



INDOCHINA  
CAPITAL  
MONTHLY  
NEWSLETTER

## Stock Market Commentary

- Strong macro fundamentals and bright Q3 corporate results were not enough to help the Vietnam market ward off the global equities rout in October. **The VN Index collapsed by 10.10% MoM**, wiping out all the gains it made in the 2.5-month rally started since mid July. It reached a 12-month low of 888.69 on October 30 before making a strong rebound in the last day to close the month at **914.76, losing 9.52% YTD in USD terms.**
  - The tumble made October the second worst month this year after the 10.40% drop in April.
  - While the market crash was broad-based, some sectors performed especially worse than the others. The oil & gas sector lost 10-30% MoM as the WTI crude oil price fell 10.8% in October. It was followed by banking and real estate stocks with losses of 10-20% MoM after these sectors made impressive rallies in August and September.
- Market liquidity improved for the third consecutive month, with **average daily trading value** on Ho Chi Minh and Hanoi stock exchanges **rising by 9.2% MoM to US\$253 million.**
- **Foreign investors were net buyers of US\$393.8 million** in October. The net buying value mostly came from a block trade on MSN as South Korea's SK Group purchased 9.4% of the company's shares worth of US\$470 million on October 2.
- As at the end of October, most of the listed companies have released their financial statements for 3Q2018. The real estate sector recorded impressive earnings across the board as developers continued to book huge revenue from handed-over projects. Some banking stocks also posted upbeat results thanks to slight expansion in NIM and strong momentum in non-interest income, despite the government's caps on credit growth. Exporting companies in food processing and textile industries reported the most impressive results in Q3 as they benefited from higher export prices.
- While market sentiments in Vietnam at the moment are largely driven by the global equities market, the recent collapse presents an opportunity to accumulate stocks with growth potentials that have been oversold to very attractive levels. At the end of October, the trailing P/E of the VN Index has fallen to 16.0x, with many companies trading at forward P/Es of 8.0x -12.0x.
- We look forward to the developments of trade talks between China and the US during the G20 summit (Nov 30 – Dec 1) which is expected to be a key driver for the global equities market in the remaining of the year.

# Macroeconomic Update

	Oct 2017	Sep 2018	Oct 2018	FY2018 Target
CPI (MoM change)	0.41%	0.59%	0.33%	
CPI (YoY change)	2.98%	3.98%	3.89%	<4.00%
YTD Trade Balance (US\$ billion)	\$2.00	\$6.32	\$6.42	
Exchange Rate (US\$/VND)	22,770	23,380	23,390	
YTD Disbursed FDI (US\$ billion)	14.20	13.25	15.10	
PMI Manufacturing Index	51.60	51.50	53.9	
Industrial Production growth (YTD YoY)	9.60%	10.60%	10.40%	
Nominal Retail Sales Growth (YTD YoY)	10.70%	11.30%	11.40%	
VN Index	837.28	1017.13	914.76	

