



Stock Market and Macro Updates

November was a tough month for most emerging markets, including Vietnam. After a slight drop of 1.48% in October, the VNIndex fell deeper into correction mode in November as selling pressure intensified amid a rising USD and as investors cut back on their existing positions to make room for the new listings.

- The VNIndex **lost 2.68% MoM** in USD terms to close the month at 665.07 points. **YTD total returns were 17.02%** in USD terms.
- **Liquidity** continued to shrink with combined average daily trading value on Ho Chi Minh and Hanoi Stock Exchanges **down by 8.7% MoM** to US\$117.8 mm, the lowest level since February.
- **Net foreign selling** reached **US\$70.4 mm** in November and US\$244.7 mm year-to-date. Part of the selling was from the two ETFs which saw a total redemption of US\$33.5 mm in November alone.
- Similar to October, **the VNIndex continued to be distorted by the outperformance of Faros Construction Corp** (HSX: ROS). The stock gained another 44.8% MoM in November to become the 6th largest company on the HOSE with a market cap of US\$2.4 bn after surges of 225% and 153% in the previous two months. The VNIndex would have lost 3.89% MoM in November if taking out the impact of ROS.
- **The new supply** from long-awaited listings of state and private giants **have had somewhat negative effect on the market performance, as investors withdrew from stocks across all sectors to prepare cash to buy the new listings**. Following Habeco's debut in late October, Airport Corporation of Vietnam (ACV) started trading on the UPCOM Exchange (OTC market) on November 21 and the stock has rallied 67% from its listing price. The trend is expected to continue in December with many other giants to be listed including Sabeco, Vietnam Airlines, and Novaland – most of them will be listed on the HOSE and will directly impact the VNIndex.

- Market movements in November were also affected by the US Presidential Election as the VNIndex experienced huge volatility on the day the result was announced.
- Perhaps the appreciation of the USD against most other currencies after the US election was the main culprit that dampened investors' sentiments and intensified money outflows from emerging markets, including Vietnam.

