



Stock Market Commentary

The Vietnam market had a positive start to 2017 as it made a strong rally in January towards the psychological level of 700 points just before the Lunar New Year holiday. The market movements were in line with the bullish sentiments across global equities amid a series of executive orders signed by US President Donald Trump in just days after his inauguration on January 20.

- **The VN Index** made a total return of **6.03% YTD in USD terms** to close January at **697.28 points**. Over the same period, the MSCI Asia ex-Japan Index and the MSCI Emerging Markets Index's gains were 6.19% and 5.45%, respectively.
- Liquidity, however, retreated to the lowest level since January 2016 as the combined **average daily trading value** in Ho Chi Minh and Hanoi Stock exchanges **fell to US\$108.6 million or down by 17.6% MoM**. The lower liquidity reflected a wait-and-see mode in the Vietnam market since the rally was limited to a few group of stocks while the rest traded sideways with significantly low volumes as investors chose to stay on the sidelines to await 4Q16 results.
- Foreign investors turned **net buyers of US\$31.0 million** in the Vietnam stock market after two consecutive months of being net sellers. Contrary to the previous months, the foreign trading activities were not ETFs-driven. The Market Vectors Vietnam ETF saw subscription of only US\$5.3 million in the month while the DB X-Trackers FTSE Vietnam ETF had redemption of US\$4.5 million, bringing their net subscription to a minimal US\$0.8 million in January.
- Leading the market uptrend was the banking sector as state-owned commercial banks (SOCBs) namely Vietcombank (HSX: VCB), VietinBank (HSX: CTG) and BIDV (HSX: BID) soared as much as 10.9% - 28.5% MoM. The **banking rally was triggered by the SBV's Decision #2509 to increase LDRs of SOCBs from 80% to 90%**, coupled with Prime Minister Nguyen Xuan Phuc's statement that **Vietnam would try to lift Foreign Ownership Limit (currently at 30%) for banks within 2017**.

- The market performance in January were also bolstered by gains of 13.2% and 12.9% in Sabeco (HSX: SAB) and Faros Construction Corp (HSX: ROS), which together accounted for 13% of the VN Index. It is worth noting that without these stocks' surges of 52.1% and 810.3% in 2016, the VN Index would have gained only 10.5% last year instead of 17.1%. Both stocks have low free float, are subject to speculative forces and are trading at significantly high valuations (P/E of 133.0x and 32.1x for ROS and SAB, respectively).
- January welcomed the listings of **Vietnam Airlines (UPCOM: HVN), Masan Consumer (UPCOM: MCH) and Vinatex (UPCOM: VGT)** whose combined market cap added **US\$4.3 billion to the Vietnam stock market**. These were among the most prominent state-owned and private giants to have their debuts on the listed exchanges during the month. However, their performance was not as impressive as their predecessors as only Vietnam Airlines managed to climb 37.5% in Jan, vs. respective declines of 7.4% and 11.1% in Vinatex and Masan Consumer.
- At the end of January, several companies have released their financial statements for Q4 2016, which painted mostly a positive picture. We noted that expectation on high Q4 earnings growth was one of the main factors bolstering the market in Jan, albeit to a limited extent among the big-cap and highly-liquid stocks. The smaller and less liquid ones, however, experienced drops during the month despite their upbeat results. The market rally was thus less broad-based and more diverged than it seemed.

On a global scale, the optimism across global markets before and after Trump's inauguration has had somewhat positive effect on the Vietnam market though we believe investors' sentiments were more driven by internal factors. The quick executive actions by the new US President, including the withdrawal from TPP, had also been reflected in the previous two months' correction in emerging markets after the Election. People perhaps were betting that Trump's policies will lead to stronger US growth, which in turn can benefit the global markets.

