Vietnam Outlook – Breaking free of COVID-19

Recovery and Normalisation will lead to 1,800 on the index

November 2021

Chris Hunt *– Head of Research*

Vietnam – Breaking free of COVID-19

- ✓ **Feb 21's 1,500 year end index forecast has been met. By end FY22, we are forecasting the index to reach 1,800.**
- ✓ **We expect results and economic data in the next month or two to be weak** – COVID-19 is still taking its toll (with new variants always a risk) and we are seeing the ebbing away of low base effects. However, vaccination rollouts and the easing of lockdowns are resulting in positive improvements as economic activity increases.
- ✓ **Short-term, volatility may persist** – shorter-term we like defensive & export oriented sectors such as steel, textiles, fertilizer, transportation and oil & gas plays.
- ✓ **Looking beyond into FY22,** the outlook appears much brighter with economic normalisation increasingly evident; consumer, real estate, tourism related, financials, trade related plays will all recover strongly post COVID-19 lockdowns.
- ✓ We are on **the cusp of a change in earnings momentum**. Downgrades are still coming through for FY21, but FY22 earnings growth forecasts are being revised upwards.
- ✓ **Long-term fundamentals remain excellent** – On a three year view and beyond, Vietnam's story is powerful.
- ✓ **Globally, economies are continuing to recover** – Consensus is that while monetary policy may tighten due to inflation concerns, Central Banks are likely to remain generally accommodative, at least into FY23, and that fiscal spending will continue.
- ✓ As always, **we stress stock selection**. Our key stock picks are, but not limited to, ACB, TCB, MBB, KDH, VRE, REE, PHR, KBC, VEA, VTP, GMD, HPG, SAB, QNS, MSN, DCM, STK, FPT, GAS , PVT and POW.

The economy: FY21 clouds are dispersing rapidly

- ✓ Our GDP forecast for FY21 is 2.08%, which reflects the significant contraction in 3Q21 .
- ✓ The major impact, so far, has been on the services sector. The domestic economy is recovering in 4Q21, as the easing of lockdowns has stimulated activity.
- ✓ Trade activity remains patchy but is starting to improve. Trade surpluses have returned and recovery should be strong in FY22.
- ✓ Aided by recent budget surpluses, we can expect fiscal stimulus to be more aggressive in FY22.
- ✓ Inflation is incipient, not least in fuel prices, though not yet evident in the CPI (2,10% in November). The State Bank has flagged inflation concerns for FY22, but we forecast that levels will remain below 4%.
- ✓ A rebound in the domestic economy going into FY22 will be evident - coupled with a return of tourism; this should help to boost GDP growth to 6.8% y/y in FY22 and 6.5% growth in FY23.

	2019	2020	2021F	2022F	2023F
Currency (VND:USD)	23,155	23,085	22,750	22,800	23,000
GDP annual growth rate (%)	7.0	2.9	2.1	6.8	6.5
GDP (USD bn)	330	343	361	401	442
12M Average inflation (y/y %)	2.8	3.2	2.1	3.5	3.0
Policy interest rate (%)	6.0	4.0	4.0	4.0	4.5
FX Reserves (USDbn)	79	95	110	126	140
Balance of trade (USDbn)	10.9	19.9	4.0	4.3	6.9
Current account balance (USDbn)	12.2	15.0	-0.8	2.9	8.5
Imports (y/y %)	6.7	3.7	22.8	14.5	13.6
Exports (y/y %)	8.0	6.9	15.6	14.4	14.1
FDI disbursement (USDbn)	20.4	20.0	21.6	23.4	25.7

Source: Bloomberg, GSO, IMF, MoF, WB, HSC Research

Macro Snapshot – Green shoots of recovery

Liquidity remains good; there are strong signs of recovery following the easing of lockdowns. Inflation remains low (although is likely to pick up) retail sales are off their bottom and a trade surplus is being reported.

	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
CPI (y/y%)	2.47	1.48	0.19	-0.97	0.70	1.16	2.70	2.90	2.41	2.64	2.82	2.06	1.77	2.10
Retail Sales (y/y%)	4.7	20.9	7.0	3.1	3.9	7.5	29.9	-2.1	-9.8	-26.1	-30.1	-30.9	-16.0	-12.2
Export (y/y%)	12.0	10.6	22.7	55.1	-3.8	23.5	50.8	36.6	20.4	11.9	-1.7	-0.5	6.1	18.5
Import (y/y%)	8.9	15.6	24.5	41.3	9.9	29.0	47.7	57.9	34.3	31.8	20.4	10.2	7.8	20.8
Indust. Prod. (y/y%)	5.4	9.2	9.5	22.2	-7.2	3.9	24.1	11.8	4.9	2.2	-7.8	-5.5	-1.6	5.6
Markit PMI Index	51.8	49.9	51.7	51.3	51.6	53.6	54.7	53.1	44.1	45.1	40.2	40.2	52.1	
Interbank Rate (ON)	0.11	0.10	0.15	0.33	0.34	0.26	0.90	1.54	1.13	0.97	0.63	0.65	0.61	0.63
Currency (VND:USD) (y/y%)	-0.13	-0.26	-0.30	-0.67	-0.99	-2.37	-1.58	-1.01	-0.82	-0.99	-1.77	-1.86	-1.86	-2.01
VN-Index (y/y%)	-7.34	3.33	14.87	12.81	32.45	79.83	61.15	53.63	70.71	64.09	51.02	48.26	56.06	48.43
Currency (VND:USD)	23,165	23,125	23,085	23,035	22,995	23,065	23,035	23,030	23,005	22,935	22,755	22,745	22,735	22,660
VN-Index	925.47	1,003.08	1,103.87	1,056.61	1,168.47	1,191.44	1,239.39	1,328.05	1,408.55	1,310.05	1,331.47	1,342.06	1,444.27	1,488.87

Notes: (1) For CPI, interbank rate and currency: red indicates high, white indicates neutral, and green indicates low values;
(2) For other data: red indicates low, white indicates neutral, and green indicates high values
Source: GSO, SBV, CEIC, HSC Research

HSC economic forecasts

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Currency								
Currency (VND: USD)	22,755	22,700	23,210	23,155	23,085	22,750	22,800	23,000
Currency (VND: CNY)	3,427	3,268	3,562	3,317	3,541	3,555	3,563	3,594
GDP and employment								
GDP annual growth rate (%)	6.21	6.81	7.08	7.02	2.91	2.08	6.80	6.50
GDP (USD bn)	252	277	304	330	343	361	401	442
GDP per capita (USD)	2,693	2,929	3,182	3,416	3,524	3,671	4,043	4,416
Current account to GDP (%)	0.25	-0.60	1.90	3.69	4.36	-0.23	0.72	1.92
Public debt to GDP (%)	50.9	48.8	46.4	43.4	44.9	47.3	44.7	41.0
Government debt to GDP (%)	42.1	41.1	39.7	37.8	38.9	41.6	39.5	36.0
Government budget deficit (% of GDP)	2.86	2.18	2.22	2.12	4.63	4.19	3.31	2.90
Credit to GDP	97.6	103.5	103.4	107.6	116.1	125.5	126.2	128.1
Unemployment rate, year-end (%)	2.30	2.24	2.19	2.15	2.63	3.12	2.37	2.21
Prices								
12M average inflation (y/y %)	2.7	3.5	3.5	2.8	3.2	2.1	3.5	3.0
CPI, year-end (y/y %)	4.7	2.6	3.0	5.2	0.2	3.4	3.0	3.5
Money and rates								
Policy interest rate (%)	6.50	6.50	6.25	6.00	4.00	4.00	4.00	4.50
Overnight interbank rate (%)	3.2	1.7	3.9	1.4	0.1	2.0	2.5	3.0
Money supply M2 (VND tn)	7,126	8,195	9,212	10,574	11,976	13,485	15,211	17,036
Money supply M2 (y/y %)	18.4	15.0	12.4	14.8	13.3	12.6	12.8	12.0
FX reserves (USD bn)	36	49	55	79	95	110	126	140
12M deposit interest rate (%)	6.5	6.5	6.8	6.8	5.5	5.7	6.0	6.3
Government bond 5Y (%)	5.5	4.3	4.5	1.9	1.2	1.5	2.0	2.3
Government bond 10Y (%)	6.2	5.1	5.1	3.4	2.0	2.7	2.8	3.0
Trade and external sector								
Balance of trade (USD bn)	2.7	2.7	7.2	10.9	19.9	4.0	4.3	6.9
Current account balance (USD bn)	0.6	-1.7	5.8	12.2	15.0	-0.8	2.9	8.5
Imports (USD bn)	173	211	238	253	263	323	370	420
Imports (y/y %)	5.6	21.8	12.5	6.7	3.7	22.8	14.5	13.6
Exports (USD bn)	176	214	245	264	283	327	374	427
Exports (y/y %)	9.0	21.5	14.5	8.0	6.9	15.6	14.4	14.1
External debt (USD bn)	90	108	110	122	133	148	157	163
FDI disbursement (USD bn)	15.8	17.5	19.1	20.4	20.0	21.6	23.4	25.7
FDI commitment (USD bn)	24.4	35.9	35.5	38.0	28.5	32.4	36.5	41.9
Business & consumer								
Manufacturing PMI (year-end)	52.4	52.5	53.8	50.8	51.7	50.8	51.1	51.0
Industrial production (y/y %) (year-end)	8.3	11.2	11.4	6.2	9.5	7.1	7.5	9.5
Manufacturing production (y/y %) (year-end)	12.9	17.8	13.7	7.0	13.1	7.9	8.5	12.5
Annual retail sales (%)	10.2	10.9	11.7	11.9	2.6	-2.3	9.1	9.1

Source: Bloomberg, GSO, IMF, MoF, WB, HSC Research

Key Thematics for FY22 & Beyond

- ✓ **COVID-19:** A global phenomenon slowly resolving itself; the risk of new variants remains **– Negative / Positive**
- ✓ **Global Macro Matters**:
  - The biggest external impact on our earnings forecasts won't be the USD, but the strength of US recovery, a tightening of monetary policy, the impact of further COVID-19 restrictions, the continuation of accommodative economic policies and sustained consumer demand **– Positive**
  - Global Fiscal Stimulus remains a powerful factor, especially in the US **– Positive**
  - China's economy, trade picture and diplomatic activity will remain under scrutiny – **Negative**
  - Vietnam's geopolitical positioning is excellent – **Positive**
- ✓ **FY21 Results** – Not all companies are created equal **– Neutral**
- ✓ **Liquidity X Confidence** – Short term volatility, but long term will be good **– Neutral / Positive**
- ✓ **Foreign Investors** – lots of enthusiasm but little participation; swing factor **– Negative / Positive**
- ✓ **Timing is key:**
  - Export orientated and commodity plays are defensive, but post FY21, the recovery will be seen in financials, banks, consumer and domestics plays generally. Position yourself in times of weakness for the long term **– Positive**
- ✓ **Vietnam's fiscal position is strong and there is flexibilty**- Budget Expenditure will accelerate in order to combat COVID-19 and to stimulate public investment **– Neutral**

