



Stock Market Commentary

After a short-lived and mild correction in April, the Vietnam market quickly regained momentum and got back on uptrend mode in May. Investors' sentiments were buoyed by an improving macroeconomic outlook coupled with upbeat 1Q17 corporate earnings. **The VN Index** rose to a fresh nine-year high of 746.25 points on May 29 before correcting slightly in the following 2 days to **close the month at 737.82 points**.

- **In USD terms, the VN Index posted a return of 2.98% MoM** or the best monthly gain since January. This brought its **YTD return to 11.26%** as at the end of May.
- As the VN Index rushed to new highs, the combined **average daily trading value** on the Ho Chi Minh and Hanoi Stock exchanges **soared by 21.5% MoM to US\$248.7 million in May** or nearly doubled the average liquidity in 2016. May 2017 thus became the **second most liquid month in 17 years of Vietnam stock market's history**, with traded value only lower than October 2009. The increased liquidity was dominated by the locals as their participation jumped to 92% from 87% in April.
- Meanwhile, foreign investors were net buyers for the fifth consecutive month with **net buying value reaching US\$62.8 million in May and US\$324.7 million year-to-date**.
- Also in May, MSCI announced its semiannual market classification, in which Pakistan was upgraded to emerging market from frontier market with effect from June 01. As a result, **Vietnam's weightings in the MSCI Frontier Markets 100 Index enjoyed a significant boost from 8% to 12.63%**. Besides the estimate that the iShares MSCI Frontier Markets 100 ETF would add another US\$27.8 million of Vietnamese stocks to its portfolio, the Vietnam stock market was also strengthened under the expectation that Vietnam could also be upgraded to emerging status in the near future, which will attract more foreign inflows. We believe investors might have to wait at least another 2 years for this to happen; nonetheless, we look forward to growing regulatory reforms in preparation for the upgrade.
- The market rally in May was more broad-based than in the previous months, even though the performances of stocks were still largely driven by short-term catalysts and hot money flows in and out of sectors. The

focus this time was more on fundamental stocks, especially ones that had been lagging behind the market in the last few months.

- Sector-wise, banking, real estate, securities and steel stocks were the most notable advancers. Individually, Petrolimex (HSX: PLX) became the star performer as the giant petroleum retailer rose 31.2% in May after its debut in late April, making up 1.1% out of 2.98% monthly gain in the VN Index.
- Regarding the long-awaited launch of derivatives market, the State Securities Commission (**SSC**) has issued in mid-May some detailed regulations and trading guidance for the VN30 Index Futures Contract – the first ever product of Vietnam’s derivatives market. The effective date for these regulations was June 02, and as of early June there have been 6 securities companies approved as qualified brokers for derivatives. However, the authorities and related parties were still in the process of completing and test-running the trading platform. We expect the actual launch will take longer than expected. Yet the recent moves have been remarkable and prove regulator’s will to drive progress in the capital market.
- As of late May, trade ministers of 11 TPP countries ex-US have met on the sidelines of APEC talks in Hanoi in an attempt to resuscitate the trade pact after US withdrawal. The countries have agreed to instruct senior officials to discuss options to bring the agreement into force, while leaving open the possibility that the US would return.
- On a more positive note, Vietnamese Premier Nguyen Xuan Phuc had a productive three-day visit to the US from May 29 to 31, becoming the first Southeast Asian leader to visit the White House since President Donald Trump’s inauguration in January. The two sides discussed measures to boost bilateral trades while looking to enhance relations and security ties. Multi billion dollars worth of commercial deals were signed during the trip, paving the way for more trade and investment deals in the future.

Looking ahead into June, the Vietnam market may face some pressure from profit taking activities, which is inevitable after a very strong rally. It is also reported that margin lending in the system has nearly reached limits near the end of May, which might trigger securities companies to reduce margin to safety levels and cause more selling pressure in the market. Nevertheless, we believe the bullish sentiments carried over from May will help the market to offset the short-term selloffs and sustain the uptrend. The two important factors supporting the upward momentum in June include: (i) expectations and estimates on an even better Q2 after Q1 results gave hints on a bright FY2017; and (ii) reasonable valuations as market’s trailing P/E was at 15.9x with the majority of stocks still trading at below 10.0x.

