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Vietnam's "Re-Opening" Stocks

Vietnam's economy is expected to start re-opening by mid-October, and we expect the domestic economy to have mostly reopened by the end of 2021. The Government's strategy has shifted from a "Zero COVID" approach to a "Living with COVID" approach, as discussed in our previous "Insights From VinaCapital" report that can be found [here](#). The daily numbers of new cases and COVID deaths are now declining, which can be seen [here](#).

We forecasted the expected revenues and earnings rebounds of companies in Vietnam's "re-opening" sectors, based on a recovery of local incomes and a lifting of COVID restrictions on local businesses that will enable those firms to produce and sell their products and services. Note that the numbers in the table below are simple averages of the expected growth rates of the companies we cover in each sector.

Sector	Revenue Growth		EPS Growth	
	2021	2022	2021	2022
Passenger Aviation	-39%	+166%	-12%	+2,131%
Retailing	+2%	+13%	+79%	+41%
Consumer Staples	+4%	+6%	-6%	+9%
Building Materials	+31%	+3%	+34%	+47%

Finally, we have designated the sectors above as Vietnam's "re-opening" stocks because these are the sectors in Vietnam's stock market for which it is easiest to isolate the impact of the re-opening, *ceteris paribus*. For example, banks will obviously also benefit from the re-opening of Vietnam's economy, but there are many other factors, including Government policies on NPL forbearance, that will determine how banks' earnings respond to the reopening.

Passenger Aviation

The level of domestic air travel in Vietnam is currently 90% below pre-COVID levels. We expect domestic air travel to nearly rebound to pre-COVID levels by the end of 2022 based on the current pace of vaccinations, although we do not expect foreign tourism to resume until the middle of 2022. This implies that the total amount of air travel activity in Vietnam will still be 20% below pre-COVID levels at the end of next year. Based on these assumptions, we expect industry-wide earnings to surge by over 2,000% next year, although we have omitted Vietnam Airlines (HVN) from this analysis because the Government support the company recently received makes it difficult to forecast the future trajectory of the company's earnings per share (EPS).

Note also that airlines have high fixed costs (or what analysts call a high "degree of operating leverage"), which helps explain why we expect a 166% jump in revenues next year to drive a 2,131% surge in earnings. That said, the share prices of those companies are unlikely to surge by anything like 2,000%, because investors remained fairly optimistic about the long-term prospects of these companies this year, which explains why these stock prices have fallen by less than 10% YTD.

Retailing / Consumer Discretionary

Social distancing measures have been imposed in HCMC for over three months, including a strict, "stay at home" mandate that has lasted for more than one month. Vietnam's COVID restrictions are the strictest in Southeast Asia, so about 60-80% of the stores in Vietnamese retail chains like PNJ (336 jewellery stores), Mobile World (2,712 electronics stores), and FPT Retail (625 electronics stores) have not been able to operate in recent months, but we expect most of those stores to reopen by November.

In contrast, grocery stores and pharmacies remained open this year, which benefitted Mobile World Group's 1,949 store grocery format and FPT Retail's 268 store pharmacy format. MWG's revenues would have plunged by an additional 10%, were it not for the company's grocery format, and FPT's pharmaceutical surged by so much in 2021 that it lifted the retailing sector's overall average EPS growth – which explains why we expect retailers' EPS growth to drop from 2021 to 2022 in the table above. In addition, we expect many customers who were forced to adopt ordering groceries online to continue embracing this form of modern commerce going forward (note that less than 10% of groceries in Vietnam were purchased in modern retail chains pre-COVID because most consumers preferred to shop at wet markets, and mom & pop stores).

Next, some retail stores in Vietnam will experience an extra boost to their revenues when the economy re-opens due to “pent up demand” from local consumers. For example, many young people were forced to delay their weddings until next year because of COVID, which we expect will boost PNJ’s revenues by an extra 5% next year. In contrast, the electronics retailers managed to maintain some of their online sales this year, reducing their prospects for “pent up demand” revenues.

Finally, many countries around the world have experienced a small boom when their economies re-opened, driven by across-the-board, pent-up demand for all products (i.e., not just specific products, the like jewellery example above). Vietnam’s re-opening surge could be muted because the Government’s COVID aid was minimal and there was no accumulation of “excess savings” to be unleashed in the re-opening, unlike in many countries around the world – including in Vietnam’s Emerging Asean peers. Further to that last point, Vietnam’s middle class is not large enough yet to have fuelled an accumulation of “excess savings” in the country over the last year.

Consumer Staples

Consumers in Vietnam stocked up on essentials in advance of the imposition of the Government’s social distancing lockdowns – just as consumers around the world did. Sales of products such as UHT milk and other packaged foods were growing at about a 2-3% pace in 2021, prior to the current outbreak, which is a fairly low growth rate, due to the hit that many consumers’ incomes had already suffered during 2020. The sales growth of consumer staples products shot up to a 7% y-o-y pace prior to the tightening of social distancing measures, but we expect growth to recede back to a flat pace by the end of 2021, which is reflected in the tepid 2022 revenue and earnings growth forecasts in the table above.

Construction Materials

The construction of many real estate and infrastructure projects in Vietnam ground to a halt from mid-July due to strict requirements that essentially compel workers to live on-site. Consequently, the volume of building materials sold in the domestic market plunged by about 50% m-o-m in July, and then fell further in August. In August and September, the volume of plastic pipes, construction steel, and cement sold in Vietnam was about 80% below the levels in the first half of the year, although we expect sales to rebound to pre-Delta variant levels towards the end of this year.

These assumptions are the basis for our forecasts in the table above, but some of the building materials companies we cover (such as steel producer HPG, and cement producer HT1) were able to export their unsold production in recent months, while other companies such as plastic pipe producer BMP only sell to the domestic market and were therefore forced to cut their production by 80% when their sales plunged. If companies such as HPG and HT1 were not able to export their excess production, then sector-wide revenues would have dropped nearly 20% this year instead of the expected 31% increase that appears in the table above (note that in addition to a surge in exports by some companies, a 50% increase in the capacity of steel maker HPG in 2021 boosted the sector-wide revenue growth this year).

Finally, we assume that there will be a surge in Vietnam’s infrastructure construction next year. We previously expected infrastructure spending to grow by nearly 20% this year, partly because Vietnam’s new Government approved an ambitious ramp-up in spending starting from 2021, which was discussed in [this report](#). Instead, infrastructure spending fell 16% y-o-y in 8M21 due to COVID. Much of the spending earmarked for 2021 is likely to be carried over into 2022 as the Government will want to support the country’s economic recovery next year with infrastructure construction, and because the country’s new Prime Minister made his name earlier in his career as a leader who could accomplish infrastructure projects in the provinces he managed.

Real Estate and Construction

Construction firms are likely to resume building apartment buildings and major infrastructure projects in October, enabling these companies to complete the projects in their pipelines. This, in-turn, should enable both construction firms and real estate developers to book more revenues and earnings in the months ahead. However, there are also other factors entailed in the timing of when companies in these industries record their earnings, so we do not consider these stocks to be pure “re-opening plays”, even though we are optimistic about the post-COVID prospects of construction and real estate firms.

Summary

We expect Vietnam’s domestic economy to start re-opening from mid-October, and largely re-opened by the end of 2021. The biggest expected stock market beneficiaries include some of the same sectors that benefitted in other countries, including airlines and retailers, and we also expect the earnings of building materials companies to perform well next year, given an expected rebound in real estate and infrastructure construction activity.

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