Key Thematics for FY22 & Beyond

- ✓ **Foreign Direct Investment** – a long term driver. Manufacturers, port operators, air cargo, energy and real estate are leveraged plays **– Positive**
- ✓ **The consumer and the rise of the middle class**. Long-term, there is three-pronged consumption engine **– Positive**
  - Demographics – Vietnam has a young, well educated, increasingly prosperous population.
  - Urbanization - At 37%, Vietnam has one of the lowest urbanization rates in Asia, yet also one of the fastest rates of growth.
  - A rising middle class – people are consuming more
- ✓ **Tourism** – an outsized impact, short term negative but recovery will be powerful **– Positive**
- ✓ **ESG** – the start of something positive? This will take time **– Neutral**
- ✓ **Financial sector restructuring** – a stimulus to come; all areas of the economy need capital but execution and the pace of change remains slow **– Neutral**
- ✓ **A sovereign debt rerating** is possible in FY22; While governance needs strengthening, GDP per capita is set to exceed the Philippines and Indonesia in coming years - **Positive**
- ✓ **ETFs** - an unremarked driver for certain stocks - **Positive**
- ✓ **MSCI** – inclusion – yawn! **- Neutral**

Top Picks

Ticker	HSC rating	Closing price	Target price	Upside / downside	Mkt cap (USDmn)	EPS growth 20A	EPS growth 21F	EPS growth 22F	P/E 20A	P/E 21F	P/E 22F	Div yield 20A	Div yield 21F	Div yield 22F
Financials: Banks														
ACB	Buy	33,950	43,500	28.1%	4,045	27.8%	28.9%	38.3%	11.9	9.26	6.70	-	-	-
TCB	Buy	52,600	61,800	17.5%	8,119	22.2%	33.9%	23.0%	14.9	11.2	9.07	0%	0%	0%
STB	Buy	28,500	33,500	17.5%	2,370	9.25%	18.6%	25.8%	19.2	16.2	12.8	-	-	-
MBB	Buy	28,900	35,500	22.8%	4,816	4.42%	36.3%	19.7%	12.8	9.37	7.83	-	-	-
Real Estate: Developers														
KDH	Buy	45,500	56,400	24.0%	1,238	24.3%	(18.5%)	61.1%	23.8	29.2	18.1	1.10%	0%	0%
VRE	Buy	30,150	38,600	28.0%	3,021	(14.4%)	4.56%	24.9%	28.8	27.5	22.0	-	-	3.32%
REE	Buy	66,700	82,200	23.2%	909	(0.66%)	(2.65%)	44.4%	12.7	13.0	9.04	2.92%	0%	2.40%
CRE	Add	28,300	33,000	16.6%	252	(24.4%)	8.33%	(2.81%)	7.71	7.11	7.32	3.53%	-	-
PHR	Add	69,100	79,500	15.1%	413	140%	(58.0%)	123%	8.65	20.6	9.23	4.47%	2.89%	3.62%
KBC	Add	48,000	53,600	11.7%	1,206	(75.6%)	395%	(4.18%)	101	20.3	21.2	0%	0%	0%
Industrials: Transportation														
VEA	Buy	45,400	53,900	18.7%	2,661	(22.6%)	(11.2%)	18.5%	10.7	12.1	10.2	11.0%	9.15%	8.13%
ACV	Add	85,000	90,600	6.59%	8,161	(79.9%)	(41.6%)	122%	112	192	86.7	0%	0%	0.59%
VTP	Buy	78,600	99,000	26.0%	359	0.98%	(14.5%)	57.7%	21.2	24.8	15.7	1.91%	1.91%	1.91%
GMD	Buy	51,000	62,000	21.6%	678	(28.2%)	41.6%	40.5%	40.8	28.8	20.5	2.30%	2.94%	3.92%
Industrials: Materials - Chemicals														
LTG	Buy	38,700	49,200	27.1%	138	10.5%	27.9%	11.1%	8.52	6.66	6.00	2.58%	3.88%	3.88%
DCM	Buy	37,000	41,600	12.4%	864	55.8%	105%	0.41%	29.5	14.4	14.4	1.62%	2.70%	2.70%
Industrials: Metals and Capital Goods														
BMP	Add	59,700	70,500	18.1%	216	23.6%	(61.7%)	122%	9.35	24.4	11.0	10.6%	4.02%	9.05%
HPG	Buy	49,550	73,900	49.1%	9,774	49.3%	103%	(10.1%)	12.2	6.01	6.68	1.01%	2.02%	2.02%
Consumer Staples - F&B, Tobacco														
SAB	Buy	168,000	196,900	17.2%	4,749	(6.53%)	(22.0%)	24.6%	22.8	29.2	23.4	2.08%	2.08%	2.08%
VHC	Add	63,500	73,000	15.0%	510	(35.8%)	22.9%	19.1%	16.1	13.1	11.0	3.15%	3.15%	3.15%
QNS	Buy	55,900	64,500	15.4%	743	(19.3%)	23.1%	22.4%	16.2	13.2	10.8	4.47%	4.47%	4.47%
PNJ	Add	105,700	118,600	12.2%	1,060	(12.1%)	(6.58%)	44.8%	24.6	26.3	18.2	1.51%	1.89%	1.89%
MSN	Add	156,500	176,800	13.0%	8,148	(78.0%)	564%	(25.8%)	149	22.4	30.2	0.96%	-	-
Consumer Discretionary														
STK	Buy	60,800	68,500	12.7%	183	(33.6%)	88.9%	39.0%	28.7	15.2	10.9	2.47%	2.47%	2.47%
Technology, Communications & Internet: Information Technology														
FPT	Buy	96,600	128,500	33.0%	3,866	(2.36%)	2.56%	19.4%	21.4	20.9	17.5	1.04%	1.55%	1.66%
Energy & Utilities														
PLX	Buy	57,000	66,300	16.3%	3,127	(76.8%)	275%	6.90%	70.4	18.8	17.6	5.26%	2.11%	5.26%
GAS	Buy	104,600	150,000	43.4%	8,829	(34.0%)	17.1%	46.7%	25.5	21.8	14.8	3.42%	2.87%	3.82%
PVT	Buy	24,350	35,000	43.7%	348	(2.92%)	19.9%	31.5%	11.8	9.82	7.47	2.14%	4.11%	4.11%
POW	Buy	13,800	17,300	25.4%	1,425	(12.3%)	3.76%	(4.78%)	14.7	14.2	14.9	2.17%	2.17%	2.17%

COVID-19 – A challenge ably tackled

The easing of lockdowns will spark the domestic economy into life

Omicron – a bump in the road or a major pot hole?

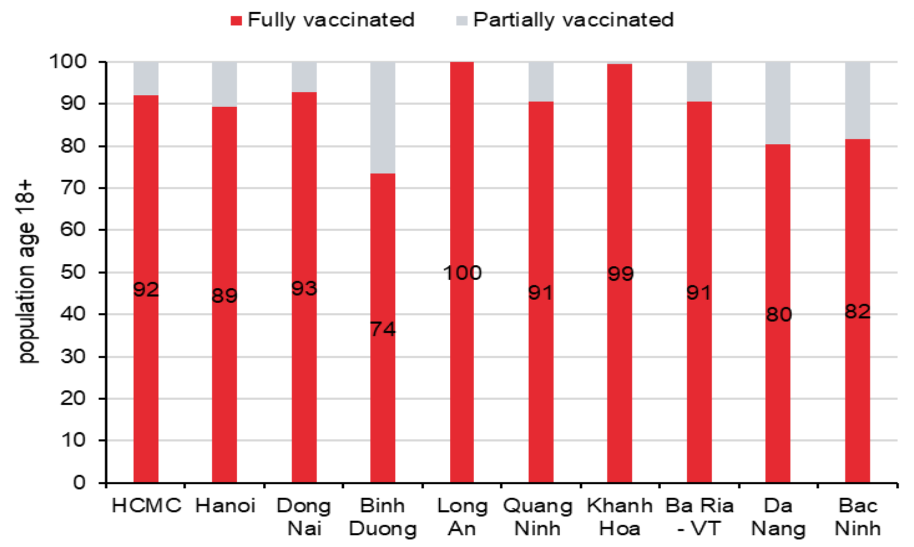
- ✓ Omicron seems to have caused understated panic among governments, the public and the stock markets as it is probably the first variant to have scientists worried since Delta. However, **much is unknown**:
  - We don't know how infectious Omicron is - Limited data from South Africa shows that Omicron is very infectious, but whether it will become the predominant strain remains to be seen.
  - We don't know the severity on health outcomes – governments impose lockdown measures because hospitals fill up; so limiting social mixing helps to slow the spread of the virus and reduce the impact on health services.
  - We don't the potential for Omicron to evade immunity afforded by vaccines and / or natural immunity which may mean more hospitalisationis and death.

So what does Omincron mean for us?

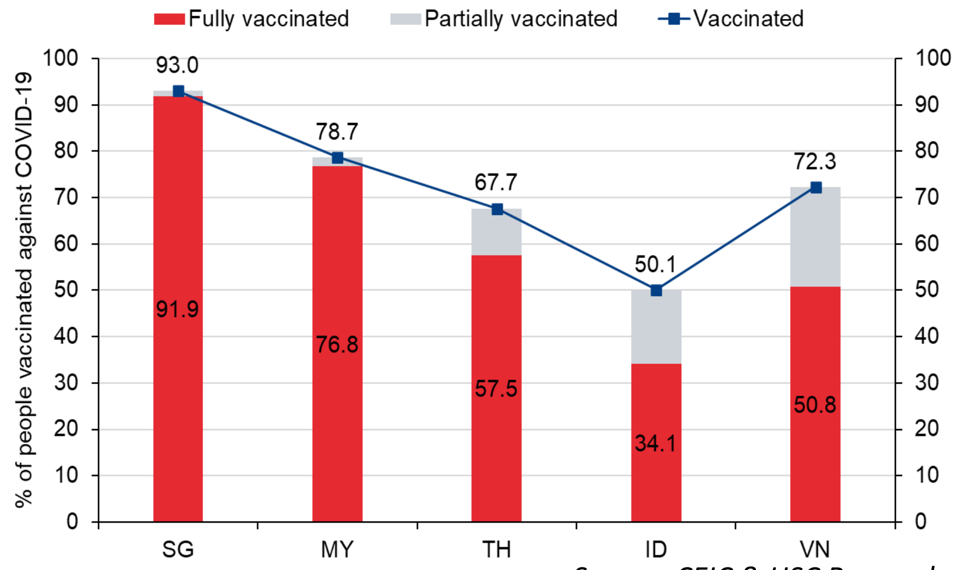
- ✓ Right now, we need to continue getting vaccinated, wear masks and being attentive to how many close contacts we have. For governments there are several scenarios:
  - The best would be that Omicron results in milder forms of the disease, and / or vaccine effectiveness remains high.
  - The worst case would be that an updated vaccine become urgently required (theoretically one could be delivered in a matter of weeks), followed by a massive vaccination campaign to get this variant-specific booster out to populations as quickly as possible.
- ✓ Vietnam already runs a tight international travel policy and has tested contingency plans, but nationwide lockdowns aren't likely due to the negative impact on the economy - increased testing, a focus on vaccinations and the development of antiviral therapies will continue to allow us to live with this and future variants.

