

Ismael Pili
Head of Research

A New Hope

Restoration, revival, and recovery

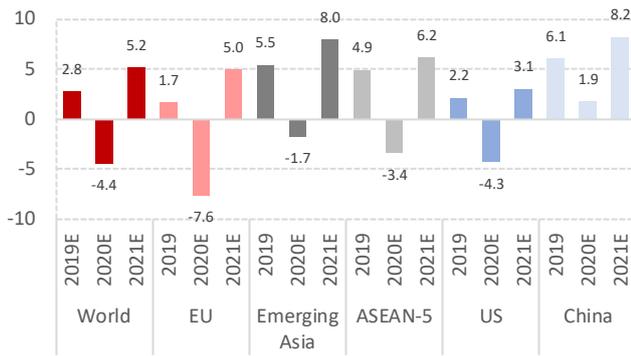
Overall summary

- Hope springs eternal, and for 2021, this comes in the form of a vaccine that promises to restore a semblance of normalcy and revive downtrodden industries, paving the way for an economic recovery. The world **continues to grapple with COVID-related issues**, and the **support measures that are unlikely to be withdrawn** provide a backstop to economies and markets to effectively bring risk down.
- It is well documented that Vietnam has fared much better than the rest of the world with the pandemic, as limited cases served to minimize economic disruption. The country was able to post 2.9% GDP growth in 2020, and **recovery appears to be on its way** with faster GDP growth (6.5-7.0% range) expected for 2021.
- Our stock market outlook can be termed as **cautiously optimistic**. The VNI should be higher by YE21 vs YE20, as Vietnam has too many draws relative to its regional peers and will benefit from global factors favouring emerging markets as a whole. These include:
 - **Economic resiliency:** GDP is expected to accelerate over the new few years. Factors that continue to support its momentum include resilient domestic consumption, favourable demographics, emerging middle-affluent class, urbanization, and increasing FDI and exports on supply chain relocation.
 - **Greater earnings certainty:** Every market is expected to post stronger net profit in 2021, with many working off a decimated base that flatter their rebound. However, we have greater confidence in the earnings outlook for Vietnam given the lower uncertainty in the country (from COVID, economy, politics).
 - **A cheaper market:** Relative to its ASEAN peers, Vietnam still trades at a discount. On FY21E, Vietnam's P/E stands at 13.8x vs the ASEAN average of 16.9x and ASEAN-ex SG average of 17.6x.
 - **Low foreign investor positioning:** Local investors have driven the market in terms of turnover and direction. While foreign investors were net sellers for most of 2020, we sense interest is returning.
 - **MSCI upgrade watch:** Positioning ahead of MSCI's announcement of this event is generally the call, with a lead time of 6-12M suggested. The earliest such announcement related to this upgrade may be in 1H22.
 - **Risk-on sentiment:** Higher risk sentiment as captured by the fall in the VIX, lower credit spreads, weakening USD, and rising oil prices bodes well for Emerging Markets.
 - **Support measures to remain:** We expect QE to continue (particularly in the US and EU), which should have a spillover effect to emerging markets.
 - **USD weakness:** USD weakness is seen as supportive to EMs. However, the relationship between the DXY and the VNI is weak due to the perception that the VND is closely tied to the USD. However, with the VND now likely to 'break' from the USD, the VNI will have a greater benefit from the weakening DXY.
- We provide various sector overviews, though sector positioning is not per se our main focus. Our investment approach tends to be **skewed towards bottom-up stock selection**.
- **We continue to run with six concurrent themes:** Domestic recovery, infrastructure, "defensibles", beneficiaries of lower interest rates, FDI, and consolidation.

Global macro overview

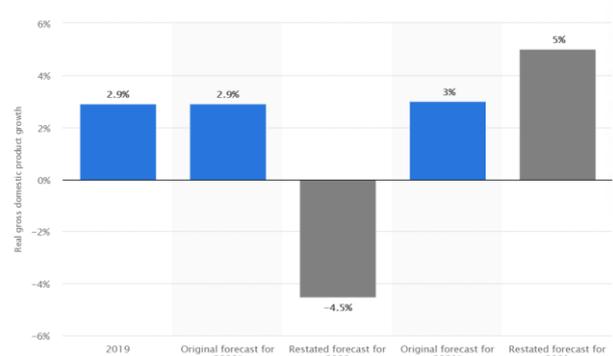
In 2020, unprecedented global economic disruption was met with unprecedented monetary and fiscal support. Heading into 2021, there is optimism arising from the discovery of a vaccine that may lead to an improved outlook to global growth and buoy other global indicators.

