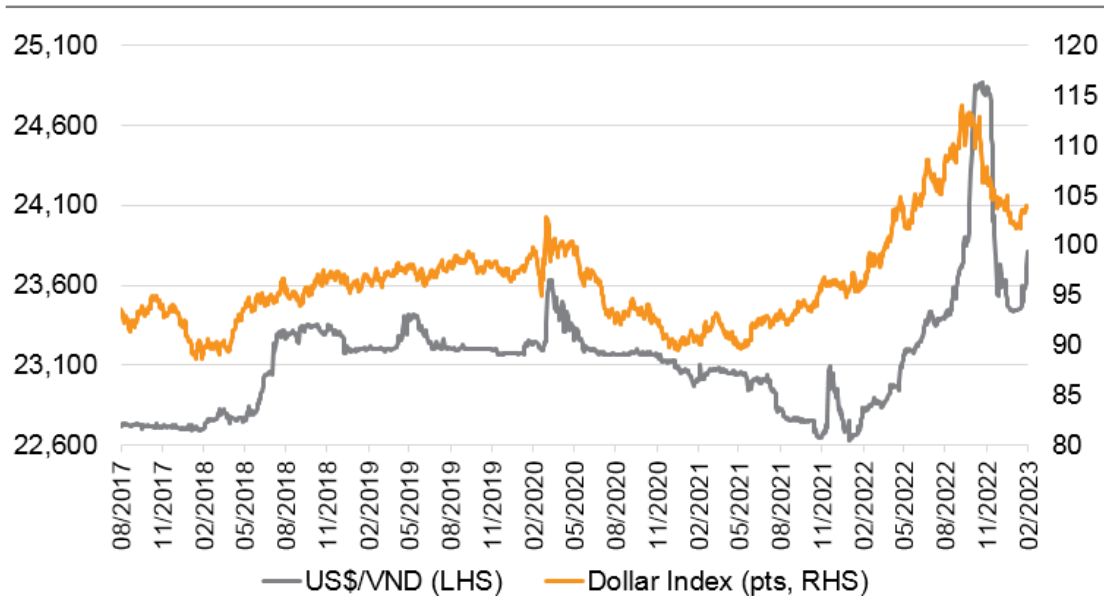


- We expect the deposit rate to peak out in 1Q23 and then cool down since 2Q23, based on the following arguments: (1) FED's policy rates will peak out in 2Q23, which will ease the pressure on Vietnam's exchange rate and interest rates, (2) SBV will be more proactive in supporting market liquidity through open market channel or buying foreign exchange reserves and (3) weak lending demand due to economic slowdown and murky residential property market.
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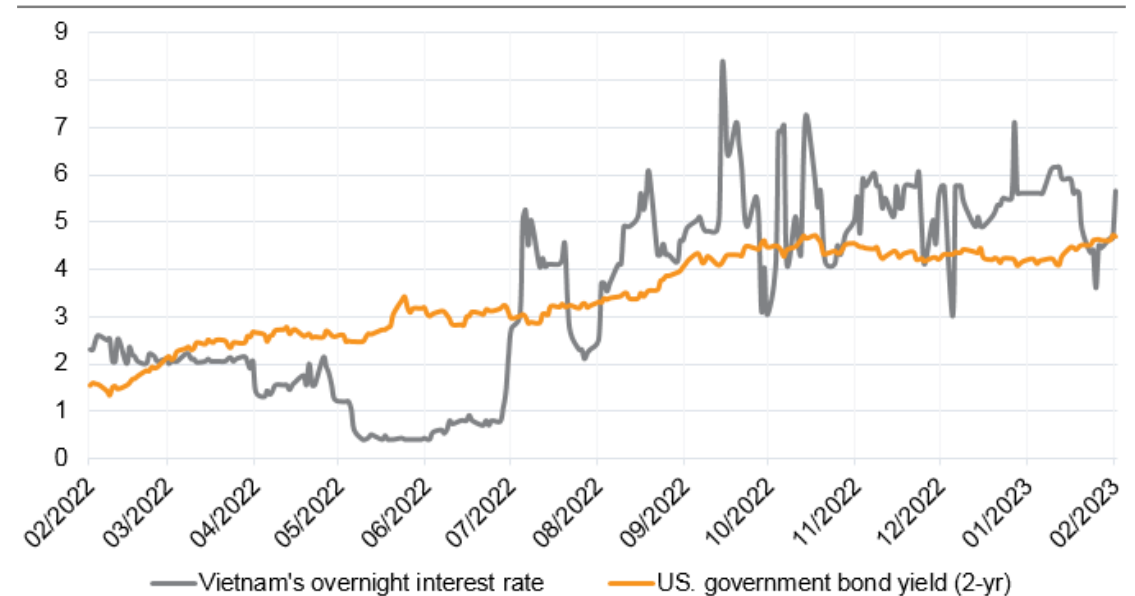
Vietnam money market outlook

The US\$/VND exchange rate rebounded sharply in Feb 2023 due to (1) the recovery of DXY and (2) the gap between VND and US\$ interest rate narrowed as the FED kept raising its rate.

The US\$/VND exchange rate movements (Aug 2017- Feb 2023)



A deep drop in domestic interest rates will put pressure on the VND exchange rate (Unit:%)



- The fact that US inflation was higher than forecast in Jan 23 made the market worried that the FED could raise its benchmark rate higher than the market expected. Following this, the dollar index (DXY) rebounded to 103.9pts on Feb 20, 2023 (+1.8% vs. the end of Jan 2023).
- The US\$/VND exchange rate rebounded sharply in Feb 2023 due to (1) the recovery of DXY in Feb 2023 and (2) the gap between VND and US\$ interest rate narrowed as the Fed kept raising its rate. As of Feb 20, 2023, the US\$/VND exchange rate rose 1.6% mtd to 23,817.