Vaccinations have allowed lockdowns to ease

- ✓ The next twelve months will be about learning to live with COVID-19.
- ✓ Lockdowns started to ease from end Sep-21 but restrictions will ebb and flow as caseloads rise and fall – however Vietnam is accepting of the new normal and the need to live with COVID-19.
- ✓ **At the time of writing, total cases so far amount to 1.09m with @108m million** total vaccination shots given. The partially and fully vaccinated rates equate to 72.3% and 50.8% of the population, respectively.
- ✓ However, 7-day-average for new cases is up 18% versus last week.



Source: VN Express & HSC Research



Source: CEIC & HSC Research

The need to live with COVID-19

- ✓ The infectious nature of the Delta variant and the lack of vaccinations in June has meant that Vietnam has had to catch up.
- ✓ COVID impact in FY21 will be at a higher cost than previously expected in terms of foregone GDP.
- ✓ Hanoi, HCMC and another 18 southern provinces / cities (accounting for two thirds of Vietnam's GDP) were under strict lockdown (Directive 16) which have been eased rapidly.
- ✓ COVID-19 caseloads have been mainly concentrated in southern provinces which contribute significantly to GDP. HCMC (17.5% of national GDP), Binh Duong (4.7%) and Dong Nai (4.5%) were heavily impacted.

An overview of Country level lockdown restrictions

	VN	TH	PH	MY	ID	SG
Feb-20	-5.1	-3.3	-2.6	-1.0	0.6	-8.9
Mar-20	-31.0	-40.6	-76.2	-73.0	-40.6	-21.8
Apr-20	-25.2	-42.7	-76.6	-71.4	-47.4	-67.2
May-20	-2.6	-27.0	-62.5	-47.8	-42.3	-60.9
Jun-20	-3.0	-17.6	-49.0	-24.0	-26.6	-33.9
Jul-20	-6.9	-18.3	-49.7	-21.4	-25.0	-30.6
Aug-20	-10.7	-13.7	-48.4	-18.5	-20.6	-24.0
Sep-20	-6.7	-14.7	-46.0	-19.0	-26.9	-21.4
Oct-20	-7.0	-13.3	-43.4	-36.2	-24.9	-19.2
Nov-20	-5.4	-10.6	-37.9	-35.8	-22.2	-18.3
Dec-20	-1.1	-25.2	-39.5	-27.6	-24.0	-21.4
Jan-21	-5.1	-23.5	-38.1	-50.1	-30.5	-16.0
Feb-21	-20.1	-13.0	-36.3	-34.9	-26.0	-14.4
Mar-21	-5.0	-5.0	-43.8	-26.6	-21.7	-12.5
Apr-21	-1.0	-32.5	-38.9	-31.3	-20.5	-11.8
May-21	-26.3	-24.3	-29.2	-47.0	-12.9	-38.5
Jun-21	-34.4	-26.7	-30.3	-55.4	-22.0	-23.9
Jul-21	-65.4	-39.9	-28.9	-50.6	-29.4	-28.1
Aug-21	-71.3	-36.7	-36.3	-47.1	-19.5	-17.1
Sep-21	-58.0	-29.3	-30.1	-35.4	-12.6	-23.5
Oct-21	-42.9	-22.9	-25.0	-26.9	-9.3	-23.9

Notes: Mobility restriction (simple average of workplace, transit and retail) change compared to pre-COVID. Red = most severe
Source: CEIC & HSC Research

From a 2Q21 standing start, vaccine rollouts have been impressive

- ✓ The vaccination roll out has so far been impressive and has taken on a mosaic approach – ie major conurbations afflicted by the pandemic, specific work groups (eg FDI manufacturing), essential services have been vaccinated most swiftly. This has allowed a rapid easing of lockdowns.

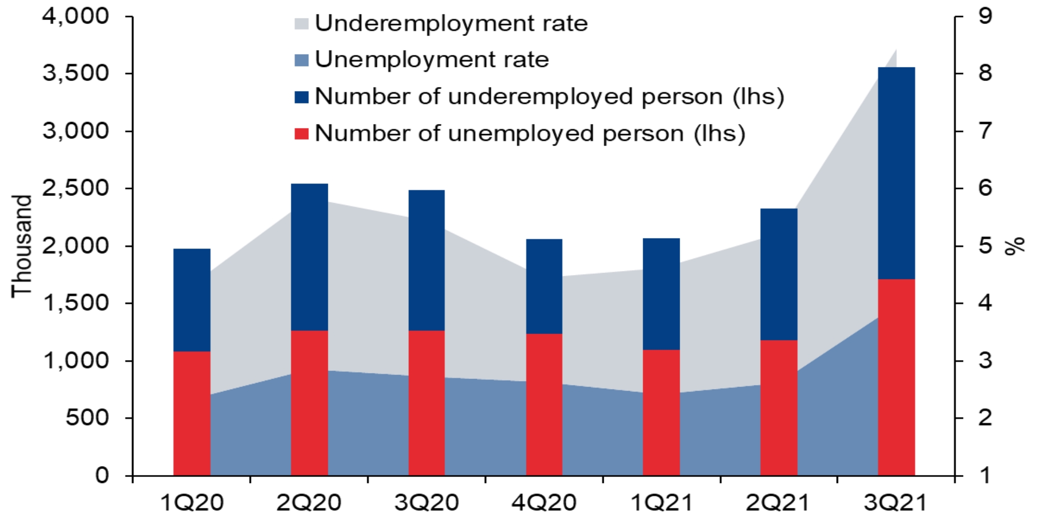
The vaccine rollout in numbers:

1) At the time of writing, 108mn vaccine doses have been administered – that is 57% of the total doses needed.
2) Currently @ 1.2mn doses are administered per day, this means that in theory it will take another 70 days to vaccinate the whole population, including children, of 98mn.
3) The government's original goal was to have 50% of the population fully vaccinated by end 4Q21 (currently 50.8%), and 70% by end 1Q22. Vietnam's stretch target is now 100% of people aged 18 fully vaccinated by end Dec-21 and 70% of its entire population by end 1Q22.
4) Vietnam should meet its initial 4Q21 and 1Q22 targets and are on track to meet stretch goals also.

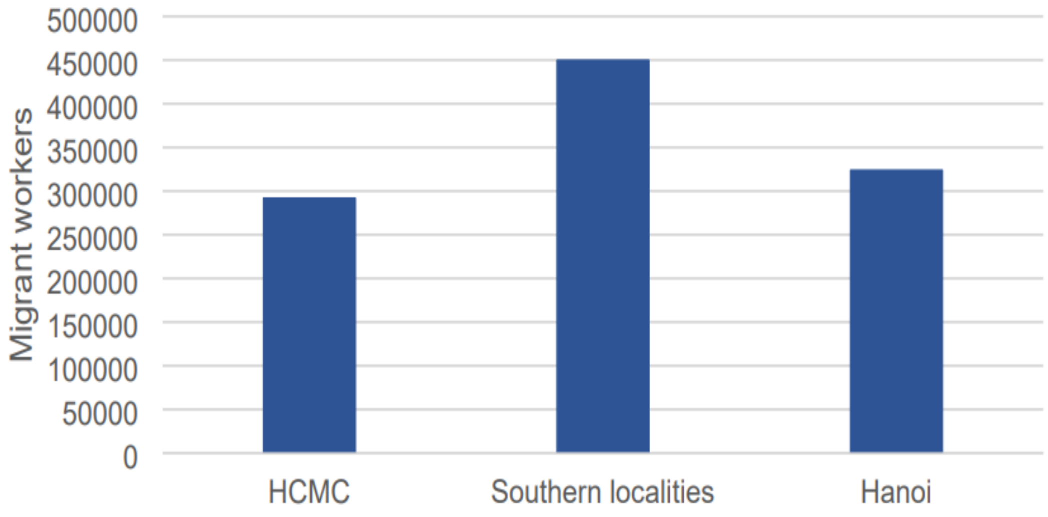
- ✓ **Challenges still include** acquiring sufficient doses quickly enough and the efficacy of Chinese vaccines, but it is increasingly now about the logistics of delivery to rural and remote areas.
- ✓ Nonetheless, a solid vaccination programme is ensuring that Vietnam is able to live with COVID-19 – this is crucial for continued economic growth.

COVID-19 related labour market dislocation – A short term factor

Unemployment rates have soared to record highs in 3Q21 – this impacts disposable income, but the trend is reversing and we expect a return to employment levels below 3% in FY22



Worker outflows (from Jul to 15 Sep-21 from urban to rural areas was particularly strong especially in the South – this has yet to fully reverse creating short term labour constraints in manufacturing



Sources: CEIC, GSO HSC Research

An index target of 1,800

Recovery and normalization in FY22 will drive share prices

An index level of 1,800 by end FY22

- ✓ We called for an end FY21 index level of 1500 in February, which we reached on 25 Nov-21. For FY22 we are forecasting an index level of 1,800 – the good times, at least for share prices, will continue to roll.
- ✓ We expect Vietnam to continue to see volatility in the next two or three months but following the easing of lockdowns, confidence is returning to the economy and retail participation in the stock market remains extremely high.
- ✓ Regionally, Vietnam compares favourably. For FY22 we are forecasting 21.6% earnings growth and a P/E of 13.4x – this compares to a P/E of 14.8x for the region on 4% growth. For FY23 we are forecasting 21.6% growth and also a P/E of 10.9x – 11% growth is projected for the region on a P/E of 13.3%.
- ✓ **Vietnam consensus is for 18% y/y growth in FY22; we can expect to see upgrades in coming quarters, as well as downward adjustments in consensus FY21 forecasts. Consensus forecasts for FY23 are 20% for FY22, in-line with our forecasts.**
- ✓ We see a further 15% upside for our entire universe which, alone, will take us a long way to 1,800 in coming months. However, the upside for our top recommendations is 26%, which highlights the importance of stock picking.

