



INDOCHINA CAPITAL MONTHLY NEWSLETTER

Stock Market Commentary

- The Vietnam stock market declined for the third successive month in June on sluggish sentiment and declining liquidity. The VN Index dropped to one-year low of 1,169.27 before bouncing to 1,197.60 at month-end.
 - **The VN Index registered a monthly loss of 7.71% and YTD loss of 21.71% in USD terms.**
 - Except for the consumer & retail sector's minimal gain of 0.1%, other major sectors pulled back in June, including the real estate sector (-9.2% MoM), the banking sector (-6.6% MoM) and the oil & gas sector (-5.2% MoM).
 - Year to date, the oil & gas sector had the best performance (+4.1%) thanks to elevated oil prices while the real estate sector performed the worst (-25.0%) as the government took action to constrain credit to the real estate sector.
- Liquidity declined in June with **average daily trading value** on the Ho Chi Minh and Hanoi Stock Exchanges falling to **US\$701 million**, the lowest level since February 2021.
- **Foreign investors net bought** a total of **US\$93 million** in June, bringing **YTD net purchase value** to **US\$87 million**. Foreign investors were net buyers of Vietnamese stocks last quarter for the first time since Q2 2019.
- **Vietnam's listed market capitalization** stood at **US\$216 billion** by the end of June. **VN Index's trailing P/E** stood at an attractive **13.0x**, a significant discount compared to ASEAN peers' average P/E ratio of 15.6x despite compelling earning growth outlook.
- Market participants have become more cautious despite increasingly attractive valuations. There could be some catalysts for banks and real estate companies in Q3 when the SBV raises credit quotas. Nevertheless, listed corporate earnings are forecast to stay strong with double digit growth in Q2 and for the full year.
- On a different note, the SSC announced their plan to shorten stock trading settlement period to T+1.5 from T+2 with effect from August. This is the first improvement in the listed exchange trading and settlement system since the system glitch in 2021 due to limited capacity.

Macroeconomic Update

	1H 2020	1H 2021	1H 2022	FY2022 Target
GDP Growth Rate (YoY)	1.81%	5.64%	6.42%	6.5%-7%
CPI (YoY change)	3.17%	2.41%	3.37%	<4.00%
YTD Trade Balance (US\$ billion)	5.86	(0.99)	0.71	
Exchange Rate (US\$/VND)	23,300	23,110	23,370	
YTD Disbursed FDI (US\$ billion)	8.65	9.24	10.06	
PMI Manufacturing Index	51.10	44.10	54.0	
Credit Growth (YTD YoY)	2.45%	5.47%	8.51%	
Industrial Production growth (YTD YoY)	2.71%	8.91%	8.48%	
Nominal Retail Sales Growth (YTD YoY)	(0.80%)	3.56%	11.71%	
VN Index	825.11	1,408.55	1,197.60	

Source: GSO, Customs Office

Vietnam's economy accelerated in Q2 with output rising at the fastest pace in the last 12 years. The manufacturing sector reported healthy growth while retail sales & services gained traction. Export maintained double-digit growth. FDI disbursement reached 5Y high. Inflation picked up but remained in check.

- Q2 2022 GDP grew at 7.72% YoY**, the fastest Q2 rate since 2011, and well exceeded consensus estimates. **1H 2022 GDP rose at 6.42% YoY**, slightly below the pre-Covid level of 6.98% in 1H 2019 but the strongest in the recent three years.

 - In Q2 and 1H 2022, the industrial & construction sector expanded at 8.87% YoY and 7.70% YoY, respectively (1H 2021: 8.36%). The service sector rose at 8.56% in Q2 and at 6.60% in 1H (1H 2021: 3.96%). The agriculture, forestry & fishery sector grew at 3.02% in Q2 and at 2.78% in 1H (1H 2021: 3.82%).
 - Within the industrial & construction sectors, the manufacturing sub-sector proved its role of Vietnam's economic powerhouse with 9.66% YoY growth in 6M 2022 and accounted for 24.85% of the country's total output.
 - The service sectors saw the best growth in years thanks to the recovery of consumer-facing services.
- 6M revenue of retail sales and services increased 11.71% YoY. June** number went up **1.38% MoM**, but **27.31% YoY** as Vietnam was under severe COVID outbreak in the same period last year.

 - Tourism unsurprisingly had the strongest rebound with a YoY increase of 94.41% in 6M 2022, albeit still well below pre pandemic level. This was followed by accommodation & catering services (+20.89% YoY), retail sales of goods (+11.27% YoY) and other services (+5.56%).
- The Index of Industrial Production (IIP) increased 0.95% MoM and 11.51% YoY in June.** For **Q2** and **1H 2022, IIP rose 9.87% YoY and 8.48% YoY**, respectively.

