



Stock Market Commentary

Despite the Fed's third rate hike since December, the Vietnam market has not lost any steam as it further extended its rally in June. **The VN Index soared to a nine-year high of 776.47 on June 30**, riding on the coattails of positive sentiments after the National Assembly's approval of a new resolution on NPLs and speculations on outstanding corporate Q2 results on the back of improving macroeconomic data.

- **The VN Index surged 5.10% MoM and 16.94% YTD in USD terms** to become one of the best performing markets in June. The monthly gain was significantly higher than those of MSCI Emerging Markets Index and MSCI Asia Ex-Japan Index which read only 0.5% and 1.1%, respectively.
- Liquidity retreated from last month's record high with the combined **average daily trading value** on the Ho Chi Minh and the Hanoi stock exchanges **down by 11.8% MoM to US\$219.4 million in June**. Nevertheless, this level is still 35% higher than last 12 months' average of US\$162.7 million.
- **Net foreign buying jumped by 42.8% MoM to reach US\$89.7 million in June. Through the first 6 months**, foreign investors net bought **US\$414.3 million** or the **highest value in 10 years**. It is worth noting that the above mentioned amount only included transactions through exchanges while the off-exchange foreign inflows through IPO subscriptions or private placements are estimated to be multiple times higher.
- Also in June, **the National Assembly approved a new resolution on the tackling of bad debts**, which will be effective for the period of 5 years starting from 15 August 2017. This is a breakthrough in terms of legal framework to facilitate bad debt collection as the new regulation empowers the banks to expedite court proceedings, to actually seize the collaterals without the presence of the borrowers, and to sell NPLs or the underlying assets at market prices. It also prepared for the creation of a secondary debt market by allowing institutions or individuals without debt trading functions to buy NPLs. It might take several months for lawmakers to issue guidance to implement the new measures, yet the resolution marked a big step forward in the SBV's plan to restructure the banking system.
- Favorable sector news coupled with the acceleration of credit growth has further extended the banking sector rally through June. Double-digit monthly gains of 11-18% were witnessed in BID, STB and MBB while

other banks including VCB, CTG, EIB climbed 6-8% in the period. Over the next 6-12 months, investors might have more choices as the market expects the listings of several private banks with compelling growth stories and focuses on consumer lending, such as VPBank, Techcombank, HDBank or OCB.

- Similar to last month, the market rally continued to be driven by the outperformance of the big-caps. Most notably, SAB and PLX posted respective gains of 10.2% and 12.7% MoM. On another note, the sectors including real estate, construction, brokerage and pharmaceuticals also enjoyed significant upsurges on expectations of high earnings growth in the second quarter.
- The Vietnam market appeared resilient after the Fed decided to raise interest rate by 25 bps in mid-June, a move which is within the expectation of most market participants. While people are expecting at least another rate hike in 2017, we believe the short-term impact on Vietnam is minimal.

The latest development on the regulatory front has provided a further boost to the Vietnam market sentiments which have been in a steady positive mode since the beginning of 2017. We believe there is still more to be expected in July, especially when companies start to release their 2Q financial results at the month's end. Since the majority of stocks are trading at P/Es of 8.0x – 12.0x (despite the VN Index's P/E of 16.6x) with more growth stories ahead, the Vietnam market still has room for further uptrend. Despite possible short-term profit taking activities, we believe the VN Index has a high chance to head towards the historical 800 level for the first time in nearly 10 years.

Macroeconomic Update

	Q2 2016	Q1 2017	Q2 2017	FY2017 Target
GDP Growth (YoY)	5.78%	5.15%	6.17%	6.70%
GDP Growth (YTD YoY)	5.65%	5.15%	5.73%	6.70%
CPI (YoY change)	2.40%	4.65%	2.54%	4.00%
YTD Trade Balance (US\$ billion)	1.29	(1.94)	(2.70)	(\$6.58)
Exchange Rates (US\$/VND)	22,360	22,790	22,780	
YTD Disbursed FDI (US\$ billion)	7.30	3.62	7.70	
PMI Manufacturing Index	52.60	54.60	52.50	
Credit Growth (YTD)	6.20%	4.03%	7.54%	18.00%
Industrial Production growth (YTD YoY)	7.2%	4.3%	6.2%	
Nominal Retail Sales Growth (YTD YoY)	9.50%	9.20%	10.10%	
VN Index	632.26	722.31	776.47	