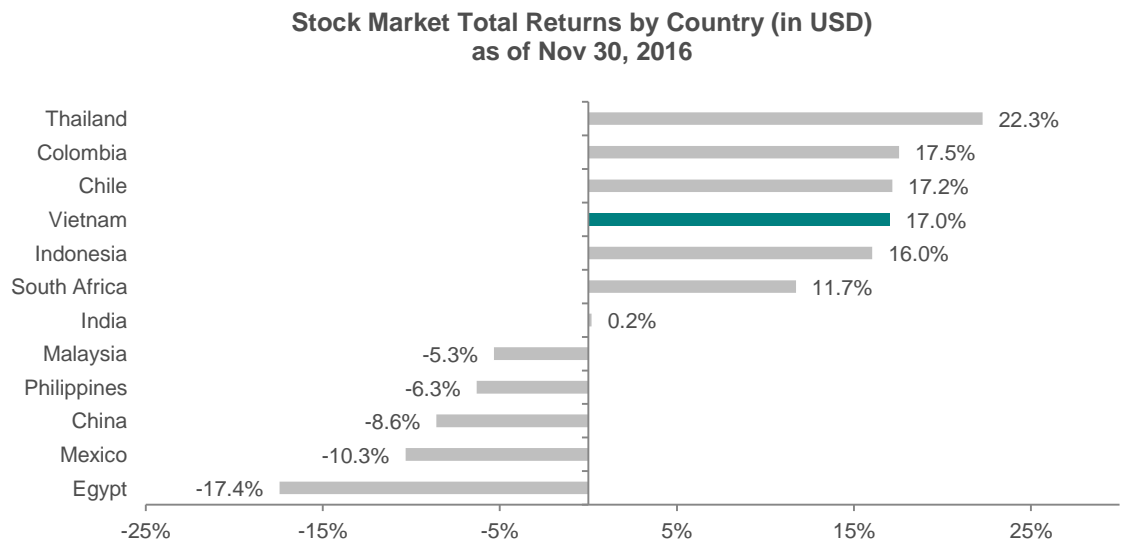
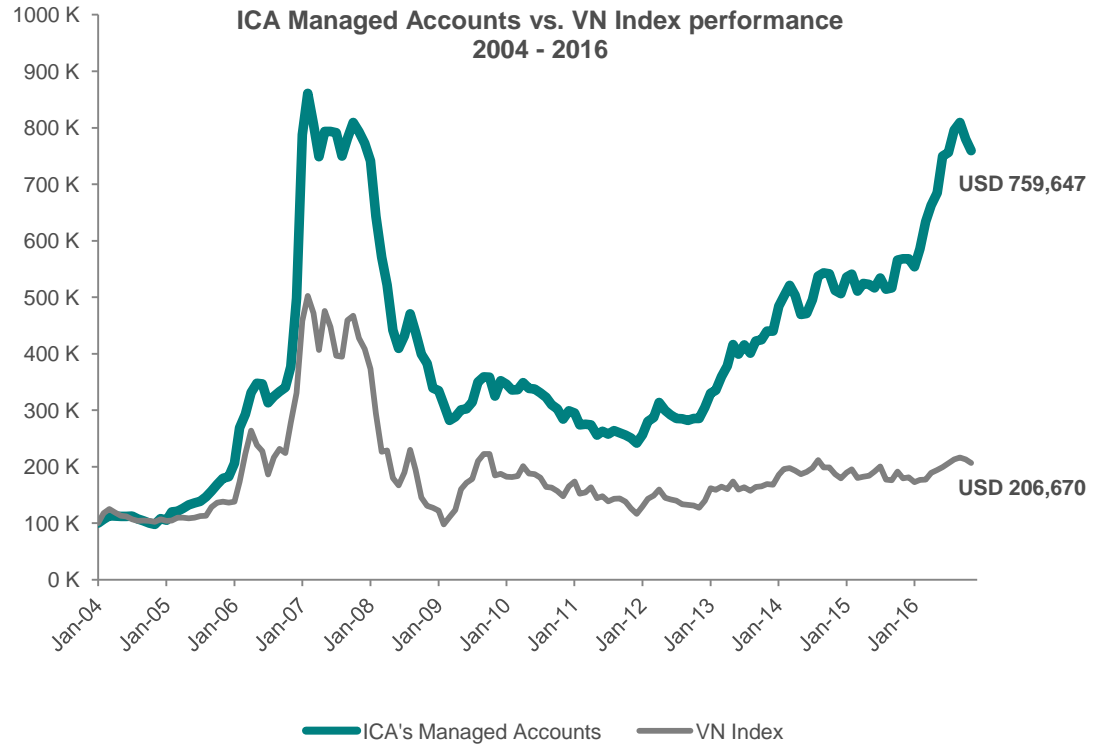
While the short term outlook might be tepid for the existing listed stocks in the Vietnam market, it is worth noting that the recent correction has brought the trailing P/Es of many fundamental stocks down to 7.0 – 10.0x despite their positive long-term outlook and despite the VN Index's P/E of 15.6x. The market might need some more time to stabilize and absorb the new supply, but this might be a good time for long term investors to buy value stocks at real bargains.

On the macroeconomic front, latest data for 11 months continued to show resilient growth despite further slump in the mining sector, while another month of trade deficit added to the concerns on rising exchange rate.

