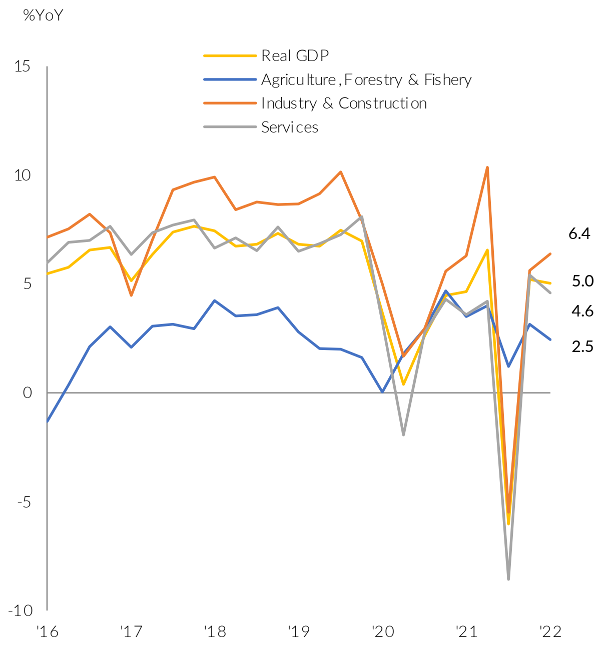
Vietnam

MACRO

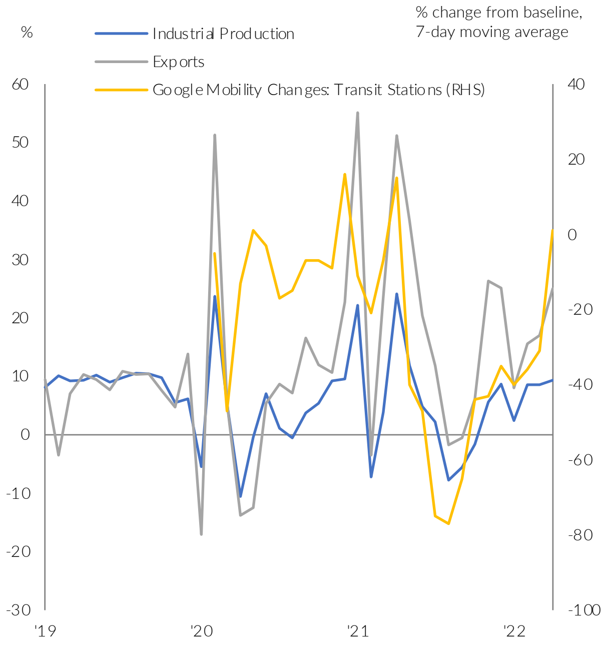
Growth normalizes with economic reopening



Source: Maybank IBG Research

GDP expanded +5% in 1Q22, underpinned by the reopening and easing of Covid restrictions. The recovery was driven by a pick-up in industry and construction

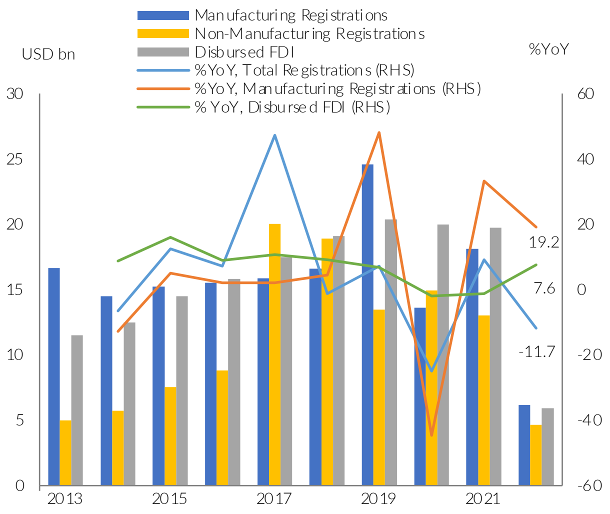
Factories ramping up production as workers return



Source: Maybank IBG Research

Industrial production and exports have picked up since late 2021. Factories are ramping up production as workers return with the easing of pandemic restrictions.

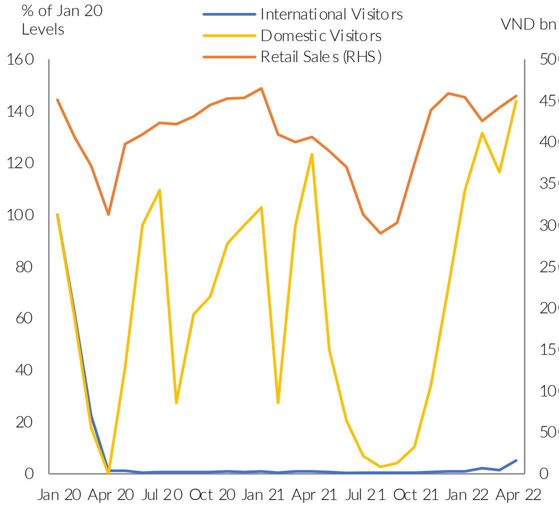
Disbursed FDI rose in the first 4 months of 2022



Source: Maybank IBG Research

Disbursed FDI rose 8% in the first 4 months of 2022. Total registrations fell in value but remained steady in terms of the number of new projects. Manufacturing registrations remain a bright spot.

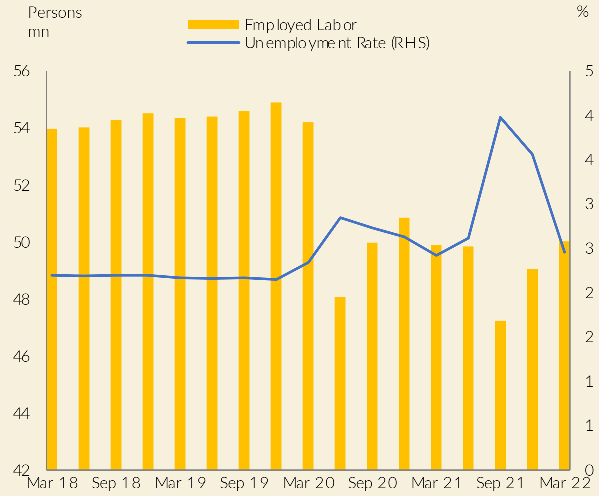
Domestic visitors back to pre-pandemic levels, international visitors still well below



Source: Maybank IBG Research

Foreign visitors jumped 2.5 times in April but remain at only 5% of pre-Covid levels due to the absence of China tourists. Relaxation of travel restrictions has underpinned the resurgence of domestic tourism, supporting the recovery in retail sales.