Fig 1: Global GDP forecasts (%)



Source: CEIC, VinaCapital

Fig 2: Global GDP forecast



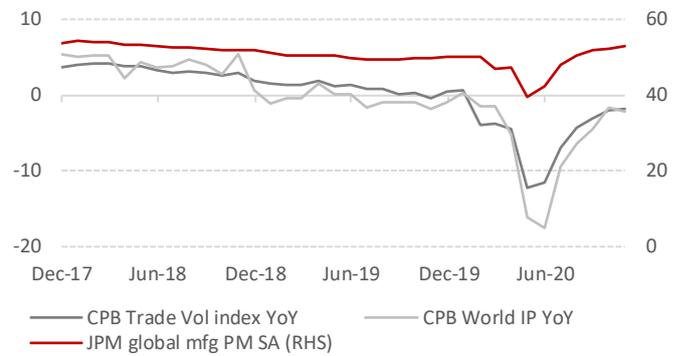
Source: Statista

Fig 3: OECD Business & Consumer Confidence Indicator



Source: Bloomberg, VinaCapital (as of Oct 2020)

Fig 4: Global Manufacturing PMI, IP & Trade Growth

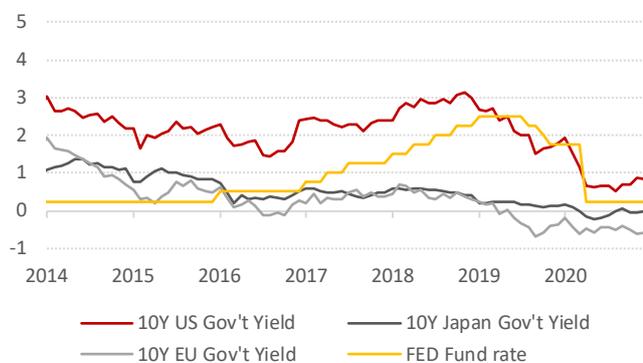


Source: Bloomberg, VinaCapital (as 11/30/2020)

Still, the world continues to grapple with **COVID-related issues** (the global second wave, virus mutation, producing and distributing the vaccines) that may derail global economic momentum. In our view, the related impact to the global economy is difficult to ascertain, with the growth outlook still largely dictated by the virus.

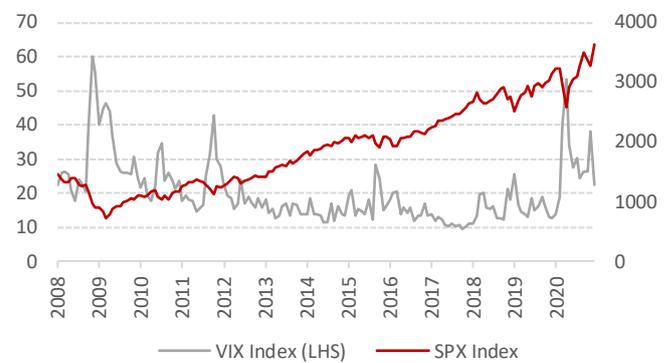
Suffice to say, **monetary and fiscal support measures are unlikely to be withdrawn**. Policy rates have been cut to historical lows, while quantitative easing (QE) and supportive loan programs have been extended. Meanwhile, various fiscal support measures inclusive of extended unemployment benefits and employer wage subsidies remain. Overall, it is largely expected that the FED, ECB, and other central banks will continue providing support and serve as a backstop to their respective economies and markets that has effectively brought risk down.

Fig 5: 10-Y Gov't bond yields (US, EU, JP) vs FED Fund Rate



Source: Bloomberg, VinaCapital (as of 11/30/2020)

Fig 6: VIX, S&P 500

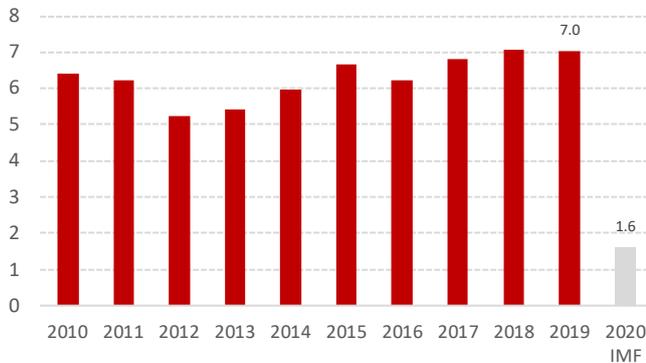


Source: Bloomberg, VinaCapital (as of 11/30/2020)

Vietnam macro overview

In contrast, Vietnam has done a much better job in containing the spread of the virus and as a result, expected to post a positive GDP growth of 2.9% (that would beat all market expectations) for 2020. As with other countries, **economic growth will rebound** in Vietnam in 2021 (ADB: 6.8%, VinaCapital: 6.5%).

Fig 7: Vietnam – Annual GDP YoY Growth (%)



Source: MPI, CEIC, VinaCapital

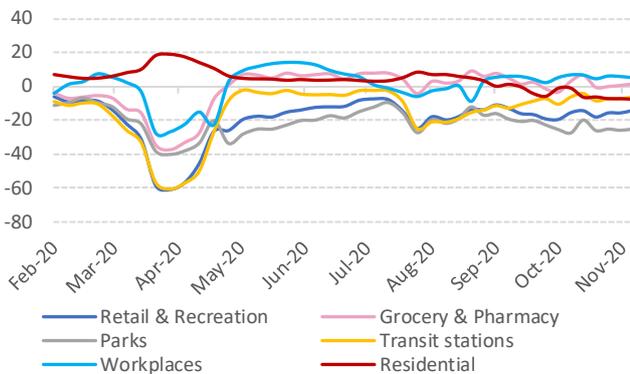
Fig 8: Vietnam – Quarterly GDP YoY Growth (%)



