



INDOCHINA CAPITAL MONTHLY NEWSLETTER

Stock Market Commentary

- The stock market reached a new high of 1,204 on April 9 before heading for the strongest correction since 2009. The VN Index closed 1H2018 at 960.78 points, 20% below its peak and down 3.4% YTD after adjusting for USD/VND exchange rate.
 - The larger caps repeatedly drove the stock market as the combined weight of the top 15 companies accounted for 70% of the Index.
 - The banking sector fell from grace and reversed most of the gain in Q1 (of 40% on average) to record average loss of 30% in Q2.
- The downswing was caused by (i) foreign selling as a result of global tightening, (ii) weak local sentiment in the absence of short-term catalysts, and (iii) (strong but) slowing Q2 GDP growth.
- Foreign investors net bought US\$1.06 billion worth of listed stocks last quarter (Q1 2018: US\$447 million). YTD they net bought US\$1.5 billion in the stock market. However, the net buying in Q2 was focused on VHM, a newly IPO stock which accounted for US\$1.2 billion of foreign buying. Excluding VHM transactions, foreign investors net sold the rest of the Vietnam's stock market in Q2.
- Liquidity contracted by 20.3% compared to Q1 2018 with average daily trading value of US\$308 million.
- Vietnam's listed market capitalization stood at US\$141 billion by the end of June. Valuations have returned to attractive territory with market P/E of 18.0x and estimated 2018 earnings growth of 20%.
- We remain positive on the longer-term uptrend of the Vietnam stock market, but this correction may well drag on until the end of the year.
- On a brighter note, as MSCI expects to upgrade Argentina and Kuwait to emerging market from frontier market status, the proportion of Vietnamese stocks in the MSCI Frontier Markets 100 Index is likely to increase sharply to 28.37% from 17.72%.

Macroeconomic Update

| | 1H 2016 | 1H 2017 | 1H 2018 | FY2018 Target |
|--|---------|----------|---------|---------------|
| GDP Growth Rate (YoY) | 5.65% | 5.73% | 7.08% | 6.70% |
| CPI (YoY change) | 2.40% | 2.54% | 4.67% | <4.00% |
| YTD Trade Balance (US\$ billion) | \$1.29 | (\$2.87) | \$2.71 | |
| Exchange Rates (US\$/VND) | 22,360 | 22,780 | 23,010 | |
| YTD Disbursed FDI (US\$ billion) | 7.30 | 7.70 | 8.37 | |
| Credit Growth (YTD) | 6.20% | 7.54% | 6.35% | 17.00% |
| PMI Manufacturing Index | 52.60 | 52.50 | 55.70 | |
| Industrial Production growth (YTD YoY) | 7.20% | 7.00% | 10.50% | |
| Nominal Retail Sales Growth (YTD YoY) | 9.50% | 10.10% | 10.70% | |
| VN Index | 632.26 | 776.47 | 960.78 | |

