



INDOCHINA  
CAPITAL  
MONTHLY  
NEWSLETTER

## Stock Market Commentary

- Closing at 1017 points, the VNIndex posted monthly **gain** of **2.61%** and **YTD return** of **0.65%** in USD terms.
  - Stock rallied on a broad base with smaller caps outperforming larger caps.
  - Sector-wise, the banking sector and the oil and gas sector outperformed.
- **Liquidity** increased by 8.4% vs. August with average daily trading value of US\$231 million.
- **Foreign investors** returned as net buyer of **US\$7 million** after net selling for 3 consecutive months.
- Vietnam's listed market capitalization reached US\$148 billion by September's end. Market P/E was 18.3x (August: 17.9x).
- **FTSE Russell added Vietnam to secondary EM watch list.** It shall take at least a year's time for the country to be upgraded if certain requirements are met. The criteria include (i) settlement (free delivery), (ii) short selling to be allowed and (iii) developed derivatives market. Upon reclassification, the Vietnam's stock market is estimated to attract approximately US\$680 mm of passive money.
- While global tightening and an escalating trade war have undermined the global equity market, Vietnam's strong GDP growth boosted by FDI and robust domestic consumption is the silver lining that supports the positive outlook of its stock market.

# Macroeconomic Update

	9M 2016	9M 2017	9M 2018	FY2018 Target
GDP Growth Rate (YoY)	5.99%	6.41%	6.98%	6.70%
CPI (YoY change)	3.34%	3.40%	3.98%	<4.00%
YTD Trade Balance (US\$ billion)	\$3.03	(\$0.12)	\$5.39	
Exchange Rates (US\$/VND)	22,350	22,780	23,380	
YTD Disbursed FDI (US\$ billion)	11.02	12.50	13.25	
Credit Growth (YTD)	10.46%	11.02%	9.52%	17.00%
PMI Manufacturing Index	52.90	53.30	51.50	
Industrial Production growth (YTD YoY)	7.10%	7.90%	10.60%	
Nominal Retail Sales Growth (YTD YoY)	9.50%	10.50%	11.30%	
VN Index	688.55	804.42	1017.13	

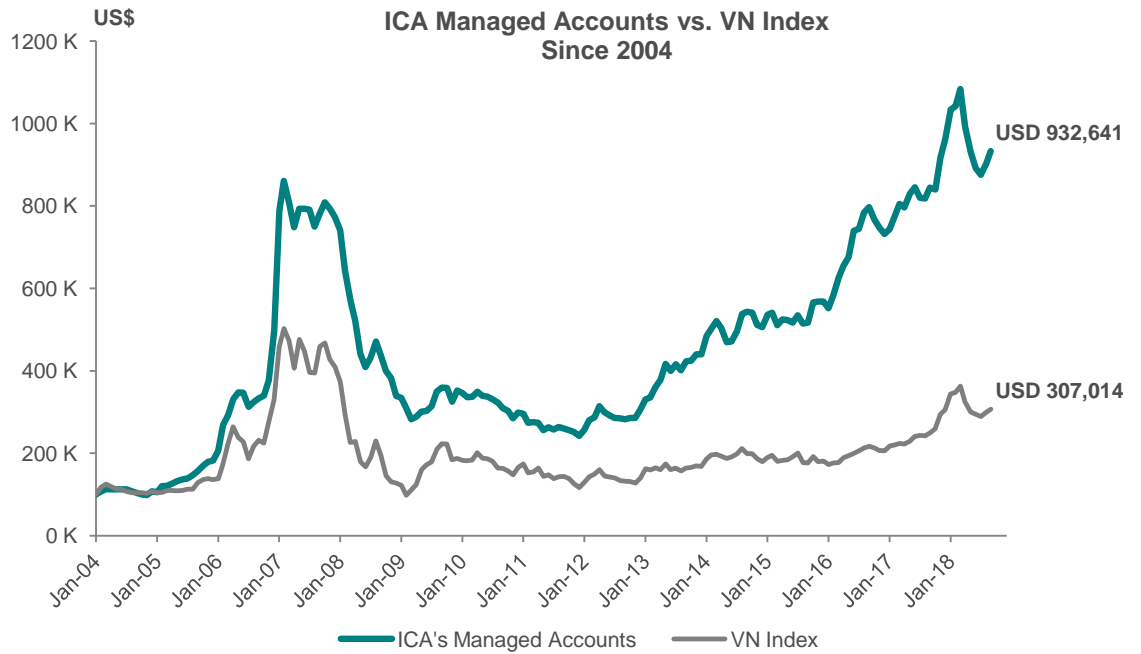
Source: GSO, Customs Office

Despite an escalating trade war and global tightening, Vietnam's economy managed to record strong growth in Q3 2018. Inflation eased, trade surplus soared and FDI stayed robust.