Source: CEIC, VinaCapital

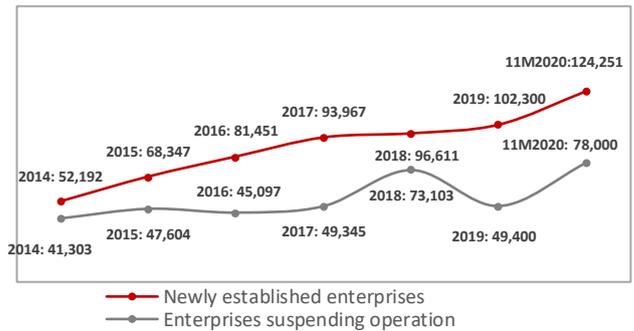
In 2020, Vietnam provided its own fiscal and monetary support measures to support households and corporates, albeit small relative to the size seen globally. Looking to 2021, given its relative success against the spread of the corona virus, there may simply be less impetus for Vietnam to extend the same amount of support. Recovery in Vietnam appears to be underway, as reflected by several macro indicators ranging from Google mobility, new business registrations, PMI, retail sales growth, motor vehicle sales, or credit growth, to name but a few.

Fig 9: Vietnam – Google Mobility Indicator



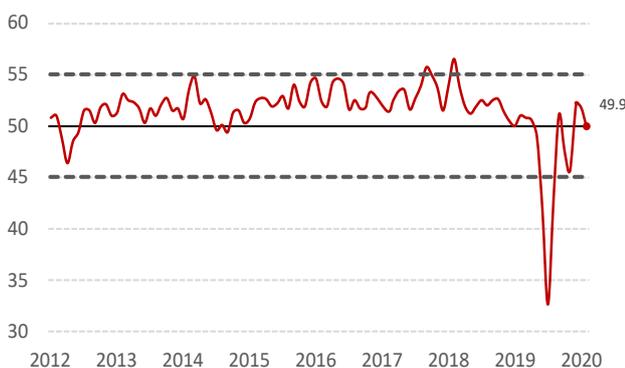
Source: Google, VinaCapital (as of Nov 2020)

Fig 10: Vietnam – Business situation



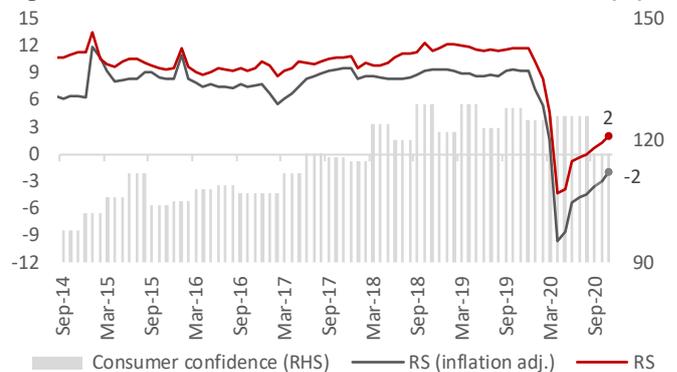
Source: GSO, VinaCapital

Fig 11: Vietnam – PMI



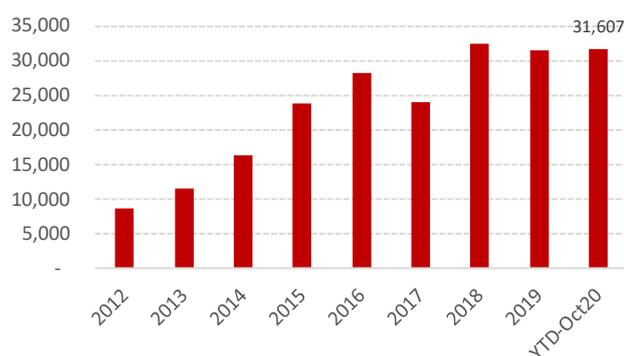
Source: IHS Markit, VinaCapital (as of Nov 2020)

Fig 12: Vietnam - Retail Sales & Consumer Confidence (%)



Source: VinaCapital (as of Nov 2020)

Fig 13: Vietnam – Motor Vehicle Sales (unit)



Source: CEIC, VinaCapital

Fig 14: Vietnam – Credit YoY Growth (%)



Source: SBV, forecast numbers by VinaCapital

Various forecasts for Vietnam’s key economic metrics tend to congregate towards similar estimates.

Fig 15: 2021 Government targets

	Government targets
GDP Growth	6%
CPI	4% (average CPI)
VND	NA
Budget Deficit/GDP	4% (on adjusted GDP) 5% (on unadjusted GDP)
Public Debt/GDP	46.1% (on adjusted GDP) 59.6% (on unadjusted GDP)
Government Debt/GDP	41.9% (on adjusted GDP) 53.2% (on unadjusted GDP)

Source: Government estimates

Looking to 2021, we are hard-pressed to pinpoint a particular domestic macro issue that we think can be cited against Vietnam and ergo, the stock market. If pressed to offer possible topical macro discussion points, we could look at the following subjects: 1) Vietnam’s record trade surplus in 2020, 2) the outlook for the VND against the USD in light of the currency manipulator tag assigned by the US, and 3) the FDI outlook (in light of the new FTAs signed in 2020 (EVFTA, RCEP) and the currency manipulator tag).