Market recap & strategy

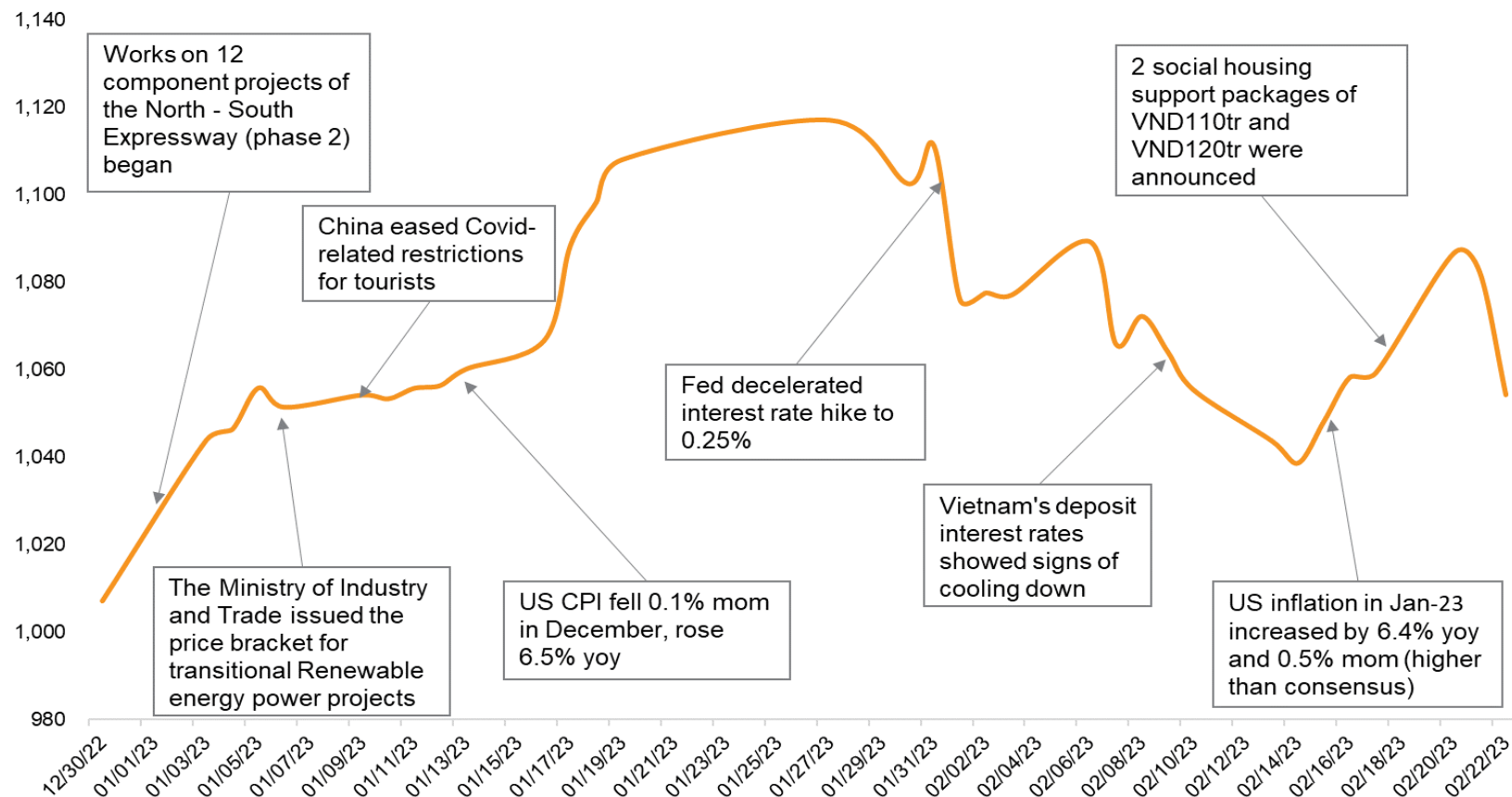
Mar 2023

Stay defensive, stay selective



Market recap

VN-INDEX fall 5.1% mtd while recorded +4.7% ytd in Feb-23



VN-INDEX decreased in Feb-23 and closed at 1,054.28 pts (-5.1% mtd, +4.7% ytd). We believe that the correction of the market can come from the following reasons:

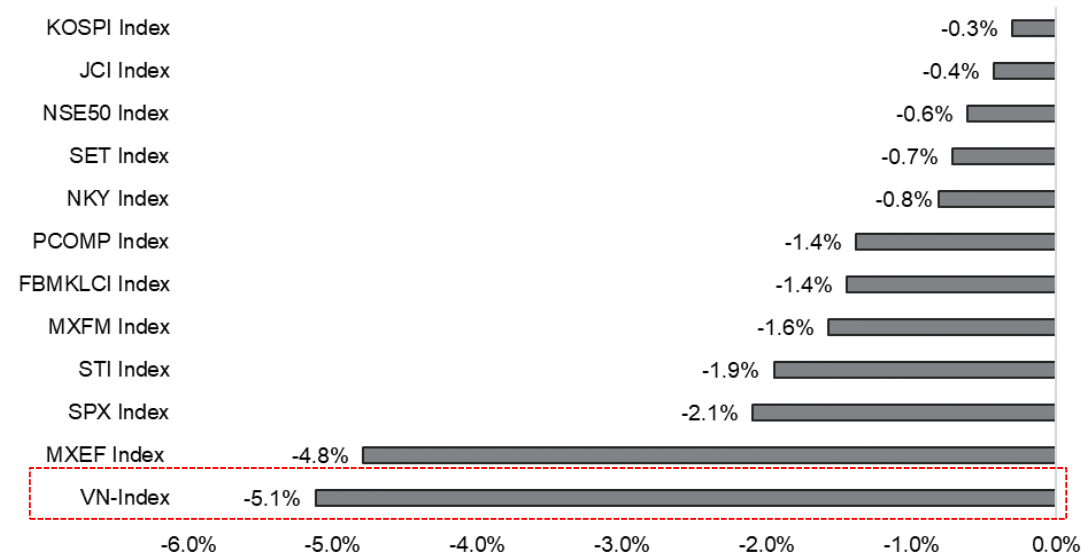
- The net cash inflow of foreign investors was weaker, recording only almost VND1,300bn (-70% mom).
- Rising concerns about the extension of Fed rate hike following the US inflation was higher than consensus in Jan-23.
- The default risk gradually appeared in the context of increasing bond maturity pressure.

Meanwhile, the HNX-INDEX slumped by 5.6% mtd and UPCOM-INDEX also surged 2.1% mtd. Since the beginning of 2023, the HNX-INDEX edged up 2.3% ytd and UPCOM-INDEX also rose by 8.1% ytd.