- Q3's growth accelerated to 6.88% YoY (Q2: 6.73% YoY), marking the second strongest Q3 growth in the last 8 years. **9M 2018 GDP growth reached 6.98%, the strongest since 2011.** Sector-wise,
  - The agriculture, forestry and fishery sectors registered growth of 3.65%, the strongest 9M growth since 2011 (9M 2017: 2.78%).
  - The industrial and construction sectors' growth sped up to 8.89% YoY (9M 2017: 7.17%). The manufacturing subsector remained a steady driver of the economy with output expanding by 12.65% YoY, slightly lower than 9M 2017's of 12.77%, yet still stronger than the period from 2012 – 2016. The mining subsector shrunk by a minor 1.97% YoY vs. 9M 2017's contraction of 8.08%. Other subsectors recorded improvements.
  - Growth of the service sector moderated to 6.89% YoY (9M 2017: 7.25%). The deceleration was mainly because revenue from accommodation and meal services rose at 5.89% YoY, significantly lower than the rate in 9M 2017 of 9.00%. However, retail sales stayed robust at 11.30% YoY (9M 2017: 10.50%).
  - In terms of GDP contribution, the agriculture, forestry and fishery sectors accounted for 13.93% of total GDP, the industrial and construction sectors 33.49%, the service sectors 42.54% and taxes less subsidies 10.04%. The respective proportions in 9M 2017 were 14.67%, 32.50%, 42.65% and 10.18%
- **The Nikkei Vietnam Manufacturing PMI** in September read **51.5**, signifying improvements in the sector in each of the last 34 months.
  - However, the rate of improvement in the sector's health has eased in 3 successive months and is the weakest since last November.
  - Weakening demand was noted along with slower rises in output, new orders and employment. This could be an early sign of trade war's impact.
- **YoY inflation** came in at **3.98%** (9M 2017: 3.40%).
  - YoY inflation eased up compared to June's 4.67%.
  - 9M 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, (iii) hikes in food prices, especially pork prices and (iii) rising commodity prices.
- **9M 2018 credit growth** was estimated at **9.52%** YoY (9M 2017: 11.02%).
  - 9M deposit growth was 9.15% YoY (9M 2017: 10.08%).
  - Overall lending rates remained stable. Short-term lending rates ranged from 6.0% - 9.0% p.a., long-term lending rates from 9.0% - 11.0% pa. Mild increase in deposit rates (less than 50 bps) in certain banks were noted, which could be early signs of rising rates.

- **Disbursed FDI** reached **US\$13.25 billion, up 6.0% YoY. Registered FDI** was **US\$19.7 billion, down 7.7% YoY.**
  - The manufacturing sector accounted for 49.2% of total registered FDI, the real estate sector 27.7% and the remaining sectors 23.1%.
  - Japan, Korea and Singapore are the top three FDI contributors (in terms of newly pledged FDI) in 9M 2018 with respective shares of 41.3%, 21.9% and 7.8%.
  - FII in 9M 2018 was US\$5.7 billion, up 36.8% YoY.
- **Trade surplus** soared to **US\$5.39 billion** (9M 2017: deficit of US\$117 million).
  - Exports grew by 15.4% YoY while imports grew by 11.8% YoY.
- The **VND** slightly weakened vs. the USD in Q3 2018 (from US\$/VND 23,010 to 23,380). **YTD depreciation** of VND vs. the USD was **2.6%** (from US\$/VND 22,770).
  - The latest publicly available FX reserves was in May (**US\$63.5 billion**), before depreciation pressures kicked in. We expected the balance to have reduced since.
  - The VND is expected to lose 3% in 2018 against the USD, however, any further devaluation of the VND as a result of trade war will exert significant impact on the VND.
- Macro-political highlights 2018:
  - Moody's upgraded Vietnam's Government long-term issuer and senior unsecured ratings from B1 to Ba3 with a stable outlook. The upgrades were attributed to the country's strong growth potential and ongoing move up the value chain, which puts Vietnam closer to the investment grade and help to strengthen investment inflows into Vietnam.
  - Mr President Tran Dai Quang passed away due to illness on 21 September. Mr Trong, the Communist Party's Secretary will take over his office to become the first Secretary cum President in Vietnam. This is evidence that Mr Trong has further consolidated his power, hence we expect insignificant change to the higher levels of the government in a foreseeable future.
  - US – China trade war escalated to another level with the US levying tariffs on US\$200 billion of Chinese goods and Beijing retaliated with tariffs on US\$60 billion worth of US imports to China with effect from 24 September.
  - On 26 September, US Fed raised rates for the 3<sup>rd</sup> time to range of 2 – 2.25%, the highest range in more than a decade. They expect another hike in December, at least 3 other raises in 2019 and one more in 2020.
- Global tightening and trade war is expected to weaken demand and impede investments in the two largest economies. However, Vietnam is on top of the list of potential beneficiaries of (or least affected by) trade war as the country could become an alternative production hub to China.