Stock market outlook

There is a general sense of optimism in global equity markets. For Vietnam specifically, we share the view with other stock market pundits that the VNI will simply be higher by the end of 2021 vs the end of 2020. Vietnam retains its key draws including:

- **Economic resiliency:** Vietnam will be one of a handful of countries that will post positive growth in 2020 (2.9%), with accelerating growth in the next couple of years (2021: 6.5%, 2022: 7.0%).
- **Strong structural drivers:** resilient domestic consumption, favourable demographics, emerging middle affluent class, urbanization, increasing FDI and exports on supply chain relocation.
- **Greater earnings certainty:** Earnings estimates in Vietnam has gradually improved towards the end of 2020 that reflect corporate strength and resiliency. Though the market is not coming off a decimated base that serves to flatter its earnings rebound in 2021, we have greater confidence in the earnings outlook for Vietnam given the lower uncertainty ranging from a good control of the virus’ spread to a stable political environment.
- **A cheaper market:** Relative to its ASEAN peers, Vietnam is trading at a discount. On FY21E, Vietnam’s P/E stands at 13.8x in contrast to the ASEAN average of 16.9x and ASEAN-ex SG average of 17.6x. This despite some countries posting faster growth than Vietnam in 2021, though primarily due to a low base effect magnifying the yoy growth of its neighbours.

- **Low foreign investor positioning:** local investors has driven the market in terms of turnover and its directional ascent. Foreign investors have been net sellers for most of the year, but sense interest is returning.
- **MSCI upgrade watch:** Vietnam being upgraded to EM is seen as a possible catalyst to renew investor interest. Positioning ahead of MSCI’s announcement of this event is generally the call, with a lead time of 6-12M suggested by the market. In this regard, the earliest such announcement related to this upgrade may be 1H22.

Beyond the aforementioned factors more specific to Vietnam, there are also other factors more global in nature that can serve as tailwinds to Vietnam’s appeal.

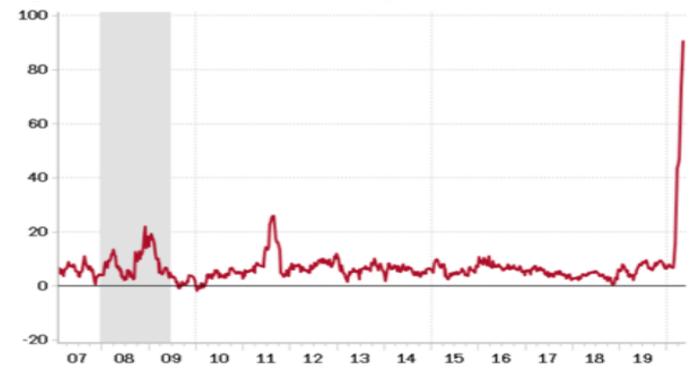
- **Risk-on sentiment:** Higher risk sentiment as captured by the fall in the VIX, lower credit spreads, weakening USD, and rising oil prices bodes well for Emerging Markets.
- **Support measures to remain:** We expect QE to continue (in particular, in the US and EU), which should have a spillover effect to emerging markets. Monetary as well as fiscal measures are unlikely to be withdrawn. As a side commentary, we think such measures are merely keeping economies afloat and will get more difficult to implement. There will be more monetization of debt.

Fig 16: FED Balance Sheet (USDbn) vs SP500 PE (x)



Source: CEIC, VinaCapital

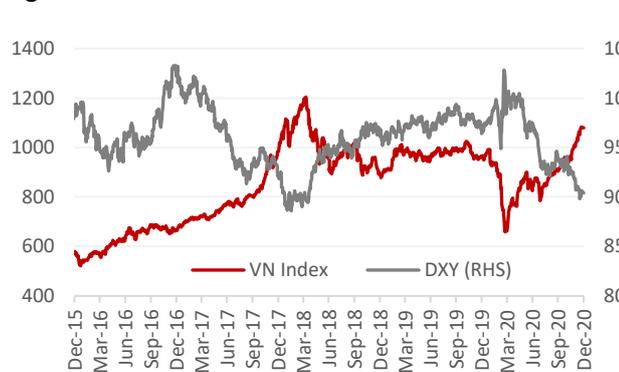
Fig 17: M2 Growth (%) 3M Trailing (Annualised)