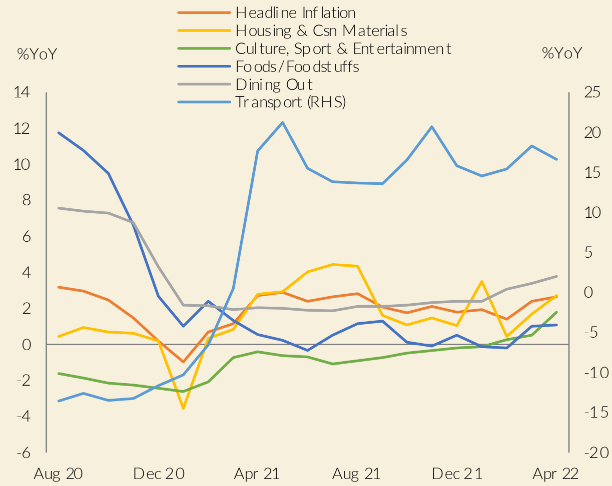
Employment recovering but still below pre-pandemic levels



Source: Maybank IBG Research

Total employment has returned to 1Q 2021 levels before the fourth wave of the pandemic struck. However, employment has yet to return to pre-pandemic levels and firms are facing labor shortages, as workers may be wary of returning to factories and cities from their hometowns for fear of more lockdowns and catching the virus.

Headline inflation rising on higher food, transport & housing costs



Source: Maybank IBG Research

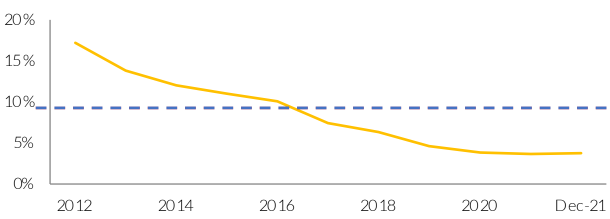
Headline inflation has risen since the start of the year, driven by war-induced increases in food, transport and housing material costs. The reopening has boosted entertainment and dining out prices.

STRATEGY

A liquidity crunch caused by a legal turmoil in the capital market has sent the VNIndex down 20% from a near all-time high of 1,530pts to a 1Y low of 1,228pts. In the next couple of months, as shadow margin activities must stay low, official margins are likely to also contract and the market searches for a new equilibrium.

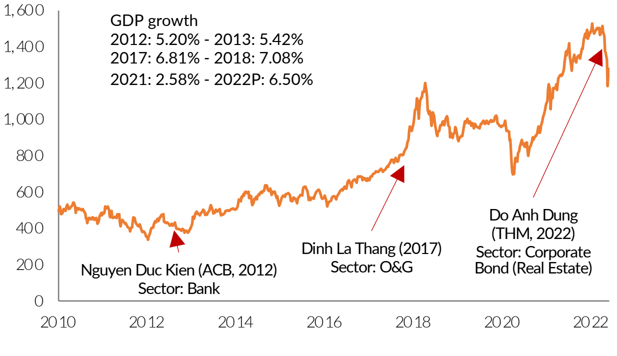
Policy-wise, the prime minister has stated clearly that the government does not aim to disrupt the capital market but rather to make it more transparent and sustainable. Economy-wise, compared to the situation in 2012 when ACB's BOD member Nguyen Duc Kien was arrested (leading to the restructuring of the banking system), the banking system today is much healthier with all-in NPLs at 3.8% vs 17.2% as of end-2012. Therefore, we believe the turmoil will not disrupt the recovery of the economy.

All-in NPLs now at 3.8%, much lower than 17.2% in 2012 when Nguyen Duc Kien's arrest caused a turmoil in the banking system



Source: SBV, GSO

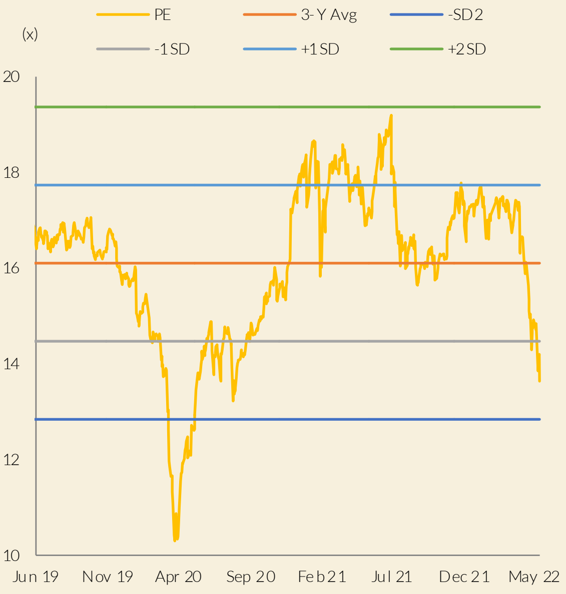
Like 2012, the current legal turmoil is unlikely to disrupt the economic recovery & the long-term uptrend of the stock market



Source: Maybank IBG Research

Market-wise, we expect risk-off sentiment will shift liquidity back to blue chips in the meantime, helping the market resume its long-term uptrend. Despite slowing from 37% YoY in FY21, our projected FY22E earnings growth of 24% YoY will likely still make the Vietnam market the brightest star in the region. The Vietnam market is now trading at 13.6x TTM PER, which is -1.5xSD below the 3-year average mean and offers long-term buying opportunities. The lowest PER level was 10.5x on March 2020, when Covid first hit Vietnam.

Valuation drops to an attractive level 3y avg – 1.5sd



Source: Maybank IBG Research

In 2022, we see: i) a booming year for consumption thanks to the wealth effect kicking in, tax cuts, and rising confidence; ii) record infrastructure investment at VND640t (+30% YoY) which will connect economic zones and trade flows, especially in the South; iii) secular uptrend in quantity and quality of exports and FDI as a manufacturing (especially hi-tech) hub is being established in Vietnam; and (iv) M&A activities are about to blossom as Vietnam's economy and its domestic companies head for a new development stage which needs more expertise and capital.

Top-performing sectors are likely to include banks, retail, energy, logistics, and real estate.

BANKS

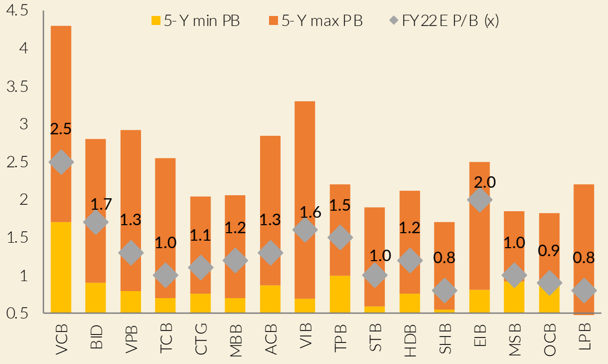
Short-and-mid-term view (next 6 months)

Vietnam's stock market is currently dominated by retail Banks have exposure to most of the economic segments and are highly regulated. Hence, during times when there are macro headwinds, banking is the first sector to be affected, both fundamentally and sentimentally. In a market like Vietnam where retail dominates the market, the rumours could be easily inflated and misunderstood, which could drag on bank stocks for longer than expected. In our view, two major concerns, i.e. inflation and recalibration of bond-market operation, need to retreat from the market's mind, before there is another significant rally in Vietnam's stock market, led by the banking sector.