February is expected to be an eventful month for most investors as well as market watchers. Besides the fact that all the remaining companies will release their Q4 financial results within the beginning of Feb, investors should also get a sense on the earnings outlook of 2017 since most enterprises would announce their business plans and targets around this period. The AGM season will start from the end of February. One of the most awaited listings of 2017, private budget carrier Vietjet Air, is expected to trade their shares on the Ho Chi Minh Stock Exchange at the end of February.

Macroeconomic Update

	Jan 2016	Dec 2016	Jan 2017
CPI (YoY change)	0.80%	4.74%	5.22%
CPI (MoM change)	0.00%	0.23%	0.46%
YTD Trade Balance (USD billion)	\$0.88	\$2.52	(\$0.10)
Exchange Rates (USD/VND)	22,290	22,810	22,640
YTD Disbursed FDI (USD billion)	0.80	15.80	0.85
PMI Manufacturing Index	51.50	52.40	51.90
Industrial Production growth (YTD YoY)	5.9%	7.5%	0.7%
Nominal Retail Sales Growth (YTD YoY)	11.7%	10.2%	9.9%
VN Index	545.25	664.87	697.28

Source: GSO

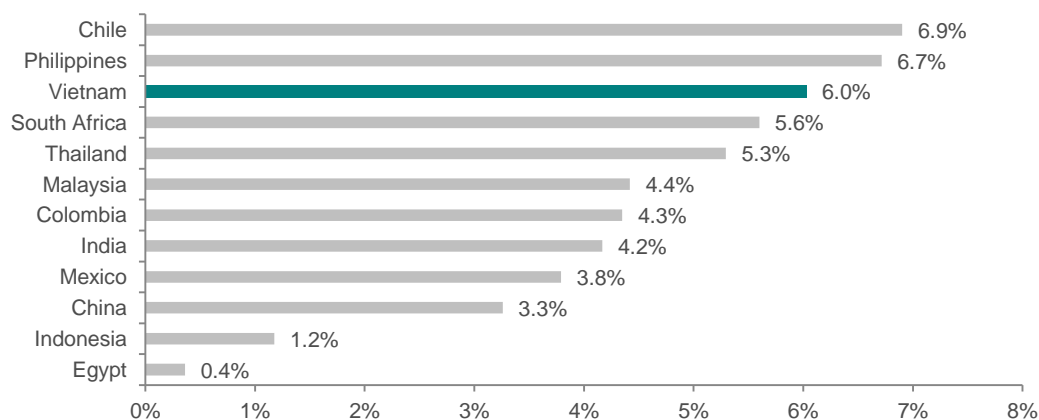
Despite a shorter January as the Tet holiday came 2 weeks sooner than last year, Vietnam still managed to post resilient growth in most aspects of the economy. The pressure on exchange rate has temporarily eased, even though import growth was much stronger than in 2016.

- **CPI accelerated by 0.46% MoM to bring YoY inflation to 5.22%.**
 - The higher monthly inflation mostly stemmed from (i) 1.3% MoM increase in healthcare service fees, and (ii) transportation group which recorded a monthly rise of 3.21% due to petrol prices being hiked three times in end-December and January.
 - The YoY inflation is higher than government's 2017 target of 4%. This is partly attributable to the early coming of Tet holidays which pushed prices up one month earlier than last year. However, core inflation was only up by 0.28% MoM and 1.88% YoY, according to the GSO.

