



Stock Market Commentary

After an impressive rally of 6.03% (in USD terms) in January, the Vietnam market continued its upward momentum in February on the back of stronger sentiments and higher liquidity which were bolstered by upbeat 4Q16 results. The VN Index successfully broke through its long-term resistance level of 700 points for the first time since 2008, and traded above this level throughout the whole month of February.

- **The VN Index gained 1.31% MoM and 7.41% YTD in USD terms**, closing February at **710.79 points**. The gains were relatively lower than other emerging markets as **the MSCI Asia ex-Japan Index and the MSCI Emerging Markets Index saw monthly advances of 3.38% and 3.06%**, respectively.
- February also marked the return of large local money flows after several months staying aside due to the lack of catalysts. Contribution from domestic investors expanded to 88.5% of total market value from 83.2% in January. **The combined average daily trading value on Ho Chi Minh and Hanoi stock exchanges surged by 47.7% MoM to US\$160.4 million** in February or the **highest level since September 2014**. Investors' sentiments were supported by better-than-expected 4Q16 results, coupled with positive growth prospects for FY2017.
- Net foreign buying reached **US\$28.3 million in February** and **US\$59.3 million YTD**. This was quite positive considering the net selling amount of US\$67.5 million in the same period last year.
- Despite milder gains, the market rally in February was actually stronger and more broad-based than in January when it was only driven by a selected number of stocks.
 - Real estate and construction sectors became the highlight of the month with the highest money inflows sending their prices up by 5 – 40% MoM in February. The rally was boosted by expectation of another upbeat year for the properties market, especially in Ho Chi Minh City which was forecasted to welcome a surging flow of migrants reaching hundreds of thousands of people per year, all need accommodation.

- The stock market also witnessed the return of money flows into fundamental stocks which have been neglected in recent months as investors focused on the new listings. Impressive 4Q16 earnings have driven most fundamental stocks across all sectors up by 5 – 20% in the month with surging liquidity.
- The VNIndex's performance was only dragged down by the banking and financial sector, which experienced some slight corrections after its earlier rally in January.
- Private budget carrier Vietjet Air (HSX: VJC), one of the most awaited listings in 2017, had their first trading day on the Ho Chi Minh Stock Exchange on February 28 with price jumping 20% to ceiling level and market cap reaching US\$1.42 billion.

March is another eventful month for the market. Besides expectation that the FOMC meeting on March 15 will likely close with another increase in interest rate, investors are also contemplating the possibility of multiple rate hikes this year.

In the meantime, the AGM season is already starting with the first few companies releasing their AGM documents with high projected growth for FY2017. We believe growth would continue to be the main catalysts for the Vietnam market at least until the end of April when 1Q results start to be announced. With investors' sentiments being the most positive since mid-2016 and attractive market valuations, we believe the outlook for the Vietnam stock market in 2017 is still bright despite global uncertainties.

Macroeconomic Update

	Feb 2016	Jan 2017	Feb 2017
CPI (YoY change)	1.27%	5.22%	5.02%
CPI (MoM change)	0.42%	0.46%	0.23%
YTD Trade Balance (USD billion)	\$0.79	\$1.15	(\$0.05)
Exchange Rates (USD/VND)	22,360	22,640	22,810
YTD Disbursed FDI (USD billion)	1.50	0.85	1.55
PMI Manufacturing Index	50.30	51.90	54.20
Industrial Production growth (YTD YoY)	6.6%	0.7%	2.4%
Nominal Retail Sales Growth (YTD YoY)	9.7%	9.9%	8.7%
VN Index	559.37	697.28	710.79

