



INDOCHINA CAPITAL MONTHLY NEWSLETTER

Stock Market Commentary

- The Vietnam stock market further extended its 3-month correction into the first half of July. The VN Index plummeted another 7% to reach a YTD low of 893.16 on July 11 due to concerns that an escalating US-China trade war and a stronger USD would have a negative impact on the country's economy. However, the market managed to recover strongly in the second half of July thanks to bottom fishing activities and upbeat 2Q results.
 - **The VN Index ended July at 956.39, down by 1.86% MoM and 5.2% YTD in USD terms.**
 - The market movements were driven by the large caps, especially the banking and financial sectors with double-digit losses in the first half of July and the most significant recoveries in the second half.
- Liquidity continued to shrink as the **average daily traded value** on the Ho Chi Minh and Hanoi exchanges **fell to US\$189 million, down by 22.7% MoM** and is now 32.5% lower than last 12 months' average.
- **Foreign investors were net sellers of US\$102 million** on the two listed exchanges **in July**, yet they remained **net buyers of US\$1.4 billion YTD** (7M2017: US\$515 million).
- Until July 31, about 73% of listed companies have reported their 2Q results with their total combined net profit posting a 34.8% YoY growth. This was also in line with previous expectations as well as strong macro data in the quarter. The banking sector saw the most impressive results with total combined net profit in 2Q2018 surging 50% from the same period last year.
- The releases of positive earnings growth have brought the VN Index's P/E to 17.0x from 18.0x in June, with the majority of stocks now trading at very attractive P/Es of less than 10.0x. At the end of July, total market capitalization of the Vietnam's listed market was US\$138.9 billion.
- We maintain our positive view on the long-term outlook of the Vietnam market, given that the strong growth factors of the economy may help the country to weather the trade war. However in the short term, the concerns on currency depreciation still weigh on market sentiments and thus it might take the VN Index a longer time to recover to its highs.

Macroeconomic Update

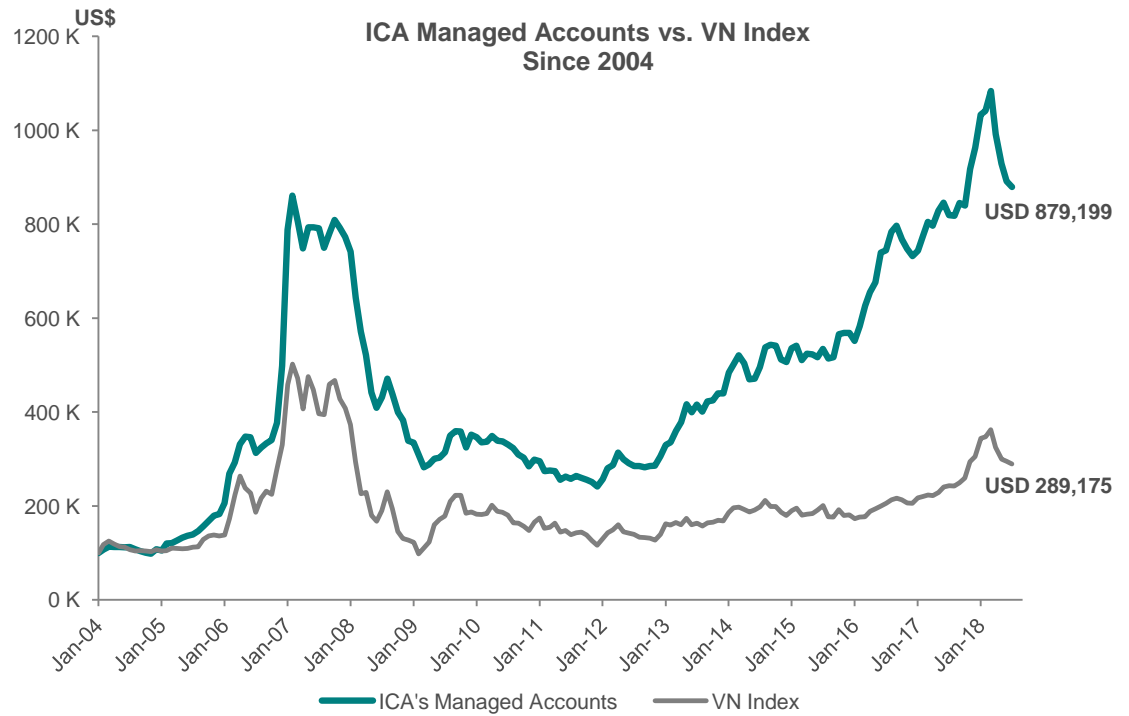
	Jul 2017	Jun 2018	Jul 2018	FY2018 Target
CPI (MoM change)	0.11%	0.61%	(0.09%)	
CPI (YoY change)	2.52%	4.67%	4.46%	<4.00%
YTD Trade Balance (US\$ billion)	(\$2.61)	\$3.36	\$3.06	
Exchange Rates (US\$/VND)	22,770	23,010	23,340	
YTD Disbursed FDI (US\$ billion)	9.05	8.37	9.85	
Credit Growth (YTD)	9.30%	7.88%	n.a	17.00%
PMI Manufacturing Index	51.70	55.70	54.90	
Industrial Production growth (YTD YoY)	7.10%	10.50%	10.90%	
Nominal Retail Sales Growth (YTD YoY)	10.00%	10.70%	11.10%	
VN Index	783.55	960.78	956.39	

Source: GSO, Customs Office

Vietnam's macro data in July demonstrated a bright picture with better growth in most aspects of the economy, while inflation was still in control and the trade surplus stayed high.