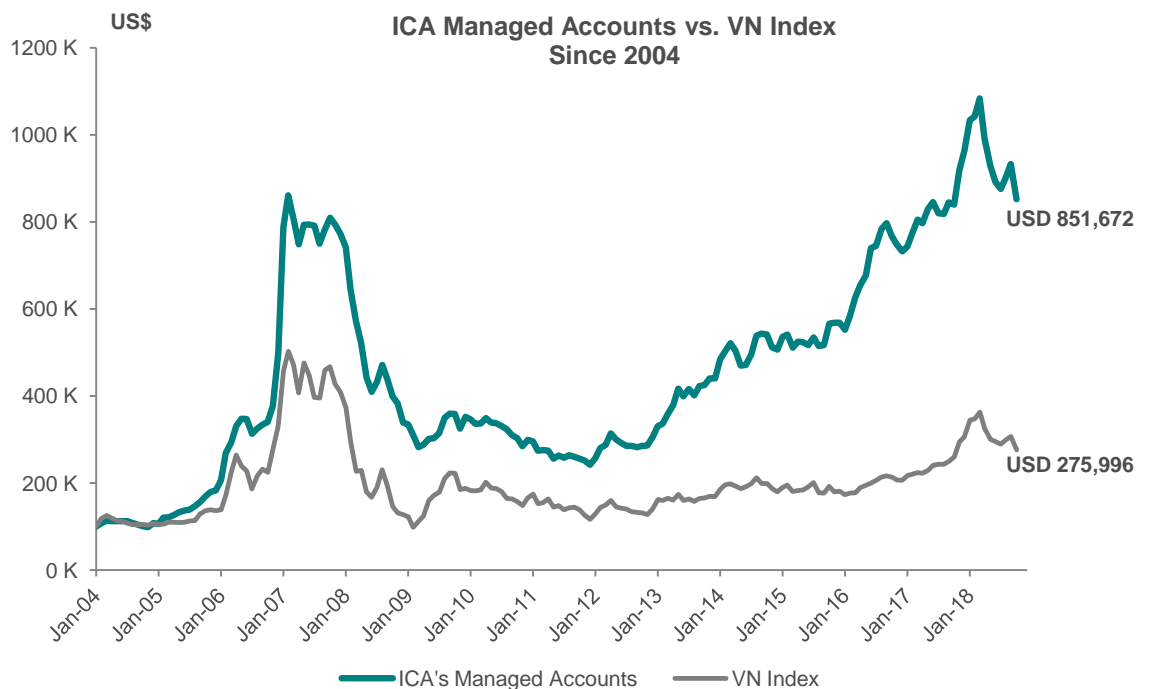
Source: GSO, Customs Office

Vietnam's economy presents itself in good shape in October as PMI bounced back from a 10-month low, retail sales steadily improved, 10M disbursed FDI beat last year's high, the USD/VND stayed flat, and last but not least, Moody's upgraded the country's macro profile from "Weak" to "Weak+".

- **The Nikkei Vietnam Manufacturing PMI** climbed to **53.9** in October, marking 35 consecutive months of improvement in the sector.
  - The pace of expansion of the manufacturing sector picked up after three consecutive months of deceleration.
  - The reading was backed by strong rises in outputs, new orders and employments. The rate of input cost inflation moderated to the weakest in 15 months.
  - The success in securing new orders of manufacturers allayed worries about a slowdown in the sector until the end of the year.
- Nominal 10M **retail sales were up 11.4% YoY**. In real terms, retail sales were up 9.31% YoY (10M2017: 8.79%)
- **Monthly inflation** eased to **0.33%** (Sep: 0.59%). **YoY inflation** stood at **3.89%** (Oct 2017: 2.98%).
  - CPI in October was mainly driven by price increases in (i) petroleum, (ii) educational services, (iii) accommodation and construction materials, and (iv) food and foodstuffs.
  - YoY inflation was higher than last October but has eased in each of the last four months.
- **Disbursed FDI** reached **US\$15.1 billion, up 6.3% YoY**. **10M registered FDI** stood at **US\$21.6 billion, down 8.5% YoY**.
  - The manufacturing sector accounted for 45.6% of total registered FDI, the real estate sector 34.0% and the remaining sectors 20.4%.
  - Japan, Korea and Singapore are the top three FDI contributors (in terms of newly pledged FDI) in 10M 2018 with respective shares of 39.2%, 22.1% and 7.1%.
  - FII in 10M 2018 was US\$6.3 billion, up 35.8% YoY. The manufacturing sector attracted 27.4% of FII, the wholesale and retail sectors 24.5% and the remaining sectors 48.1%.
- **Trade surplus reached** an all time high of **US\$6.4 billion** after adding an additional **US\$100 million of surplus in October** (10M 2017: US\$2.00 billion).
  - Exports grew by 14.2% YoY while imports grew by 11.8% YoY.
- The **USD/VND rate was flat** during the month with **closing rate at 23,390** (Sep: 23,380)
  - The VND stayed strong despite the CNY steep depreciation of nearly 1.5% vs. the USD. China is Vietnam's largest trading partner with 16% share of Vietnam's exports and 27% share of Vietnam's imports.
  - The strong VND is backed by a record-high trade surplus and stronger than ever FDI and FII into the country.

- Macro-political highlights in October 2018:
  - As trade tensions escalate, the IMF cut global growth forecast from 3.9% to 3.7% for 2018 and 2019, which is the first downgrade since July 2016. A full blown trade war is expected to cause global output to fall by 0.8% in 2020.
  - China reported a Q3 growth of 6.5% YoY, 100 bps below forecast and the weakest rate since 2009, which heightened concerns over the health of the country's economy.
  - Mr Trong was sworn in and became Vietnam's first Party Secretary cum President. This sends signs that the decision makers are more unified than ever.
  - Moody's upgraded the baseline credit assessments of 12 Vietnam's banks, reflecting the agency's expectation that the strong economic growth evident in Vietnam will support the asset quality and profitability of the banks. Vietnam's Macro Profile was increased from "Weak" to "Weak+".