Long-term view (2022-2025)

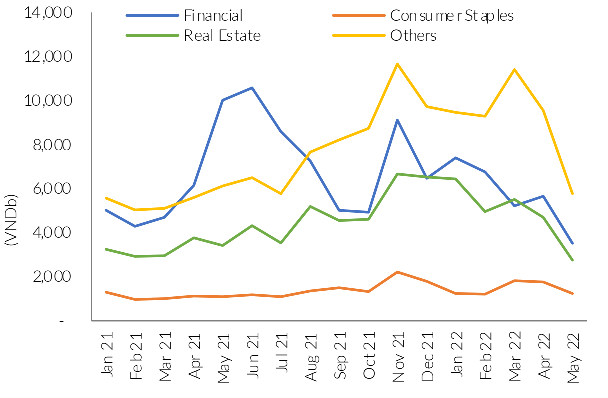
When bank stocks become distressed due to retail panic and other non-FA reasons as it is now, we believe it opens excellent entries for long-term investors to accumulate. We reiterate our BUY on TCB, VCB and MBB. For mid-sized banks, we recommend investors investigate TPB, HDB and STB. We remain bullish about the VN banking sector in view of its strong credit growth, rising fee incomes, stabilized & easing provision, which will underpin its rising ROA to a sustainable level around 2%. In addition, reasonable capital regulations (i.e. Basel 2) allow VN banks to maintain decent balance sheet leverage of 8-10x, which means they can generate robust ROEs (= ROA * BS leverage) of around 18-20% (vs. regional peers' avg. 10-12%) over the next 4 years. VN's leading banks are trading near their 5-Y average P/BV, while their ROEs have improved to a 5-Y high.

VN bank's 12-m forward P/B range (last 5 years)



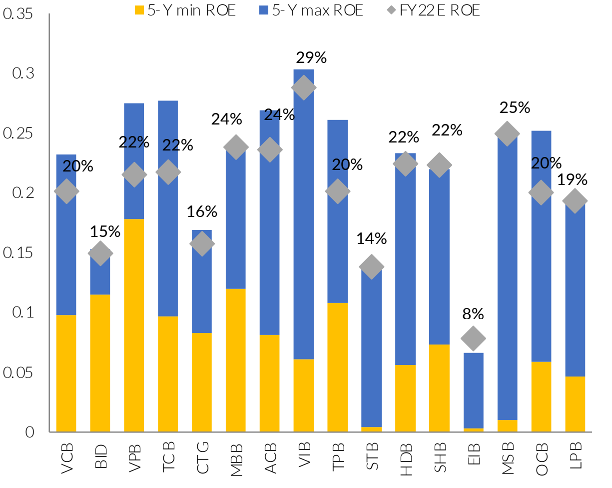
Source: Bloomberg consensus, Maybank IBG Research estimates (for VCB, TCB, VPB, ACB and MBB) (as of 19 May 2022)

Liquidity into bank stocks decreased due to misperception about banks' outlook & value creation



Source: Maybank IBG Research, FiinPro, Bloomberg (data as of 31 March 2022)

VN bank's ROE (FY22E vs. 5-year range)



Source: Bloomberg consensus, Maybank IBG Research estimates (for VCB, TCB, VPB, ACB and MBB) (as of 19 May 2022)

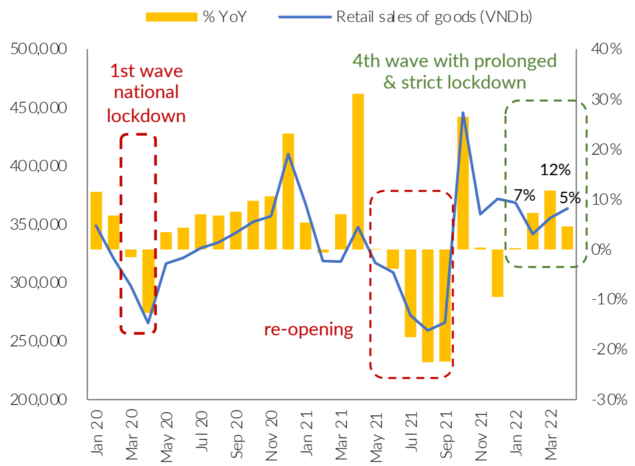
Most of the VN-listed banks have generated over 30% on average per year in return for "Buy-and-Hold" investors during 2018-21. For 2022-25, we believe Vietnam banks can still deliver robust ROEs (of above 18%, which will materially result in a doubling of their BVPS by 2025) and the stock market's rising liquidity and EM upgrade (around 2025) will support banks' valuation to rerate to around 1.8-2x, from currently 1.4x FY22E P/BV). As such, we believe VN banks can generate an investment return of at least 30% p.a. on average for the period 2022-2025.

RETAIL

Strong rebound in 2022 with positive long-term outlook

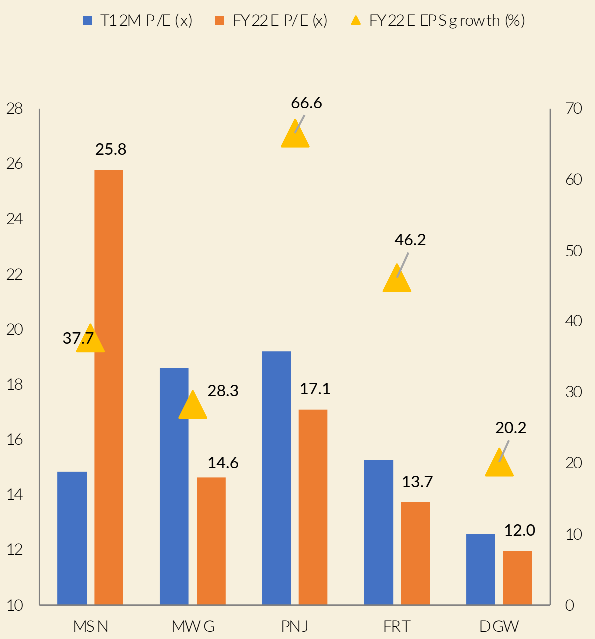
We are POSITIVE on Vietnam's retail sector and expect strong FY22E earnings rebound from the FY21 low-base caused by Covid, to help this sector outperform the VN-Index in 2022. Economic recovery, rising incomes, together with a re-opening stimulus package will likely boost consumer sentiment and spending, especially for discretionary goods. More importantly, the conversion to modern trade has been rapid and local leaders such as Mobile World (MWG VN), Masan Group (MSN VN), and Phu Nhuan Jewelry (PNJ VN) are driving this trend. We believe there is enormous room for these players to grow in the long run amid burgeoning demand and a market still dominated by traditional channels.

Retail sales of goods are showing steady recovery post-Covid



Source: CEIC, GSO

Vietnam's top listed retailers & related



Source: Bloomberg, Maybank IBG Research

Modern trade takes off, huge potential in groceries

Fast Moving Consumer Goods (FMCGs) and fresh food still account for a large chunk, c.30-40%, of household expenditure in Vietnam. At USD70b market size, the grocery market is very large but is highly fragmented. Around 85% of this market is still traditional channels like wet markets and small stores. Covid sped up the transition from traditional to modern trade in FMCG shopping, driven by mini-store formats. The shifting trend accelerated both in urban cities and rural areas. But a survey by Kantar noted that the contribution of Vietnam's modern proximity channel (minimarkets and convenience stores) was still small at less than 7%, vs. 12.5% for Southeast Asia and 17-18% in Indonesia/ Thailand. Local leading minimart-chains like Winmart, Bach Hoa Xanh (BHX) have accelerated their network expansions to capture the huge market potential.