Macroeconomic Update

	May 2016	Apr 2017	May 2017	FY2017 Target
CPI (MoM change)	0.54%	0.00%	(0.53%)	
CPI (YoY change)	2.28%	4.30%	3.19%	4.00%
YTD Trade Balance (US\$ billion)	1.37	(1.91)	(2.70)	(\$6.58)
Exchange Rates (US\$/VND)	22,470	22,790	22,750	
YTD Disbursed FDI (US\$ billion)	5.80	4.80	6.20	
PMI Manufacturing Index	52.70	54.10	51.60	
Credit Growth (YTD)	5.48%	5.76%	6.53%	18.00%
Industrial Production growth (YTD YoY)	7.5%	5.1%	5.7%	
Nominal Retail Sales Growth (YTD YoY)	9.10%	9.60%	10.20%	
VN Index	618.44	717.73	737.82	

Source: GSO

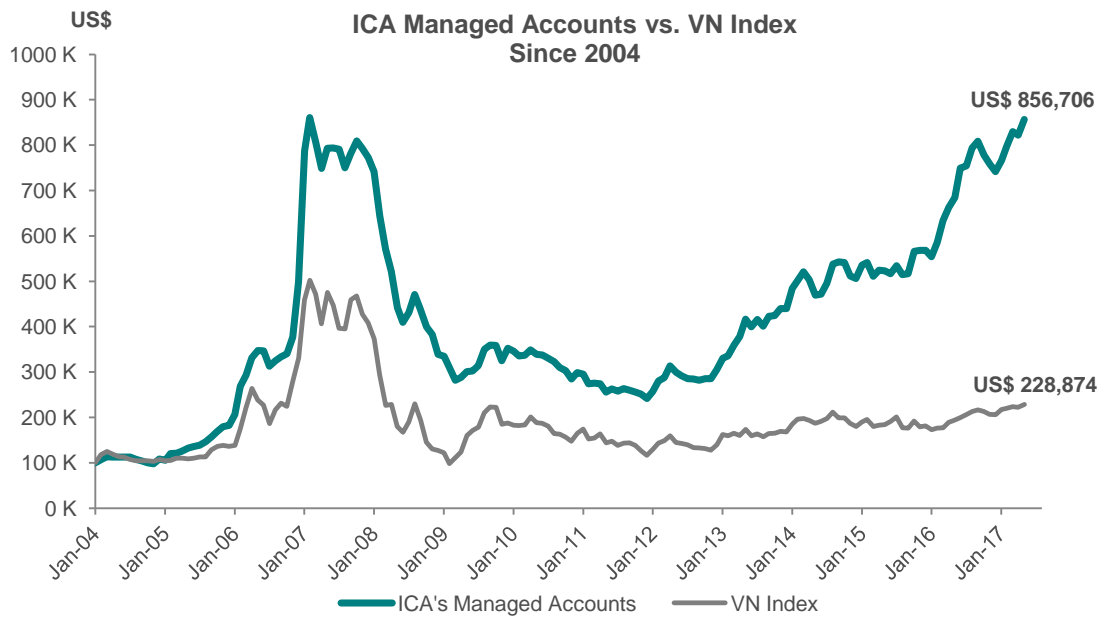
The macroeconomic statistics in May indicated further improvements in most aspects of the economy, despite a sudden slowdown in Manufacturing PMI.

- Inflation continued to ease as **CPI decreased by 0.53% MoM, bringing YoY and YTD inflation to 3.19% and 0.37%**, respectively.
 - The price index was dragged down mostly by food & catering services which saw a monthly drop of 1.43% in May. Slight declines were also seen in 3 other categories out of 11, including housing & construction materials, transportation, and telecommunication.
 - With YoY inflation now being well under 4%, the government’s inflation target of 4% for the whole year of 2017 seemed within reach.