- **July CPI decreased slightly by 0.09% MoM**, bringing **YoY inflation to 4.46%** from 4.67% in June.
- **Vietnam's Manufacturing PMI posted at 54.9 in July**, signifying improvements in business conditions in each of the past 32 months.
 - The reading is one of the highest levels since the survey began in 2011, despite being down marginally from 55.7 in June.
 - The high PMI was driven by a substantial increase in manufacturing new orders, especially export orders as well as a strong growth in output.
- **Industrial production growth accelerated to 10.9% YoY** in the first 7 months (7M2017: 7.1% YoY), in which July alone posted an expansion of 14.3% YoY.
 - The manufacturing sector showed the most impressive growth of 13.1% YoY in 7M2018, followed by electricity production and distribution sector (+10.7% YoY).
- **Nominal retail sales & service revenue surged by 11.1% YoY** in 7M2018 (7M2017: +10.0% YoY).
- Vietnam was estimated to incur a **US\$300 million trade deficit in July**, yet **the YTD trade balance remained in surplus of US\$3.06 billion**.
 - The country's exports are estimated to have advanced 15.3% YoY to US\$133.7 billion while its imports are likely to have increased 10.2% YoY to US\$130.6 billion.
 - Earlier in the month, the Customs Office also revised June trade balance to US\$799 million surplus from US\$100 million deficit estimated earlier by the GSO.
- **FDI disbursement** in the first 7 months **was up by 8.8% YoY to US\$9.85 billion** while **registered FDI fell by 3.5% YoY to US\$18.15 billion**. Meanwhile, **registered FII posted a 53.3% YoY growth to reach US\$4.79 billion**.
- **The USD/VND exchange rate rose to 23,340** at the end of July, registering VND's **monthly depreciation of 1.4% and YTD depreciation of 2.4% against the USD**.