Stock Picks

Retailing stocks performed well in 1H22, in line with our expectations. However, the recent irrational correction driven by the overall market's liquidity crunch has pushed the valuations of these stocks back to attractive levels. We maintain two BUY calls on MWG (Buy, TP VND180,000), and PNJ (Buy, TP VND118,000). Besides that, we also like MSN, DGW and FRT.

REAL ESTATE

Opportunity emerges, BUY on dips

The liquidity-driven sell-off caused by the government's recent scrutiny of the capital market presents an opportunity to accumulate various quality names at substantial discounts, in our view. Real estate sector in Vietnam has been trading on an average c.16-21x Price to Earnings as a norm, but now is hovering around c.20-30% below its average valuation average on a back of a strong FY22F earnings growth.

Market overly factored in the risk of corporate bonds

Despite Covid, the issuance of corporate bonds (C-bond) still skyrocketed in the past two years. The worries are real but the size of the debt market is still relatively small (Vietnam's C-bond market value as of end FY21 is less than c.15% of total GDP versus regional peers such as Thailand at c.25%, China and Singapore at c.30-35% and Malaysia at c.50%). With a superior absorption rate and margin that developers in Vietnam are enjoying (>90% average absorption rate and avg. GPM of 40-45% versus regional average of <30-40% and 20-30% respectively), we believe the property market is not in a bubble yet and further regulatory tightening is needed for more sustainable growth.

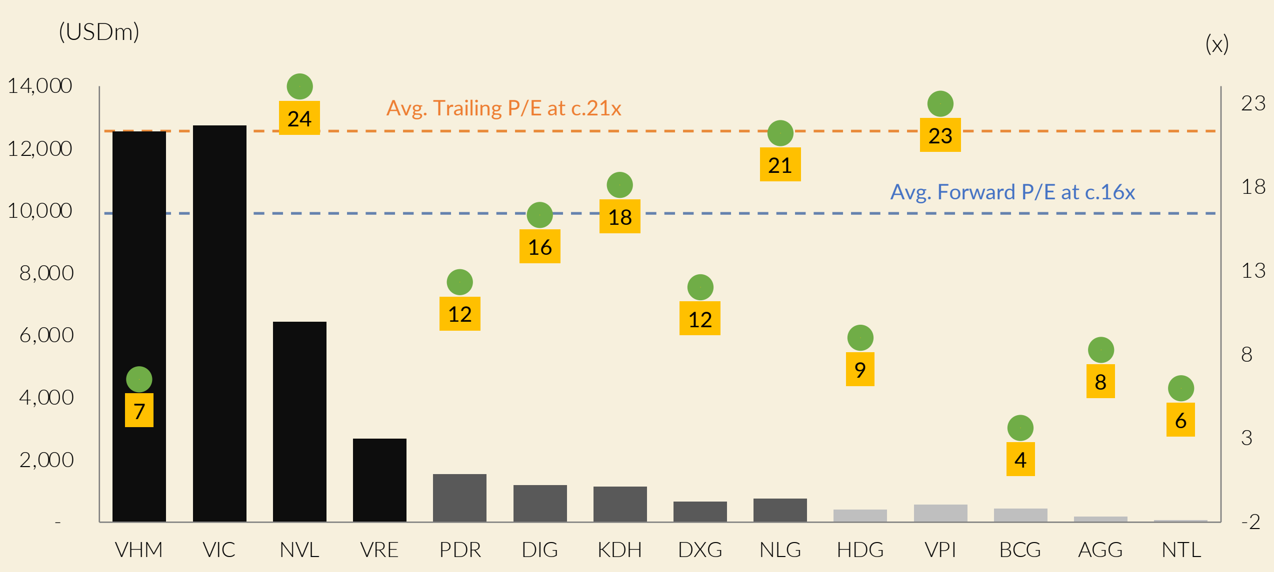
Government scrutiny of capital market aims to promote integrity and sustainability

Prime Minister Pham Minh Chinh recently ordered a crackdown on violations/manipulation/bad practices in the equities, bond and property markets. Officials have also been instructed to closely monitor the issuance and trading of corporate debt. This directive has led to a string of Vietnamese executives being detained by police, which led to a sharp correction in the VN-index, mainly due to panic selling by retail investors and margin calls creating a domino-like effect. However, we opine the turmoil will ease soon as regulators mainly target to improve market integrity and credibility. As the country looks to be upgraded to emerging market status by FTSE in the coming years, further law enforcement like this is essential to prepare the market for the next big leap, in our view.

Hardest-hit real estate sector is attractive

We believe the nascent real estate sector will continue to thrive as it's still in an upcycle (see initiation report). Following the sell-off, we see attractive value in names under our coverage, including NVL, NLG, VHM and VRE. Other notable names worth highlighting in the sector are HDG (NR report), VPI (NR report), KDH, DXG and BCG

Vietnamese real estate peers



(*) Based on management guidance for FY22
Source: Maybank IBG Research Compilation, Bloomberg as of 23rd May 2022

F&B

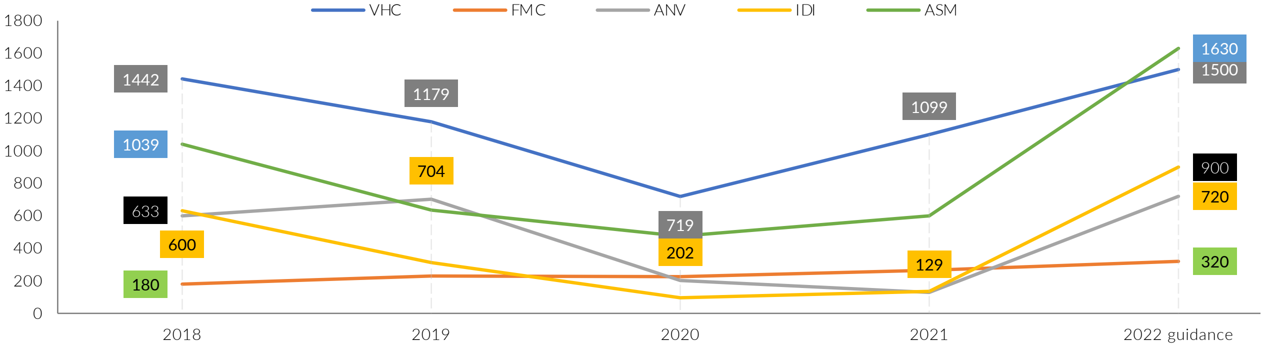
Neutral in the short-term but positive in the long-term

Vietnam has gradually reopened the economy since early 2022 and has restored the entire tourism system since Mar'22. However, the recovery of Vietnam F&B consumption continued to be hindered when the Russia-Ukraine war broke out in mid-February 2022. This impacts from the embargoes imposed by the US, UK and European Union countries on Russia via the galloping increase of commodities, i.e. wheat, soybeans and corn etc. in the short term. For the long-term outlook, we expect the F&B industry will benefit from economic recovery and rising incomes, which will likely boost consumer sentiment and spending. Domestic F&B manufacturers such as VNM, SAB, KDC and QNS will be driven by this trend due to: i) top local leaders with advantages in cost policies; ii) lower selling prices compared to imported finished products and satisfy the domestic consumers' taste; iii) being able to be self-sufficient in input materials; and iv) diversified product portfolios to get more spending from consumers.