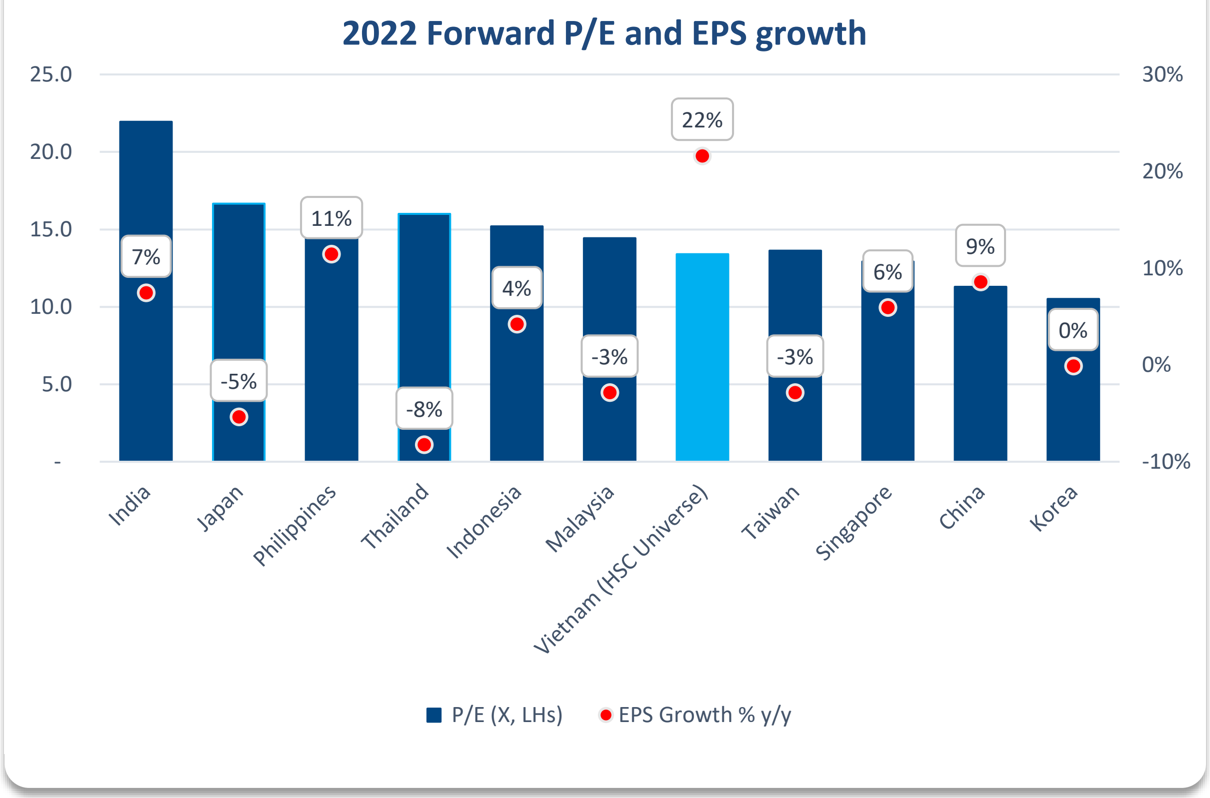
HSC Universe **Upside: 15%**

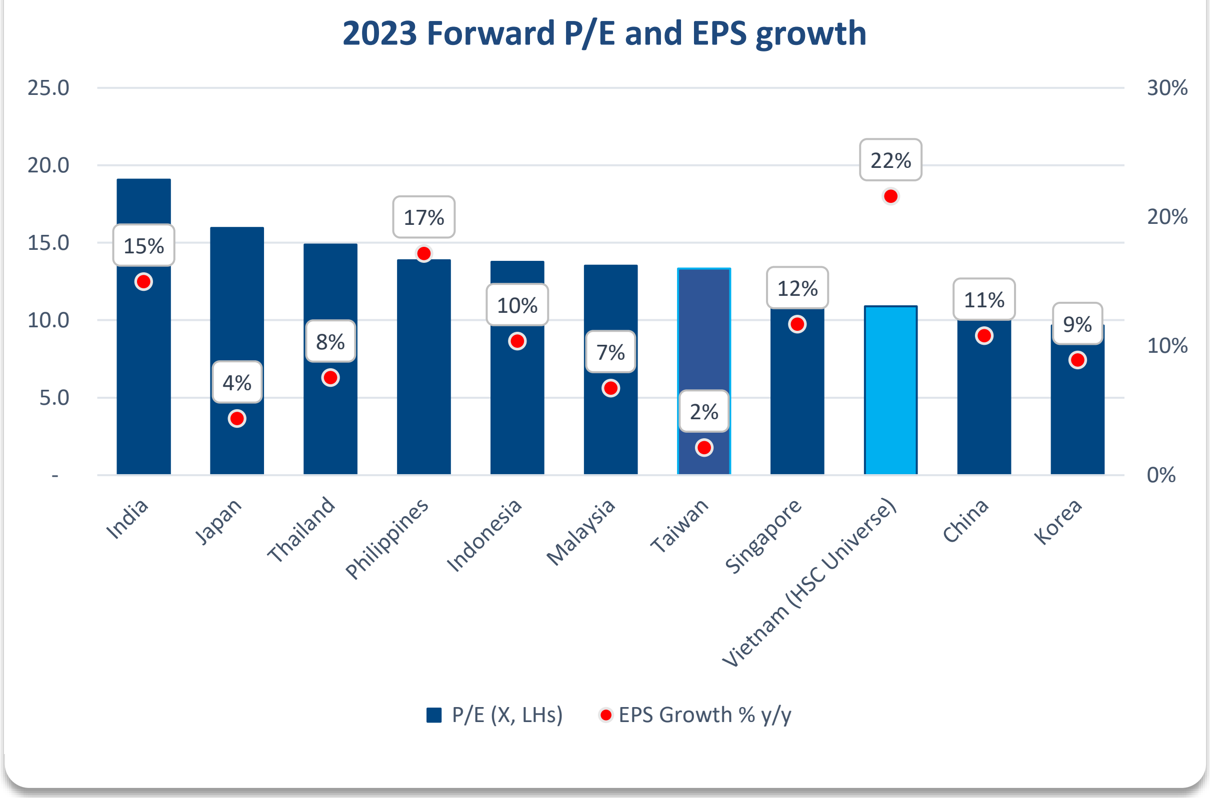
Valuation	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-9.9%	14.4%	21.6%	21.6%
PER	x	20.5	21.8	16.5	13.4	10.9
PBR	x	3.5	3.2	2.6	2.3	1.9
ROE	%	16.9%	14.5%	15.8%	16.9%	17.8%
Yield	%	1.3%	7.7%	1.2%	1.3%	1.4%

Country PER / EPS, weighted average – Vietnam is cheap

Vietnam has the strongest forecast EPS growth in the region for FY22, following earnings downgrades in FY21 – compared to ASEAN peers, Vietnam is relatively cheap

Again we are confident on the long term earnings outlook as Vietnam's structural advantages reassert themselves post COVID-19 lockdowns

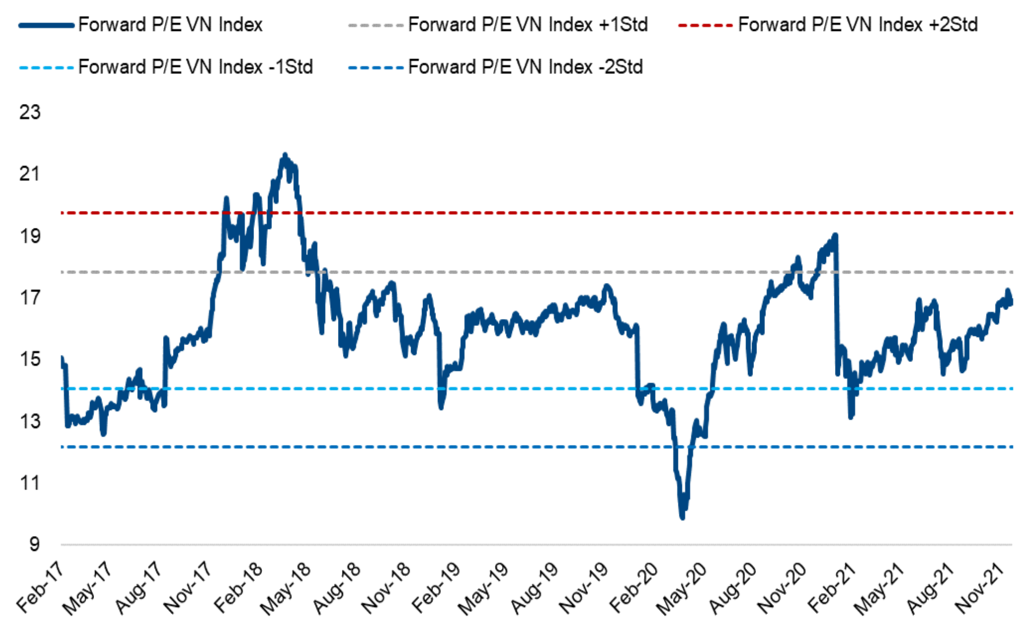




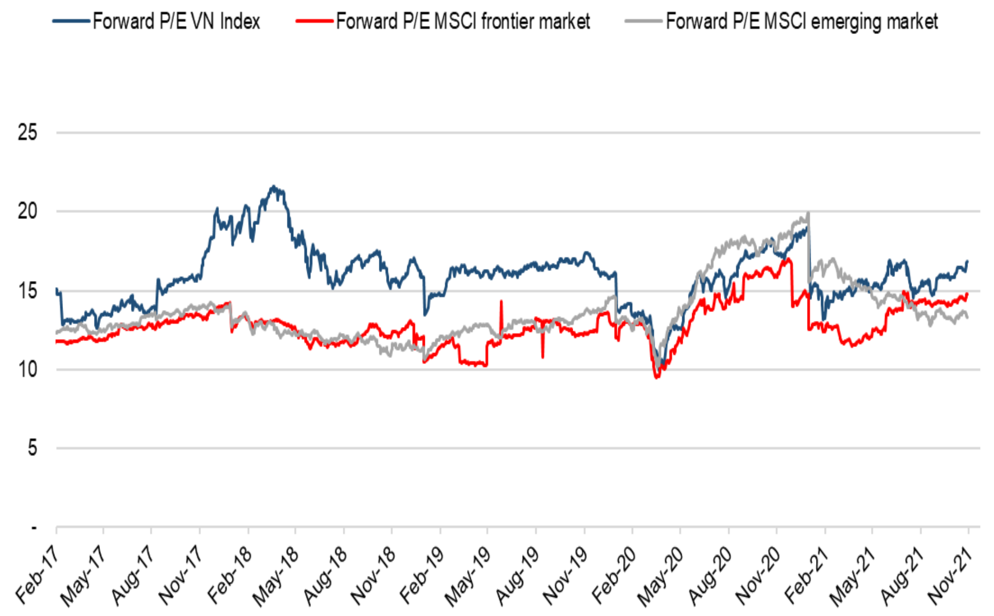
Source: HSC Research, Bloomberg

Vietnam's valuations are not stretched on our forecasts

Vietnam's forward P/E is not stretched on our numbers; we also expect to see earnings consensus upgrades for FY22

