



## Stock Market Commentary

Riding the positive momentum since August, the Vietnam stock market made a strong rally in September with positive sentiments fueled by a brighter macroeconomic picture and high expectations on 3Q earnings growth. The VN Index surged 25 points or 3.21% in the first half of the month to reach a new high of 807.87 on September 18, successfully surpassing the historical 800 level for the first time in nearly 10 years. The market then traded sideways during the rest of the month as investors awaited clearer signs from the actual 3Q numbers which will soon be released in October.

- **The VN Index gained 2.77% MoM and 21.15% YTD in USD terms to close the month at 804.42 points**, becoming one of the best performers amongst emerging markets in September.
- Liquidity continued to subside as the **average daily trading value on the Ho Chi Minh and Hanoi stock exchanges went down by 3.8% MoM to US\$186.9 million**, albeit being slightly higher than last 12 months' average of US\$175.9 million.
- **Foreigners** halted their 8-month net buying streak and **turned net sellers of US\$30.7 million in September**. However, **foreign investors remained net buyers in the Vietnam market to the tune of US\$601.6 million, the highest level since 2007**. It is estimated by the National Financial Supervisory Commission (NFSC) that the total value of stocks currently owned by foreign investors in the listed market has amounted to US\$27.3 bn, equivalent to 19.2% of Vietnam's total market cap.
- Similar to August, the large caps led the market rally in September. In the consumer sector, Hanoi Beer Alcohol and Beverage JSC (BHN) took the place of SAB to become the star performer with a monthly gain of 50.9% amid news that the state divestment may be finalized this year as its current strategic investor Carlsberg might look to increase their stake. The beer giant was followed by MSN which surged another 16% in September on M&A stories and treasury stocks buying plan after advancing 11% in August. Meanwhile, GAS, HPG and VJC also posted double-digit gains of 11.0% - 21.4% over the month thanks to market anticipation on their upbeat 3Q results.

- September also marked the return of money flows into the mid-caps which had been on a downtrend during July-August. However, different sectors' performance was strongly affected by expectations on the earnings outlook in 3Q2017. Due to seasonal effect and cheap valuations, the construction and construction material sectors attracted the most money inflows which led stock prices to soar 5% - 15% MoM. They were followed by real estate, brokerage, oil & gas and consumer goods companies.
- Another supporting factor for the market was the Ministry of Industry and Trade (MoIT)'s Decision No 3610A dated 20 Sep 2017 on reducing and streamlining 675 business requirements for 17 sectors under MoIT management in the period 2017 - 2018. The Decision will take time and require the promulgation of various Circulars to be actually applicable, yet it is still considered the most extensive reform act in the MoIT history. With an aim to create a better business environment, the Decision would be a huge boost for the development of Vietnam's private sector.

While the rally in September has partly reflected some investors' expectations on 3Q results, we believe more surprises would come in October when all the actual earnings are to be released by the end of the month. In our view, the Vietnam market prospects in the remaining 3 months of 2017 look quite bright, thanks to: (i) significant improvements in market sentiments now that the VN Index has firmly stayed above 800 level; (ii) the earnings picture in 2H2017 might be better than expected, which is hinted by the recent strong macro statistics; and (iii) valuations remain attractive with the majority of stocks still trading at P/Es of below 12.0x.

## Macroeconomic Update

	Q3 2016	Q2 2017	Q3 2017	FY2017 Target
GDP Growth (YoY)	6.56%	6.28%	7.46%	6.70%
GDP Growth (YTD YoY)	5.99%	5.73%	6.41%	6.70%
CPI (MoM change)	0.54%	(0.17%)	0.58%	
CPI (YoY change)	3.34%	2.54%	3.40%	4.00%
YTD Trade Balance (US\$ billion)	3.03	(2.69)	0.33	(\$6.58)
Exchange Rates (US\$/VND)	22,350	22,780	22,780	
YTD Disbursed FDI (US\$ billion)	11.02	7.70	12.50	
PMI Manufacturing Index	52.90	52.50	53.30	
Credit Growth (YTD)	11.74%	7.54%	11.02%	21.00%
Industrial Production growth (YTD YoY)	7.10%	6.30%	7.90%	
Nominal Retail Sales Growth (YTD YoY)	9.50%	10.10%	10.50%	
VN Index	688.55	776.47	804.42	