Source: CEIC, VinaCapital

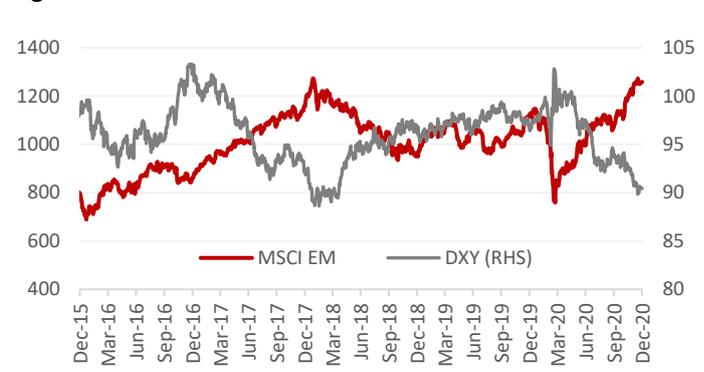
- **USD weakness:** USD weakness is seen as supportive to EM. Movement in the DXY and MSCI EM suggests a good relationship does exist (0.611). However, the relationship between the DXY and the VNI is weaker (0.428). This could be due to the perception that the VND is closely tied to the USD and as such, there is no currency benefit for investors investing in Vietnam in contrast to other EM. However, with the VND now likely to 'break' from the USD towards a path of currency appreciation, it can be argued that the VNI will have a greater benefit from the weakening DXY.

Fig 18: DXY vs MSCI EM



Source: CEIC, VinaCapital

Fig 19: DXY vs VNI



Source: CEIC, VinaCapital

In terms of mapping out a possible roadmap for the year, the first half seems fraught with **more imminent concerns that heightens uncertainty**. In line with the cliché that markets hate uncertainty, we are **anticipating higher volatility in the first half of the year** relative to the second half. These **concerns revolve around the ongoing battle with COVID-19 outside of Vietnam; leadership or political transition** from the US Presidency and the Blue Wave in the US government, as well as Brexit; or **geopolitical tensions involving China** (vs Australia/US/Canada/India/SE Asia).

More imminent endogenous worries may revolve around a new COVID outbreak or access to vaccines in the country; slow progress on important economic decision and policies until the formation of the new government; sector specific risks, primarily on the banking and aviation sectors; and risks to economic growth. We delve on these more domestic-related issues.

Endogenous risks

- **Access to vaccines.** Yes, there are vaccines. Will Vietnam get them? Perhaps not this year. We envision **border restrictions and strict quarantine protocols remaining a feature in 2021 for Vietnam**. The implication of this scenario is that **the street may be prematurely anticipating 'COVID-recovery' plays or a return to pre-COVID conditions that may not come to fruition until much later**. We expect no international tourism in 2021.

Brokers in their year ahead outlook pieces have assumed a vaccine will roll out to Vietnam in 2021. Though we expect Vietnam will continue to display a strong ability to manage the pandemic with swift and decisive responses to contain potential outbreaks and its spread, getting a vaccine may not be in the cards this year.

The disparity in access to the vaccine is already being reported, with **developed countries securing most of the available vaccines**. For example, 96% of the Pfizer/BioNTech vaccine have been bought by rich countries, and every one of Moderna's doses have been acquired by wealthy countries. At least 184 countries had joined the **COVAX** (the WHO initiative aiming to provide worldwide access to effective COVID-19 vaccines with a **targeted two billion doses secured by YE21**), yet perhaps only 250mn doses have been confirmed as purchased under the scheme according to Duke University's Global Health Institute.

It can, however, be argued that Vietnam's limited number of corona virus cases instils less urgency for a vaccine, and thus somewhat dampens the issue. It remains **unclear whether Vietnam has secured or ordered any doses of the vaccine**, although it has been reported that **clinical trials on its own vaccine among four candidates (Nanogen, Vabiotech, Polyvac, and IVAC) are being researched**. In the end, we are sceptical that Vietnam will see widespread vaccinations (let alone inoculation under the COVAX program), unless it buys directly from the manufacturers (which it apparently has not done) or produces its own domestic vaccines (which may take time).

Finally, there are a couple of assumptions that can be questioned: 1) **that the vaccine production and distribution will proceed smoothly**, or 2) that a country's **populace are willing to be vaccinated**. In our view, the goal of global and/or herd immunity may take longer than anticipated.

- **Slow progress on important economic decisions and policies.** As the first official meeting of the new XV National Assembly is not expected until mid-July, we are **not expecting important policy decisions or big policy announcements** up until then. The timeline leading up to July appears to be as follows: The XIII Central Party Congress will take place in late January to elect ~200 members to the Party's Central Committee. This Committee will nominate 19 members of the Central Politburo, including the top four government posts (General Secretary, President, Prime Minister, and Chairman of the National Assembly). The election of the National Assembly members is slated in late May.
- **Sector-specific risks with banks and aviation.** Every sector (in every country) should show some semblance of a recovery from a weak, if not decimated, 2020. Indeed, a better sense of optimism is being conveyed by all companies on their 2021 prospects. However, we pinpoint **banking and aviation as sectors that seems to have greater uncertainty to their profitability outlook** despite the general view that the worst may be behind them.

For the banking sector, the asset quality picture that has emerged has been 'less bad' than initially anticipated, as the SBV measures and Vietnam's success in combating the pandemic that helped buoy the economy has cushioned the impact of COVID-19. However, **uncertainty remains on whether time was merely bought** for enterprises and individuals, and **whether non-performing loans along with provisions will spike up** at YE20 or 1H21. Compounding the sector outlook is the question on margins, as a low rate environment is not conducive to margins (notwithstanding the impact of interest income accruing from

restructured loans that may become current) and persistent if not slower drop in funding cost due to what we see as tight sector liquidity.