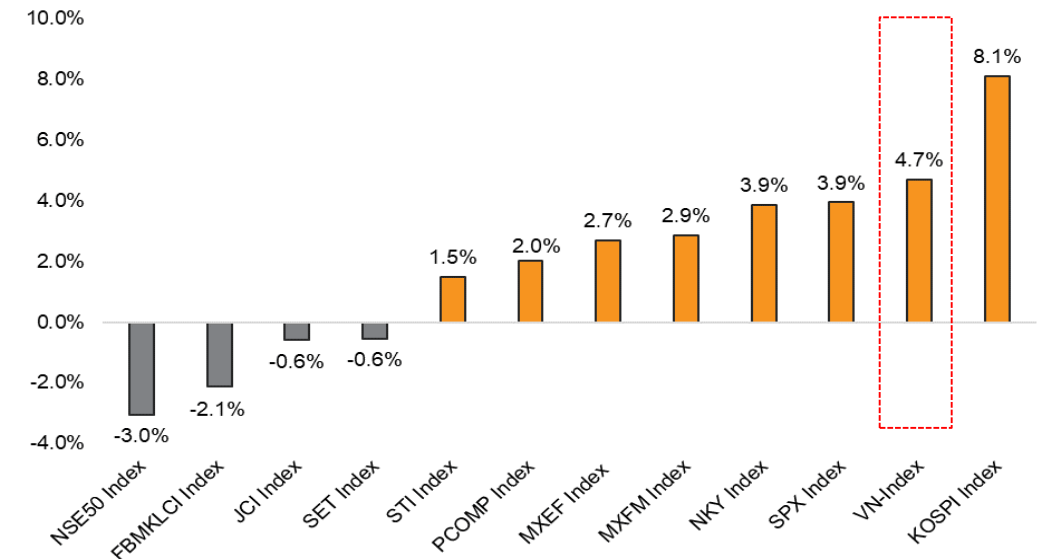
Market recap

VN-INDEX performed worse than most of peers in Feb-23

VN-INDEX performed worse than most of peers in Feb-23 (data as at 22/02/2023)



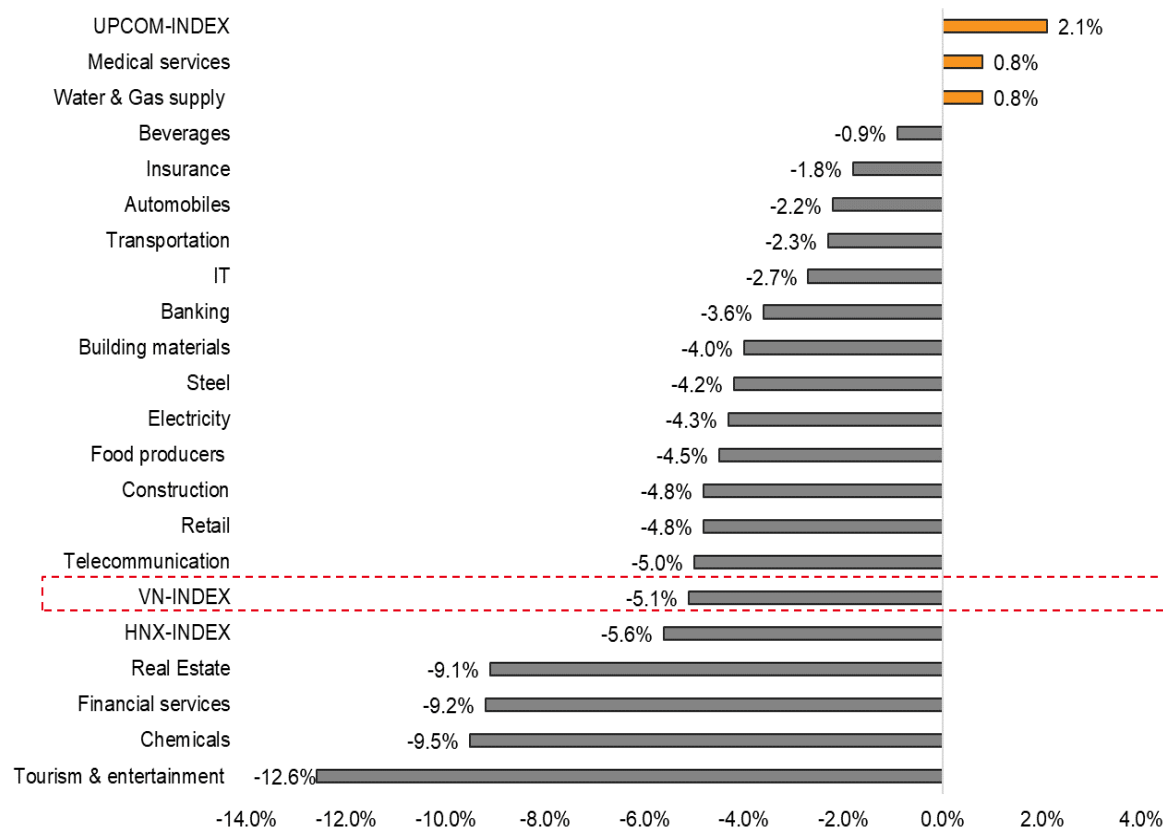
For YTD, Vietnam posted the best performance among peers in South East Asia since the beginning of 2023



- On Feb-23, Vietnam (VN-INDEX, -5.1% mtd) performed worse than most of regional peers in South East Asia, including Indonesia (JCI Index, -0.4% mtd), Thailand (SET Index, -0.7% mtd), Malaysia (FPMKLCI, -1.4% mtd), Singapore (STI Index, -1.9% mtd).
- However, VN-INDEX posted the best performance among peers in South East Asia of 4.7% since the beginning of 2023 due to low base as a deep drop of 32.8% in 2022.

Market recap

Tourism & entertainment underperformed in Feb-23



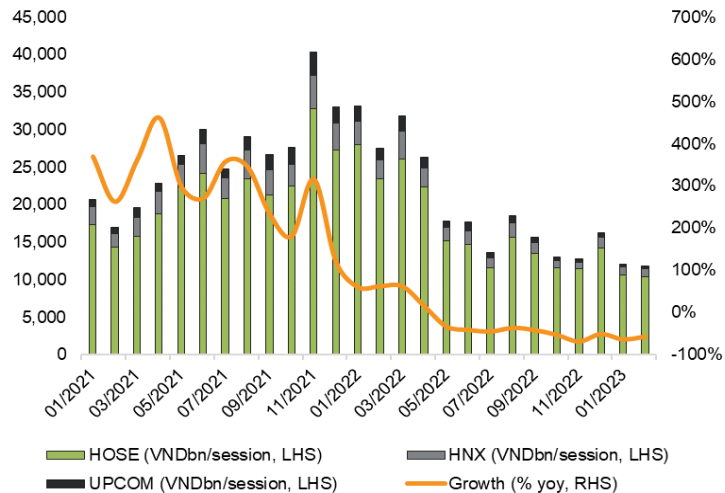
After two months of positive performance, Tourism & entertainment (-12.6% mtd) posted the worst performance in Feb-23 due to (1) negative investors sentiment about Vietnam is not included in the pilot list of China's group tourism and (2) 4Q22 business results continued to suffer losses due to high fuel cost. Chemical prices were negatively affected by the increase in supply due to China reopening the economy, leading Chemicals sector's performance to slump by 9.5% mtd in Feb-23.