- Thanks to low inflation, domestic demand enjoyed a boost as **nominal retail sales in the first 5 months accelerated by 10.2% YoY**, while inflation-adjusted figure posted at 7.4% YoY.
 - The nominal data was a remarkable improvement from the rise of 9.6% and 9.2% YoY recorded in 4M17 and 1Q17, respectively.
 - Central to the surging consumption were sales in food & foodstuff which surged by 11.1% YoY, as well as hotel & catering services which advanced by 12.2% versus the same period last year.
- Along with the upward trend in consumption, economic growth was also spurred by **industrial production which expanded by 5.7% YoY in the first 5 months**, higher than 5.1% in 4M17 and 4.1% in 1Q17.
 - The most significant rises were seen in the processing and manufacturing sector (+9.7% YoY) and electricity generation & distribution (+10.4% YoY). However, the mining sector still experienced a significant decline of 9.1% YoY during the same period.
- Meanwhile, the **Nikkei Vietnam Manufacturing PMI read 51.6 in May** vs. 54.1 in the previous month. Though the rate of improvement was the weakest since March 2016, the data signaled strengthening business conditions in each of the past 18 months.
 - Slower rises were recorded in both output and new orders, while the rate of job creation also weakened. However, the bright side was the further slowdown of cost inflation which will provide room for cuts in output prices, hence stimulating future demands.
 - Despite losing some momentum, the country's PMI was still higher than the ASEAN's reading which dipped to 50.5 in May from 51.1 in April
- According to latest data from the General Department of Customs, Vietnam was estimated to record a **trade deficit of US\$528 million in May**, while **April trade balance was revised to a surplus of US\$186 million** instead of US\$800 million deficit estimated earlier by the GSO.
 - As a result, cumulative trade deficit in 5M17 widened to US\$2.5 billion from US\$1.9 billion at the end of April.
 - Even though exports growth has accelerated to 18.4% YoY in the first 5 months (4M17: 16.8%), it continued to be outstripped by imports which surged 24.7% YoY during the same period.
- On the lending front, Vietnam maintained its persistent easing monetary policy with an aim to foster GDP growth. After reaching the highest level in 8 years at 5.76% at end-April (adjusted from previous estimate of 4.86%), **the YTD credit growth accelerated to 6.53% as of May 25**.
- Based on Vietnam's recent performance, **Fitch has revised its outlook on the country's long-term foreign and local currency IDR to Positive from Stable** on May 18. The change reflected strong growth and prospects, persistent current account surpluses, manageable debt service costs and sustained FDI inflows. This revision followed **Moody's assessment earlier in late April** in which it also **upgraded Vietnam's outlook from Stable to Positive**.

The speeding up in production and consumption was the highlight in Vietnam's macroeconomic picture during Apr-May period, even though the government's GDP growth target remains challenging. Additionally, the enhanced stability reflected in stable currency (the USD/VND exchange rate was mostly unchanged MoM) and low inflation should allow the government to sustain its pro-growth policy in the remaining months of 2017.

Historical Performance

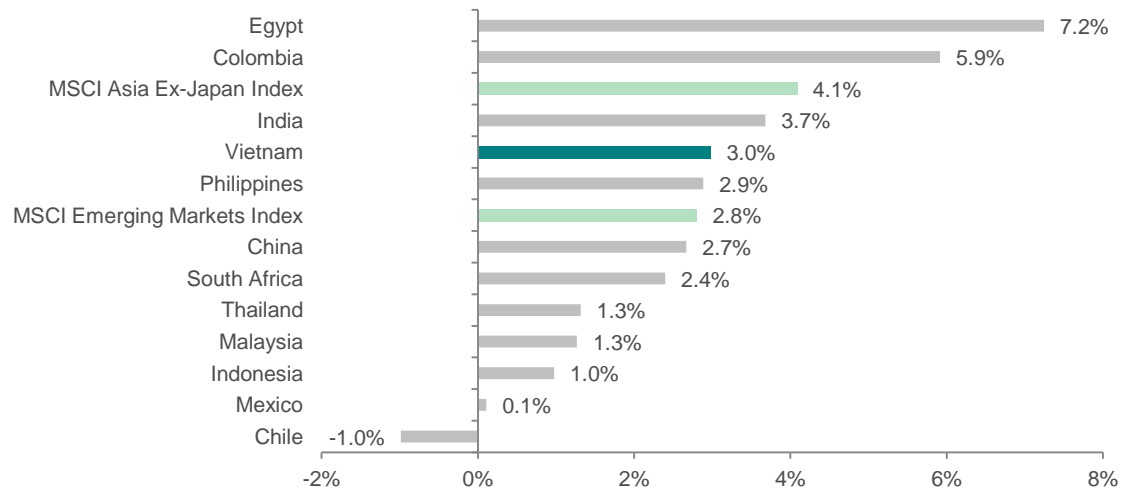


* Calculated based on US\$100,000 invested with ICA since inception (2004) versus invested in the VN Index