For the aviation industry, the timeline for **the return of the more lucrative international flights remains unknown**, with a longer delay to borders reopening for commercial flights influencing the profitability prospects. A vaccine in Vietnam is the silver bullet for aviation, yet it may not be forthcoming (as discussed earlier).

- **Risks to economic growth.** We see this as a **minor worry**. In our view, the risk that growth falls below expectations resides with a weaker-than-expected growth in domestic demand that could be induced by higher enterprise and individual distress, and to a lesser degree, much lower remittance flow.

International tourism should not be expected to recover in 2021 (a loss of ~USD13bn of direct international tourist spending (5% of GDP), or 12% of GDP inclusive of the indirect impact), thus affecting the prospects of industries related to this.

Headwinds to exports may potentially be caused by higher tariffs resulting from the currency manipulator designation by the US and from weaker global demand for the country’s products on either a protracted global recovery or faster global recovery where the stay-at-home movement could dramatically reverse.

Supportive factors to the market

Having delved on some potential headwinds to the market’s expected ascent, we look at the other end of the spectrum at factors that can sway the magnitude and pace of the VNI’s rise: local investors; the return of foreign investors; the strength of corporate earnings; and National Party Congress policies.

- **Locals will remain a force to reckon with.** Domestic liquidity conditions remain conducive for the equity market, and we believe **local investors will continue to provide a crucial supporting pillar** to the market. Local investors had increasingly taken a larger share of market turnover over the course of 2020 – starting with corporate insiders and ultra-high net worth individuals buying stock in their own companies and expanding to retail investors spurred on by the SBV’s supportive monetary policies (including the suasion for banks to lower deposit rates. Theories proffered for the jump in local participation spans the gamut of the **absence of betting opportunities, unutilised funds** by entrepreneurs that was initially slated for expansionary purposes, **soft property prices**, and **lower margin lending rates** (to 8-9% offered by foreign (i.e., Korean) brokers. The increasing dominance of local investors is not an isolated phenomenon in Vietnam, as similar occurrences have happened regionally and globally. In Vietnam, there are now 2.6mn trading accounts, yet only ~300k are active.
- **Foreign investors will return to the market.** Current conditions entailing USD weakness and continued quantitative easing are favourable for emerging markets, and particularly for Vietnam. We believe Vietnam should hold higher appeal for foreign investors within Emerging Markets due to what we perceive to be **greater earnings certainty, cheaper valuations** amongst the markets in Southeast Asia, and the country’s **economic resilience** to the virus. Foreign investors had been net sellers most of 2020, and the question on when foreign capital inflow will return to Vietnam is not specific to the country. Net foreign outflow has in fact been greater in Southeast Asia, as reflected by the higher net selling amount in USD terms and the higher net outflow to market cap ratio of 1.5% for ASEAN-ex Singapore vs 0.4% in Vietnam.

Fig 20: VNI change (%) & Net Foreign Value (USDmn)



Source: CEIC, VinaCapital

Fig 21: VNI chg (%) & Net Foreign Value (VND bn) pre-COVID



Source: CEIC, VinaCapital

- **The importance of beating earnings expectations.** We believe there is greater earnings certainty in Vietnam relative to its SE Asian peers. Risk, in our view, is to the upside, which is an important consideration as the companies' ability to continue to beat their FY21E operational and net profit guidance will be crucial to their outperformance – in much the same way we saw companies that were able to beat market expectations and/or the companies' internal targets post better share price performance. Earnings sustainability and quality as well as balance sheet strength that should be considered with respect to a company's profitability outlook.

As it currently stands, consensus expectations for FY21E net profit growth estimates are 28% yoy, while VinaCapital is forecasting a 22% yoy NP growth for stocks under our coverage. Given the weaker performance in a very abnormal year of 2020, we gauge FY21E vs FY19A to compare more "normalised" years and find a **16.3% growth between these two periods**. However, **returns in FY21E are forecasted to be lower than FY19A** (for stocks under our coverage, ROE will be 15.5% vs 18.4% and ROA at 3.1% vs 3.4% for FY21E vs FY19A, respectively).

- **Faster policy reforms/changes.** Post the onset of the first session of the 15th National Assembly (in June 2021), we expect to see a relatively **better pace in changes in the regulatory, investment, and operating environment**. The general expectation is that regardless of the individuals occupying the top posts of the Central Party Committee, **political and social stability will prevail** – traits investors have come to associate with Vietnam. This stability is a key draw for Vietnam in light of the higher political volatility seen elsewhere in the region, and it has historically translated to the country's **steady economic performance regardless of external pressures**. Still, as mentioned earlier, ahead of the government leadership transition, we expect decision making (coupled with its anti-corruption program) will remain slow, if not considered.

Stock selection vs sector positioning

We continue to **run with several concurrent themes that we started with last year that we think will continue to run into 2021**. As themes are meant to be long running in nature (i.e., not trends that are shorter in duration), we believe that the mere flip of the calendar from December 31 to January 1 does not negate our ideas. To this end, recall our **six themes** as depicted in the table below, as well as the suggested sector plays.