In the context of many potential risks from the macro, defensive strategy still outperformed, supported by positive business results in 4Q22, Water & Gas supply recorded positive performance of 0.8% mtd in Feb-23.

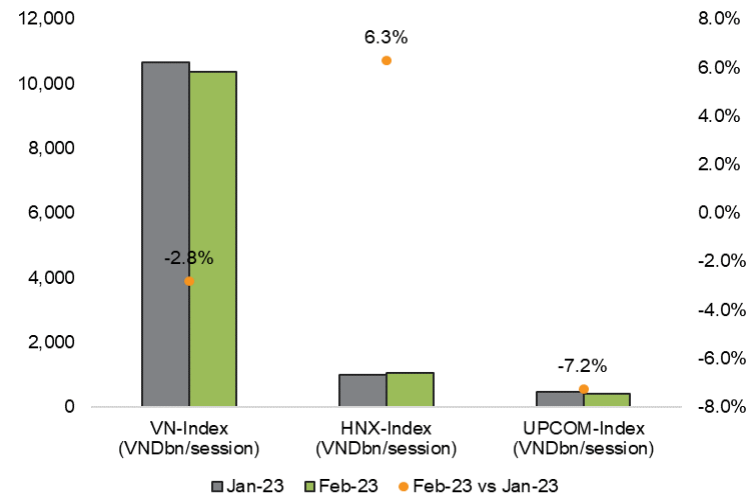
Market recap

Key insight trading flow: Liquidity slightly decreased

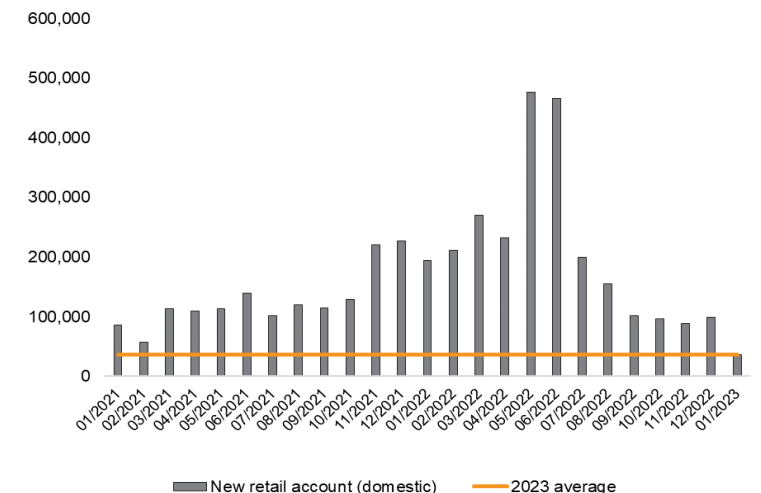
The daily average trading declined by 2.2% mom in Feb-23 (data on 22/02/2023)



Liquidity surged only on HNX-INDEX (data on 22/02/2023)



Number of new securities posted the lowest level in 2 years

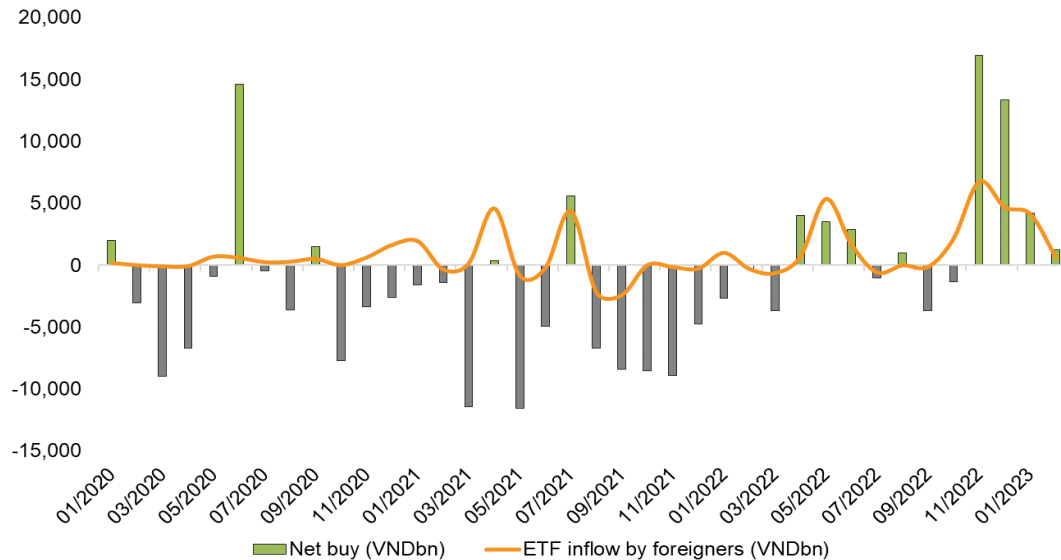


- Average trading value of three bourses fall 2.2% mom (-57.0% yoy) to VND11,857bn (HOSE: VND10,362bn/trading day, -2.8% mom; HNX: VND1,066bn/trading day, +6.3% mom; UPCOM: VND429bn/trading day, -7.2% mom).
- Number of new securities accounts decreased to 35,813 accounts in Jan-23 (-63.7% mom), the lowest level in 2 years. However, this is still a higher-than-average increase of 2020 (32,757 accounts), the beginning of the bull cycle.