 - According to a GSO's survey, 85% of manufacturers expected business conditions in Q3 to either be stable or improving compared to Q2 2022.
- Vietnam's Manufacturing PMI reached 54.0 in June**, indicating improving business conditions in each of the last nine months.

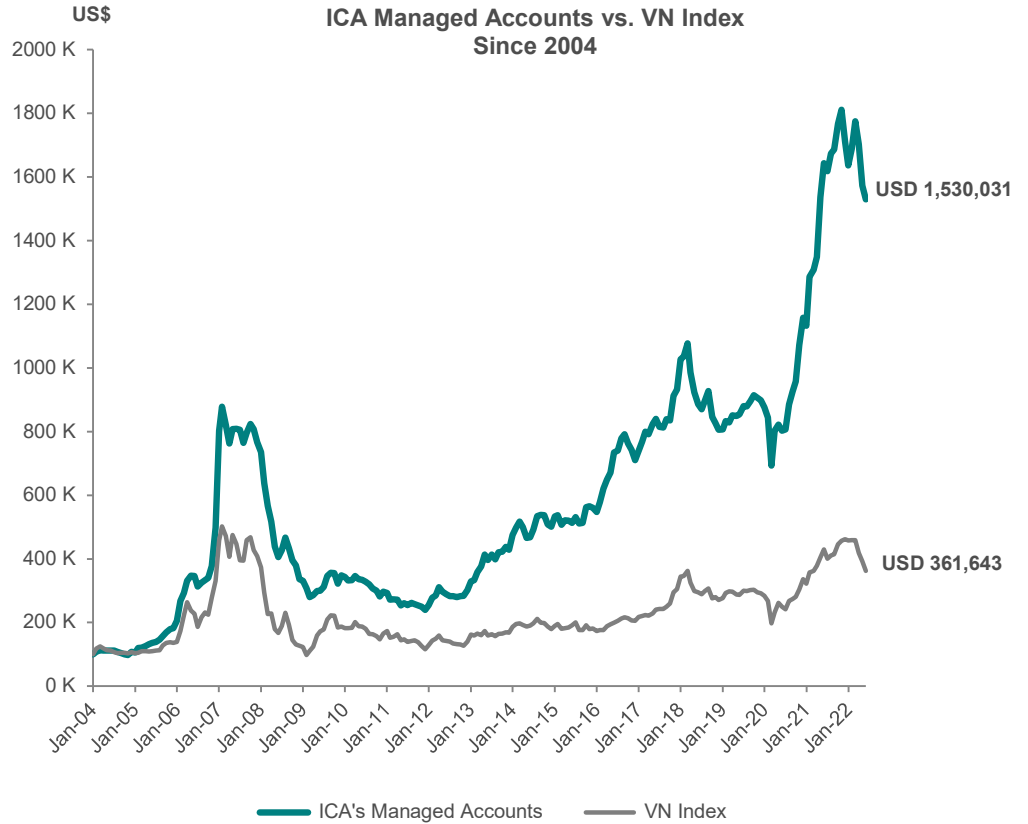
 - Stable market conditions fueled growth of domestic orders while export orders accelerated to the fastest pace in four months despite shipping difficulties.
 - Increased staffing level helped firms reduce backlogs for the second time in the past three months.
- CPI rose 0.69% MoM in June**, bringing **YoY inflation to 3.37%**.

 - Food & food services (33.6% CPI basket) rose 2.27% YoY while transportation (9.7% CPI basket) spiked 21.41% YoY.
 - Resilient demand encouraged businesses to pass on rising costs to consumers and may finally elevate year end headline inflation above the government's target of 4%.
- Credit growth** was at **8.51% YTD** (6M 2021: 5.47%) and **M2 growth** reached **3.30% YTD** (6M 2021: 3.48%).

 - Credit growth was the strongest in the last five years with most banks having reached their quota. The granting of additional credit growth quota has been delayed by the SBV from June to potentially end of July to control inflation.

