

MARCH 2017



Stock Market Commentary

Despite lower-than-expected GDP growth and Fed's rate hike, the Vietnam stock market rally stayed resilient in March. Bullish sentiment continued to spread on the back of positive 2017 management guidelines, rumors on upbeat Q1 results, encouraging news on FOL lifting of specific companies and buying activities of large shareholders.

- The VNIndex advanced by **1.77% MoM** and **9.32% YTD in US\$ terms**, closing the month at 722.31 points. While the VNIndex lagged its peer emerging markets (the MSCI Asia ex-Japan Index and MSCI Emerging Markets Index went up 3.3% and 2.5% MoM, and up 13.4% and 11.5% YTD, respectively), the market rally was in fact stronger than it looked given its performance was dragged down by the sharp falls in beer companies and the oil & gas sector.
- **Liquidity surpassed the 29-month high** in February. The average daily trading value on Ho Chi Minh and Hanoi stock exchanges expanded by **22.3% MoM to US\$196.3 million**, driven by rising money inflows from both local and foreign investors.
- **Foreign net buying** climbed to a **34-month high of US\$103.6 million in March** and **US\$163.1 million YTD**. Specifically, 60% or US\$62.6 million of total net buying in March was in Vinamilk (HSX: VNM) after F&N registered to buy an additional 21.8 million shares in one month starting from March 10. Foreign investors remain optimistic on the Vietnam market outlook despite the Fed's recent rate hikes and its intentions to raise rates even faster this year.
- The sideways movements of the VNIndex in March was attributable to the strong divergence in different groups of stocks, especially among the larger caps.
 - Of the biggest decliners, two beer companies namely Sabeco (SAB) and Habeco (BHN) saw respective tumbles of 11.2% and 24.6% for the month. Both companies accounted for a combined nearly 10% of the VNIndex. They were followed by the oil & gas sector with drops of up to 10% after crude oil prices plunged by 6.3% in March.

- Among the winners, dairy giant Vinamilk (VNM) and food conglomerate Masan (MSN) contributed the most to the market gains as they surged 9.1% and 14.8% MoM, respectively. Also on the upswing were pharmaceutical and insurance companies which shot up after news regarding FOL lifting, and Vietjet Air (VJC) with 18.6% monthly gain after its listing debut. Leading the uptrend were the real estate and construction-related sectors as they continued to rise by another 10 – 20% in March upon rumors of outstanding 1Q results.
- Even though the recent rally might have driven the VNIndex's trailing P/E to 17.5x, such valuation was driven by the large caps whose P/Es were around 20.x - 30.x. Meanwhile, the majority of stocks on the market were still trading at P/Es of around 8.0x – 12.0x

April is expected to be a more eventful month for market participants as this is the peak of the AGM season when detailed business plans for the year are revealed; and listed companies are also scheduled to publish their 1Q17 earning results by April 20. While there are still concerns on the slow growth of the overall macro-economy, the listed companies on the stock market are expected to outperform and continue posting double-digit growth in FY2017.

Macroeconomic Update

	Q1 2015	Q1 2016	Q1 2017	FY2017 Target
GDP Growth (YTD YoY)	6.12%	5.48%	5.10%	6.70%
CPI (YoY change)	0.93%	1.69%	4.65%	4.00%
YTD Trade Balance (US\$ billion)	(\$2.61)	\$1.50	(\$1.90)	(\$6.58)
Exchange Rates (US\$/VND)	21,590	22,360	22,790	
YTD Disbursed FDI (US\$ billion)	3.05	3.50	3.62	
PMI Manufacturing Index	50.70	50.70	54.60	
Credit Growth (YTD)	1.25%	1.79%	3.14%	18.00%
Industrial Production growth (YTD YoY)	9.1%	6.3%	4.1%	
Nominal Retail Sales Growth (YTD YoY)	10.00%	9.10%	9.20%	
VN Index	551.13	561.22	722.31	