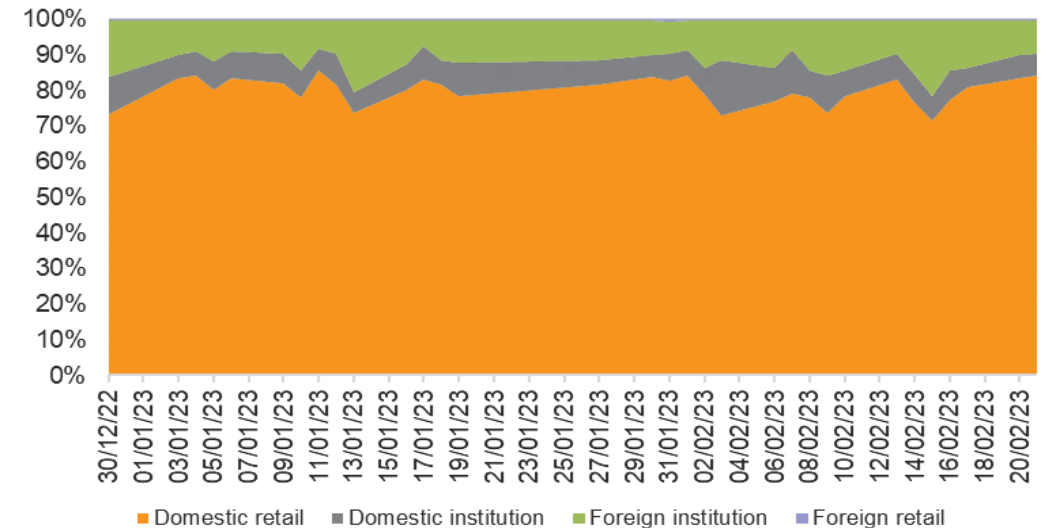
Market recap

Key insight trading flow: Foreign investors' net bought started to weaken

**Foreign investors net bought VND1,237bn in Feb-23
(unit: VNDbn) (data on 22/02/2023)**



The proportion of foreign investors' liquidity decreased to 9.2% of the total market liquidity



- Foreign investors net bought dropped sharply 70.5% in Feb-23 to VND1,237bn due to (1) capital from Fubon ETF, which is one of the largest net asset values ETF fund, stopped flowing due to reaching the unit limit and (2) Capital flows tend to flow into dollar-denominated assets in the context that interest rates in the US are likely to continue to rise compared to stationary or falling interest rates in Vietnam.
- The total net bought of foreign investors accumulated in 2023 is VND5,434bn, equal 18.8% total net bought in 2022. From beginning of 2023 until Feb-23, the proportion of foreign investors to daily trading value has compressed from 16.2% to 9.2% total trading value.

Source: VNDIRECT RESEARCH

Market outlook

Market aggregate 4Q22 earnings growth declined remarkably prompted us the heavy downgrade on FY23F earnings

4Q22 market aggregate earnings plummeted by 31.8% yoy

	% released 4Q22 results to sector market cap	4Q22 net profit growth	4Q21 net profit growth	Contribution to market's 4Q22 NP growth	FY22 NP growth	FY21 NP growth
Market	95.9%	-31.8%	13.7%		6.5%	41.0%
Utilities	99.6%	30.8%	21.9%	1.0%	51.0%	14.7%
Automobiles & Parts	99.9%	26.3%	4.6%	0.5%	29.8%	0.9%
Banks	100.0%	23.2%	7.7%	6.4%	37.4%	31.3%
Health Care	95.9%	9.2%	16.7%	0.1%	14.4%	5.9%
Electricity	99.7%	3.8%	-35.8%	0.1%	26.2%	7.7%
Real Estate	99.3%	-0.8%	-36.7%	-0.1%	1.5%	10.9%
Industrial Transportation	99.4%	-2.7%	169.1%	-0.1%	74.5%	71.8%
Insurance	100.0%	-9.8%	-1.7%	-0.1%	-24.9%	20.6%
Oil & Gas	98.6%	-11.5%	44.8%	-0.4%	51.2%	(***)
Technology	99.4%	-15.6%	49.8%	-0.2%	19.9%	25.7%
Chemicals	99.8%	-23.5%	60.7%	-1.3%	66.9%	79.9%
Forestry & Paper	90.2%	-24.4%	-21.1%	-0.1%	7.1%	29.7%
Beverages	99.7%	-26.8%	-17.0%	-0.4%	33.1%	-24.6%
Retail	99.7%	-51.1%	78.0%	-1.3%	1.7%	29.8%
Industrial	99.1%	-71.1%	-7.2%	-0.6%	-28.8%	-2.8%
Mining	96.4%	-71.2%	95.7%	-0.7%	-56.5%	98.1%
Construction & Materials	97.9%	-77.6%	14.7%	-3.6%	-14.9%	4.6%
Food Producers	97.8%	-80.3%	104.4%	-8.9%	-31.3%	37.5%
Personal & Household Goods	97.9%	-85.0%	129.1%	-1.1%	-11.7%	82.6%
Financial Services	95.2%	-98.5%	116.7%	-5.1%	-66.7%	176.0%
Support Services	83.3%	-141.7%	-22.1%	-0.3%	-18.9%	103.1%
Industrial Metals	99.8%	-155.1%	35.6%	-11.1%	-88.8%	168.1%
Telecommunications	99.8% (*)	(**)		-0.6%	477.9%	-69.5%
Travel & Leisure	99.4% (*)		330.5%	-3.0%	-11.2%	20.0%

(*) Recorded losses in 4Q21

(**) Recorded losses in 4Q20

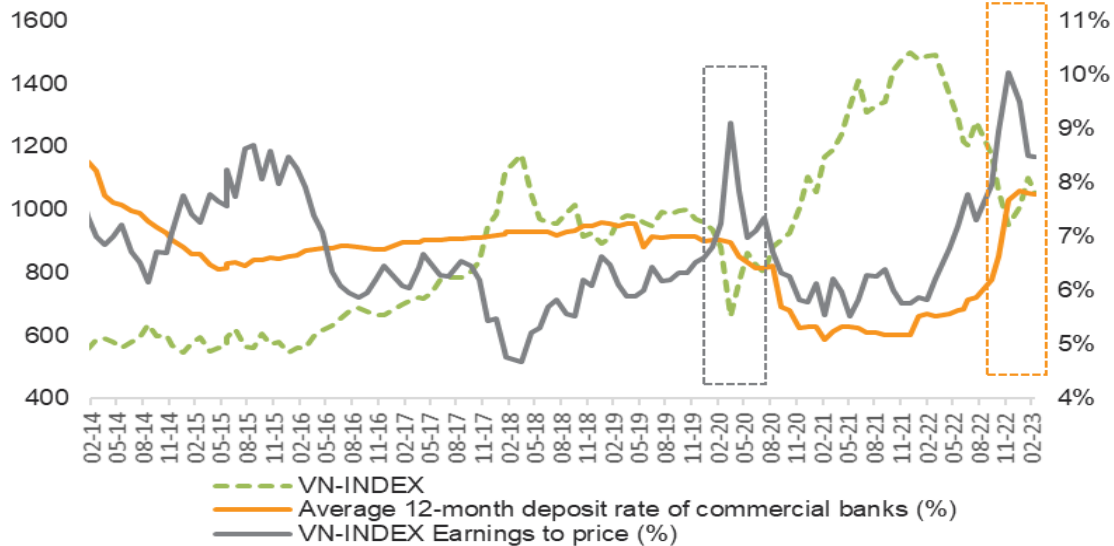
(***) Recorded losses in FY20

- 4Q22 market aggregate earnings plummeted by 31.8% yoy, the biggest drop since the Covid-19. FY22 market earnings grew modestly 6.5% yoy, much lower than our forecast of 16.7% yoy for FY22.
- Steel manufactures and Food producers were main reasons for the negative 4Q22 NP growth. Listed steel makers affected by (1) weakening sales volume and (2) shrinking gross margin by 1.8% pts vs 3Q22. Food producers' 4Q22 NP were driven by MSN, which recorded a drop of 93.1% in 4Q22's NP as they posted a significant one-off gain (~VND5,700bn) in 4Q21.
- On the contrary, Banking and Utilities shined together, contributed 7.4% pts to market's 4Q22 NP growth.
- **We forecast total earnings growth of listed companies around 10.5% yoy in FY23F (+/- 1 pts %)**, based on total earnings growth of 12.7% yoy of our coverage (accounting for nearly 60% of market capitalization).