Pangasius industry – explosion of growth after a long time at the bottom

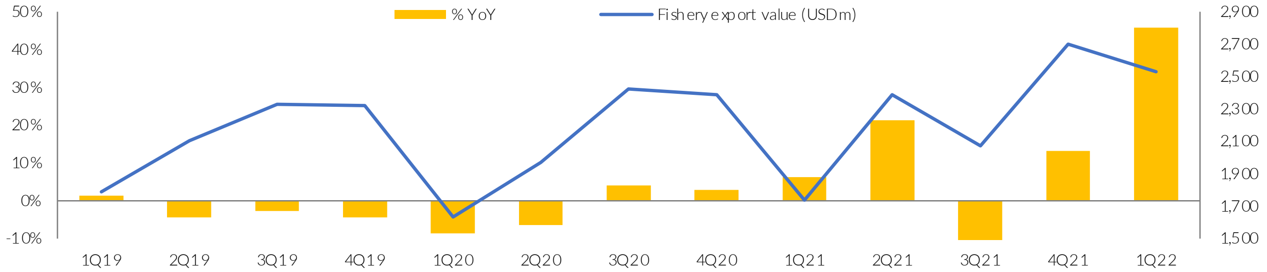
Pangasius industry in Vietnam often operates in cycles (the most recent cycle 2017 - 2019). After being impacted by the downturn of the industry (2019) and two years of being affected by Covid diseases and broken supply chains (2020 - 2021), we expect that the pangasius industry will enter an uptrend in 2022. The demand in the US market is growing strongly due to the low level of pangasius inventories after 2-year of Covid-19. Exports to China are expected to recover as China reopens after a long period of lockdown for the zero-Covid policy, thus, this market is considered a factor in the growth momentum of this industry in 2H22. In 1H22, the price of Vietnam's raw pangasius increased to VND30,000-VND32,000/kg, reaching the highest since FY19.

Listed seafood companies expects FY22E performance to recovery to 2018's baseline (VNDb)

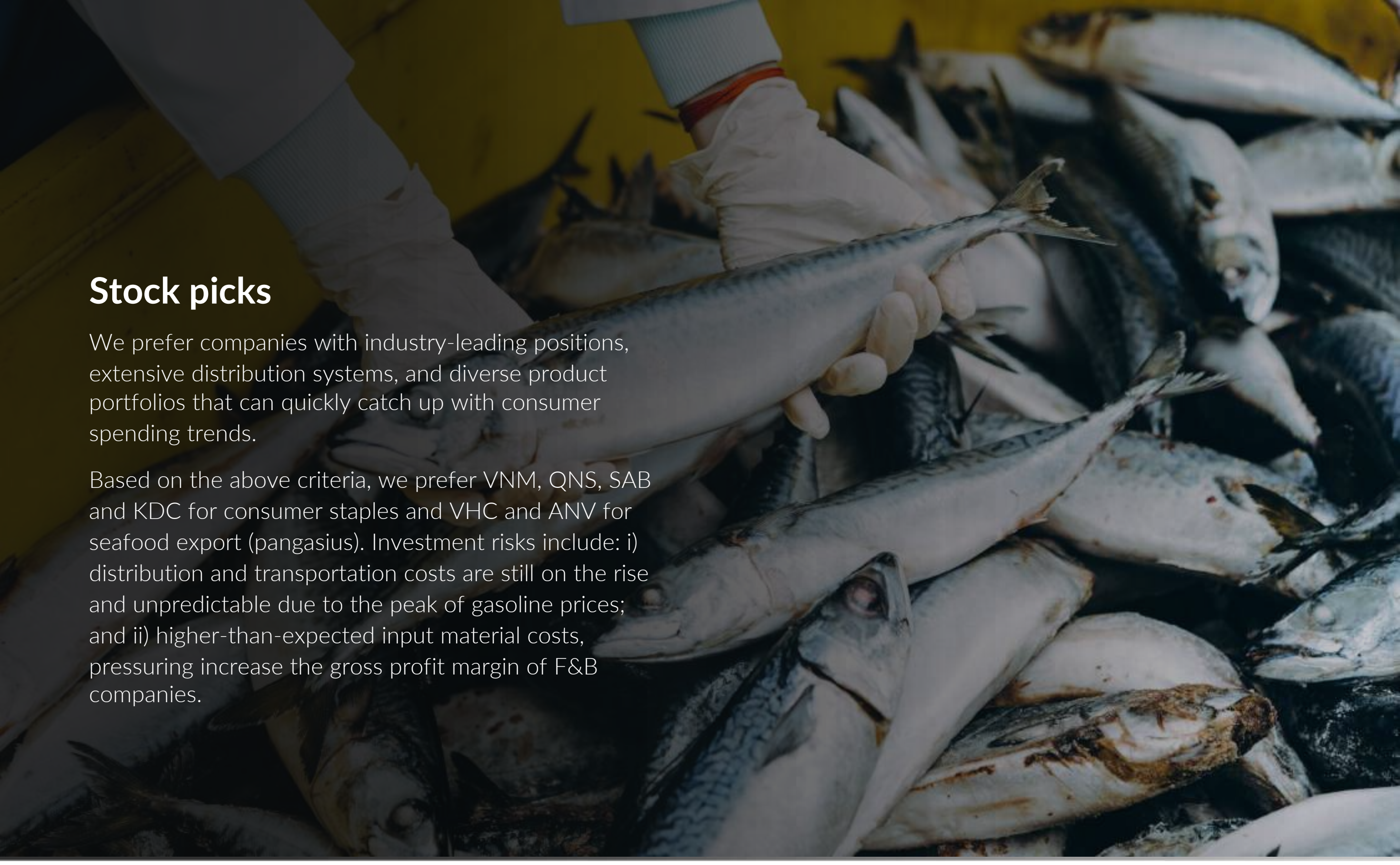


Source: Companies

Fishery export value improved in 1Q22 (USDm)