# Historical Performance

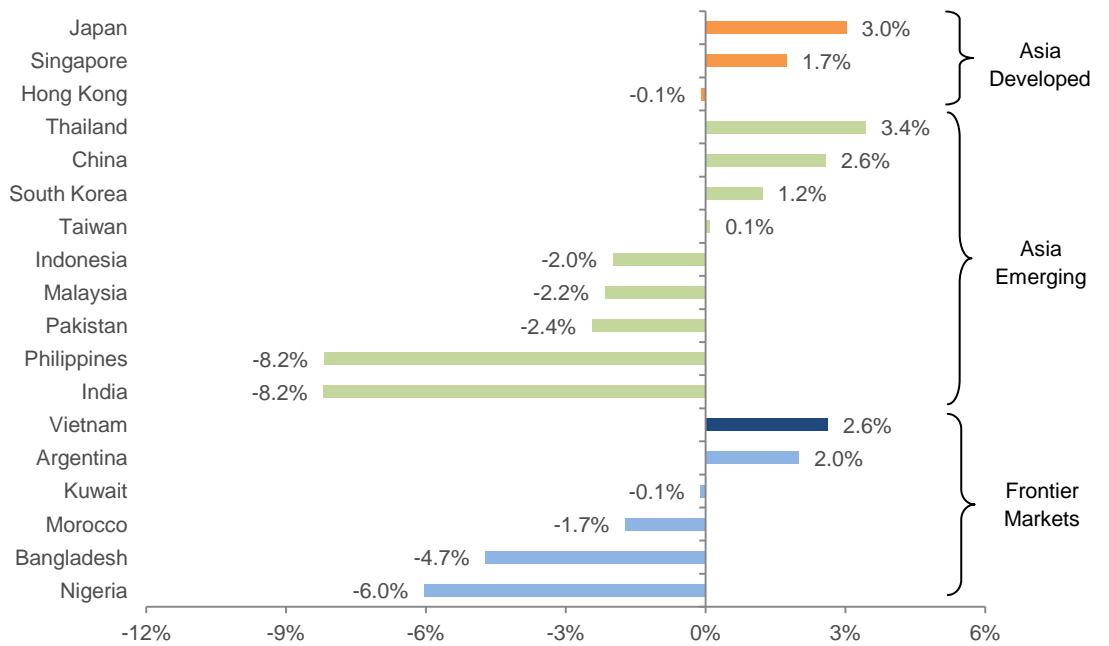


\* Calculated based on US\$100,000 invested with ICA since inception (2004) versus invested in the VN Index