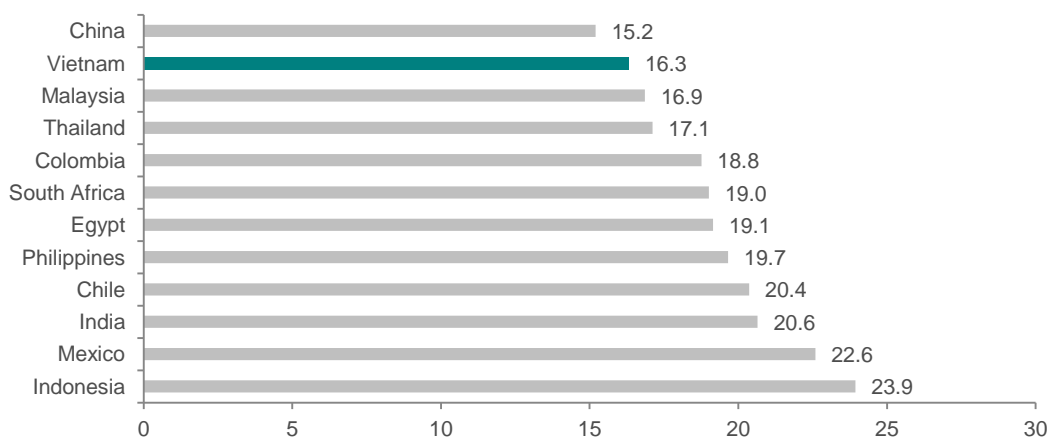
- **Industrial production saw a mild growth of 0.7% YoY in January** due to seasonal effect as there were fewer working days.
 - The manufacturing sector remained robust as it saw an expansion of 4.7% YoY in Jan, along with power and water industries with even higher rises of 5.0% and 7.1% YoY, respectively.
 - Such outperformance was enough to offset the impact of a 13.9% YoY plunge in the mining sector.
- **The Nikkei Vietnam Manufacturing PMI read 51.9 points in January**, signaling improvement in business conditions in each of the past 14 months, albeit at a slower pace from 52.4 in December.
 - Vietnam's manufacturing outlook continued to outpace its regional peers as the ASEAN Manufacturing PMI recorded 50.0 in January.
 - Higher new orders and increasing client demand supported the rises in outstanding business and employment. However, panelists also indicated higher input cost inflation, which led to them increasing output prices.
 - Markit Economics, the composer of the PMI, currently forecasts Vietnam's GDP to grow by 6.4% in 2017.
- Meanwhile, the economy is boosted by healthy domestic demand as **total retail sales and consumer services advanced by 9.9% YoY in nominal terms and 6.7% YoY in real terms.**
 - On a monthly basis, the growth was 5.7% versus December.
 - With January being the festival month, the sales of food & foodstuff, as well as clothing & apparel saw the strongest rises of 12.7% and 11.5% YoY, respectively.
- **Disbursed FDI reached US\$850 million** in Jan, **up 6.3% YoY** while **Registered FDI posted at US\$1.42 billion, up 6.6% YoY** with the most inflows pouring into manufacturing (67.1%) and real estate sector (23.9%).
 - On a related note, Samsung Display has just received Prime Minister's approval to add US\$2.5 billion into its current project of US\$4.0 billion in Bac Ninh province. The approval just came in the early days of Feb or right after the Tet holiday. However, the disbursement might take several years.
- Regarding the trade balance, Vietnam is estimated to post a **trade deficit of US\$100 million in January.**
 - This was a result of faster growth in **imports**, which **reported an increase of 15.8% YoY** vs. only **7.6% YoY growth in exports**. However, the results from core export products were favorable: (i) phones & parts (+10.2% YoY); (ii) computers, electronics & components (+26.3% YoY).
 - Meanwhile, adjusted trade data from the General Department of Customs showed a **deficit of US\$495 million in December** or higher than US\$300 million estimated earlier. That led to **2016 trade surplus being reduced to US\$2.52 billion from previous estimate of US\$2.68 billion.**
- The **USD/VND exchange rate declined by 0.75% MoM to 22,640** after rising for two consecutive months, partly thanks to the US Dollar depreciating against other currencies in January.

While we still have to wait for February data to be released to get a better view on Vietnam's economic picture in the first quarter, we believe there are more reasons to be optimistic than pessimistic. Even though there are still risks with the most prominent being Donald Trump's potential protectionist actions against exporting countries, the rising domestic economy can partly help Vietnam weather the storm. In that aspect, there are sectors that are expected to outperform, and those should become the best investment opportunities in the stock market.

**Stock Market Total YTD Returns by Country (in USD)
as of Jan 31, 2017**



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



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