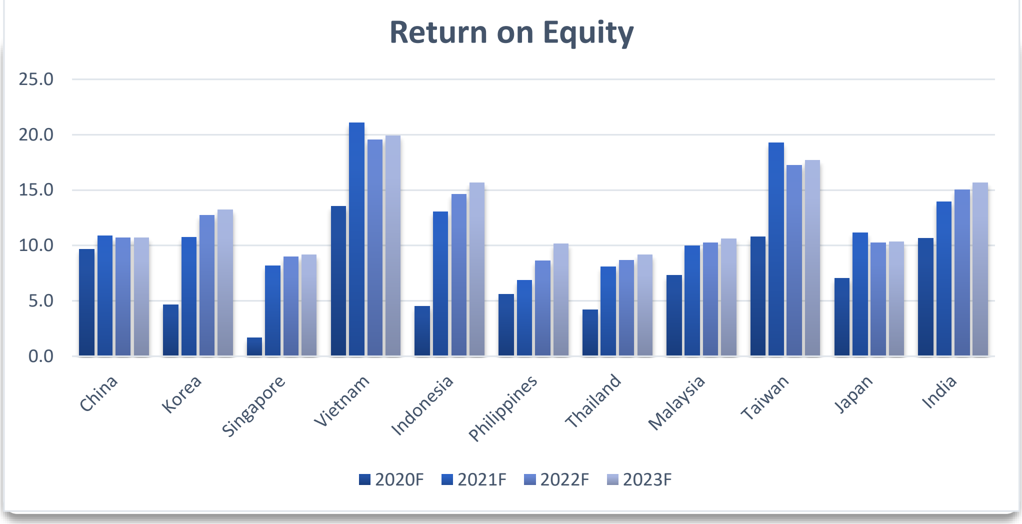


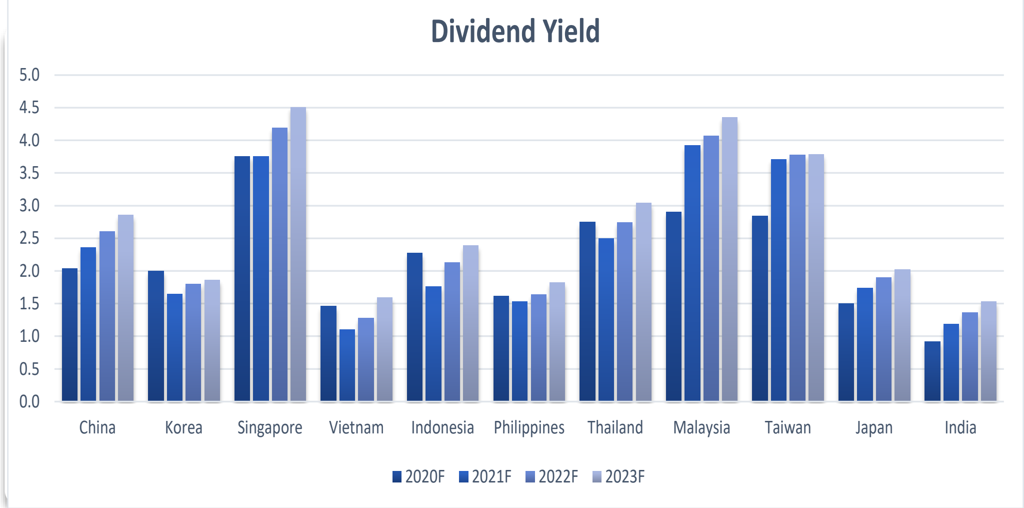
Relative to its regional and global peer groups, Vietnam has only just begun to rerate – Prior to 1Q20, Vietnam traded at a substantial premium



Source: HSC, MSCI, Bloomberg

Valuations favour Vietnam….





Source: HSC Research, Bloomberg

HSC Universe – Key selected sector data

Banks — Upside: 14%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		11.7%	31.0%	25.3%	22.0%
PER	x	18.2	16.9	12.9	10.3	8.4
PBR	x	3.4	2.8	2.3	1.9	1.6
ROE	%	20.6%	18.9%	19.6%	20.3%	20.6%
Yield	%	0.6%	0.5%	0.5%	0.5%	0.5%

Energy - Oil & Gas — Upside: 24%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-69.1%	234.9%	109.6%	12.1%
PER	x	26.9	49.9	33.8	17.4	16.0
PBR	x	2.2	2.4	2.1	2.0	2.0
ROE	%	13.7%	4.1%	12.1%	12.7%	13.6%
Yield	%	3.4%	3.8%	2.0%	3.9%	4.1%

Capital Goods — Upside: 21%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		23.6%	-61.7%	122.3%	18.1%
PER	x	11.3	9.2	23.9	10.8	9.1
PBR	x	1.9	1.9	2.1	2.0	2.0
ROE	%	17.2%	21.2%	8.4%	19.2%	22.3%
Yield	%	8.5%	10.8%	4.1%	9.2%	10.9%

Insurance — Upside: 10%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		23.0%	14.0%	12.4%	16.7%
PER	x	35.6	28.9	25.4	22.6	19.3
PBR	x	2.3	2.2	2.1	2.0	1.9
ROE	%	7.0%	7.9%	8.6%	9.1%	10.0%
Yield	%	1.7%	1.3%	1.3%	1.7%	1.7%

Utilities - Electricity — Upside: 22%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-13.3%	-2.6%	-2.6%	2.8%
PER	x	11.9	13.6	13.8	14.0	13.6
PBR	x	1.2	1.2	1.2	1.2	1.1
ROE	%	11.9%	9.6%	8.7%	8.4%	8.5%
Yield	%	2.2%	3.3%	6.3%	3.9%	3.9%

Consumer Staples - F&B, Tobacco — Upside: 12%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-27.3%	55.8%	34.3%	19.9%
PER	x	26.8	62.8	32.6	23.0	19.0
PBR	x	4.7	7.2	5.8	5.1	4.4
ROE	%	27.0%	20.9%	23.0%	25.3%	26.4%
Yield	%	2.2%	2.7%	2.6%	2.4%	2.5%

Real Estate Development — Upside: 9%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		10.3%	22.2%	13.2%	20.7%
PER	x	21.5	22.6	20.1	17.3	14.5
PBR	x	4.4	3.5	3.0	2.6	2.2
ROE	%	28.2%	25.0%	21.1%	18.3%	18.3%
Yield	%	0.7%	48.3%	0.1%	0.5%	0.6%

Utilities - Gas — Upside: 47%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-34.0%	17.1%	46.7%	18.6%
PER	x	16.4	24.9	21.3	14.5	12.2
PBR	x	4.0	4.0	4.2	3.8	3.2
ROE	%	25.4%	16.2%	19.5%	27.5%	28.4%
Yield	%	4.2%	3.5%	2.9%	3.9%	3.9%

Consumer Discretionary - Durables & Apparel — Upside 1%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-8.5%	2.5%	39.1%	19.6%
PER	x	21.1	23.6	24.0	17.3	14.5
PBR	x	4.7	4.2	3.8	3.3	2.8
ROE	%	25.6%	20.1%	17.9%	22.0%	22.5%
Yield	%	1.1%	1.5%	1.8%	1.8%	1.9%

Source: HSC Research, Bloomberg

HSC Universe – Key selected sector data

Construction & Construction Materials — Upside: -26%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-16.3%	-2.3%	66.1%	8.3%
PER	x	28.3	32.1	22.7	24.8	22.7
PBR	x	2.9	2.9	2.8	2.6	2.4
ROE	%	10.0%	8.4%	9.4%	12.1%	12.0%
Yield	%	2.5%	2.7%	2.1%	2.1%	2.1%

Transportation — Upside: 9%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-137.8%	-29.8%	86.0%	74.1%
PER	x	18.7	68.4	113.6	52.7	32.9
PBR	x	3.8	4.3	0.9	2.7	2.4
ROE	%	22.9%	-5.8%	-159.8%	26.5%	8.9%
Yield	%	2.4%	2.3%	2.0%	2.2%	2.5%

Consumer Discretionary - Retailing — Upside: 1%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-3.8%	-7.5%	44.4%	22.2%
PER	x	16.2	23.2	24.0	16.6	13.6
PBR	x	5.0	4.0	5.2	4.2	3.4
ROE	%	35.5%	27.3%	23.8%	28.2%	27.8%
Yield	%	1.1%	1.1%	1.1%	1.1%	1.5%

Infrastructure — Upside: -15%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		79.1%	-70.6%	529.5%	123.2%
PER	x	46.3	25.9	88.0	14.0	6.3
PBR	x	1.5	1.6	1.6	1.5	1.3
ROE	%	2.9%	5.1%	1.5%	9.4%	18.9%
Yield	%	0.0%	3.6%	0.0%	2.9%	3.6%

Materials - Chemicals — Upside: 13%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		47.8%	140.2%	-14.2%	-6.3%
PER	x	37.3	23.7	10.4	12.3	14.1
PBR	x	2.3	2.3	2.0	1.8	1.7
ROE	%	7.7%	9.7%	20.8%	15.3%	13.4%
Yield	%	2.7%	2.8%	3.3%	3.3%	3.3%

Technology, Communications & Internet — 1%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		54.5%	-20.6%	57.5%	30.1%
PER	x	55.9	43.6	49.9	38.4	33.3
PBR	x	11.0	9.9	13.0	11.2	9.8
ROE	%	43.2%	49.5%	56.6%	62.0%	62.8%
Yield	%	1.6%	1.8%	2.3%	2.4%	2.6%