Source: GSO

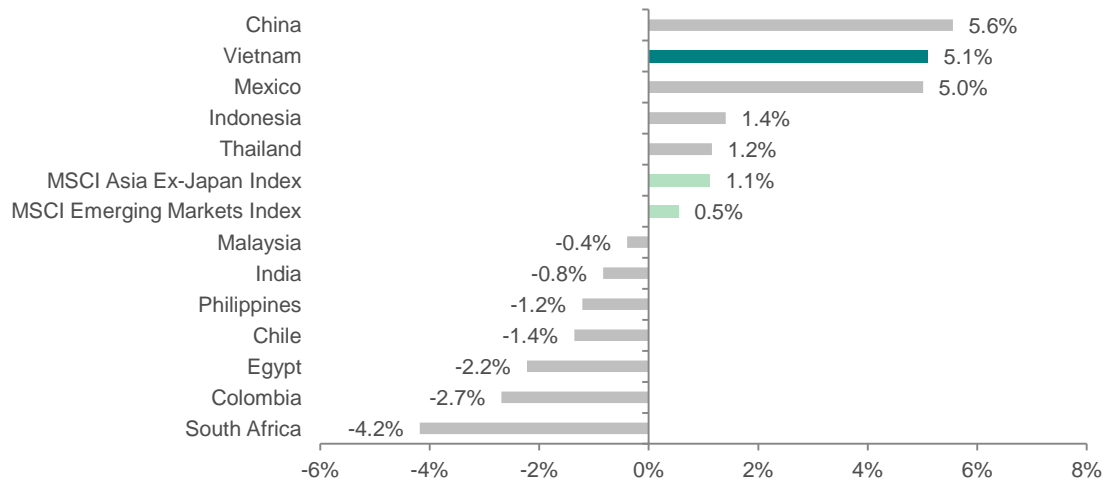
Vietnam's macro indicators in June have further confirmed the recovery trend starting in April and May with most sectors reporting better YoY growth in Q2 vs. Q1.

- **GDP growth accelerated to 6.17% YoY in 2Q17** from a low of 5.15% in 1Q17, **bringing 1H17 GDP growth to 5.73% YoY** (1H16: 5.65% YoY)
 - The agriculture, forestry and fishery sector saw the most significant improvement as growth recovered to 2.65% YoY in 1H17 vs. a contraction of 0.18% YoY in 1H16 due to harsh weather conditions. The second best performer was the service sector with growth advancing to 6.85% YoY from 6.47% in the same period last year.
 - However, the industrial and construction sector registered YoY growth of 5.81% in 1H17 or lower than 1H16 of 7.36%. The mining sub-sector was to blame for the slowdown with a slump of 8.2% YoY or the strongest decline in 7 years. Meanwhile, the manufacturing sub-sector was still robust as it expanded by 10.52% YoY in 1H17 (1H16: 10.50%).
 - In order to achieve the government's full year target of 6.7%, GDP growth in 2H17 should be around 7.4% - 7.5% YoY which is believed to be a mission impossible. Analysts expect 2017 GDP growth to come in at 6.3 – 6.5%.
- Inflation continued to ease with **CPI dropping by 0.17% MoM in June, bringing YoY inflation down to 2.54% and YTD inflation to 0.20%**.
 - This confirmed a downward trend of inflation from the beginning of 2017 with YoY inflation falling from 5.22% in January to 2.54% in June.