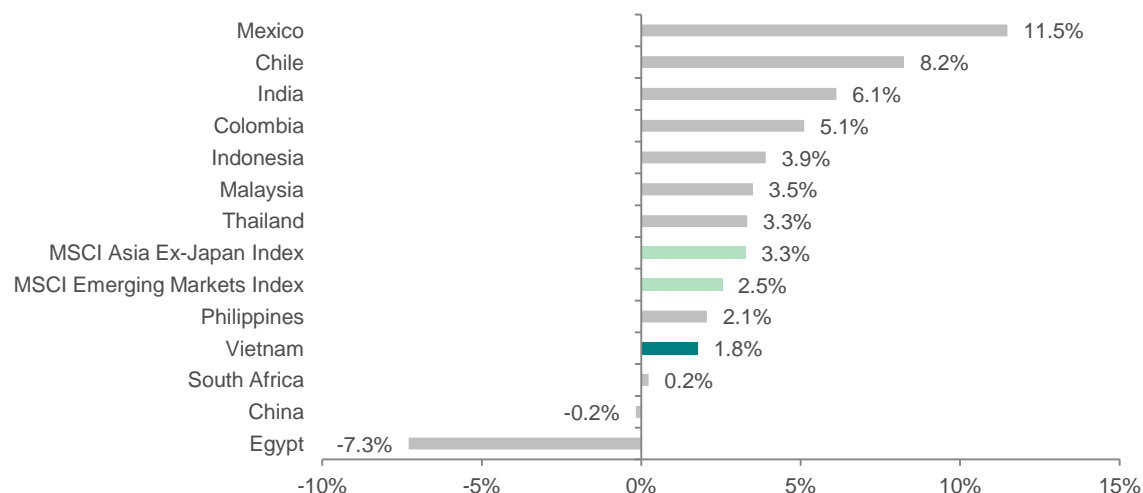
Source: GSO

Q1 macro data once again sent a mixed message on Vietnam's economy. Rising inflation, a trade surplus turning into deficit and disappointing GDP growth suggest the economy is probably more vulnerable than expected. At the same time, growing FDI disbursement, strong credit growth and resilient PMI indicate a robust manufacturing sector as the root of accelerating economic growth.

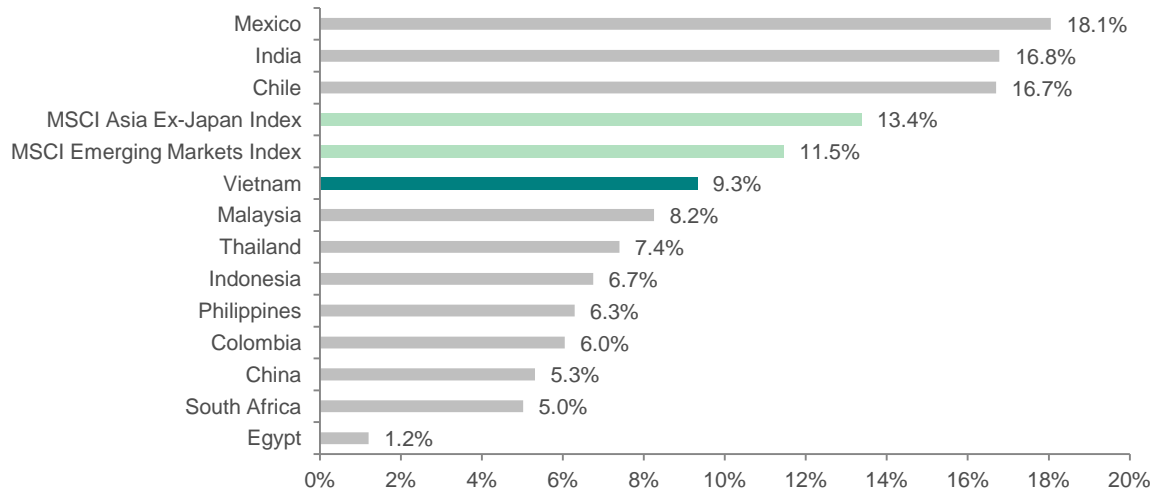
- **GDP growth slowed down to 5.10% YoY** (2016: 5.48%). The overall growth rate was weaker than expected.
 - The agriculture, forestry and fishery sectors recovered and recorded positive growth of 2.03% YoY (Q1 2016: -1.31%) after El Nino drew to an end in late 2016.
 - However, the industrial and construction sectors registered flimsy growth of only 4.17% YoY, lower than Q1 last year of 7.16% YoY. The mining sector further contracted by 10.00% YoY (Q1 2016: -1.20%). Meanwhile, both the construction sector and the manufacturing sector decelerated with growth of 6.10% and 8.30% YoY, respectively (Q1 2016: 8.60% and 8.94%, respectively). The weaker manufacturing growth was probably attributable to the reduction of 8.20% YoY in cell phone production as Samsung rearranged its production lines in preparation for new products. Meanwhile, **Vietnam's PMI stayed well ahead of all other ASEAN peers, indicating sustainable expansion over the last 16 consecutive months.**
 - The **service sector** was a **perennial advancer with growth of 6.52% YoY** (Q1 2016: 5.98%).
 - In terms of GDP contribution, the agriculture, forestry and fishery sectors accounted for 11.19% of total GDP, the industrial and construction sector 34.06%, the service sectors 43.99% and taxes less subsidies 10.76%. The respective proportions in Q1 2016 were 11.42%, 34.37%, 43.54% and 10.67%.
 - If the government's 2017 GDP growth target of 6.7% were to be met, the economy would need to grow at the rate of 7.0% over the remainder of the year. We believe 2017 GDP will come in at 6.3 – 6.5%, lower than the government's target.