Conglomerates — Upside: -5%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		-26.5%	-77.8%	15.6%	400.4%
PER	x	44.0	61.0	352.3	309.6	59.2
PBR	x	4.3	4.3	3.7	3.6	3.4
ROE	%	11.9%	7.5%	1.8%	2.1%	6.5%
Yield	%	0.2%	0.2%	0.0%	0.2%	0.2%

Materials - Industrial Metals — Upside: 48%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		80.2%	130.8%	-12.5%	5.0%
PER	x	25.5	12.7	5.7	6.5	6.2
PBR	x	2.8	2.7	2.3	1.8	1.4
ROE	%	15.7%	24.2%	49.0%	30.6%	25.5%
Yield	%	0.9%	0.9%	1.9%	1.9%	1.9%

Health Care — Upside 5%

	Unit:	19A	20A	21F	22F	23F
EPS Growth	%		16.6%	0.9%	5.9%	6.7%
PER	x	21.1	18.1	17.9	16.9	15.9
PBR	x	3.8	3.6	3.3	3.0	2.8
ROE	%	19.5%	21.3%	19.9%	19.3%	18.8%
Yield	%	2.5%	4.1%	3.0%	3.0%	3.0%

Source: HSC Research, Bloomberg

Sensitivity analysis

- ✓ The black boxes highlight 1,800 as our current index target for FY22.
- ✓ Our index target will be driven by a return of confidence as lockdowns ease, renewed economic activity and accelerating earnings momentum.
- ✓ Our earnings expectations for FY22 are for 22% growth, but we anticipate upside earnings risk.
- ✓ For FY23 we are forecasting 22% growth, the same as consensus.
- ✓ If earnings growth for FY22 is 22%, the implied P/E at 1,800 would be 16.5x. At 35% growth, on the same P/E, the index will reach 2,000.

Sensitivity to changes in P/E & EPS growth assumptions:

					FY22				
	EPS	96.1	101.6	107.1	109.3	112.5	118.0	123.5	128.9
PER	% chg	10%	15%	20%	22%	25%	30%	35%	40%
11.5	-14%	1,106	1,168	1,231	1,256	1,294	1,357	1,420	1,483
12.0	-10%	1,154	1,219	1,285	1,311	1,350	1,416	1,481	1,547
12.5	-7%	1,202	1,270	1,338	1,366	1,407	1,475	1,543	1,611
13.0	-3%	1,250	1,321	1,392	1,420	1,463	1,534	1,605	1,676
13.4	0%	1,288	1,362	1,435	1,464	1,508	1,581	1,654	1,728
14.0	4%	1,346	1,422	1,499	1,530	1,575	1,652	1,728	1,805
14.5	8%	1,394	1,473	1,552	1,584	1,632	1,711	1,790	1,869
15.0	12%	1,442	1,524	1,606	1,639	1,688	1,770	1,852	1,934
16.0	19%	1,538	1,626	1,713	1,748	1,801	1,888	1,975	2,063
16.5	23%	1,586	1,676	1,767	1,803	1,857	1,947	2,037	2,127

Source: HSC, Bloomberg

Stock ideas for FY22

As we move into FY22, our analysts have the following recommendations:

✓ **Industrials and export orientated** stocks are likely to perform well, certainly on a relative basis, and may be a source of upside surprise in the next two earnings seasons.

- Steel companies will likely deliver strong results driven by exports; **HPG** is our top pick in the sector. Despite upside, we are more cautious on **NKG** and **HSG** as the further we move along the cycle the more likely the risk of disappointment becomes.
- **BMP** is a beneficiary of recovery in the construction sector and we have recently revised up earnings to reflect projected increases in selling prices in FY22 and FY23.
- **VTP** is a leverage play on lockdown easing as well as the rise of ecommerce.
- In the ports sector, **GMD** will benefit from the addition of new capacity and this leads to a very promising outlook. Without the same expansion plans, a lot of good news is in the share price for **VSC**.
- In the transportation space**,** **ACV** remains on our top pick list – as we inch towards the reopening of tourism, this is a leveraged play.

✓ **Oil and gas** - We suggest unwinding positions in cyclical names such as **PVS/PVD** and switching into secular growth plays **GAS** and **PVT**. **GAS** is our top pick. We also like **POW** in the energy sector.

Stock ideas for FY22

✓ **Property names should perform well going forward** – while FY21 earnings reflect project delays, bookings should start coming through in FY22. There is earnings risk to the upside for this sector.

- Developer presales will accelerate in FY22. We are especially positive on the HCMC market; not only is it rebounding from COVID-19 but also from the stringent regulatory environment previously in place.
- Our top residential property pick is **KDH** due to its large exposure to the HCMC market and sound fundamentals. More speculatively, **CRE'**s brokerage services and secondary investment divisions are performing very well this year, and improvements here look sustainable.
- Following the addition of four new projects (total site area of 261 ha) into our model, we have become more positive on **KBC** while following the addition of the Tan Binh Expansion IP (total site area of 1,056 ha) into our valuation, **PHR** now looks to be a good long-term transition story.
- **REE**'s share price doesn't reflect solid fundamentals – we are seeing a stronger than expected recovery in the mechanical engineering (M&E) division and the stock is cheap.
- **VRE** will experience a difficult 4th quarter, but earnings and the share price will bounce back as lockdowns ease.

Stock ideas for FY22

- ✓ **Consumer discretionary** names may be a source of downside surprises for another quarter or two, as are **tourism and travel** related names. The picture for **consumer staples** may be more mixed. However, recent share price performance suggests a lot of bad news is discounted.

  - We are hoping that **SAB** may see better than expected profits on a recovering top line going into FY22, and we expect **MSN** to continue to rerate as it reorientates its business towards VCM and Masan Consumer.
  - **VNM** remains vulnerable to weaker demand and higher material costs, while **QNS** continues to see strong sugar demand, and soy milk sales have been better than expected.
  - **STK's** profit is expected to see strong earnings momentum, margins may surprise on the upside and it remains a “green” play.
  - **For MPC** a lot of good news is in the price, so after a period of under performance, **VHC** may be a better pick. Parts of **MWG**’s business are performing well, others less so, but the outlook is positive.
  - **PNJ** and **VEA** are recovery plays.

- ✓ **Fertilizer** names will also continue to perform strongly due to strong global demand – **DCM** is our top pick; valuations for **DPR** and **DPM** are not quite so compelling currently.

Stock ideas for FY22

✓ **Financials** will be a swing factor. They account for 38% of our universe on an EPS basis and we are projecting 25% EPS growth in FY22 yet only 14% upside – in short, good news is priced in. Provisioning policies will matter as we shrug off COVID-19.

- We have recently raised our recommendation for **MBB** to Buy; we are looking at strong earnings growth this year and next, and the stock is trading at a slight discount to the average of private peers.
- We like **TCB** as a well managed, well provided bank that is leveraged into the property sector.
- We have upgraded **ACB** to Buy as we expect to see strong earnings growth in FY22 as provisioning pressures ease.
- We also recently initiated coverage of **STB**, a large private bank with a focus on retail and SMEs, with a Buy rating and a VND33,500 target price – we forecast a FY20-25 net profit CAGR of 34.3% and a gradual increase of ROE to 20% by FY25.

✓ **Technology** - **FPT's** prospects look excellent as it is benefitting from improved technical capabilities and surging demand due to the COVID-19 pandemic.

