



INDOCHINA  
CAPITAL  
MONTHLY  
NEWSLETTER

## Stock Market Commentary

The long-awaited historic moment finally came on March 22 when the VN Index surpassed its all time high of 1,170 for the first time in 11 years. The Index went on to close the month at **1,174.46**, posting **monthly return of 4.44%** and **YTD return of 18.83%** in US\$.

The stock market performance was (again) driven by large caps with gains of up to 27.2%. The combined market cap of these 15 companies accounted for more than 70% of the VN Index's market cap while a group of over 300 smaller companies contributed only 30% of the Index's market cap.

Solid macro data and positive 2018 outlook underpinned Vietnam stock market's upswing throughout the last quarter.

**March's liquidity inched up by 3.3%** vs. February. On a quarterly basis, average daily trading value reached **US\$383 million, up 39.7% QoQ**.

**Foreign investors net sold US\$32.1 mm** worth of listed stocks in March. Their **cumulative net buy value in Q1 2018 was US\$446.8 mm** (Q1 2017: US\$163.2 million). This number is exclusive of pre-IPO and off-the-exchange transactions which is not publicly available.

Vietnam's listed market capitalization reached US\$149.9 billion by the end of March. Market P/E was 21.2x, slightly below those of Indonesia's and the Philippines' (of over 22.0x). Valuations are still attractive, however, with estimated 2018 earnings growth of above 20%.

Despite our strong conviction on the longer-term uptrend of the Vietnam stock market (which stemmed from the country's supportive macro fundamentals), we expect volatility to intensify as the market conquers new highs. Given the rising integration of Vietnam's economy with the rest of the world's, the on-going US-China trade tensions and increasing foreign participation in the country's capital market, any disturbance in the global equity market will have a higher chance of affecting the Vietnam stock market than ever before.

# Macroeconomic Update

	Q1 2016	Q1 2017	Q1 2018	FY2018 Target
GDP Growth Rate (YoY)	5.48%	5.15%	7.38%	6.70%
CPI (YoY change)	1.69%	4.65%	2.66%	4.00%
YTD Trade Balance (US\$ billion)	\$1.32	(\$2.14)	\$1.30	
Exchange Rates (US\$/VND)	22,360	22,790	22,865	
YTD Disbursed FDI (US\$ billion)	3.50	3.62	3.88	
Credit Growth (YTD)	1.54%	2.81%	2.23%	17.00%
PMI Manufacturing Index	50.70	54.60	51.60	
Industrial Production growth (YTD YoY)	6.30%	4.10%	11.60%	
Nominal Retail Sales Growth (YTD YoY)	9.10%	9.20%	9.90%	
VN Index	561.22	722.31	1,174.54	