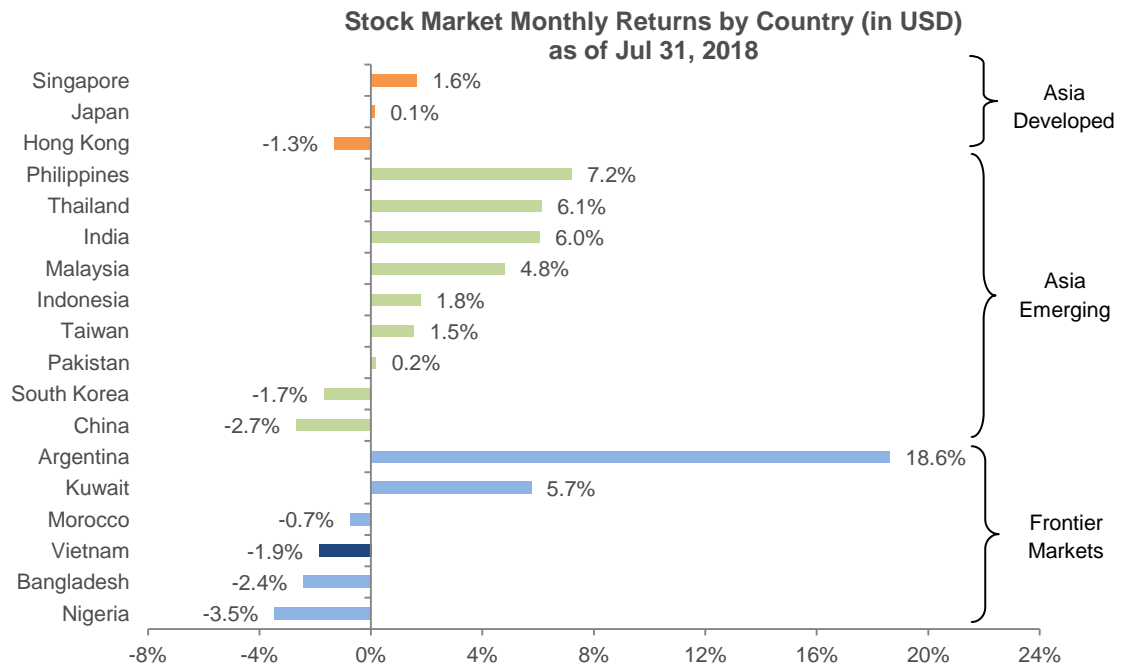
Historical Performance



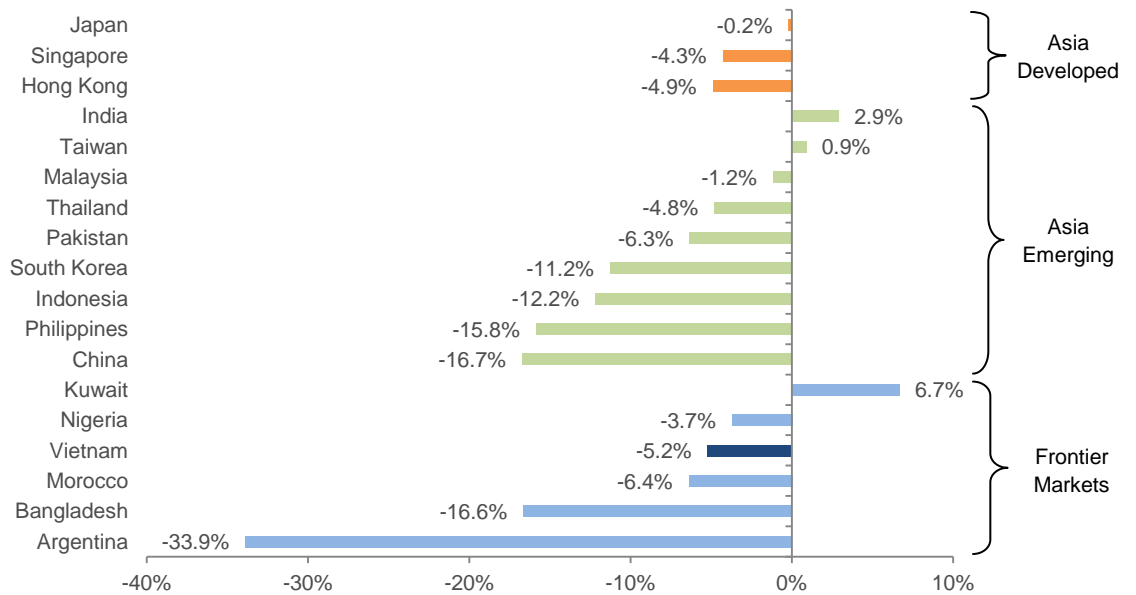
* Calculated based on US\$100,000 invested with ICA since inception (2004) versus invested in the VN Index

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

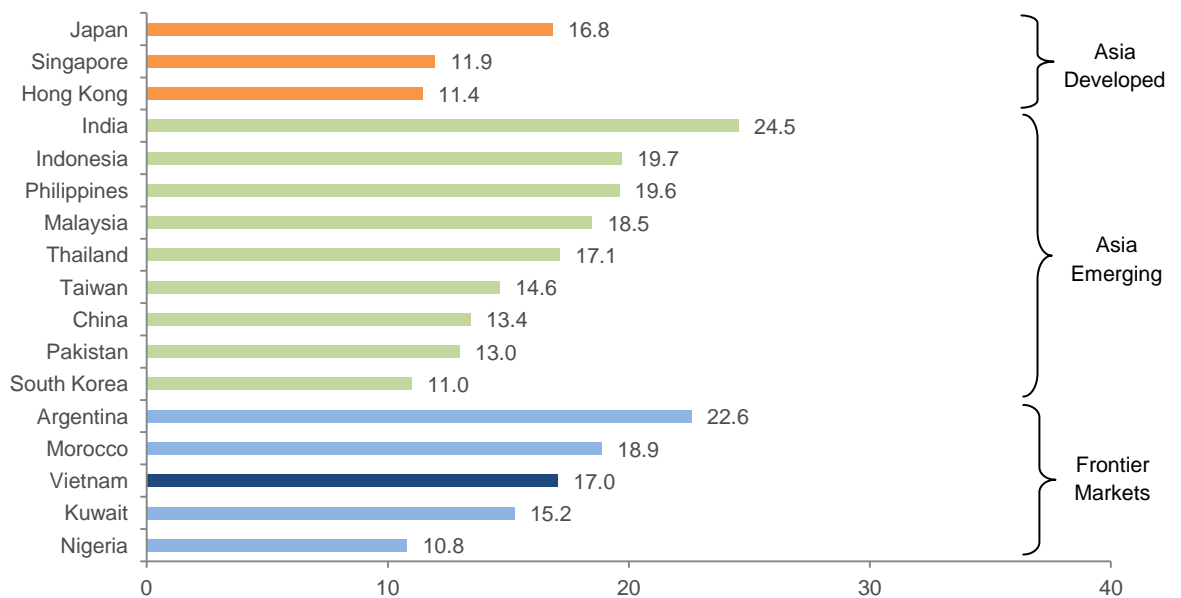
*** Data as of July 31, 2018



Stock Market YTD Returns by Country (in USD) as of Jul 31, 2018



Stock Market P/Es by Country as of Jul 31, 2018



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