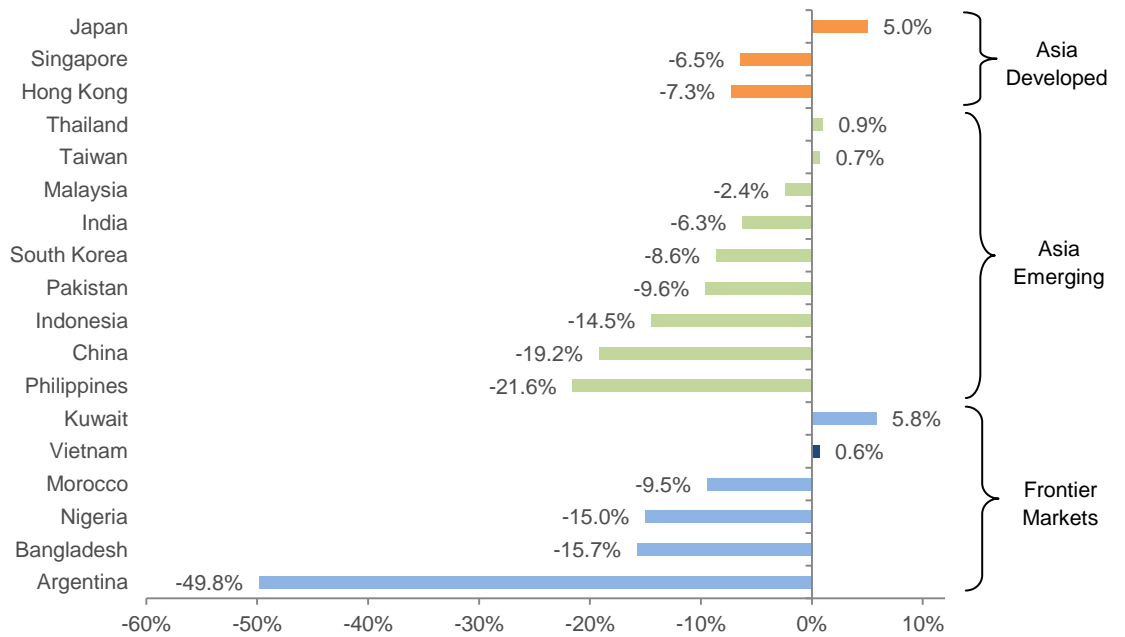
\*\* Monthly time-weighted returns, net of all fees, based on total NAV of all managed accounts, including impact of VND depreciation against the USD

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

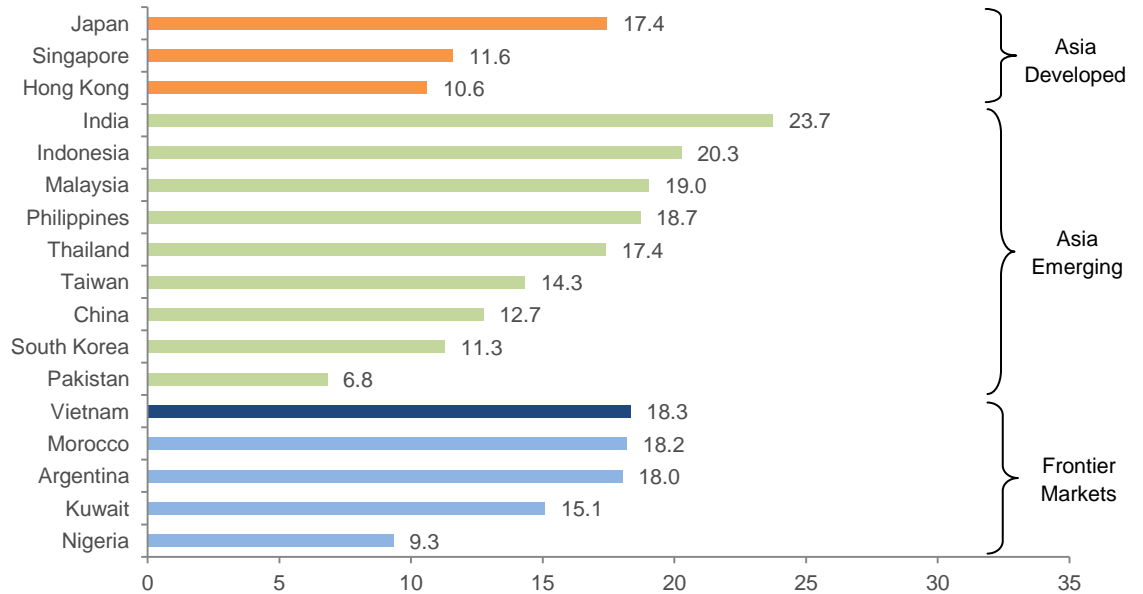
## Stock Market Monthly Returns by Country (in USD) as of Sep 30, 2018



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



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



**Contact us**

**Peter Ryder**

CEO

T: +84 24 3935 0250

M: +84 913 229 810

E: peter@indochinacapital.com

**Diep Nguyen**

Director

T: +84 28 3910 4855

M: +84 907 133 671

E: diep.n.nguyen@indochinacapital.com

**Ho Chi Minh City Office**

10<sup>th</sup> Floor, Capital Place

6 Thai Van Lung Street

Ben Nghe Ward, District 1

HCM City, Vietnam

www.indochinacapital.com

@ 2018 Indochina Capital Corporation

Information contained in this publication is based on data obtained from sources we deem to be reliable, however, it is not guaranteed as to accuracy and does not purport to be complete. Nothing contained in this publication is intended to be a recommendation of a specific security or company nor is any of the information contained herein intended to constitute an analysis of any company or security reasonably sufficient to form the basis for any investment decision.