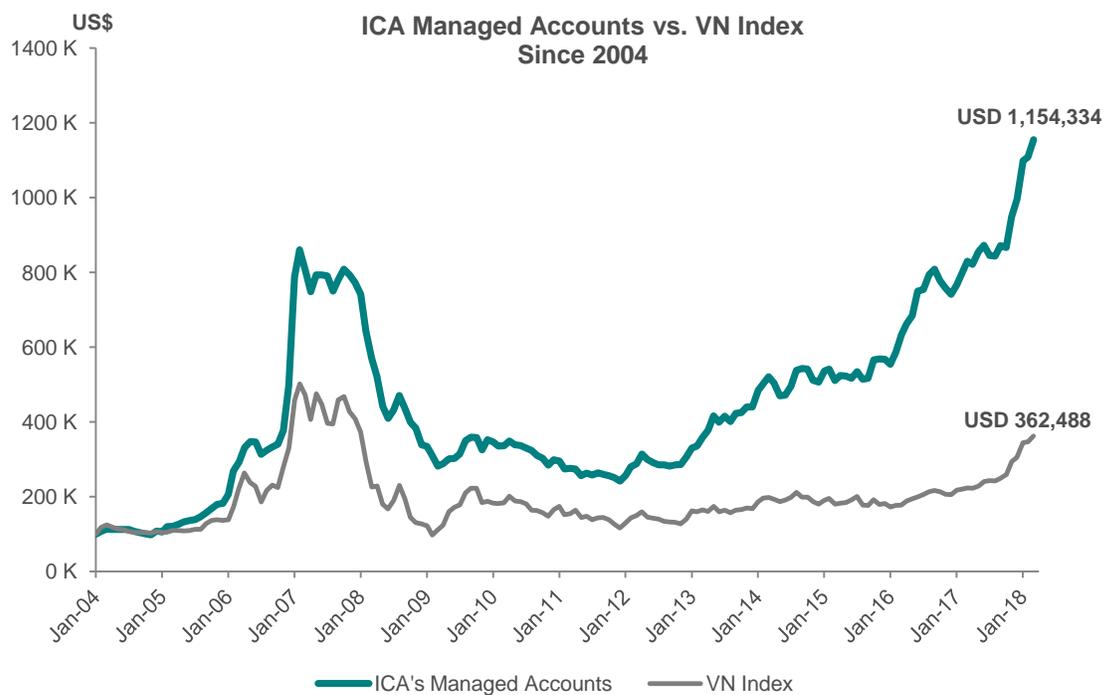
Source: GSO, Customs Office

Riding on the wave of a robust FDI-led manufacturing sector and booming domestic consumption, Vietnam's economy posted the strongest Q1 growth in the last 10 years. Meanwhile, a growing trade surplus resulting from vigorous exports, tame inflation and resilient FDI inflows support the VND against the USD.

- **Q1 GDP growth** was **7.38%**, a **10-year high** level which exceeded all forecasts. All the three main sectors of the economy reported accelerating growth.
  - The agriculture, forestry and fishery sectors grew by 4.05% YoY, twice as fast as they did in Q1 2017.
  - The industrial and construction sectors' growth registered at 9.7% YoY, a prominent improvement compared to Q1 2017 of 4.17%. The mining subsector stopped its contraction trend with flat output vs Q1 last year. Concurrently, the manufacturing subsector lodged impressive growth of 13.56% YoY (Q1 2017: +8.3% YoY) and the construction subsector 7.46% YoY (Q1 2017: +6.10% YoY).
  - The service sectors reported steadfast growth of 6.70% YoY (Q1 2017: 6.52% YoY). Retail sales unflinchingly rose by 9.90% YoY (Q1 2017: 9.20% YoY).
  - In terms of GDP contribution, the agriculture, forestry and fishery sectors accounted for 10.34% of total GDP, the industrial and construction sectors 35.26%, the service sectors 43.77%, taxes less subsidies 10.63%. The respective proportions in Q1 2017 were 11.19%, 34.14%, 43.92% and 10.75%
- **YoY inflation** came in at **2.66%** (Q1 2017: 4.65%).
  - **Inflation was** mainly driven by (i) the release of government's subsidies in educational services and healthcare services (which started since 2015), (ii) minimum wage rise effective from January 1, 2018 and (iii) rising commodity prices.
  - The impact of these items was partially offset by the retreat in prices of food & foodstuffs of 1.47% YoY.
- **YTD credit growth** was estimated at **2.23%** YoY (Q1 2017: 2.81%).
  - Overall deposit rates and lending rates remained stable. Short-term deposit rates ranged from 5.3% - 6.5% pa, long-term deposit rates from 6.5% - 7.3% pa. Short-term lending rates ranged from 6.8% - 9.0% pa, long-term lending rates from 9.3% - 11.0% pa.
- **The Nikkei Vietnam Manufacturing PMI** was **51.6** in March, marking the 28th consecutive month of improvement in the manufacturing sector.
- **Pledged FDI** reached **US\$3.9 billion, down 43% YoY**, however, **disbursed FDI** remained vibrant at **US\$3.9 billion, 7.2%** higher than Q1 2017's.
  - 75.5% of the pledged FDI in Q1 was for the manufacturing sector, 7.0% for the real estate sector.
  - Korea, Singapore and Japan are the top three FDI contributors (in terms of newly pledged FDI) in Q1 with respective shares of 23.2%, 19.9% and 12.5%.
  - FII in Q1 2018 reached US\$1.9 billion.