Fig 20: Concurrent themes for Vietnam

DOMESTIC RECOVERY	INFRASTRUCTURE	'DEFENSIBLES'	LOWER RATE BENEFICIARIES	FDI	CONSOLIDATION
<ul style="list-style-type: none"> • Banks – generally less asset quality pressure on its borrowers. • Property – improved prospect for project launches. Hospitality properties. • Consumer discretionary – increased foot traffic. • Aviation related – more flights, passengers, cargo. • Brokers – improved company prospects, deals. 	<ul style="list-style-type: none"> • Airport • Construction Materials • Property • Utilities <p>Less direct or indirect plays could include:</p> <ul style="list-style-type: none"> • Industrial Parks • State owned commercial banks 	<ul style="list-style-type: none"> • Companies with industry leading franchises and businesses posting good returns &/or growth. 	<p>Positive impact:</p> <ul style="list-style-type: none"> • Brokers – Higher flow into the stock market and cheaper margin lending rates. • Property – lower funding cost for developers. • Companies in net debt position. <p>Negative impact:</p> <ul style="list-style-type: none"> • Banks – lower rates are not conducive to NIM. • Companies in net cash position. 	<ul style="list-style-type: none"> • Industrial Parks – those with ample capacity & ideal location • Ports, Logistics, Transportation • Consumer companies & Residential RE developers – from higher personal incomes • Indirect Beneficiaries: Materials, Banks, IPP, Infra developers 	<ul style="list-style-type: none"> • Banks – too many in the country. • Consumers – foreign interest potentially. • Property – on a project level, land banking.

Source: VinaCapital

Sector overview

Following is our overview of select sectors.

Aviation:

The delay in the resumption of international travel remain the key headwinds for the airlines and aviation-related firms. The key focus for us is the government support package that may be extended to the airlines. This is on the back of our outlook that international commercial/tourist flights will not resume in 2021. In this regard, securing bank loans would support the airlines' viability as an ongoing entity.

ACV's listing on HOSE appears to have been delayed to a much later date than 2021. Issues around aviation infrastructure management including runways (ACV to manage and operate the assets) and ownership (assets belong to the government) has been cited for the listing delay.

Downside risks include the weakening in consumer purchasing power, further delays in international travel, and a delay in capital support to the airlines. Upside potential would come from the earlier than expected resumption of international travel and tourism.

Potential themes: COVID-recovery play, infrastructure, lower rate environment, FDI, various consumer related angles (whether it pertains to a rising middle class, the modern retail secular trend, tourism), or lower oil prices.

Banks:

For 2021, we expect a better outlook for the banking sector on the back of higher margins (+14bp to 3.68%) when restructured loans become current, higher fees from transactional/payment and insurance fees (13.4% of total income from 12.1%), flat or slightly lower credit cost (-6bp yoy to 169bp) (although provisions may remain elevated) due to (i) some banks clearing VAMC in 2020, and (ii) high base of provisions for some banks that were more proactive on provisioning, and faster credit growth (12.8%) in line with higher GDP growth. FY21E net profit growth is forecasted to rise a faster 14.0% from FY20E's 9.9%.

Risk revolves around asset quality. The question on the potential extension of Circular 01 and the fact that ~40.5% of all loans received some form of payment restructuring or interest waiver (as of Dec 21, 2020) makes us wary that we are out of the woods on higher NPLs and provisions (with uncertainty on when provisions will peak).

Potential themes: We introduced 10 themes for 2021, of which we favour turnaround stories, divestment plays, bancassurance, and foreign flow beneficiaries because of the higher visibility on these themes. Rounding out the remaining themes, they include value plays, stake sales, HOSE listing, stock dividend catalyst, M&A, and corporate bond market development.

Consumers:

The recovery in retailers has been ongoing since May and retail sales should squeeze out a low-mid single digit growth for 2020 that can be expected to improve to mid-high single digit levels for 2021. Consumer staples though should have stronger growth this year, as well as next year on the notion of lower consumer income.

Upside and downside risk revolves around the unemployment and underemployment situation and ensuing impact on income and consumer sentiment and confidence. Slower property sales in relation to home related purchases (appliances, durable goods, consumer electronics) can be cited as a downside risk.

Longer term, the structural and secular appeal of the sector remains: a demographic dividend comprised of a young, skilled population (60% in the prime working age bracket of 15-64; 55% below 35 years old, and 45% in the high productive age group of 25-54), rising middle class (18% in FY20E), continuing urbanization (37% in FY20E), and rising modern retail trade.

Potential themes: domestic recovery play, defensibles, FDI, M&A, modern retail (inclusive of e-commerce), market share pursuit.