Source: GSO, Customs Office

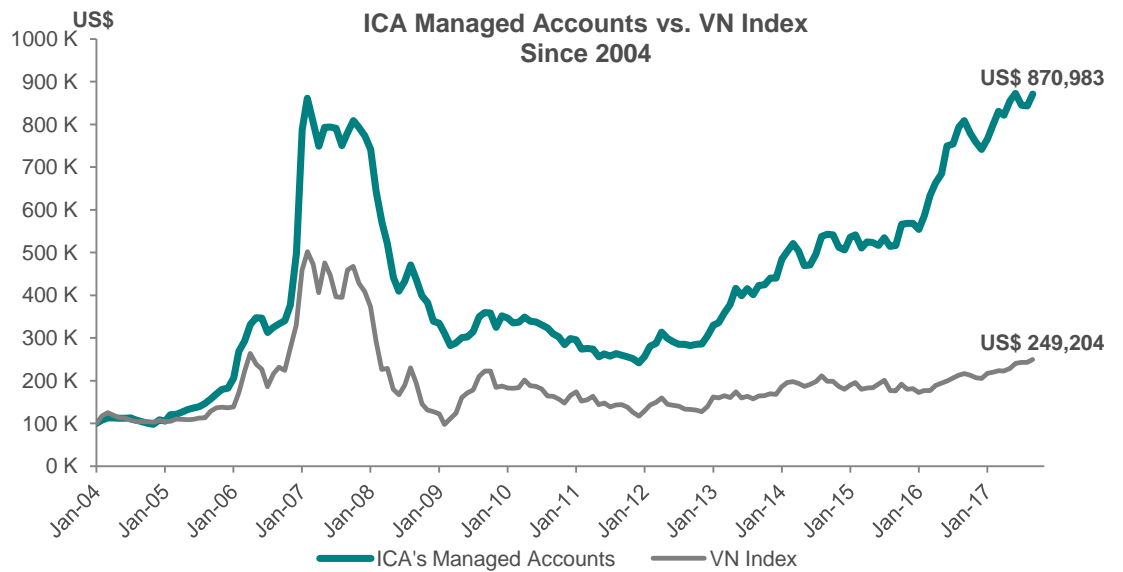
Fueled by healthy FDI inflows, strong credit growth and sturdy domestic consumption, Vietnam's economy accelerated in Q3 2017, transcending consensus. Meanwhile, inflation was well contained and strong exports reversed a Q2 trade deficit into a surplus, supporting a stable VND.

- GDP growth registered an outstanding rate of 7.46% YoY in Q3**, bringing **9M GDP growth to 6.41% YoY** (9M16: 5.99% YoY).
  - The agriculture, forestry and fishery sectors not only recovered but also surpassed the growth rate in 2015 before El Nino kicked in. In 9M 2017, the sectors posted growth of 2.78% YoY (9M16: 0.62%).
  - The service sectors reported unrelenting growth of 7.25% YoY (9M 2016: 6.67% YoY).
  - The growth of the industrial and construction sectors decelerated to 7.17% YoY (9M16: 7.68%). The mining subsector caused the biggest drag as it further contracted by 8.08% YoY. While most remaining subsectors slowed down, the manufacturing subsector recorded exuberant YoY growth of 12.77% (9M16: 11.22%).
  - At this rate, the government's full year target of 6.7% is now within reach.
- YoY inflation picked up in Q3 but remained tame at 3.40% (9M16: 3.34%)**.
  - Inflation was mainly driven by the release of government subsidies in educational services and healthcare services (which started since 2015) besides rising commodity prices.