- Healthy export growth lifted trade surplus to **US\$1.30 billion** (Q1 2017: deficit of US\$2.14 billion).
  - Exports grew by 22.0% YoY while imports grew by 13.6% YoY.
  - As always, inputs for production accounted for a significant 91.6% of total imports, which implies further expansion for the economy in the future.
- The **USD/VND** exchange rate slightly inched up from 22,790 to 22,865.
  - FX reserves were reported to have hit a new high of US\$57 billion on February 6, 2018. Growing FDI and FII inflows and an expanding trade surplus have been solid pillars for the VND.
  - The VND is expected to depreciate against the USD by at most 3% in 2018.
- Macro-political highlights in Q1 2018:
  - CPTPP (TPP11) was signed on March 8 and is expected to be in force end of this year or early 2019 after ratification by at least 6 participating countries.
  - US-China's escalating tension on trades is unnerving to the global economy. Vietnam's steel took the first hit when US' raised its tariffs for steel imports in March. The direct impact is minimal as Vietnamese steel producers are reported to export less than 10% of their output to the US. However, the actual impact could be profound as Chinese products meant for the US could flow into Vietnam and over supply in the Southeast Asia region could depress steel price.
  - Fed raised rate by 25 bps to a range of 1.5% – 1.75% and indicated 3 rate hikes for 2018. This was the sixth increase since December 2015. The impact of the recent hike was negligible to the VND/USD FX rate.
- Vietnam's macro outlook remains positive for the remainder of 2018. However, US-China's trade tension is a wild card that could weigh on global economy's prospect with an immeasurable impact on Vietnam.

## Historical Performance

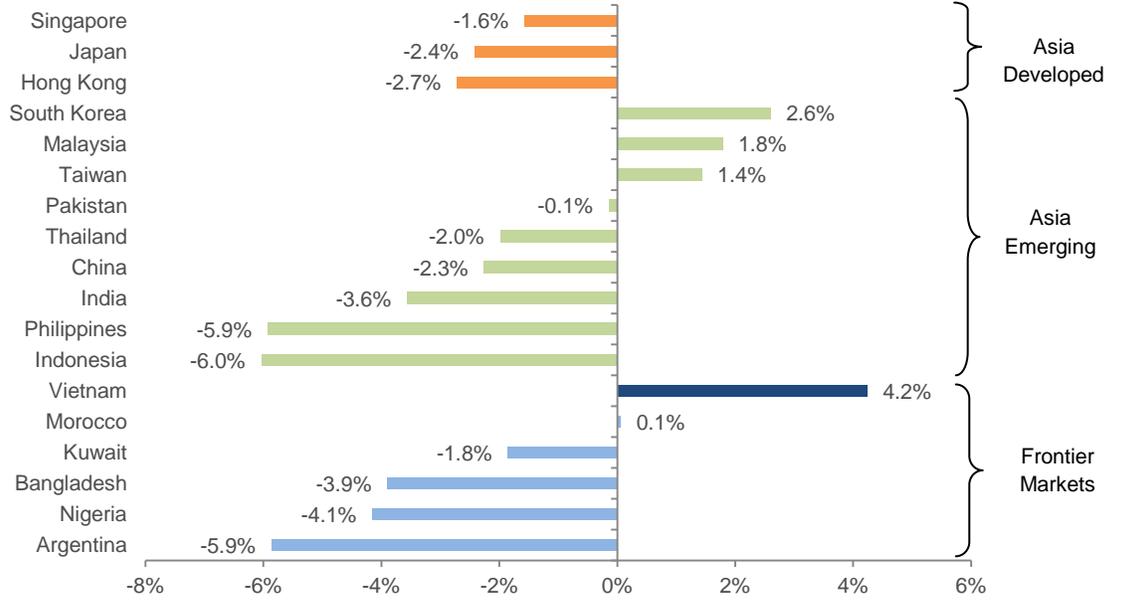


\* Calculated based on US\$100,000 invested with ICA since inception (2004) versus invested in the VN Index