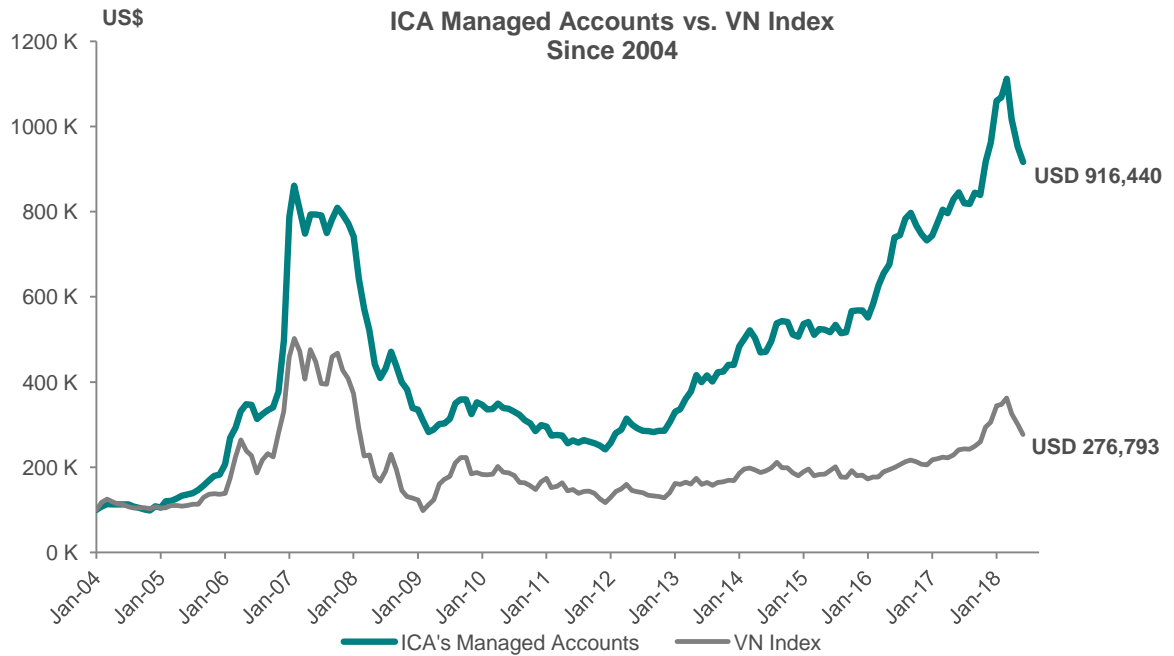
Source: GSO, Customs Office

Vietnam's economic data in Q2 attested to the country's continued robust growth. GDP in 1H registered the strongest growth rate in the last 10 years, driven by strong exports and healthy domestic consumption. Inflation remained contained, trade surplus steady, while FDI inflows were resilient. However, signs of vulnerability to global tightening and trade tensions have begun to manifest in the form of a slowdown in quarterly GDP growth, a declining trade surplus, inflation picking up and a weaker VND

- **1H GDP growth** reached **7.08%**, a **10-year high**. Each of the three main sectors of the economy recorded accelerating growth.
 - The agriculture, forestry and fishery sectors grew at 3.93% YoY, a 6-year high (1H 2017: 2.65%).
 - The industrial and construction sectors' growth reached 9.07% YoY (1H 2017: 5.81%). The manufacturing subsector is the key driver for growth as it expanded by 13.07% YoY, the strongest rate in the last 7 years. At the same time, the mining subsector eased its rate of contraction to 1.3% YoY from 8.2% in 1H 2017. Other subsectors registered slight deceleration in growth, including the construction subsector slowing down to 7.93% YoY vs 1H 2017's 8.50% YoY.
 - The service sectors consistently accelerated with YoY growth of 6.90% (1H 2017: 6.85% YoY). Retail sales rose by 10.70% YoY (1H 2017: 10.10% YoY).
 - In terms of GDP contribution, the agriculture, forestry and fishery sectors accounted for 14.15% of total GDP, the industrial and construction sectors 33.78%, the service sectors 41.82% and taxes less subsidies 10.25%. The respective proportions in 1H 2017 were 15.06%, 32.75%, 41.82% and 10.37%.
 - On a quarterly basis, Q2 GDP growth was 6.79%, also the strongest (of all the other Q2s) in the last 10 years, but a slowdown vs. Q1 2018 of 7.45%.
- **The Nikkei Vietnam Manufacturing PMI** rose to **55.7** in June, marking the 31th consecutive month of improvement in the manufacturing sector.
 - This was the strongest monthly improvement since the survey began in March 2011.
 - The strong reading was backed by steep growth in output and new orders and a significant increase in purchasing amidst intensified inflationary pressures.
- **YoY inflation** accelerated to **4.67%** (1H 2017: 2.54%).
 - Inflation was mainly driven by (i) the release of government's subsidies in educational services and healthcare services (which started in 2015), (ii) the minimum wage rise effective from January 1, 2018 and (iii) rising commodity prices
- **1H 2018 credit growth** was estimated at **6.35%** YoY (1H 2017: 7.54%).
 - 1H deposit growth was 7.78% YoY (1H 2017: 5.89%).
 - Overall lending rates remained stable. Short-term lending rates ranged from 6.0% - 9.0% pa, long-term lending rates from 9.0% - 11.0% pa.