- The impact of these items was partially offset by the retreat in prices of food and foodstuffs of 2.32% YoY.
- The National Financial Supervisory Board (NFSB) forecast full year inflation to be less than 4.0%.
- **YTD credit growth** came in at 11.02% YoY (9M16: 11.74%).
  - Loan book allocation for household business expanded to 15.7% (YE16: 11.2%). Allocation for industrial sector increased to 23.4% (YE16: 22.4%). Share of real estate related loan slightly reduced from 17.1% to 16.8%.
  - Overall deposit and lending rates remained stable. After a 25-bp cut in policy rates in early July, lending rates for prioritized sectors are reported to have fallen by 50 to 100 bps.
  - Credit growth target was revised up from 18% to 21% in an effort to meet economic growth target.
- **Retail sales and consumer services recorded nominal growth of 10.5% YoY**, outpacing 9M16's YoY growth of 9.5%.
- **The Nikkei Vietnam Manufacturing PMI posted at 53.3 in September**, signaling the continued expansion of the manufacturing output for 22 consecutive months.
  - Stronger customer demand resulted in faster rises in output, new orders and employment. Manufacturers are therefore well placed to record further growth during the final quarter.
  - However, cost inflation at the highest level in the last six years signals inflationary pressure ahead.
- **YTD disbursed FDI** reached **US\$12.5 billion, 13.4%** higher than the same period last year. **YTD pledged FDI** totaled **US\$21.3 billion, up 29.7% YoY**. 49.6% of the newly registered FDI was for the manufacturing sector, 21.1% for the power generation and distribution sector.
- Vibrant export growth resulted in **a trade surplus of US\$3.02 bn in Q3** (in which July: US\$266 million, August: US\$1.65 bn, September: US\$1.10 bn), **turning the YTD trade balance from deficit to a surplus of US\$328 million** (9M16: US\$3.03 bn).
  - YTD exports grew by 20.0% YoY while imports grew by 22.7% YoY.
  - Inputs for production accounted for 91.5% of total imports, which implies further expansion for the economy in the future.
- The **USD/VND exchange rate remained stable** throughout the first 9 months with FX reserve at a record level of US\$45.0 billion. Strong FDI inflows and an improving trade balance have been solid pillars for the VND.

Vietnam's solid economic outlook manifests itself in consistently high GDP growth driven by a robust manufacturing sector and growing domestic consumption. However, we should be cautious of the potential impact of aggressive credit growth and inflation pressures as commodity prices pick up.

# Historical Performance

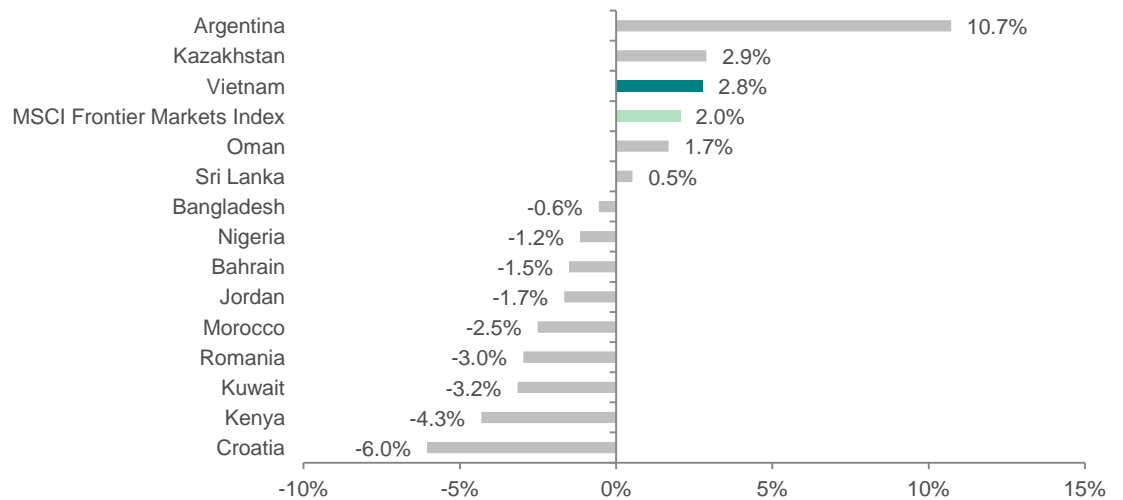


\* Calculated based on US\$100,000 invested with ICA since inception (2004) versus invested in the VN Index