Top Picks

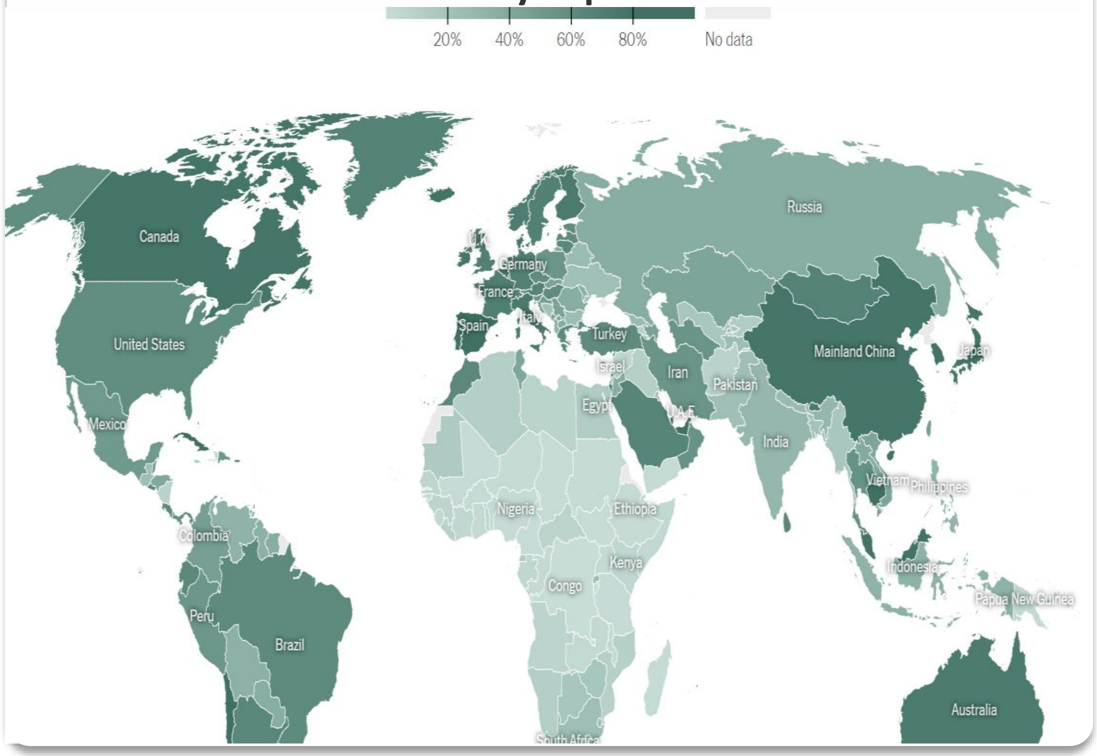
Ticker	HSC rating	Closing price	Target price	Upside / downside	Mkt cap (USDmn)	EPS growth 20A	EPS growth 21F	EPS growth 22F	P/E 20A	P/E 21F	P/E 22F	Div yield 20A	Div yield 21F	Div yield 22F
Financials: Banks														
ACB	Buy	33,950	43,500	28.1%	4,045	27.8%	28.9%	38.3%	11.9	9.26	6.70	-	-	-
TCB	Buy	52,600	61,800	17.5%	8,119	22.2%	33.9%	23.0%	14.9	11.2	9.07	0%	0%	0%
STB	Buy	28,500	33,500	17.5%	2,370	9.25%	18.6%	25.8%	19.2	16.2	12.8	-	-	-
MBB	Buy	28,900	35,500	22.8%	4,816	4.42%	36.3%	19.7%	12.8	9.37	7.83	-	-	-
Real Estate: Developers														
KDH	Buy	45,500	56,400	24.0%	1,238	24.3%	(18.5%)	61.1%	23.8	29.2	18.1	1.10%	0%	0%
VRE	Buy	30,150	38,600	28.0%	3,021	(14.4%)	4.56%	24.9%	28.8	27.5	22.0	-	-	3.32%
REE	Buy	66,700	82,200	23.2%	909	(0.66%)	(2.65%)	44.4%	12.7	13.0	9.04	2.92%	0%	2.40%
CRE	Add	28,300	33,000	16.6%	252	(24.4%)	8.33%	(2.81%)	7.71	7.11	7.32	3.53%	-	-
PHR	Add	69,100	79,500	15.1%	413	140%	(58.0%)	123%	8.65	20.6	9.23	4.47%	2.89%	3.62%
KBC	Add	48,000	53,600	11.7%	1,206	(75.6%)	395%	(4.18%)	101	20.3	21.2	0%	0%	0%
Industrials: Transportation														
VEA	Buy	45,400	53,900	18.7%	2,661	(22.6%)	(11.2%)	18.5%	10.7	12.1	10.2	11.0%	9.15%	8.13%
ACV	Add	85,000	90,600	6.59%	8,161	(79.9%)	(41.6%)	122%	112	192	86.7	0%	0%	0.59%
VTP	Buy	78,600	99,000	26.0%	359	0.98%	(14.5%)	57.7%	21.2	24.8	15.7	1.91%	1.91%	1.91%
GMD	Buy	51,000	62,000	21.6%	678	(28.2%)	41.6%	40.5%	40.8	28.8	20.5	2.30%	2.94%	3.92%
Industrials: Materials - Chemicals														
LTG	Buy	38,700	49,200	27.1%	138	10.5%	27.9%	11.1%	8.52	6.66	6.00	2.58%	3.88%	3.88%
DCM	Buy	37,000	41,600	12.4%	864	55.8%	105%	0.41%	29.5	14.4	14.4	1.62%	2.70%	2.70%
Industrials: Metals and Capital Goods														
BMP	Add	59,700	70,500	18.1%	216	23.6%	(61.7%)	122%	9.35	24.4	11.0	10.6%	4.02%	9.05%
HPG	Buy	49,550	73,900	49.1%	9,774	49.3%	103%	(10.1%)	12.2	6.01	6.68	1.01%	2.02%	2.02%
Consumer Staples - F&B, Tobacco														
SAB	Buy	168,000	196,900	17.2%	4,749	(6.53%)	(22.0%)	24.6%	22.8	29.2	23.4	2.08%	2.08%	2.08%
VHC	Add	63,500	73,000	15.0%	510	(35.8%)	22.9%	19.1%	16.1	13.1	11.0	3.15%	3.15%	3.15%
QNS	Buy	55,900	64,500	15.4%	743	(19.3%)	23.1%	22.4%	16.2	13.2	10.8	4.47%	4.47%	4.47%
PNJ	Add	105,700	118,600	12.2%	1,060	(12.1%)	(6.58%)	44.8%	24.6	26.3	18.2	1.51%	1.89%	1.89%
MSN	Add	156,500	176,800	13.0%	8,148	(78.0%)	564%	(25.8%)	149	22.4	30.2	0.96%	-	-
Consumer Discretionary														
STK	Buy	60,800	68,500	12.7%	183	(33.6%)	88.9%	39.0%	28.7	15.2	10.9	2.47%	2.47%	2.47%
Technology, Communications & Internet: Information Technology														
FPT	Buy	96,600	128,500	33.0%	3,866	(2.36%)	2.56%	19.4%	21.4	20.9	17.5	1.04%	1.55%	1.66%
Energy & Utilities														
PLX	Buy	57,000	66,300	16.3%	3,127	(76.8%)	275%	6.90%	70.4	18.8	17.6	5.26%	2.11%	5.26%
GAS	Buy	104,600	150,000	43.4%	8,829	(34.0%)	17.1%	46.7%	25.5	21.8	14.8	3.42%	2.87%	3.82%
PVT	Buy	24,350	35,000	43.7%	348	(2.92%)	19.9%	31.5%	11.8	9.82	7.47	2.14%	4.11%	4.11%
POW	Buy	13,800	17,300	25.4%	1,425	(12.3%)	3.76%	(4.78%)	14.7	14.2	14.9	2.17%	2.17%	2.17%

The future looks bright

Fundamentals will reassert themselves

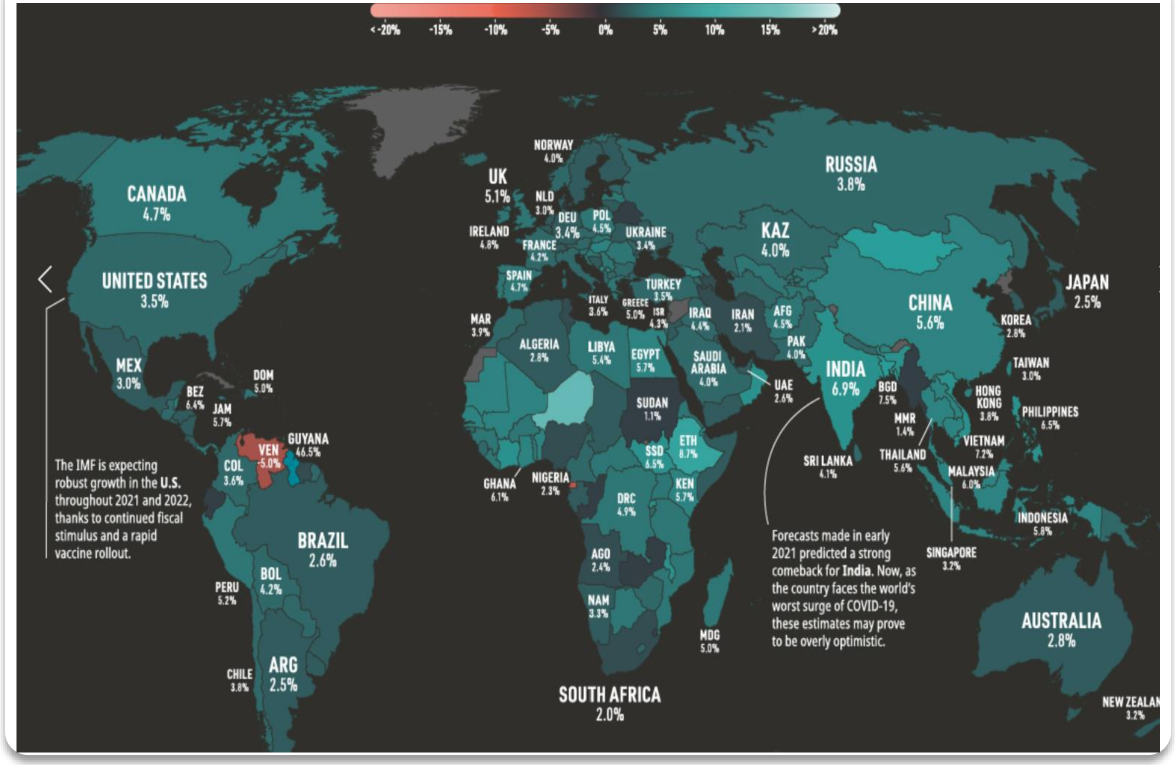
1. COVID-19: A global pandemic starting to resolve

4.2 billion people worldwide have received a dose of a COVID-19 vaccine, equal to about 54.7% of the world population. The concentration of doses has been in Vietnam's key export markets



Source: *New York Times, 22 Nov-21*

IMF FY22 global GDP growth projections – the map is now green. As an exporter, Vietnam is a leveraged play into global recovery