## Historical Performance

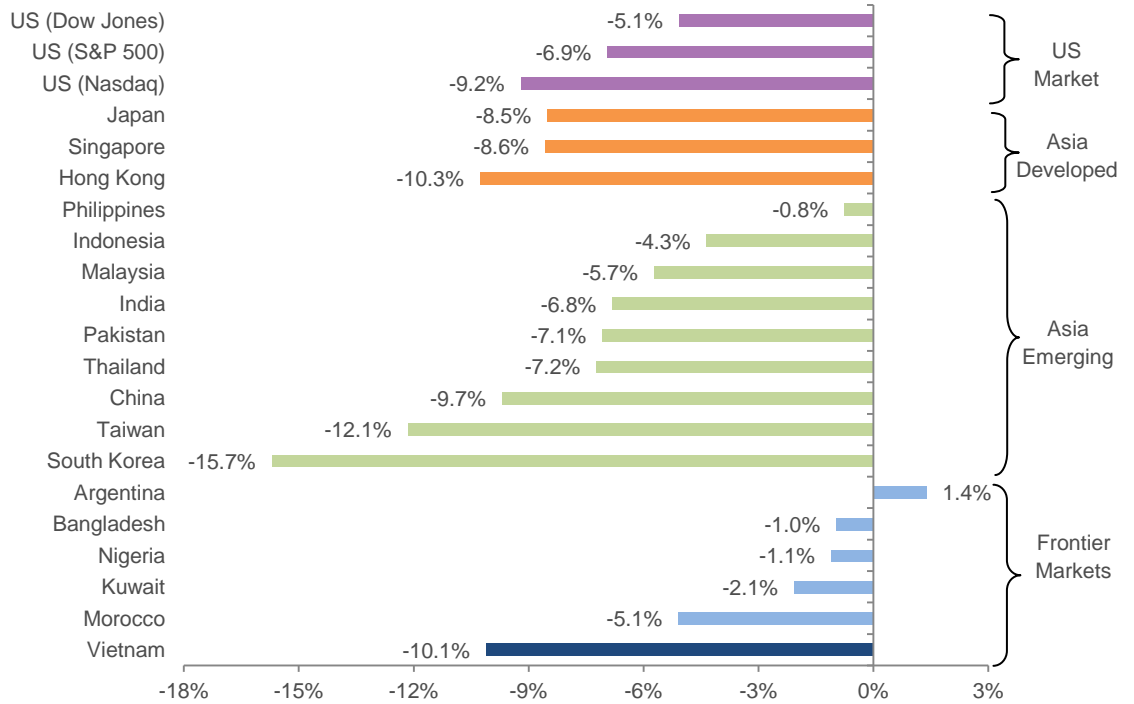


\* Calculated based on US\$100,000 invested with ICA since inception (2004) versus invested in the VN Index

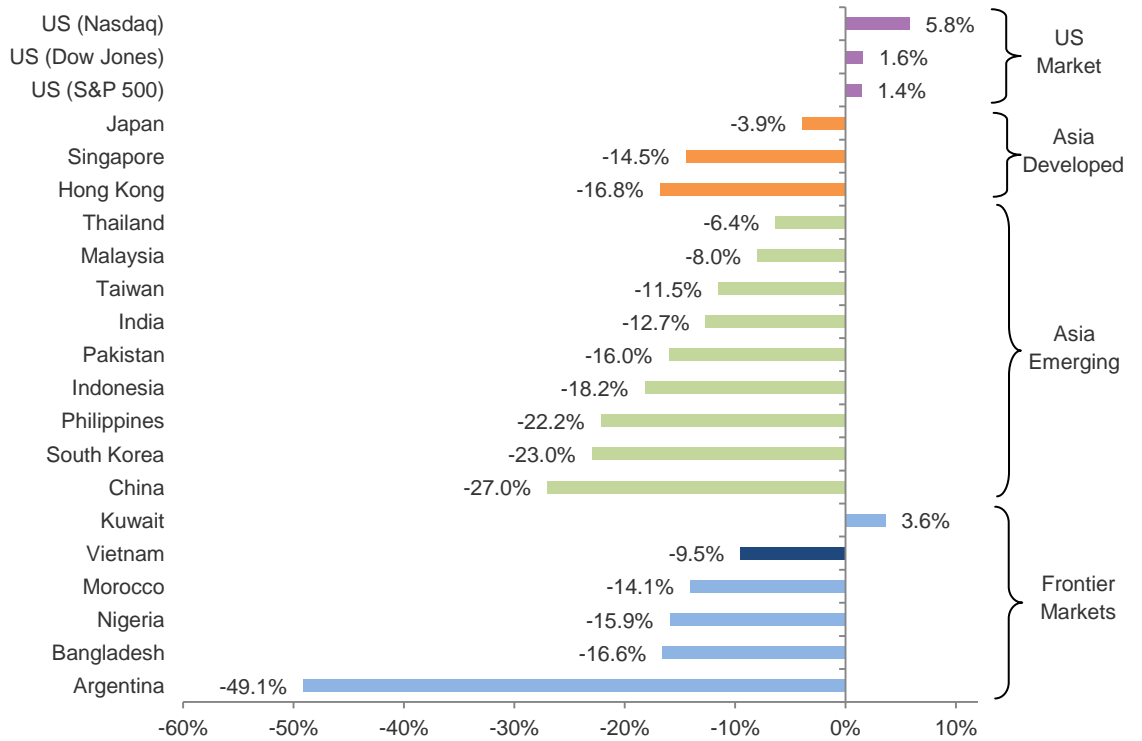
\*\* Monthly time-weighted returns, net of all fees, based on total NAV of all managed accounts, including impact of VND depreciation against the USD

