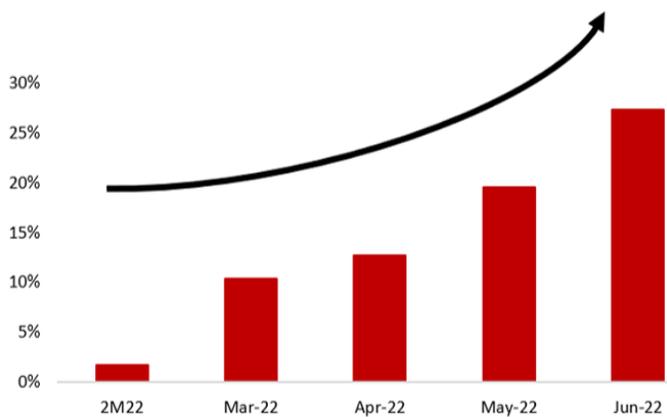


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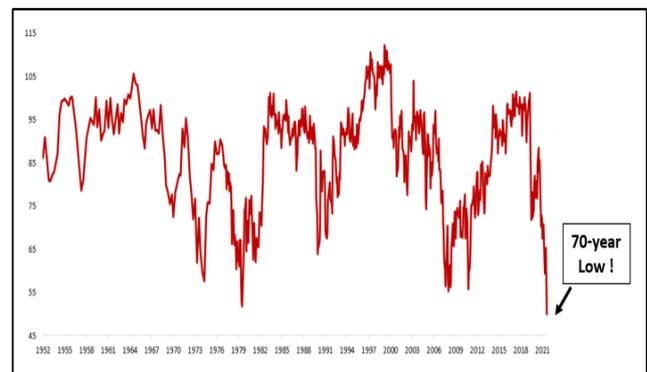
Vietnam's Stellar Q2 GDP Growth, Driven by Domestic Consumption

Vietnam's economy grew 7.7% year-on-year in Q2, which was one of the country's fastest quarterly growth rates in a decade, and which was driven by a dramatic acceleration in domestic consumption, as can be seen in the chart below. Vietnam's stellar Q2 GDP growth has prompted us to lift our 2022 GDP growth forecast from 6.5% to 7.5%, although we believe it is very possible that Vietnam's GDP will grow by more than 7.5% this year. Furthermore, GDP growth in Q3 is likely to exceed 10% yoy because the COVID lockdowns in Q3 of 2021 resulted in a low base from which 3Q22 activity will be compared.¹

Vietnam Retail Sales Growth (% yoy)



US Consumers' Desire to Buy "Big Ticket" Items



Source: University of Michigan

We believe that a 10% yoy GDP print for Q3 would be a major catalyst for investors to pour money into Vietnam's stock market, with the only caveat to the very bright outlook for Vietnam's GDP growth being the on-going slowdown in US GDP growth. This slowdown in the US economy is weighing on demand for "made in Vietnam" products such as TVs, furniture, and smartphones, as can be seen in the latest consumer sentiment survey from the University of Michigan above right. Further to that last point, the US is Vietnam's largest export market, and export growth to the US slowed from nearly 50% yoy in 1H21 to a still very respectable 23% yoy in 1H22.

We expect Vietnam's export growth to the US to fall to circa 10% by the end of the year as the US economy continues to slow, and we have *already* been factoring it into our forecasts for Vietnam's 2022 GDP growth since the beginning of the year. At that time, our view that Vietnam's manufacturing output growth would decelerate in 2022 was very much a non-consensus view, but the growth of the manufacturing sector has indeed decelerated from 11.6% growth in 1H21 to 9.7% growth in 1H22 as demand for "made in Vietnam" goods started to soften (e.g., the production of televisions in Vietnam fell 18% yoy in 1H22).

Finally, Vietnam's GDP growth accelerated from 5.6% yoy in 1H21 to 6.4% in 1H22 despite the fact that Vietnam's Government budget surplus more than doubled from 2.2% of GDP in 1H21 to an estimated 5%/GDP in 1H22², which was a major drag on the country's economic growth, but which was more-than-offset by a surge in real retail sales (i.e., retail sales adjusted by inflation) from 1.9% yoy growth in 1H21 to 7.9% growth in 1H22.

Beneficiaries of Vietnam's Strong Consumption and GDP Growth

The surge in domestic consumption propelled the earnings growth of consumer discretionary companies listed on the stock exchange, such as Digiworld (DGW), a consumer electronics/mobile phone retailer, and jewelry retailer PNJ (PNJ), which both achieved 50-60% increases in their H1 earnings. The earnings of FPT Retail (FRT) surged by 5x, partly because the company's sales of discretionary items such as iPhones and other consumer electronics products surged, but also because revenues at the company's Long Chau pharmacy benefitted from patients resuming their pre-COVID health treatments.