Industrial Parks:

Industrial property demand remained strong in 2020. Occupancy rates in both the north and south remain high (~77-79%), with strong demand seen for warehouse and ready built factories. The prices of industrial property have increased strongly in 2020 by more than 20%, though companies may be looking to maintain the price to encourage customers to close the deals. The government's infrastructure spending inclusive of roads, seaports, and airport runway upgrades and a new

airport (Long Thanh) will be conducive to improving Vietnam's appeal as a manufacturing base. The US-China trade tensions will accelerate the manufacturing relocation trend to Vietnam that was well under way, with existing tenants expanding their facilities and new tenants coming in. Delays in closing procedures due to COVID-19 has pushed some profit booking to 2021, thus paving the possibility for a strong yoy growth.

Downside risk is with a further delay in the closing procedure due to the pandemic. Upside potential may come from the further rise in industrial property prices.

Potential themes: infrastructure, FDI, export related.

Materials:

The government's infrastructure spending is supportive of construction activities and thus materials volume growth. Leading players gained market share behind greater efficiencies. A key focus for the sector will be the input cost (iron ore prices, coking coal prices, and scrap steel for steel; oil prices (for PVC resin) for plastic pipe; electricity and coal prices for cement).

Upside potential and downside risk revolves around input prices (from iron ore, oil, or coal). China's restructuring of its steel and cement industries would also have bearing globally and to Vietnam, as well as the pace of its infrastructure spending (a slowdown would affect exports to China). The removal or extension of anti-dumping tariffs is also a risk to consider (for e.g., anti-dumping taxes on billet and long steel are slated to be removed in 2021).

Potential themes: infrastructure, rising/falling input prices, market share pursuit, reflation, domestic recovery.

Oil & Gas:

The operational outlook as well as sentiment on the sector continues to be influenced by oil price movements. To this end, our and the market outlook for higher oil prices (VinaCapital: USD50) in 2021 suggests the sector should see a better year. Higher oil price is supportive of the development of domestic gas projects, to which more have been started (Ken Bau, for example). In 2020, domestic gas development saw delays (due to the pandemic) that impacted some companies, at least in the short term. Despite a pipeline of new domestic gas fields, the country's high demand for gas means LNG import projects need to see progress and approvals, which could pave opportunities for a few firms in the sector. Petroleum volumes should improve in 2021 behind the pickup in economic growth that would benefit select companies.

Risk on the sector primarily resides with oil prices, with the state of the global economic recovery, OPEC+, and US production the key factors affecting this outlook. A prolonged border restriction also hinders the ease that foreign experts and workers can enter the country to conduct inspections, supervisions, and advisories.

Potential themes: infrastructure, FDI, LNG development.

Real Estate:

We saw weak sales numbers (20-30% lower vs pre-COVID levels) this year. For 2021, we expect a 90% recovery for 2021 with stronger sales in HCMC than the North/Hanoi. Supply and demand dynamics differ between the two key cities of HCMC and Hanoi.

With the stringent regulatory environment and anti-corruption campaign leading to stricter regulations on property in HCMC coupled with the onset of the pandemic, developer activity was subdued in 2020. Launches and sales were considerably down yoy. For 2021, launches and higher sales in 4Q20 as well as firmer prices may extend to 2021 on the back of pent-up demand arising from a lack of supply. We also think the stricter measures in HCMC will somewhat lighten.

In Hanoi, high supply largely from mega projects amidst the pandemic led to less launches and units sold. However, for 2021, abundant supply may mean slower launches and lower presales.

Overall, we are expecting strong net profit growth in 2021, as we expect good absorption of launches given lower mortgage rates (fixed rates of 7-8% over 1-2 years and 10% variable rate, and longer tenors (30-35 year from 20-25 years) available that make home purchases more affordable. With more launches slated next year, we expect sales to rise.

Downside risk resides with lower income arising from the impact of the pandemic as well as employment levels. Delays in the launch schedules by developers can also be cited as a risk. Upside comes from the lower mortgage rates amidst strong demand that may lead to good absorption of launches.

Potential themes: domestic recovery; infrastructure; low rate environment; FDI; consolidation.

Utilities:

Electricity demand is slated to contract in 2020 due to lower manufacturing activities primarily during the imposed lockdown earlier this year. Gas shortage and a drought affected gas fired and hydro power plants (leading to higher coal contribution). The solace behind the lower electricity demand is there was no power shortage in 2020 - a situation that will reverse in 2021 that ironically benefits all power plants. Power demand can only continually rise in conjunction with a country's overall growth. In this regard, electricity consumption growth is set to increase in the next five years at an estimated rate of ~8-11% per year, potentially pushing gross demand to more than double the current levels by 2030. Structurally, renewable energy (solar, wind) will be a focus for new capacity given its attractive pricing mechanism. We, however, think the competitive generation market prices will be softer in 2021 from more renewable (solar primarily) supply, though the impact to companies with high CGM volume might be minor.

Power shortages is an issue for the country, though not for the power plants. Likewise, the issue of reserve power is another nation-wide matter. More specifically for the power plants, downside risk is on the availability of transmission grids to absorb new (renewable) energy output, as well as power pricing (entailing the feed-in-tariff structure and power purchase agreements). Input supply and cost (gas, coal, water) are other considerations to the companies' outlook. Delays in gas field projects will have bearing on gas-fired generators. Upside potential resides with higher retail prices.

Potential themes: renewable energy, privatisation/liberalisation.

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