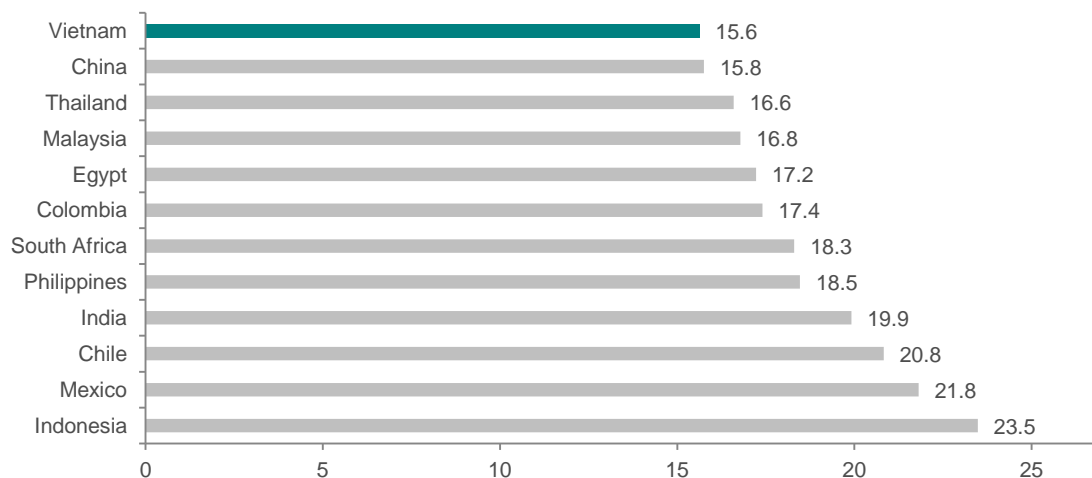
- **November trade deficit** was estimated at US\$400 mm while **October trade deficit** was revised to **US\$445 mm** from US\$200 mm estimated earlier.
 - However, Vietnam still recorded a **trade surplus of US\$2.85 bn for 11M2016** while 11M2015 registered a deficit of US\$2.99 bn.
 - 11M export value was up by 7.5% YoY to reach US\$159.5 bn, while total import posted US\$156.7 bn, up by 3.5% YoY.
 - Trade deficit during the past 2 months was caused by acceleration in import growth, coupled with a slowdown in export growth. Growth in exports of mobile phones and accessories slowed to 6.3 – 7.7% YoY during Oct-Nov period (9M2016: +10.9% YoY) as a result of Galaxy Note 7 incident.
- The **USD/VND exchange rate** hiked by **1.52% MoM** to close at **22,710** in November amid a stronger USD on the global market and rising import demand.
 - However, the VND was only down by 0.8% against the USD on a year-to-date basis.
 - The exchange rate in fact rose to a monthly high of 22,795 before easing in the last days of the month thanks to the intervention from the SBV. During the first 9 months of 2016, the SBV has bought US\$11 bn to increase the nation's forex reserve to US\$41 bn.
- **Monthly inflation eased to 0.48%** in November vs. 0.83% in October.
 - The rise in CPI was again driven by health care services and transportation which went up as a result of hikes in gasoline price.
 - This has brought the YoY and YTD inflation to 4.52% and 4.50%, respectively. In order to keep inflation below 5% in 2016, monthly inflation in December must stay below 0.46%.
- **Inflation-adjusted retail sales** in 11M2016 **saw a growth of 7.6% YoY** (11M2015: 8.3%).
- The manufacturing sector was still the highlight in Vietnam's macroeconomic picture as the **Nikkei Manufacturing PMI improved to 54.0** from 51.7 in October.
 - The reading was the highest in 18 months and also significantly higher than ASEAN Manufacturing PMI which was still in contraction territory at 49.4. The strong improvement was led by robust growth in new orders and new businesses, which supported a rebound in production and faster rises in purchasing activity.
- Also boosted by an 11% growth in the manufacturing sector, the **Index of Industrial Production (IIP) increased by 7.3% YoY** in 11M 2016 (11M 2015: 9.9%) which is quite encouraging given a decrease of 6.3% in the mining sector.
- FDI remained strong:
 - **Disbursed FDI surged by 8.3% YoY** to US\$14.3 bn in 11M 2016 (10M 2016: +7.6% YoY).
 - **Registered FDI** reached US\$18.1 bn, **down by 10.5% YoY** due to a high base effect. The manufacturing sector attracted 74.1% of registered FDI.

- **Credit growth jumped to 15.81% YTD as of November 28** (YTD as of October: 11.81%), according to the SBV. At this rate, the SBV's target of 18-20% for 2016 looks quite achievable as credit growth usually speed up near the end of the year.

In the monthly cabinet meeting at end of November, the government reaffirmed its focus on (i) achieving the GDP growth target for 2016 at 6.3 – 6.5%, (ii) controlling inflation and maintaining a stable exchange rate, and (iii) speeding SOE reforms and tackling NPL . Despite domestic challenges and global uncertainties, we believe the government is heading in the right direction with its pro-growth policies while trying to improve business environment.



Stock Market P/Es by Country as of Nov 30, 2016



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