- Trade surplus expanded to **US\$2.71 billion** (1H 2017: deficit of US\$2.87 billion).
 - Exports grew by 16.0% YoY while imports grew by 10.0% YoY.
 - Inputs for production accounted for a significant 91.6% of total imports, which implies further expansion for the economy in the future.
- **Disbursed FDI** reached **US\$8.4 billion, up 8.4% YoY while registered FDI** was **US\$16.2 billion, down 4.4% YoY.**
 - The manufacturing sector accounted for 42.6% of total registered FDI, the real estate sector 31.8% and the remaining sectors 25.6%.
 - Japan, Korea and Thailand are the top three FDI contributors (in terms of newly pledged FDI) in 1H 2018 with respective shares of 47.2%, 26.6% and 5.6%, respectively.
 - FII in 1H 2018 was US\$4.1 billion, almost double compared to 1H 2017's.
- The **USD/VND exchange rate** rose 0.66% MoM from 22,860 to 23,010 in June 2018. YTD depreciation of VND vs. the USD was 1.0%.
 - FX reserves hit a new high of US\$63.5 billion by the end of May. Growing FDI and FII inflows and an expanding trade surplus have provided the VND with buffers against depreciation pressures.
- Macro-political highlights in Q2 2018:
 - On April 3, Moody's affirmed Vietnam's credit rating at B1 but updated its outlook from stable to positive. On May 15, Fitch upgraded its credit rating for the country from BB- to BB with a stable outlook. Both agencies stated robust growth driven by strong FDI as the rationale for their rating's increases.
 - As the US-China trade tension escalated, concern over China's economy slowing down is amplified. It is estimated that a US' crack down on US\$250 billion of China's exports will cause China's economy to lose 0.1 to 0.5 percentage point in growth. Even though Vietnam may benefit as an alternative production hub for China (as it has been), the country may suffer from undetermined consequences due to the closely-linked nature of the two countries' economies.
 - The US Fed raised benchmark rate by another 25 bps to a range of 1.75% – 2.00% and expects 2 other raises this year before 3 rises next year. This was the seventh increase since December 2015. The impact of the faster- than- expected hikes has started to sink in as reflected in outflows from emerging markets and depreciation pressures on the VND.
- We maintain our view that Vietnam's economy will outperform Asian's peers and emerging market peers in 2018. However, the longer-term outlook might be affected as a trade war looms and global tightening accelerates.

Historical Performance

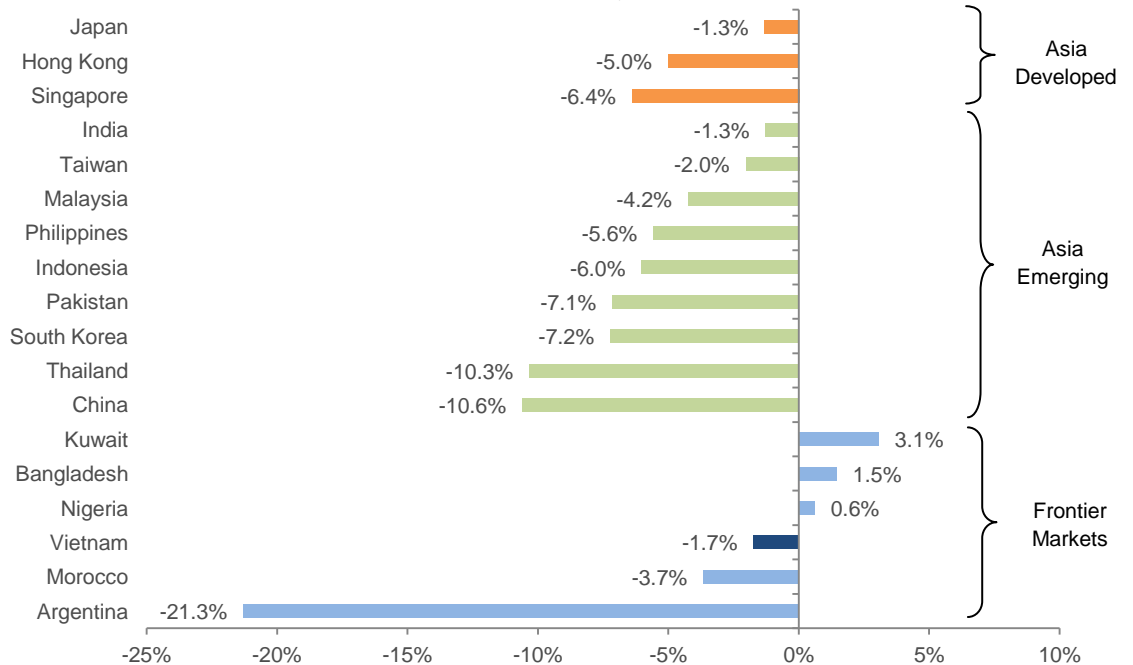


* Calculated based on US\$100,000 invested with ICA since inception (2004) versus invested in the VN Index