- Deposit growth reached 3.97% YoY (1H 2021: 3.13%). Deposit rates accelerated with banks having raised their offer rates by an average of 50 bps across all tenures in Q2.
- **Vietnam** recorded a **trade surplus of US\$710 million** in **6M 2022** (6M 2021: US\$990 million deficit). Trade balance flipped from deficit of US\$1.7 billion in May to US\$280 million surplus in June.
 - In June, export value reached US\$32.65 billion (+5.6% MoM and +19.97% YoY) while import value reached US\$32.37 billion (-0.8% MoM and +16.32% YoY).
 - June export growth was led by machinery, equipment & tools (+69.01% YoY), telephones & components (+15.35% YoY), footwear (+25.93% YoY) and textiles & garments (+18.85% YoY).
 - 6M exports increased by 17.4% YoY (6M 2021: 29.0%) and imports 16.3% YoY (6M 2021: 36.3%).
- **Year to date, registered FDI dropped 13.94% YoY to US\$11.76 billion** while **disbursed FDI** reached **US\$ 10.06 billion**, a **rise of 8.85% YoY**. **Disbursed FDI** was at **US\$2.27 billion**, an **expansion of 41.40% YoY**.
 - The manufacturing sector accounted for 71.02% of total pledged FDI, the real estate sector 17.02%, the media sector 3.20% and the remaining sectors 8.76%.
 - Year to date, Singapore, South Korea, and Denmark accounted for over 50% of registered FDI with respective contribution of 30.31%, 20.10% and 11.23%, respectively.
- **The USD/VND exchange rate increased** further to **23,370** in **June** from **23,280** in **May**. The SBV have recently signaled their willingness to speed up USD selling to stabilize the exchange rate. YTD the VND depreciated by 2.05% vs the USD. Steady foreign investment inflows and strong exports have supported the value of the VND despite the USD index having rallied by 9.09% YTD.
- The better-than-expected Q2 macro performance have led most financial institutions to revise up their forecasts for Vietnam 2022 GDP growth to circa. 7% YoY, approximately 100 bps up from previous forecasts. While growth in 2H is probably strong on the low base of 2H 2021 when COVID-19 lockdown hit the economy, momentum will likely cool down due to increasingly challenging global environment. Early signs of waning growth have emerged in May and June with moderating export growth and softening retail sales growth.

Historical Performance

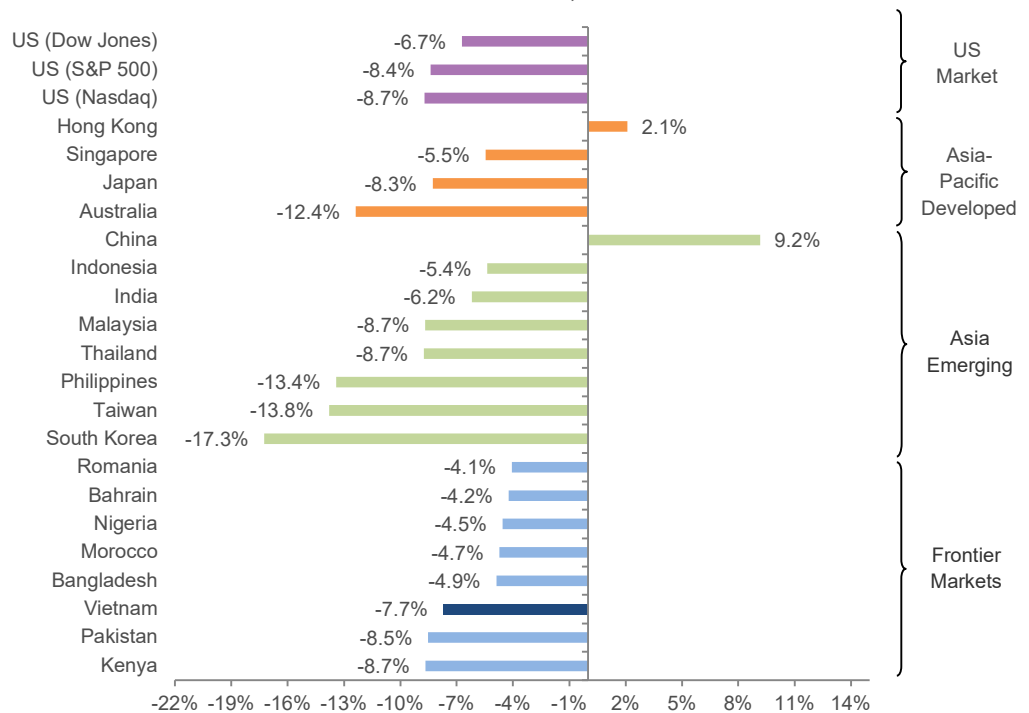


* Calculated based on US\$100,000 invested with ICA since inception (2004) versus invested in the VN Index