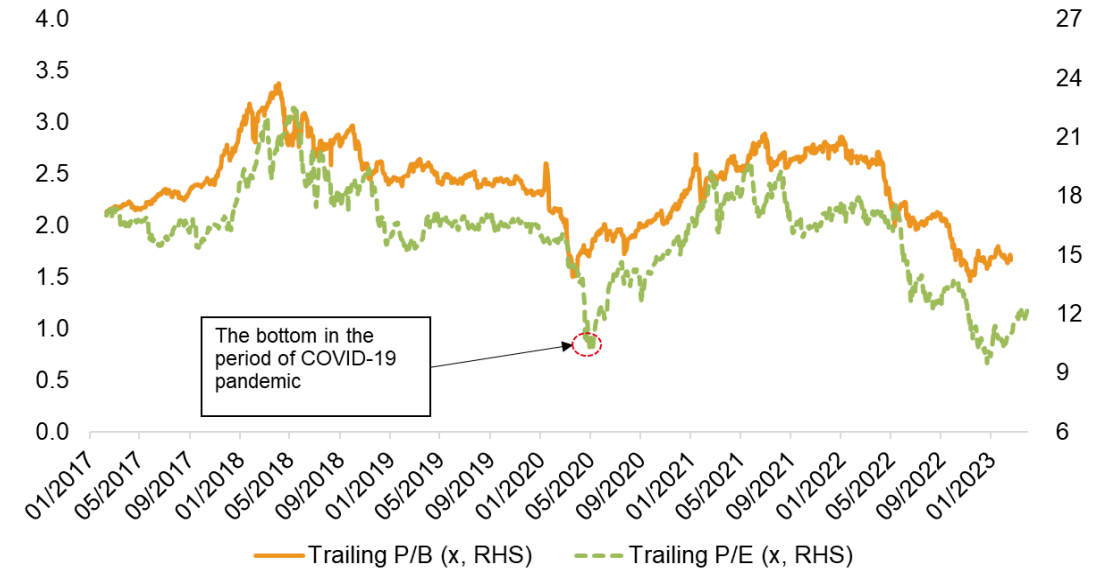
Market outlook

Vietnam valuation looks less attractive due to falling earnings

The spread between market earnings yield and deposit rates compressed



VN-INDEX is trading 30% below its 5-year average valuation



- Average deposit interest rate for 12-month term is currently at 7.8%/year. Meanwhile, current Earnings to Price of VN-INDEX compressed to 8.4% (vs 9.5% in Dec-22) due to inefficient 4Q22's earnings results. Plus dividend yield of 1.7%, the market earnings yield is estimated about 10.1%. As the results, the spread (between market earnings yield and deposit rate) contracted to 2.3% (-1.4% pts vs Dec-22).
- Currently, Vietnam's stock market is trading at 0.7x of 5-year P/E average and TTM P/B is also trading at 0.7x of 5 year P/B average.
- Overall, Vietnam valuation looks less attractive due to falling earnings.

Market strategy

Be careful with the short-term correction of the market

VN-INDEX will be under downward pressure in Mar 2023

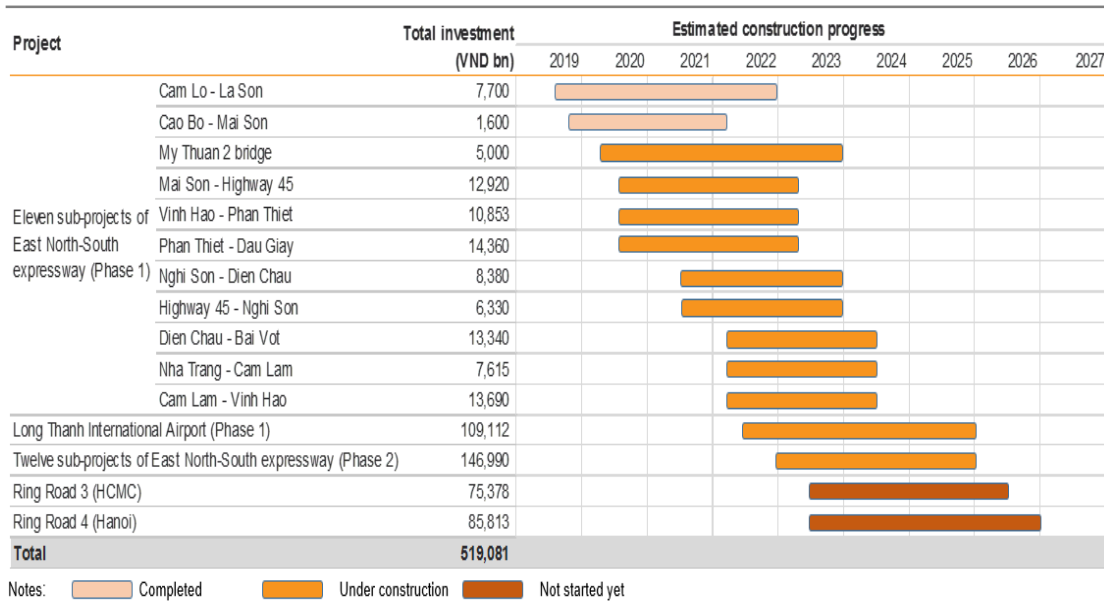


- In the context of not much supportive macro information and policies and increasing external risks, VN-INDEX will be under downward pressure in Mar 2023.
- The nearest support zone of VN-INDEX is around 1,000 pts and the strong support zone of the market is around 950pts. Due to short-term correction trend, investors should prioritize portfolio risk management and actively lower the proportion of margin and stocks.
- Upside catalysts include the government issuing policies to support the real estate market (revising Decree 65, debt relief, credit package for social housing, etc.). Downside catalysts include the Fed's more hawkish stance on monetary policy, information regarding corporate bond defaults