- The Manufacturing PMI reached a 22-month high of 54.6 in March from 54.2 in February, topping ASEAN countries whose average PMI came in at 50.9 in the month.
 - The sharper improvements in business conditions were driven by higher client demand and acceleration in export orders. Manufacturers remained confident that output will increase over the coming 12 months.
- **Credit growth** reached **3.14% YoY**, a 6-year high level (Q1 2016: 1.79%).
 - As the SBV continues to tighten on real estate lending and increases scrutiny on banking activities while maintaining stable lending rates, most credit growth is expected to be geared towards more efficient activities (instead of real estate speculation). This should translate into higher economic growth in the longer run.
- **Inflation** registered **4.65% YoY** (Q1 2016: 1.69% YoY), already exceeding the government's target of 4.0%.
 - CPI was mainly driven by the release of subsidies for public healthcare services and public educational services. Prices of healthcare services and educational services hiked by 48.65% and 11.80% YoY, respectively.
 - Higher fuel prices also led to a rise in transportation prices of 14.57% YoY.
 - The SBV highlighted that containing inflation is its top priority in 2017.
- **Trade balance** recorded a deficit of **US\$1.90 billion** (Q1 2016: surplus US\$1.50 billion).
 - Export growth reached 12.8% YoY (Q1 2016: +4.1%). Import registered growth of 22.4% YoY (Q1 2016: -3.5%).
 - Imports of inputs for production accounted for 92% of total Q1 imports, which is expected to consequently result in higher production growth and/or export growth.
- **Disbursed FDI** reached **US\$3.62 billion, up 3.4% YoY**. Newly registered FDI was reported at US\$7.71 billion, up 77.6% YoY. The manufacturing sector accounted for 84% of newly registered FDI.
- **The VND slightly strengthened against the USD** (by 9bps) despite the FOMC's decision to raise US\$ rates in March and a trade deficit. This could be attributable to high FX reserves of more than US\$40 billion. However, depreciation pressure continues to be an impending threat over the VND.
- **The government's resolution in SOE reforms** has been reflected in the recognizable speeding up of divestments in SOEs. During our visits to a series of large SOEs in late March, we learned that management of these companies has been working under pressure to push forward the divestment process and IPO their companies to get ready for more structural changes.
- We believe the government's will to execute reforms will be a driving force to gear the country's economy towards its potential.

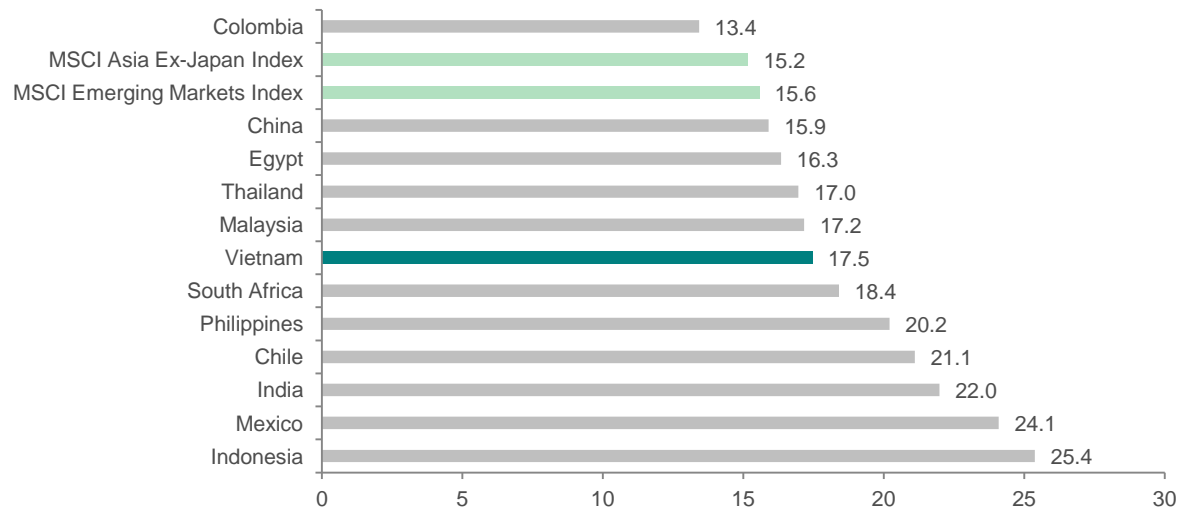
**Stock Market Monthly Total Returns by Country (in USD)
as of Mar 31, 2017**



**Stock Market YTD Total Returns by Country (in USD)
as of Mar 31, 2017**



**Stock Market P/Es by Country
as of Mar 31, 2017**



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