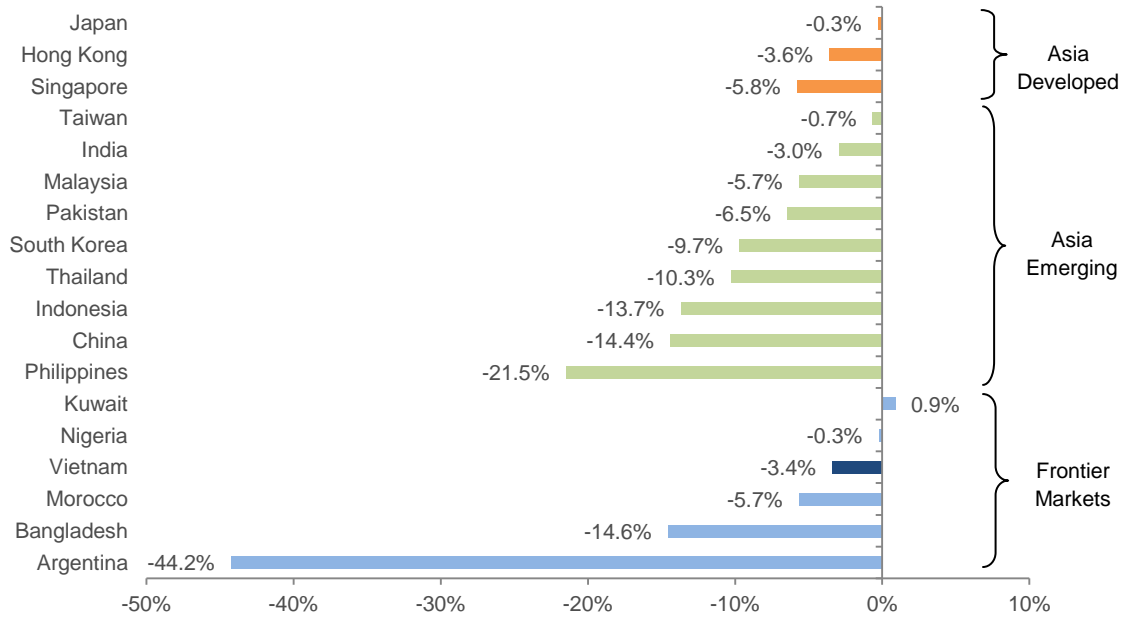
** Monthly time-weighted returns, net of fees, based on total NAV of all managed accounts, including impact of VND depreciation against the USD

*** Data as of June 30, 2018

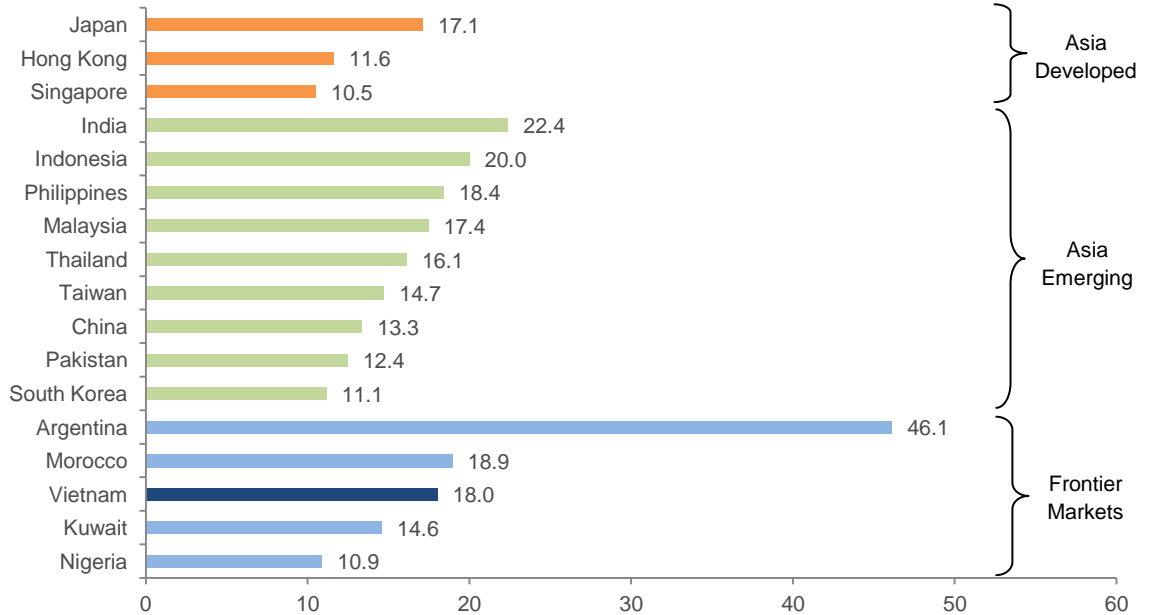
Stock Market Monthly Returns by Country (in USD) as of Jun 30, 2018



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



Stock Market P/E's by Country as of Jun 30, 2018



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