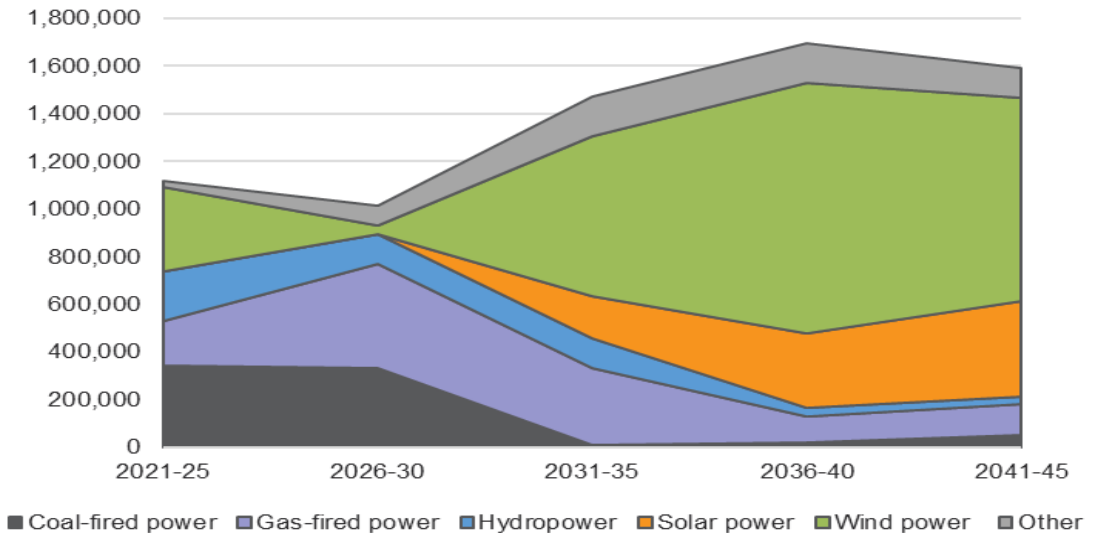
Market strategy

1. Public investment will be a promising story throughout 2023

Progress of key transport infrastructure projects in the period of 2021 – 2026



Vietnam needs US\$10.3bn per annum for energy transition into 2022-45F (incl. grid system and RE power development)



➤ The government has accelerated the progress of major infrastructure projects to complete at least 95% of the plan to disburse public investment capital in 2023. The T3 terminal project at Tan Son Nhat airport was officially started on December 24, 2022. In addition, 14/25 sub-projects of the North-South Expressway phase 2 started construction in the first 2 months of 2023. Besides, the trend of investment in building energy infrastructure will be promoted after the official approval of the Power Plan 8. We see the great opportunities alongside country energy transition roadmap, but in the early stage, energy infrastructure developer and renewable energy exposure businesses will be major beneficiaries. Our top picks under this theme are: ACV, AST, C4G, PLC, PC1, and POW. Source: VNDIRECT RESEARCH