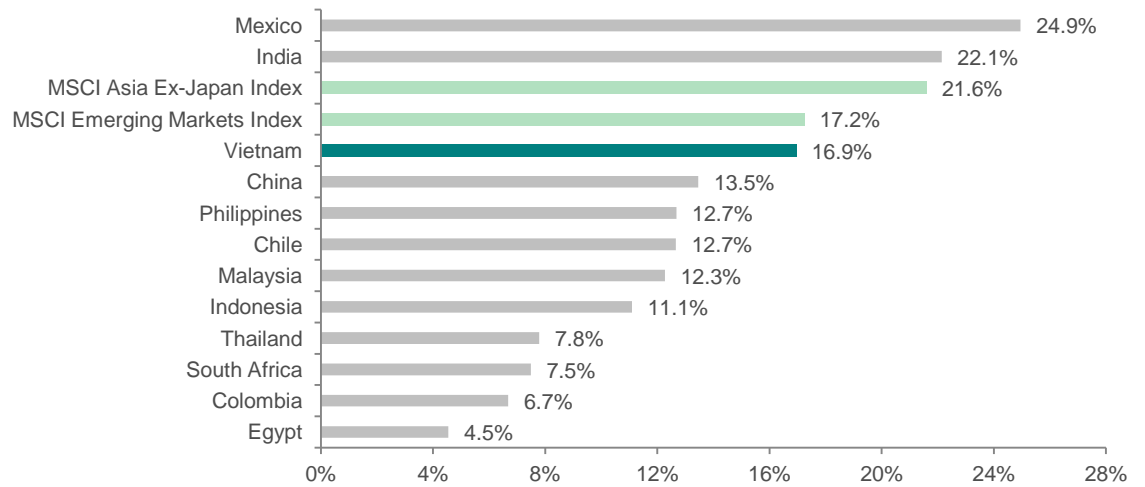
- Prices retreated in 3 out of 11 categories, namely food & foodstuffs, transportation and telecommunication.
- **Credit growth sped up to 7.54% YTD at the end of June or the highest level in 6 years.** Total deposits and M2 also rose 5.89% and 5.69% YTD in the same period.
 - Despite the acceleration in credit growth, both deposit and lending rates remained stable throughout the first 6 months, reflecting ample liquidity in the banking system.
 - Most of the credit was allocated to the production and businesses, especially the prioritized sectors.
- **Retail sales and consumer service revenue recorded a nominal growth of 10.1% YoY in 1H17,** significantly higher than YoY growth of 9.2% in 1Q17 and 9.5% in 1H16.
 - The softening inflation has allowed the speeding up of consumption demand in recent months, which in turn gives a boost to the country's GDP growth.
- **The Nikkei Vietnam Manufacturing PMI recovered to 52.5 in June** from 51.6 in May, signaling a continued expansion of the manufacturing sector for a 19th consecutive month.
 - A faster rise in new orders supported by stronger market demand led to solid increases in production, employment and purchasing activities.
 - Such strengthening growth alleviated the concerns raised by the slowdown seen in May. On another note, Vietnam continued to outperform neighboring countries as the ASEAN Manufacturing PMI read 50.0 in the period.
- Meanwhile, **industrial production saw an expansion of 6.2% YoY in 1H17.**
 - Even though the growth was lower than 7.2% YoY in 1H16, a significant upswing was seen over the two quarters (1Q17: 4.3% YoY; 2Q17: 7.8% YoY).
 - The manufacturing & processing sector (+10.5% YoY) as well as electricity production & distribution (+8.0% YoY) continued to be the main growth drivers in the period. More importantly, the mining sector saw a slower decline of 8.2% YoY in the first half compared to a shrink of 11.4% in 1Q17.
- **Registered FDI soared by 50.5% YoY to US\$16.98 billion** while **disbursed FDI rose 6.5% YoY to US\$7.7 billion in 1H17.**
 - The manufacturing and processing industry continued to attract the most foreign inflows or 49.3% of the registered FDI in the first half. However, the upsurge of registered FDI in June mostly came from two big coal-fired power projects in Thanh Hoa and Nam Dinh provinces, with total pledged investments of US\$4.87 billion.
 - On a similar note, total FII amounted to US\$2.25 billion in 1H17 from US\$1.79 billion in 5M17.
- On the trading front, Vietnam was estimated by the GSO to have incurred a **trade deficit of US\$200 million** in June, bringing the **accumulated trade deficit to US\$2.7 billion in the first 6 months.**
 - Trade balance has improved significantly in the second quarter with trade deficit of only US\$760 million compared to US\$1.94 billion in 1Q17.
 - This resulted from higher export growth which improved to 18.9% YoY in 1H17 from 15.1% in 1Q17. However, it is still outpaced by import growth of 24.1% YoY in the first half.
 - It is noted that 91.7% of imports were inputs for production such as machinery and materials, which implied further expansion for the economy in the future.
- Exchange rate remained stable throughout 1H17 while FX reserve reached US\$42.0 billion in June, the highest level in history.

The Vietnam's macroeconomic picture has clearly gotten brighter in the second quarter of 2017 after experiencing a slowdown in the first quarter. Setting aside the GDP target which might be challenging to meet, perhaps what's more important is that the economy is shifting towards a more sustainable growth model with focus on domestic consumption and the manufacturing sector.

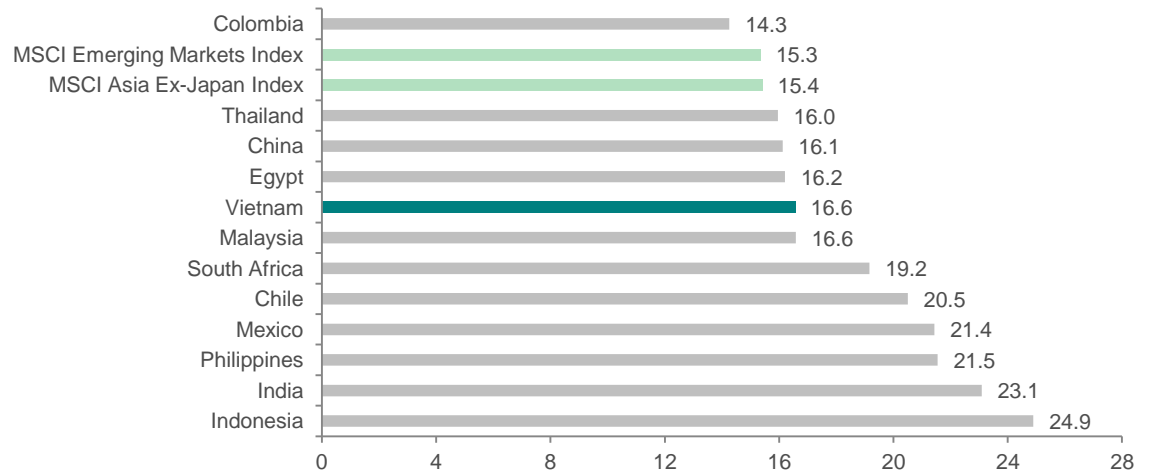
**Stock Market Monthly Returns by Country (in USD)
as of Jun 30, 2017**



**Stock Market YTD Returns by Country (in USD)
as of Jun 30, 2017**



Stock Market P/Es by Country as of Jun 30, 2017



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

10th Floor, Capital Place

6 Thai Van Lung Street

Ben Nghe Ward, District 1

HCM City, Vietnam

www.indochinacapital.com

@ 2017 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.