Source: CEIC, VASEP

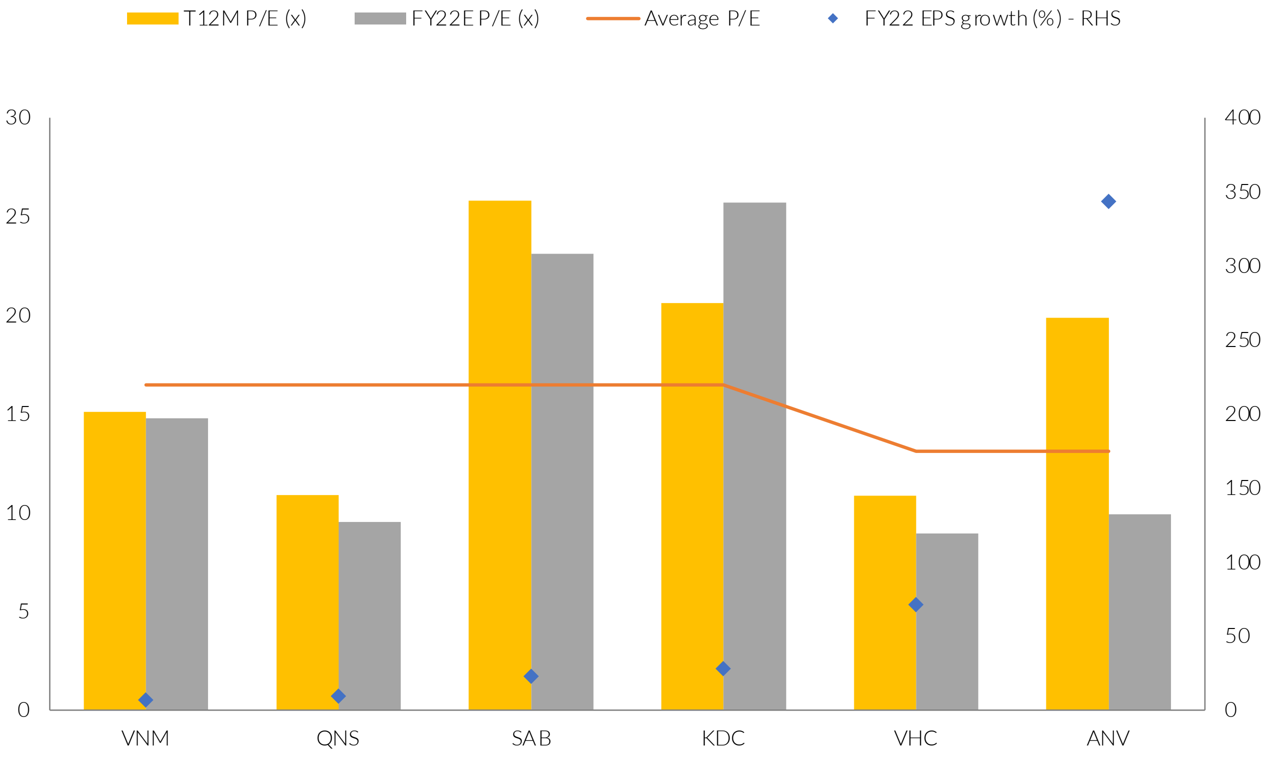


Stock picks

We prefer companies with industry-leading positions, extensive distribution systems, and diverse product portfolios that can quickly catch up with consumer spending trends.

Based on the above criteria, we prefer VNM, QNS, SAB and KDC for consumer staples and VHC and ANV for seafood export (pangasius). Investment risks include: i) distribution and transportation costs are still on the rise and unpredictable due to the peak of gasoline prices; and ii) higher-than-expected input material costs, pressuring increase the gross profit margin of F&B companies.

Listed seafood companies expects FY22E performance to recovery to 2018's baseline (VNDb)



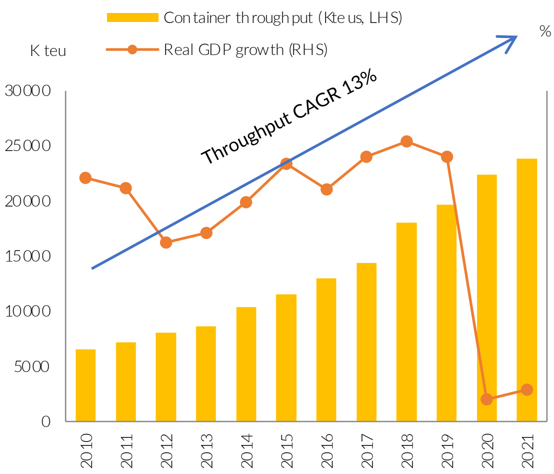
Source: Bloomberg, Maybank IBG Research

LOGISTICS

Ports & logistics: Riding the up-cycle

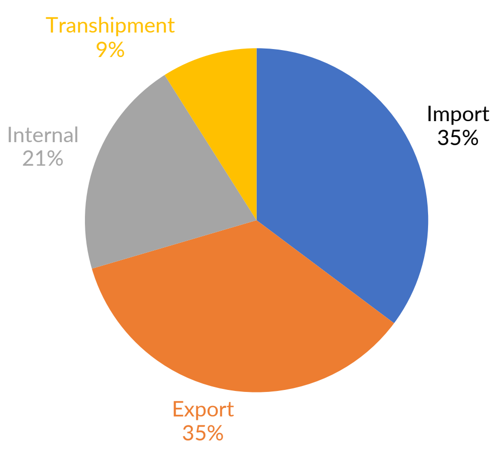
Vietnam's ports and logistics are enjoying a robust and sustained cargo volume growth. This is thanks to increasing FDI as a result of macro stability and the re-allocation of manufacturing in the region. Vietnam is pointed to benefit from the trade war. The sector is observing an interrupted growth of 13% CAGR for container volume during the past decade.

Vietnam's container throughput



Source: Maybank IBG Research, Bloomberg; (*) dry gas price exclude transmission tariff

Vietnam's container throughput breakdown



Source: Maybank IBG Research, Bloomberg; (*) dry gas price exclude transmission tariff

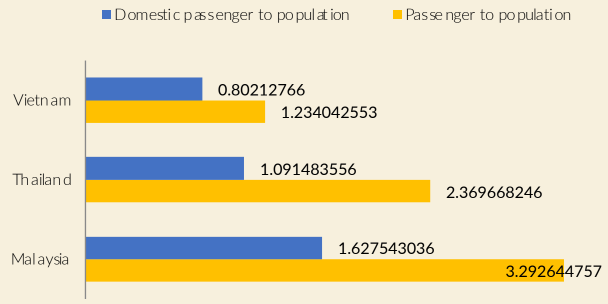
Key beneficiaries are well-prepared players

Despite the larger market, we see opportunities are fragmented among players in the sector. We observe that only players who have available capacity, which is a result of the past few years of restructuring and investing, can grab market share and fully benefit from the surging volume. We like GMD (BUY, TP VND65,500) and VSC (Not Rated) for their ports' premium locations and room to grow.

Air logistics: turnaround in 2022, on track to double passenger traffic

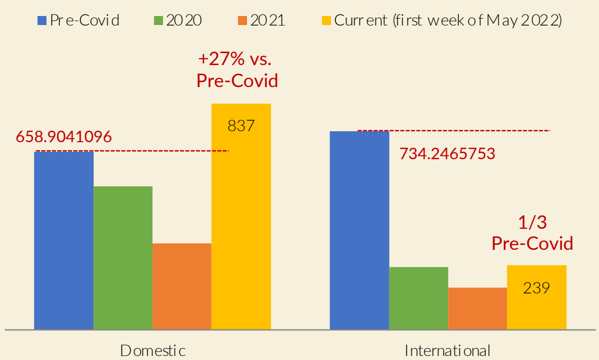
With this pace of recovery, we expect passenger volume to rebound 2x this year. The downside risk is minimal as the live-with-Covid policy minimizes the potential of a hard lockdown. Our stock pick is ACV (BUY TP VND111,000). We also like VJC (Nonrated) which benefits from the traffic recovery.