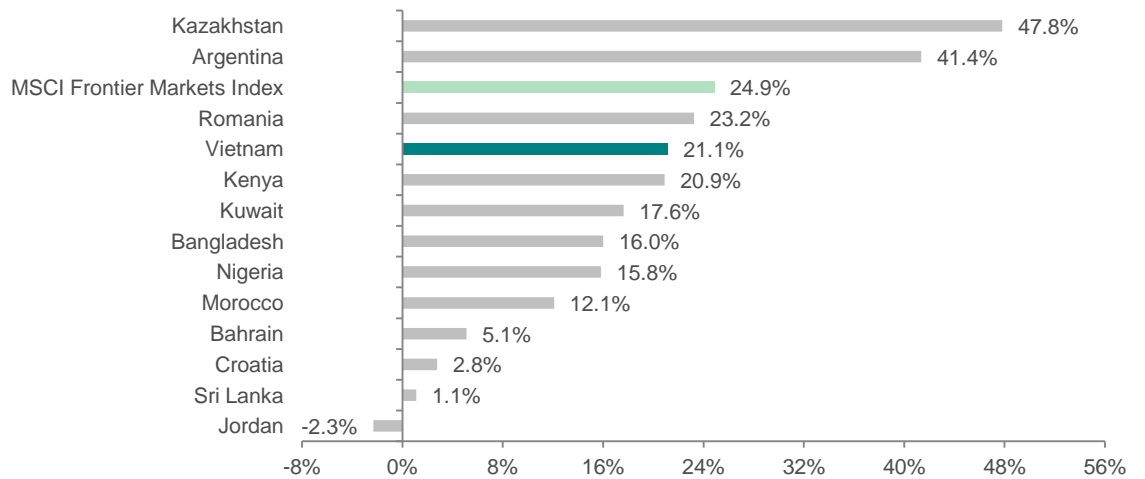
\*\* Monthly time-weighted returns, net of fees, based on total NAV of all managed accounts, including impact of VND depreciation against the USD

\*\*\* Data as of September 30, 2017

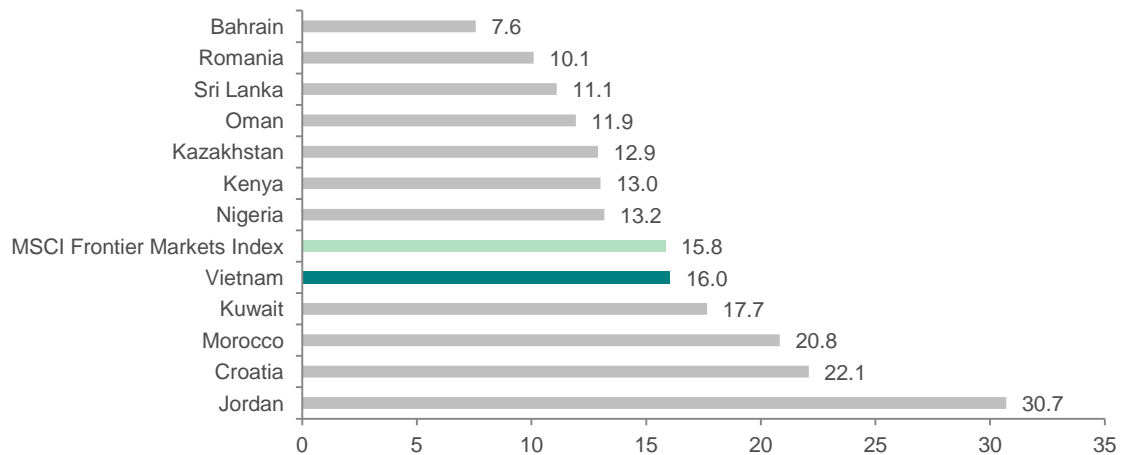
## Stock Market Monthly Returns - Top Frontier Markets (in USD) as of September 30, 2017



**Stock Market YTD Returns - Top Frontier Markets (in USD)  
as of September 30, 2017**



**Stock Market P/E's - Top Frontier Markets  
as of September 30, 2017**



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