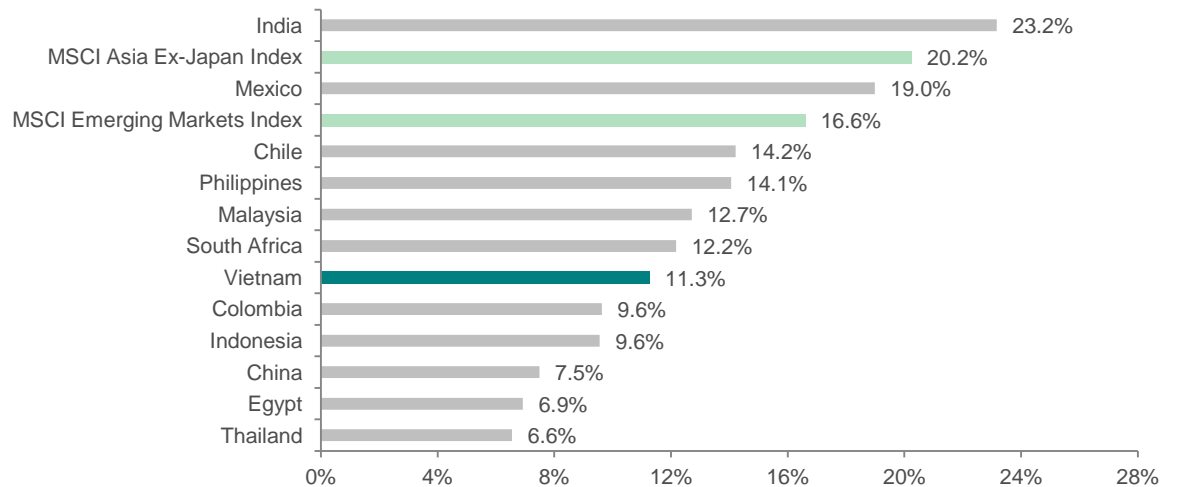
** Monthly time-weighted returns, net of fees, based on total NAV of all managed accounts, including impact of VND depreciation against the USD

*** Data as of May 31, 2017

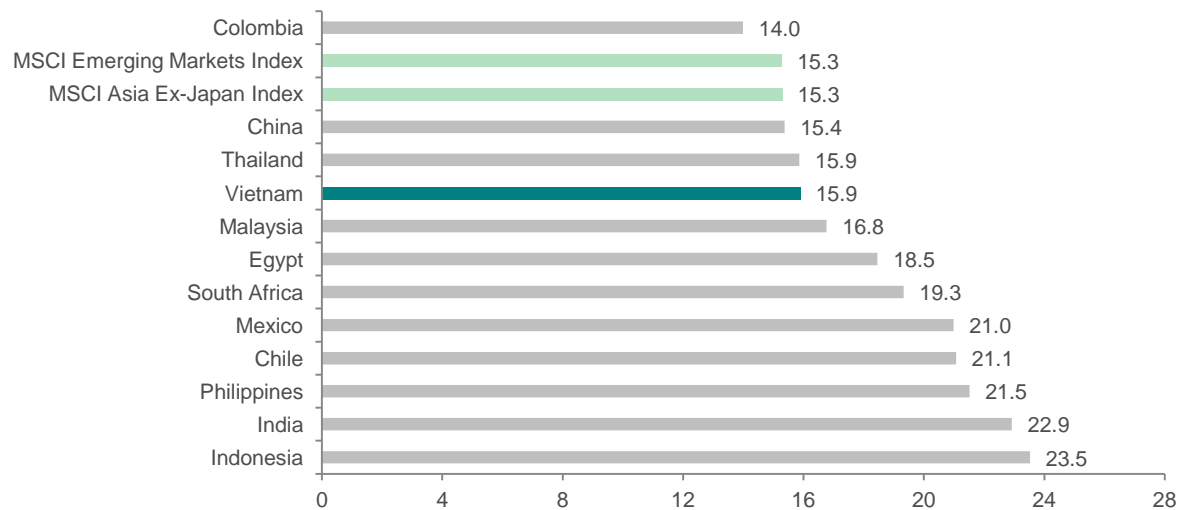
Stock Market Monthly Returns by Country (in USD) as of May 31, 2017



Stock Market YTD Returns by Country (in USD) as of May 31, 2017



Stock Market P/Es by Country as of May 31, 2017



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