Air traffic saturation



Source: Maybank IBG Research; (*) dry gas price exclude transmission tariff

Vietnam's average daily flight frequency



Source: Maybank IBG Research; (*) dry gas price exclude transmission tariff

CHEMICAL/FERTILISER

Vietnam's urea production: Input self-sufficient; widening gross margin

Vietnam has plenty of natural gas and coal to fulfill its urea production with a total capacity of 3m tonnes of urea per year. Gas-based urea producers are enjoying huge profit margin expansion thanks to the surging global urea prices while their gas input material is not increasing as much as ASP. The global ban on Russia's fertilizer and oil caused a huge spike in production costs for global urea producers, pushing up the selling price of urea globally and for Vietnam as well. However, Vietnam's urea producers are enjoying a softer increase in production cost. Unlike the rest of the world where gas price is determined by supply and demand, gas price in Vietnam is linked to oil price via a formula (46%*fuel oil price + tariff), which results in less aggressive pick-up of gas input cost for domestic producers compared to the world.

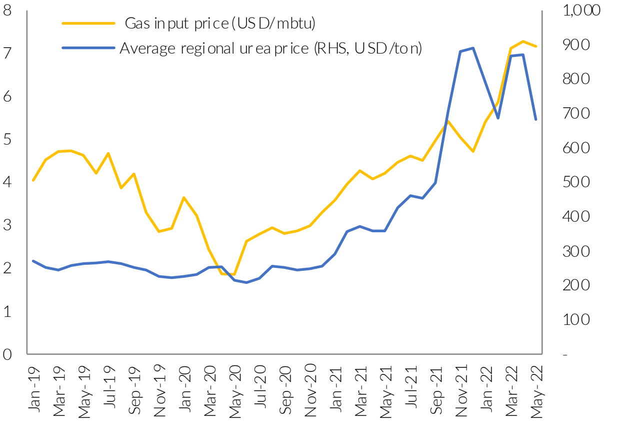
Running maximum capacity & exporting excess products to exploit the commodity price

The two gas-based urea producers, DPM and DCM are running near their full capacity to capture the global up-cycle of urea price, increasing export volume to maximize profits. In 1Q22, export revenue made up 50% of revenue of DCM while DPM exported about 40% of its production volume and beat its full-year earnings target. However, this also brings a risk to the sector if the government imposes a policy to restrict fertilizer export in order to tame domestic fertilizer prices.

Undemanding valuation

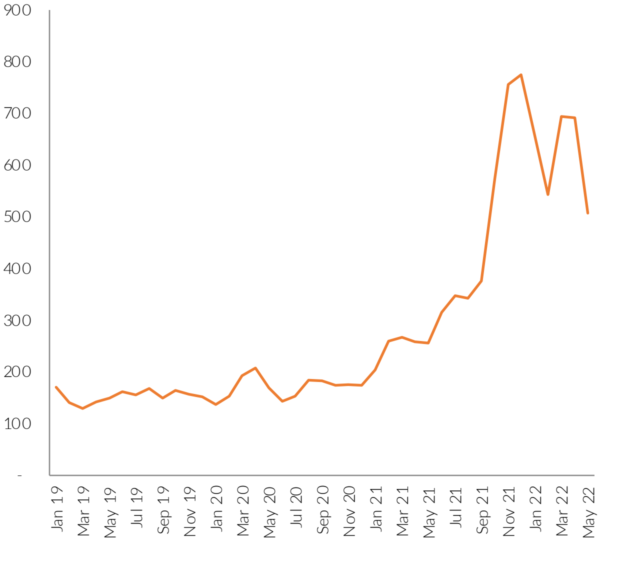
The market sell-off during April- May sent share prices of urea producers to attractive levels. DPM and DCM are trading at T12M PE of 4.3x and 5.5x respectively, which are near their 2 SD below 5-year average. We believe these names will be dividend players for this year as their payout ratio is relatively high while the companies may not have intensive CAPEX for years to come.

Gas input price for Vietnam's urea producers vs. regional urea price



Source: Maybank IBG Research, Bloomberg; (*) dry gas price exclude transmission tariff

Difference between regional average urea price and Vietnam's gas input cost per ton of urea

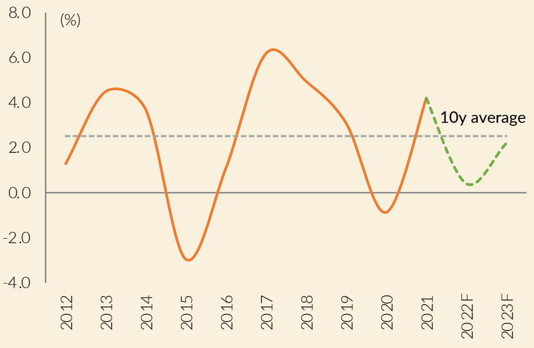


Source: Maybank IBG Research; (*) dry gas price exclude transmission tariff

STEEL

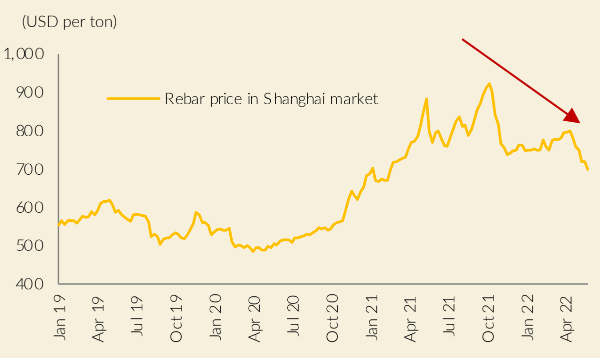
Local steel prices retreated 4% from record highs in early April due to: i) global commodity price correction; ii) concerns about ongoing local regulatory scrutiny of real estate; and iii) upcoming low construction season. Global reopening is likely to soften steel prices further in the medium term as we see an improved demand/supply balance. The World Steel Association forecasts volume growth returning to 2.2% YoY in 2023 (near 10Y average of 2.5%) from 0.4% in 2022 (due to Russia – Ukraine war).

World steel demand is expected to grow 2.2% in 2023, near the 10Y average level, despite slowing to 0.4% in 2022



Source: World Steel Association

Steel price likely to soften further in medium term given global reopening

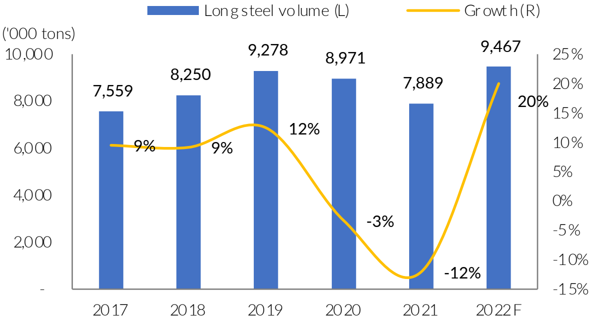


Source: Bloomberg

For domestic market, Vietnam's long steel consumption grew 22% YoY in 1Q22. We maintain our FY22 growth forecast of 20% YoY for the whole steel industry thanks to reopening and the 2022-23 stimulus package.