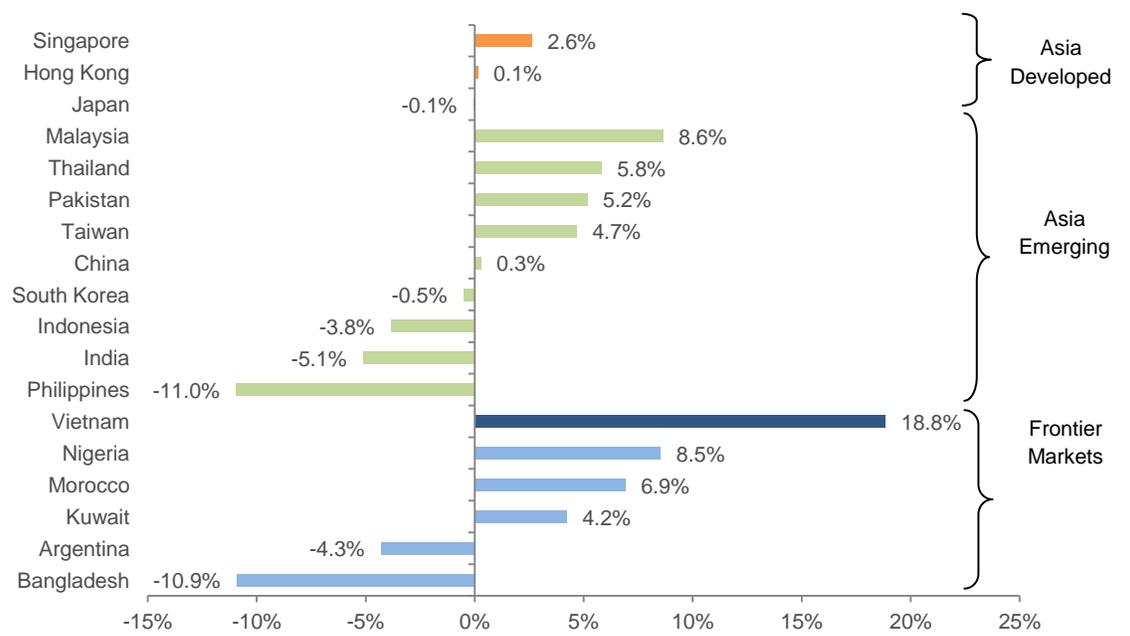
\*\* Monthly time-weighted returns, net of fees, based on total NAV of all managed accounts, including impact of VND depreciation against the USD

\*\*\* Data as of March 30, 2018

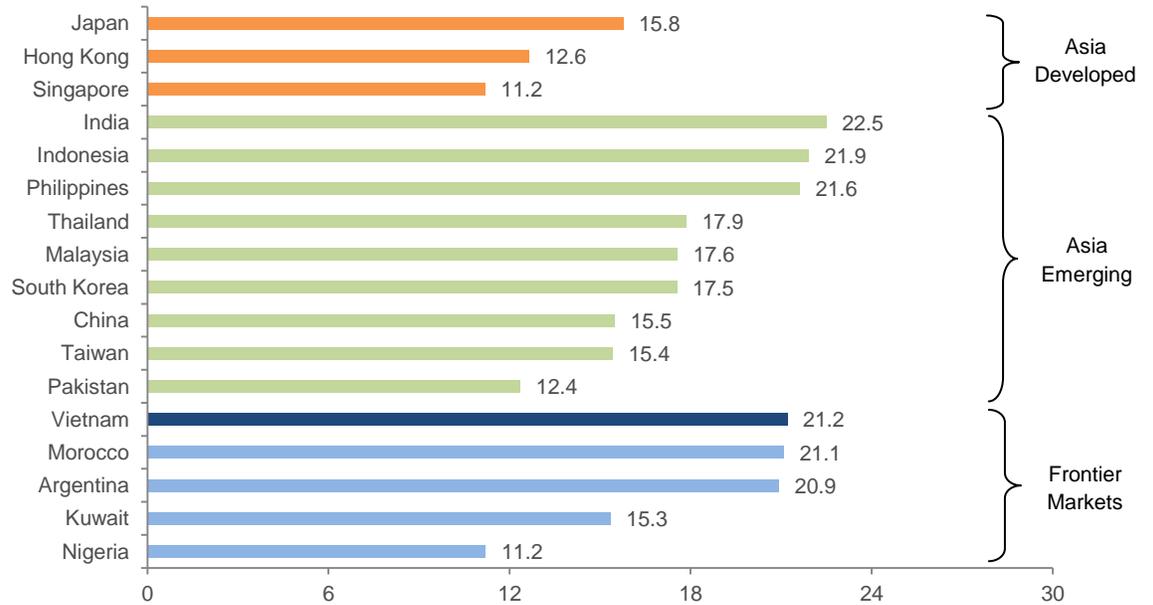
**Stock Market Monthly Returns by Country (in USD)  
as of March 30, 2018**



**Stock Market YTD Returns by Country (in USD)  
as of March 30, 2018**



### Stock Market P/Es by Country as of March 30, 2018



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