¹ In 2021, Vietnam's GDP grew by +4.7% yoy in Q1, and by +6.7% yoy in Q2, but then dropped -6% yoy in Q3 because of the COVID lockdowns, before recovering to +5.2% yoy growth in Q4. The resulting "low base effect" in 3Q21 ensures a high GDP growth rate in 3Q22.

² The General Statistics Office estimates government revenue grew by nearly 20% yoy in 1H21 while spending grew by just 5%.

Similarly, now that the COVID epidemic in Vietnam is essentially over, domestic tourism has fully recovered to above pre-COVID levels, so the earnings of Vietnam's airport operator, Airports Corporation of Vietnam (ACV) more than doubled. Meanwhile, "pre-sales" to purchase newly constructed housing units are leading developers like Nam Long Group (NLG) and Vinhomes (VHM) to increase by well over 100% yoy in H1. There have been reports of prospective buyers lining around blocks to hand over their down payments and reserve the units they wish to purchase – and those strong pre-sales will convert into strong revenue and earnings growth in the mid-term when the units are completed and handed over to buyers.

Modest Inflation Outlook

Investors are focused on the global inflation wave currently sweeping across the globe, but inflation in Vietnam is still very modest at just 3.4% yoy at the end of June. Vietnam's low inflation rate, which was highlighted in an article in the *Economist* magazine³, stems in part from the fact that Vietnam produces more than enough food to feed its citizens. That said, the main driver of inflation in Vietnam is a surge in global oil prices, so their recent drop should put investors' minds somewhat at ease about the likely trajectory of inflation in Vietnam for the rest of 2022.

In addition, the Government cut the environmental tax on petrol prices in Vietnam on April 1st and on July 11th, which reduced prices at the pump by a total of about 10%, although retail petrol prices in Vietnam are currently still up 40% yoy. Critically, even after these tax cuts, the Government still has the ability to reduce petrol prices by a further 26%, which would shave about 1.5%pts from Vietnam's headline CPI rate. We have outlined a few likely inflation scenarios in the table below.

Scenario		CPI		
		Peak	End-2022	Avg
"Frozen"	- Oil stays at \$120 - Rice & Pork prices stay at current levels	5.0%	4.0%	3.2%
"In-Between"	- Oil climbs from \$120, to \$130 - Rice & Pork prices stay at current levels	5.5%	4.5%	3.5%
"Continued Inflation"	- Oil climbs from \$120, to \$130 - Rice & Pork prices climb another 10% by y/e	6.5%	5.5%	3.8%
"Oil at \$150"	- Oil climbs from \$120, to \$150 - Rice & Pork prices climb another 10% by y/e - Food price inflation (ex-Rice & Pork), reaches 8% by y/e	8.3%	7.7%	4.5%

All of that said, Vietnam's inflation rate is likely to remain well within the range targeted by the State Bank of Vietnam (ie. up to a maximum 4% for Vietnam's average inflation rate this year), making it very unlikely that it will hike policy rates this year, in contrast to all of Vietnam's regional EM peers that are currently hiking rates. Furthermore, Vietnam's modest inflation has also lent some support to the value of the VN Dong, which has depreciated by about 3% YTD despite a 13% YTD increase in the value of the US Dollar / DXY Index. In addition, the US Treasury Department recently reiterated its desire that the SBV allow the value of the VN Dong to float freely in response to market forces, which we believe will prompt significant appreciation in the value of the VND in 2023⁴.

Conclusions

Vietnam's GDP growth surged in Q2, and we expect an even bigger jump in Q3, driven by the on-going burst of domestic consumption. Some investors are concerned that the nascent slowdown in the global economy – and especially in the US economy – will drag down Vietnam's GDP growth, but our 7.5% GDP growth forecast already assumes a major slowdown in global economic growth this year.

Unfortunately, Vietnam's stock market has not benefitted meaningfully from the country's impressive GDP growth this year, partly because of turmoil in global markets, and there is a risk that global stock market volatility will continue to impact Vietnam's stock market in the months ahead. That said, the consensus expects the market's earnings to grow by 16% this year, driven by strong economic growth, and we expect the earnings of companies in our VVF and VAF funds to grow by 40% on average. Consequently, we expect a strong rebound in both the VN-Index and our funds by the end of 2022.

³ <https://www.economist.com/finance-and-economics/2022/06/20/why-is-inflation-relatively-low-in-some-places>

⁴ Note that the SBV did nearly 4%/GDP worth of "unsterilized" FX intervention, which essentially depressed the value of the VN Dong.

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