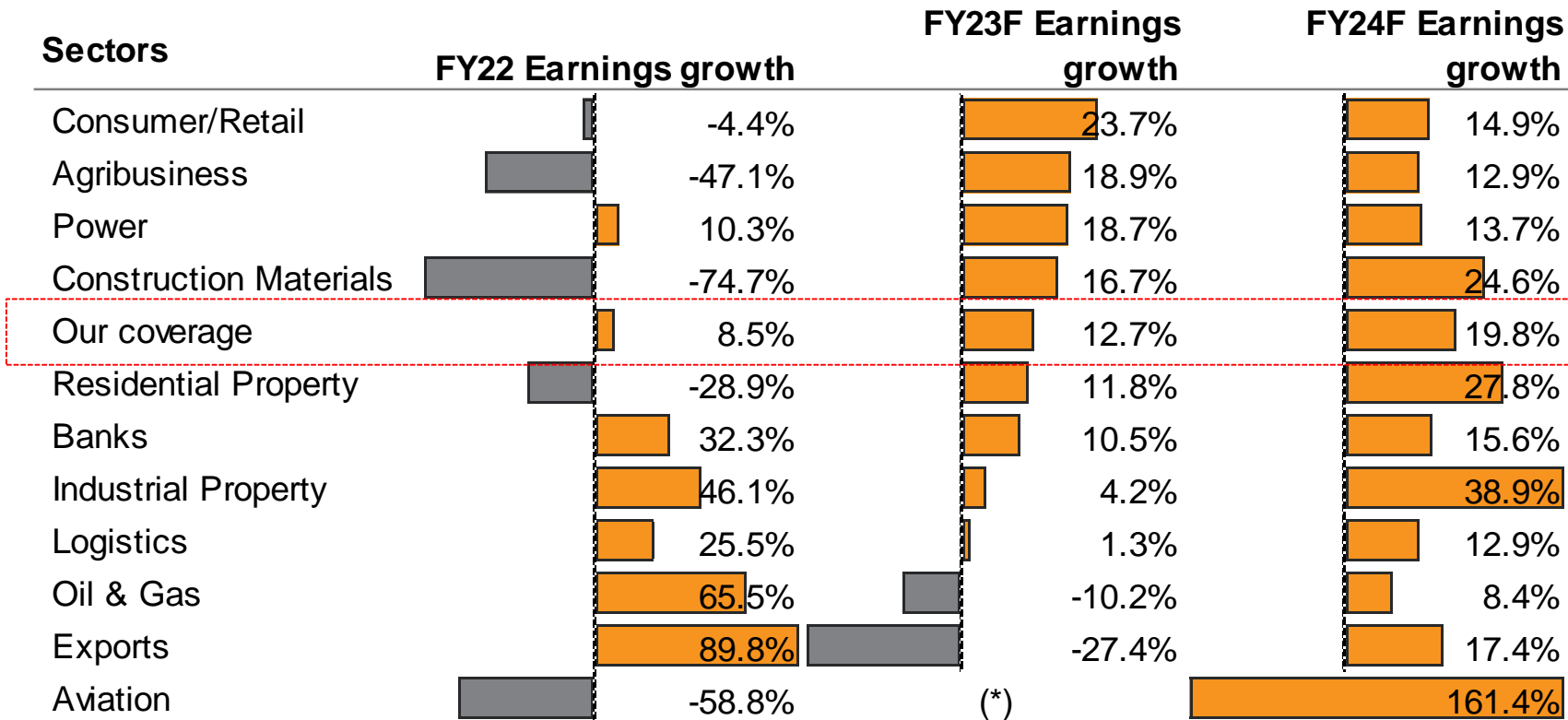
Market strategy

2. Which sectors will leverage from China's reopening?

Sector	Stocks	Impact	Our perspective
Aviation	ACV, HVN, VJC, AST		<p>From the beginning of Dec-22, China has allowed Vietnamese airlines to operate regular routes to/from China with the frequency of 15 flights per week instead of 2 flights per week. Therefore, many Vietnamese airlines like Vietnam Airlines, Bamboo, and Vietjet have rapidly operated routes to China.</p> <p>We expect the frequency of international flights between Vietnam and China will recover soon. Accordingly, it is estimated that the international pax going to/from China will recover to 20%/40%/ 60%/80% of the pre-pandemic level in 1Q/2Q/3Q/4Q of 2023. Thus, the time when China's international arrivals increase strongly will be in 2Q and 3Q23.</p> <p>Chinese international arrivals account for 35% of Vietnamese total international arrivals in the pre-pandemic; therefore, the opening of China will be a tailwind of Vietnamese international aviation's outlook.</p>
Fisheries	ANV, IDI, VHC		<p>China market is still an important pillar for Vietnamese pangasius industry. According to VASEP, the export value of Vietnamese seafood product hit US\$11.0bn in FY22. In which, China market import value increased 55% yoy to US\$1.8bn which accounting for c.16.4%.</p> <p>As a result, we believe that the reopening of China will be one of the biggest catalysts for the output growth of exporting aquaculture product companies in 2023F.</p> <p>However, the companies with a large proportion of revenue and market share in China will have more benefits, especially: ANV (Chinese market accounts for 14% of total revenue), IDI (Chinese market accounts for 40%) and VHC (Chinese market accounts for 10%).</p>
Cement	BCC		<p>China is the biggest export market of the Vietnamese cement sector, accounting for 54% of total sales volume in 2021. The re-opening of China will resume construction activities and boost infrastructure investment, thereby leading to cement demand recovery in China. Moreover, the possibility of an increase in exporting sales volume will persuade Vietnamese cement companies to improve the factories' utilisation, therefore, improving the gross margin in the near time (thanks to depreciation per unit decreases).</p> <p>BCC will be the listed cement company to benefit as China is the company's long-standing export market, accounting for about 15-20% of the company's total annual consumption.</p>
Rubber	PHR, DPR		<p>China is the largest natural rubber consumer of Vietnam, accounting for 70-80% of Vietnam's total rubber exports value. Vietnam is also one of the largest rubber suppliers to China with a market share of 16.7% in 10M22, just behind Thailand with market share of 33.6%. The reopening of China's import activities not only tackle bottleneck in rubber output, but also creates price hike thanks to high demand of rubber for China's tire production...</p> <p>Leading companies with large rubber exports to China such as PHR and DPR will benefit the most.</p>

Market strategy

3. Focus on sectors with better earnings growth or turning from negative to positive



Note: (*) In 2023, Net profit of Aviation sector will change from negative to positive

- Based on our forecast, Consumer/Retail sectors will have the strongest earnings growth of 23.7% yoy in FY23F as we believe (1) most of the negative impact in consumption and rising raw material prices had already been reflected in 2022's results, and (2) some specific catalysts of large consumer/retail company like MWG (BHX come to a profitable point), VRE (no more Covid-19 support package as VRE made a large one in 1H22).
- Earnings of Aviation sector in FY23F will change from negative to positive thanks to international visitors from China returning to Vietnam.
- Despite the overall gloomy industry outlook; Residential property might see a positive FY23F earnings growth, mostly thanks to VHM.
- Other sectors that may turn into positive earnings growth in FY23F from low base FY22F, including Agribusiness (+18.9% yoy), Power (+18.7% yoy), Construction Materials (+16.7% yoy).

VNDIRECT RESEARCH TEAM

Hien Tran Khanh – Research Director

hien.trankhanh@vndirect.com.vn

Macro & Market Strategy

Hinh Dinh – Head of Strategic

hinh.dinh@vndirect.com.vn

Hung Vu Manh – Analyst

hung.vumanh3@vndirect.com.vn

Hang Nguyen Thi Thanh – Analyst

hang.nguyenthanh3@vndirect.com.vn

Banking – Finance

Thanh Nguyen – Senior Analyst

thanh.nguyenphuong@vndirect.com.vn

Thao Tran Thi Thu – Senior Analyst

thao.tranthu2@vndirect.com.vn

Quan Vu The – Senior Analyst

quan.vuthe@vndirect.com.vn

Property – Construction – Material

Toan Chu Duc – Manager

toan.chuduc@vndirect.com.vn

Trung Tran Ba – Senior Analyst

trung.tranba@vndirect.com.vn

Tu Nguyen Thi Cam – Analyst

tu.nguyencam2@vndirect.com.vn

Son Le Anh – Analyst

son.leanh@vndirect.com.vn

Manh Nguyen Duc – Analyst

manh.nguyenduc@vndirect.com.vn

Aviation – Logistic - Energy - Utilities

Dzung Nguyen Tien – Manager

dung.nguyentien5@vndirect.com.vn

Hai Nguyen Ngoc – Senior Analyst

hai.nguyenngoc2@vndirect.com.vn

Tung Nguyen Duc – Analyst

tung.nguyenduc@vndirect.com.vn

Hue Duong Thu – Analyst

hue.duongthu@vndirect.com.vn

Industrial – Retail - Consumer

Tuan Nguyen – Manager

tuan.nguyenthanh@vndirect.com.vn

Bach Phan Nhu – Senior Analyst

bach.phannhu@vndirect.com.vn

Hien Ha Thu – Analyst

hien.hathu@vndirect.com.vn

Hao Nguyen Duc – Analyst

hao.nguyenduc@vndirect.com.vn

Huyen Phan Thanh – Analyst

huyen.phanthanh@vndirect.com.vn

Data services

Tuan Nguyen – Manager

tuan.nguyenthanh@vndirect.com.vn

Trang Nguyen – Business Analyst

trang.nguyenha2@vndirect.com.vn

Dstock Compass

Khuong Nguyen Ba

khuong.nguyenba@vndirect.com.vn

Duy Pham Viet

duy.phamviet@vndirect.com.vn

Quyên Nguyễn Thị

quyen.nguyen2@vndirect.com.vn


Hieu Nguyen Ngoc

hieu.nguyenngoc@vndirect.com.vn

VNDIRECT RESEARCH

VNDIRECT Securities Corporation

 1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

 Tel: +84 2439724568

 Email: research@vndirect.com.vn

 Website: <https://vndirect.com.vn>