\*\*\* Data as of October 31, 2018

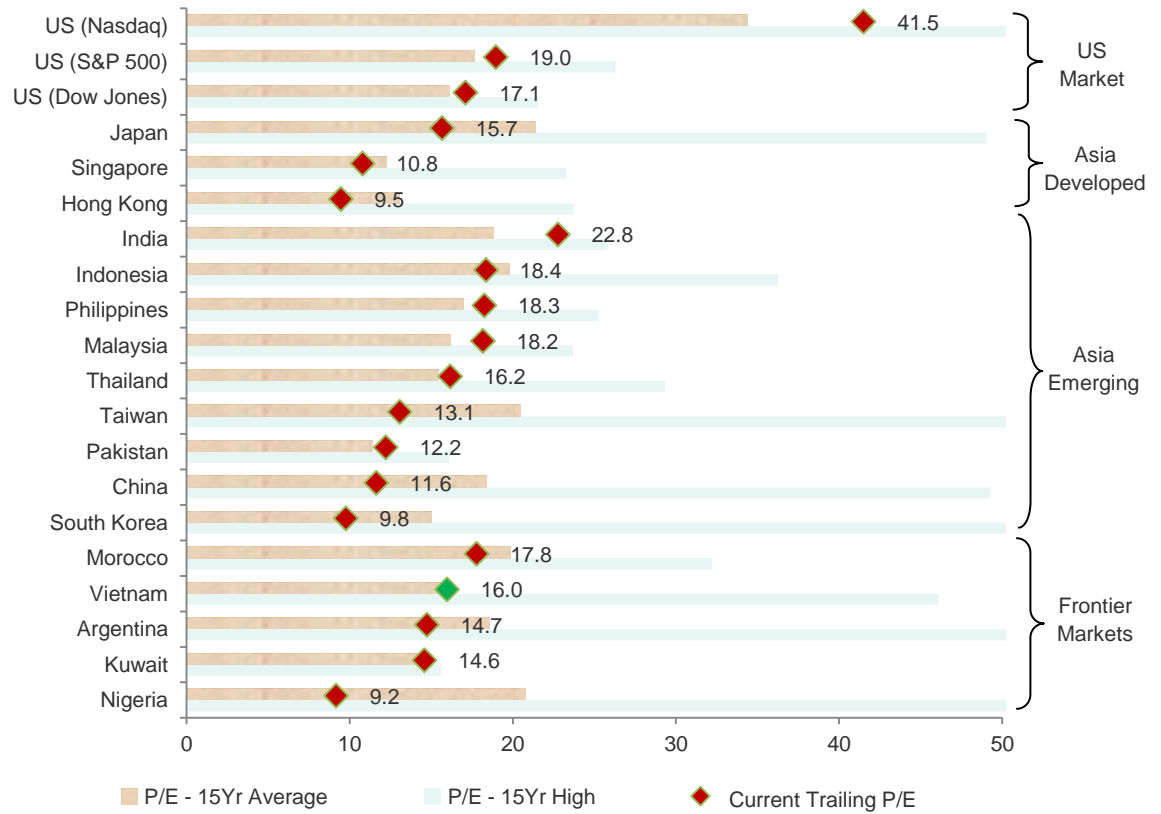
**Stock Market Monthly Returns by Country (in USD)  
as of October 31, 2018**



**Stock Market YTD Returns by Country (in USD)  
as of October 31, 2018**



## Stock Market P/Es by Country Current Trailing, 15-Year Average & 15-Year High



(\*): 15Yr High P/Es of Nasdaq, Taiwan, South Korea, Argentina and Nigeria are above 50.x

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