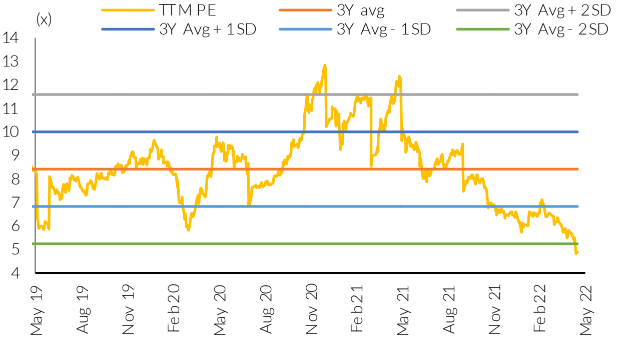
This should help offset the slowdown in overseas markets while stronger sales volume will partly mitigate the negative impact of lower prices. Overall, the impact of scrutinization of the corporate bond market should be short term, we believe, while the undersupplied real estate market and underdeveloped infrastructure system are long-term drivers for the steel industry.

Reopening and 2022-2023 stimulus package will help local steel consumption jump 20% YoY to a new record high



Source: VSA, Maybank IBG Research

HPG is oversold at TTM PE of 4.9x, below it's 3-year average -2SD



Source: Bloomberg

Although declining selling prices will eventually hurt the sales and profit of these companies in 2022, we see downside risk as low given their low valuation multiples vs. history after the recent substantial price correction. Prices already reflect 2022 headwinds, in our view. We are NEUTRAL on the sector for 2022. In that context, we still see an attractive opportunity from HPG, which is well-prepared by shifting its product mix to greater value-added products and improving raw material self-supply capability. And in the longer run, it is on track to join the ranks of the world's top 30 steelmakers.

INDUSTRIAL PARK

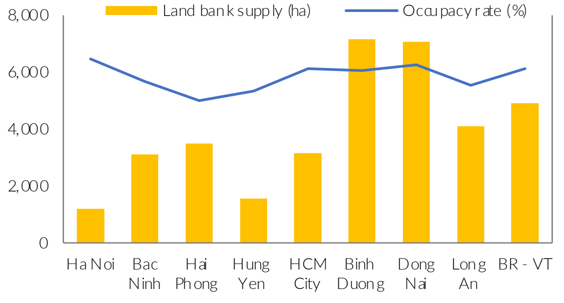
Robust demand from new FDI waves

Vietnam Industrial Park (IP) developers are well-positioned to capture higher FDI waves into the country. In addition to Vietnam's own internal strengths (i.e. political stability, comparatively lower leasing, energy prices, labour costs and active participation in various FTAs...), the reallocation of the global supply chain since the US-China trade war (accelerated by the Covid pandemic) and the presence of big MNCs like Samsung, Intel, LG, Foxconn, Luxshare (which helped to substantially derisk Vietnam in the eyes of other foreign investors) helped Vietnam become a hot destination for new FDI waves. In 4M22, additional-registered FDI and disbursed FDI rose 92% YoY and 8% YoY, respectively, driving higher demand for industrial land and ready-built factory (RBF) leasing. Indeed, the average IP occupancy rate in important Northern and Southern industrial hubs remained high in 1Q22, ranging between 85-90%, while the RBF occupancy rate was between 80-98%. We believe that normalised mobility and improved public infrastructure will underpin stronger FDI flows in the coming years.

More land bank supply & good leasing price

Vietnam currently has 335 IPs with a total industrial land bank of over 100,000 ha. In 1H22, the market has witnessed substantial land bank supply from BCM (1,000ha VSIP 3 IP and 700 ha Cay Truong IP), VGC (250ha Thuan Thanh I IP) and Ammata (Thai-based IP developer; 410 ha Amata Long Thanh IP). To capture the high demand in this potential market, a several Ips were approved in 2021, and are expected to provide thousands of IP landbank in the coming year (i.e. TIP's Long Duc 3 IP, GVR's Bau Can-Tan Hiep IP and Song Que-Xuan Nhan IP). Rubber land in provinces near HCM City has also been eyed for conversion into IPs. As such, rubber companies with huge landbank (i.e. GVR and PHR) will potentially see notable one-off gains (i.e. compensation fees) from the conversion of the rubber land for IP development and/or from the direct operation of their own IPs. In 1Q22, average Northern and Southern industrial leasing prices increased 9,2% YoY and 9% YoY, respectively (Northern market: USD 109/sqm/term; Southern market: USD 120/sqm/term) as the demand still outpaces the supply.

Industrial land bank and occupancy rate in key industrial provinces

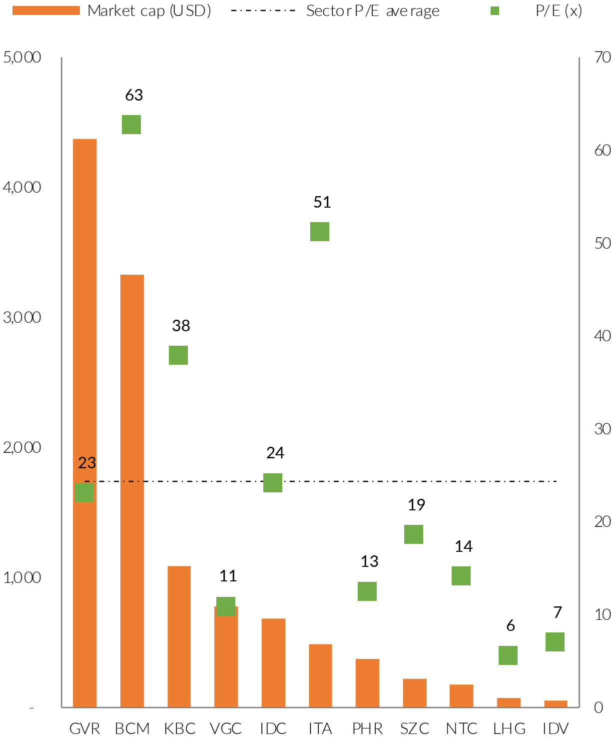


Source: Cushman and Wakefield, Maybank IBG Research

Stock picks

We contend that IP operators having: i) substantial available landbank for leases in prime locations; (ii) strong project execution capacity; and iii) advanced infrastructure will come out as winners. Though we have not picked any names for our investment portfolio due to lingering corporate governance issues, we believe the following (KBC, BCM, IDC and GVR) are key stocks to focus on and could fit into a trading portfolio. They are the best proxies to benefit from rising FDI inflows into prominent provinces (i.e., Vung Tau, Binh Duong, Hai Phong).

Industrial park peers



Source: Bloomberg, Maybank IBG Research