Source: GSO

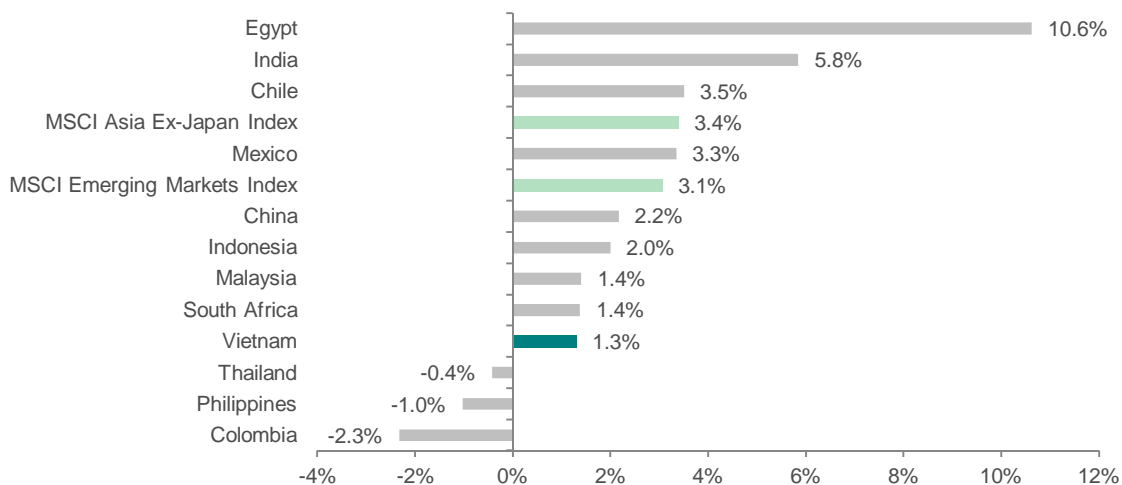
Macro statistics for the first two months of 2017 were ostensibly not very encouraging despite the fact that monthly data for February saw significant YoY growth (due to seasonal factor as the Lunar New Year holidays came nearly one month earlier than last year). However, the private sector continued to outperform the state-owned sector and became the brightest point in the macroeconomic picture.

- **CPI rose 0.23% MoM and 5.02% YoY** in Feb, driven mostly by increases in food services, housing & construction materials, as well as transportation.
 - The monthly inflation slightly receded from January level (0.46%) due to easing consumption demands after Tet holiday as well as softer hikes in transportation prices.
 - The YoY inflation has gone down slightly from 5.22% in January, It seemed that the government's target to keep inflation below 4% is a tall order, yet FY2017 inflation of 5 – 6% would be within reach.
- **The Index of Industrial Production (IIP) saw an expansion of 15.2% YoY** in February (thanks to more working days) yet the growth for **2M17 was only 2.4% YoY** compared to 6.6% in 2M16.
 - While the further reduction of **13.5% YoY in the mining sector** was still the main culprit for the slowdown in industrial production, we also witnessed a deceleration in the **manufacturing sector**, which expanded by **6.6% YoY** in 2M17 vs. 8.5% in the same period last year.
- Perhaps the state-owned sector is to blame for the slowdown in industrial production as data from the private sector presented an opposite picture. **The Nikkei Manufacturing PMI for Vietnam soared to 54.2** in February from 51.9 in Jan.
 - The reading signaled the strongest monthly improvement in business conditions since May 2015. Vietnam also topped 7 ASEAN countries in the survey, as the ASEAN PMI increased marginally to 50.3 in Feb from 50.0 in Jan.