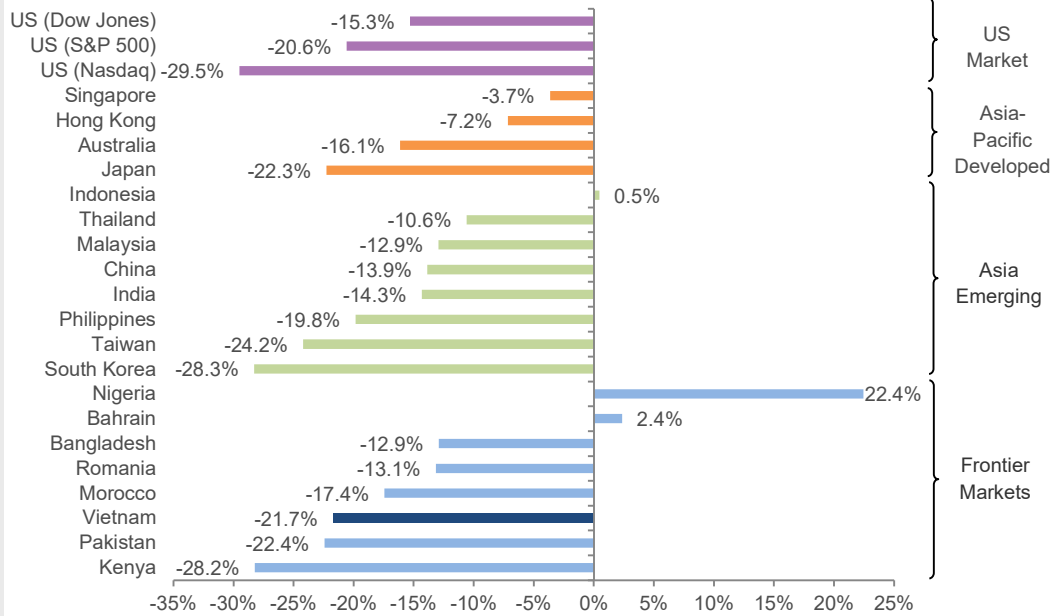
** Monthly time-weighted returns, net of all fees, based on total NAV of all managed accounts, including impact of VND depreciation against the USD

*** Data as of June 30, 2022

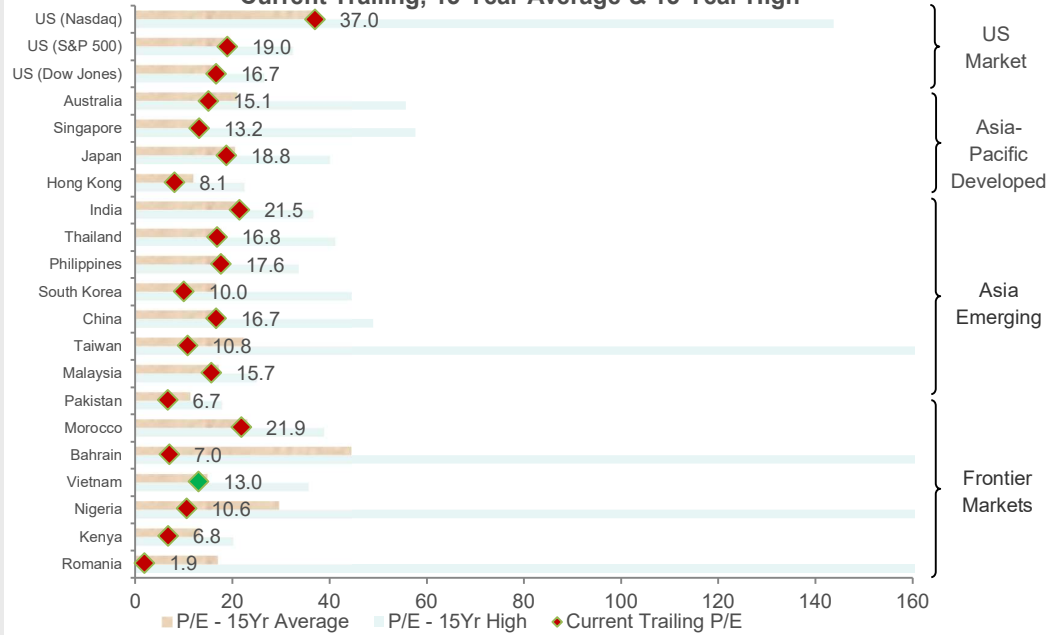
Stock Market Monthly Returns by Country (in USD) as of June 30, 2022



**Stock Market YTD Returns by Country (in USD)
as of June 30, 2022**



**Stock Market P/Es by Country
Current Trailing, 15-Year Average & 15-Year High**



(*): 15Yr High P/Es of Taiwan, Bahrain, Nigeria and Romania are above 160.x

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