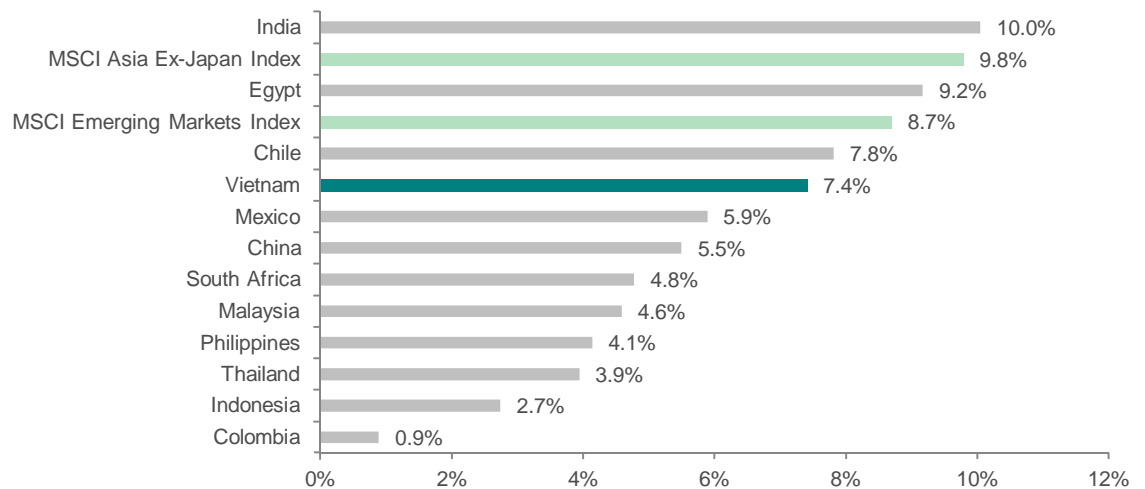
- The strengthening of the manufacturing sector was driven by quickening production and new orders which rose at the sharpest pace in 21 months amid rising new business and improving demand from international clients.
- Manufacturers also expressed optimism in business outlook as business confidence improved to 12-month high. Such acceleration in the private manufacturing sector should provide a boost to economic growth during the next quarters.
- Domestic consumption stayed resilient as **nominal retail sales growth** posted at **8.7% YoY in the first two months**, albeit being slightly lower than 2M16 growth of 9.7% YoY. Inflation-adjusted retail sales growth was 5.6% YoY for 2M17.
- Vietnam was estimated to post a **trade deficit of US\$1.20 billion in February**, after January data was revised to a surplus of US\$1.15 billion from US\$100 million deficit estimated earlier. This led to a marginal **trade deficit of US\$46 million year-to-date**.
 - The deficit was mostly caused by surging imports which saw a growth of 19.6% YoY in the first two months while export growth was only 15.5% YoY in the same period.
 - Yet, we need to wait until mid-March to get more precise trade data for February.
- The trade deficit in February partly explained the **USD appreciation vs. the VND of 0.75% MoM to 22,810** during February.
- **Registered FDI** accelerated by **21.5% YoY to reach US\$3.4 billion** in 2M17, while **disbursed FDI** recorded slower increase of **3.3% YoY to US\$1.55 billion**.

Macroeconomic data for the first two months provided a glimpse into the overall health of the economy in 1Q17. It seemed that the Vietnamese economy requires stronger improvements in March in order to achieve the GDP growth rate of around 5.5% – 6.0% in the first quarter. However, we believe that the stronger growth in the private sector is a positive sign for the country's economy which has long been dragged down by a stagnant state-owned sector.

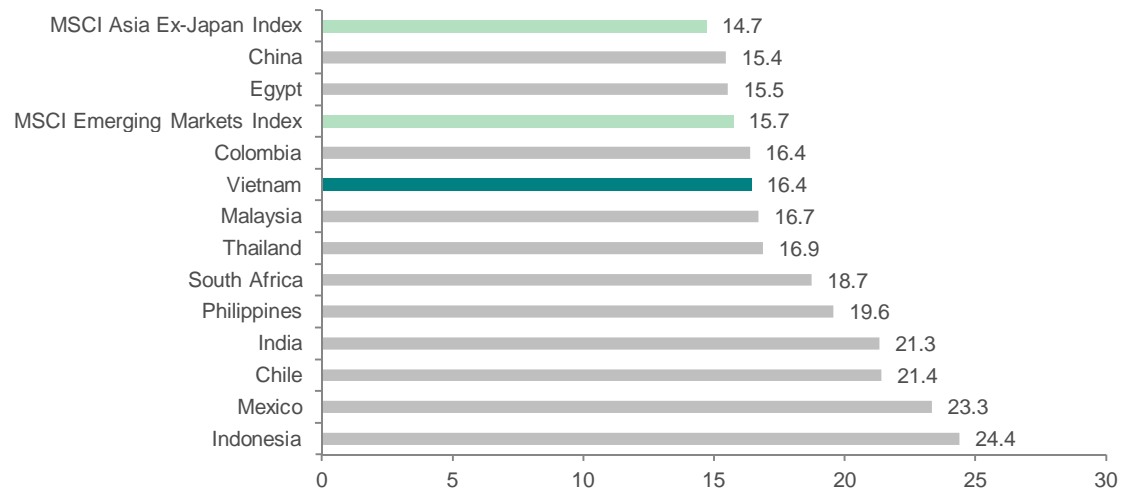
**Stock Market Monthly Total Returns by Country (in USD)
as of Feb 28, 2017**



**Stock Market YTD Total Returns by Country (in USD)
as of Feb 28, 2017**



**Stock Market P/Es by Country
as of Feb 28, 2017**



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