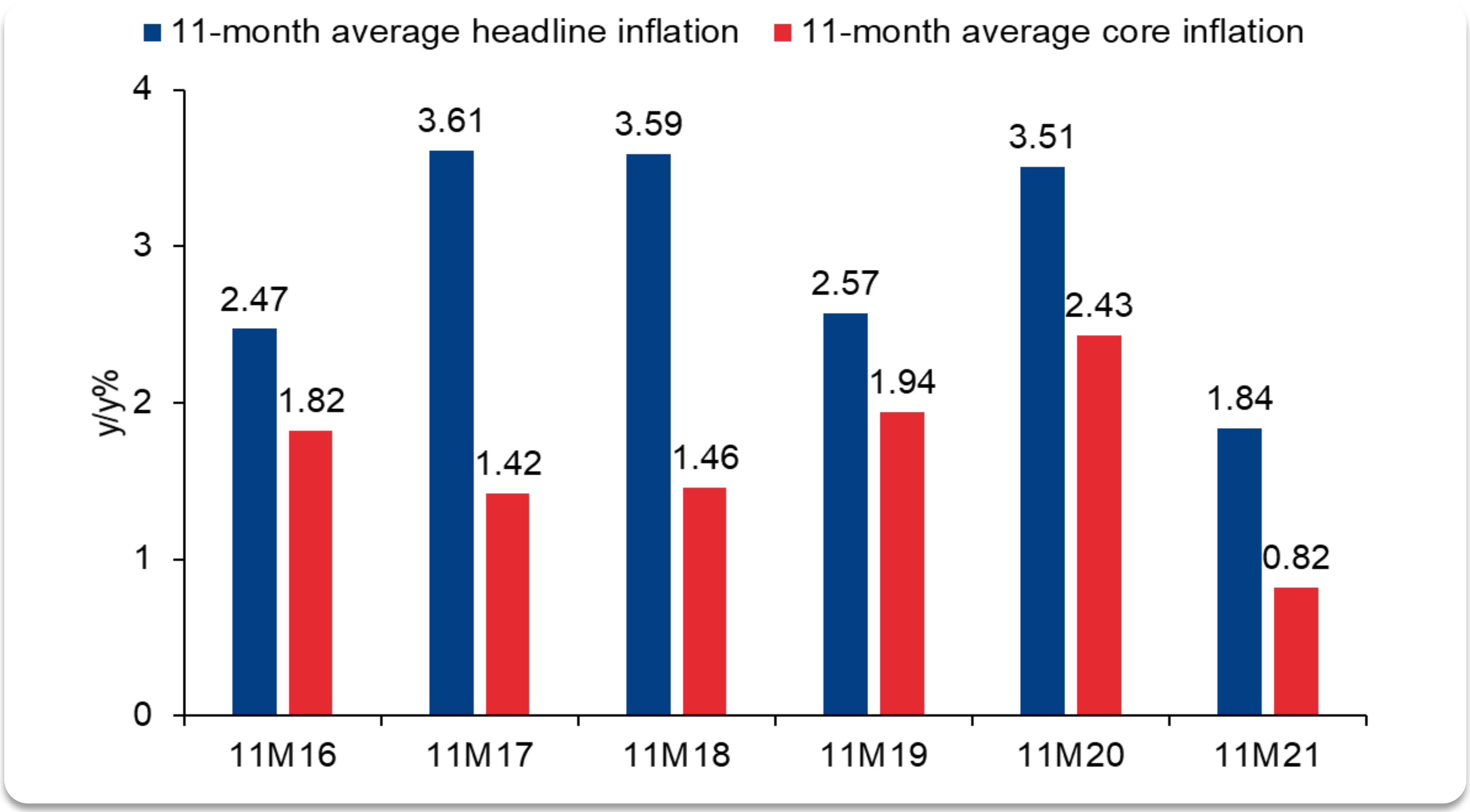


Source: *IMF*

2. Global macro matters

- ✓ Inflation globally is putting pressure on policy makers to raise rates; the FED is already easing back on bond purchases – there is a delicate balance between growth and slamming on the breaks too early.
- ✓ The passing of huge spending packages in the US has kept both equity and bond markets buoyant despite uncertainty around the direction of monetary policy.
- ✓ US inflation remains the key, and this comes down to the consumer; at present consumption demand remains strong, not least following the end of lockdowns and because of seasonal factors. However, there is a debate as to whether rising inflation will prove to be a spike or will be sustained.
- ✓ We expect that tariffs will remain on Chinese manufactured goods. There is bilateral congressional support for a continuation of tough China Policies; the trade and FDI outlook for Vietnam will continue to look rosy as a result.
- ✓ While money policy will likely remain accommodative across the globe, with inflation as it is, rates will not fall back from here which suggests a stronger USD in FY22 – not so good for emerging markets.
- ✓ Vietnam's key geopolitical positioning in the region will be of import.
- ✓ COVID-19 is resurging especially in Europe and a new variant has emerged. How it is dealt with and what that means for consumption, matters.
- ✓ The biggest external impact on our earnings forecasts won't be the USD, but the continuation of US and European economic recovery, tightening of monetary policy juxtaposed against sustained consumer demand, the impact of further COVID-19 restrictions and continued fiscal spending.

3. Inflation, inflation, where art thou inflation?



Source: GSO, HSC Research

Inflation is incipient in Vietnam – consider a hedge?

- ✓ Elsewhere, coming to grips with inflation is becoming an imperative; the decision when to tighten accommodative monetary stances will be a crucial decision for policy makers around the world.
- ✓ And yet, in Vietnam, inflation is at worst incipient but not yet evident. There is anecdotal evidence that cost pressures are building, although reported Nov-21 inflation was modest at 2.10% y/y.
- ✓ Food prices flat have been over the year (0.14%), but the price of fuel is at a seven-year high (51% above a year ago) and transportation costs are up 16.5%. Localised cost pressures are often greater in urban areas and may not be fully reflected in national data.
- ✓ However, the current trend in inflation is in-line with our 2.3% forecast for FY21 average inflation and we maintain our expectation that average inflation will remain below the red line 4.0% level for FY22 and FY23.
- ✓ As we perceive inflation to be under control in Vietnam, we expect the SBV to maintain its accommodative monetary policy, in support of economic growth, for at least the rest of this year and well into next.
- ✓ However, while we know that stocks have a reasonable chance of keeping pace with inflation should it unexpectedly emerge, but some are more vulnerable than others, including those paying a high-dividend.
- ✓ If you wish to hedge against a rise in inflation, focus on companies that can pass their rising product costs to customers, such as those in the consumer staples or commodities space – we like **MSN, QNS, SAB, VHC** and even **VNM** in extremis, as well as **DCM, DPM, DPR,** and **DRC**.

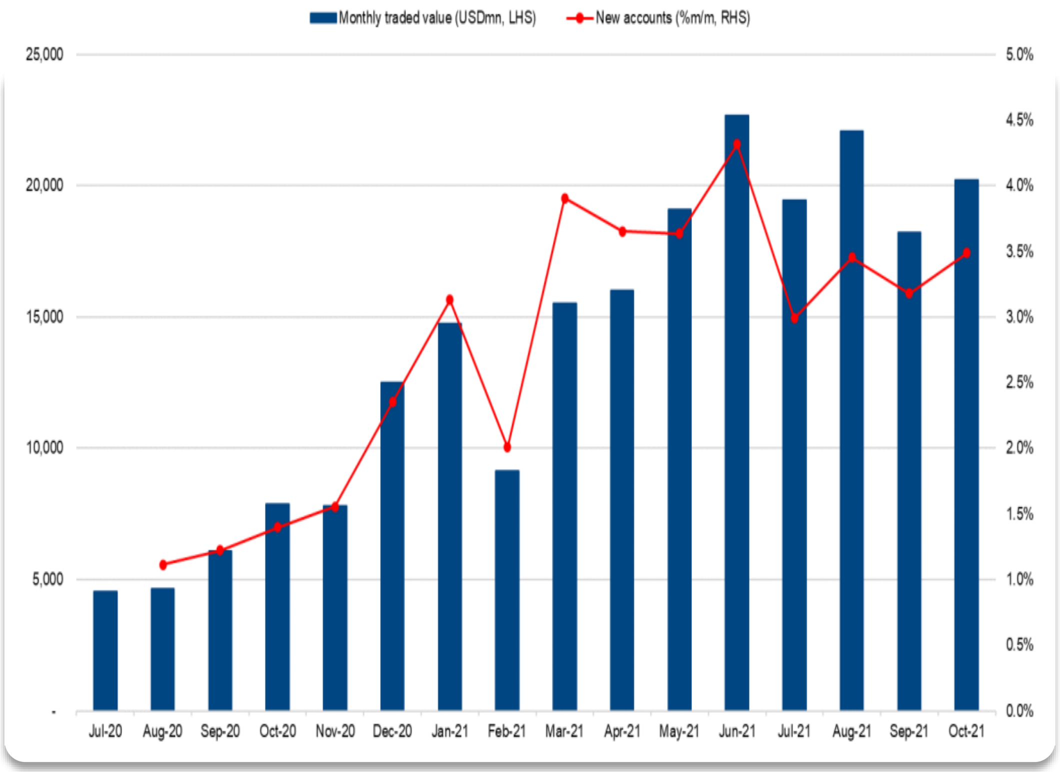
4. Breaking through into FY22 – what to watch in the results season

- ✓ **How sustainable is the economic recovery proving to be?** We don't want to see evidence of a 90% economy - so far so good.
- ✓ **What is the quality of earnings like?** Operational revenues are an important gauge; we will be watching out for whether earnings are being massaged, assisted by one-off gains or padded out by unusual FX gains for example.
- ✓ **How strong are balance sheets?** Cashflow and balance sheet strength remains crucial; we don't necessarily think that companies in our universe are under unmanageable stress, but the stronger the balance sheet the better any recovery is likely to be.
- ✓ **Will NPLs pick up meaningfully for the banking sector?** The banks remain key. Different approaches to provisioning means different earnings outcomes...and different potential problems.
- ✓ **Are valuations at risk?** We are looking at an earnings growth of 22% in both FY22 and FY23. We see upside risk to our FY22 forecasts; looking beyond next year though, earnings growth may be hard to come by.

5. Retail investor confidence – surging ahead

- ✓ Low interest rates have resulted in a lot of domestic liquidity; leading to increased domestic trading volumes.
- ✓ Positive liquidity conditions are set to remain in place – the SBV retains monetary flexibility and relatively benign inflation pressure into FY22 should allow continued monetary accommodation.
- ✓ Retail investors will continue to be major players – confidence was rattled in 3Q21, but participation is returning to new highs.
- ✓ New retail accounts will continue to be opened and local investors will continue to stimulate strong volumes.
- ✓ High stock market volumes means that the obvious beneficiaries are the brokers: **HSC, VCI** and **SSI.**

Domestic account openings and monthly traded value

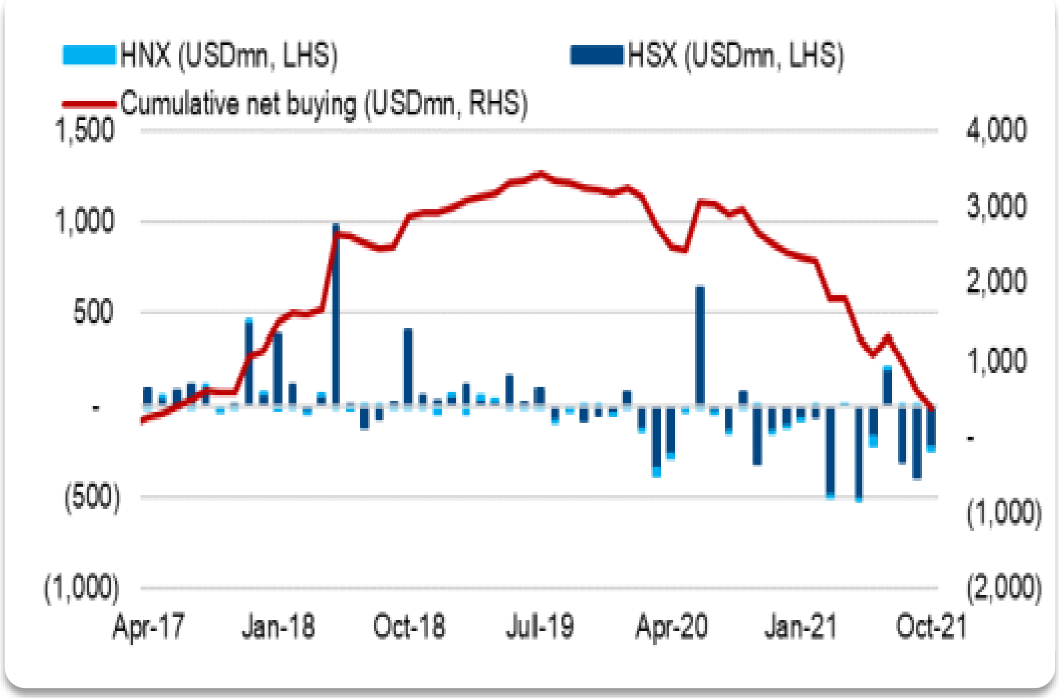


Source: VSD Fiinpro, HSC Research

6. Foreign investors – Great enthusiasm but participation is lacking

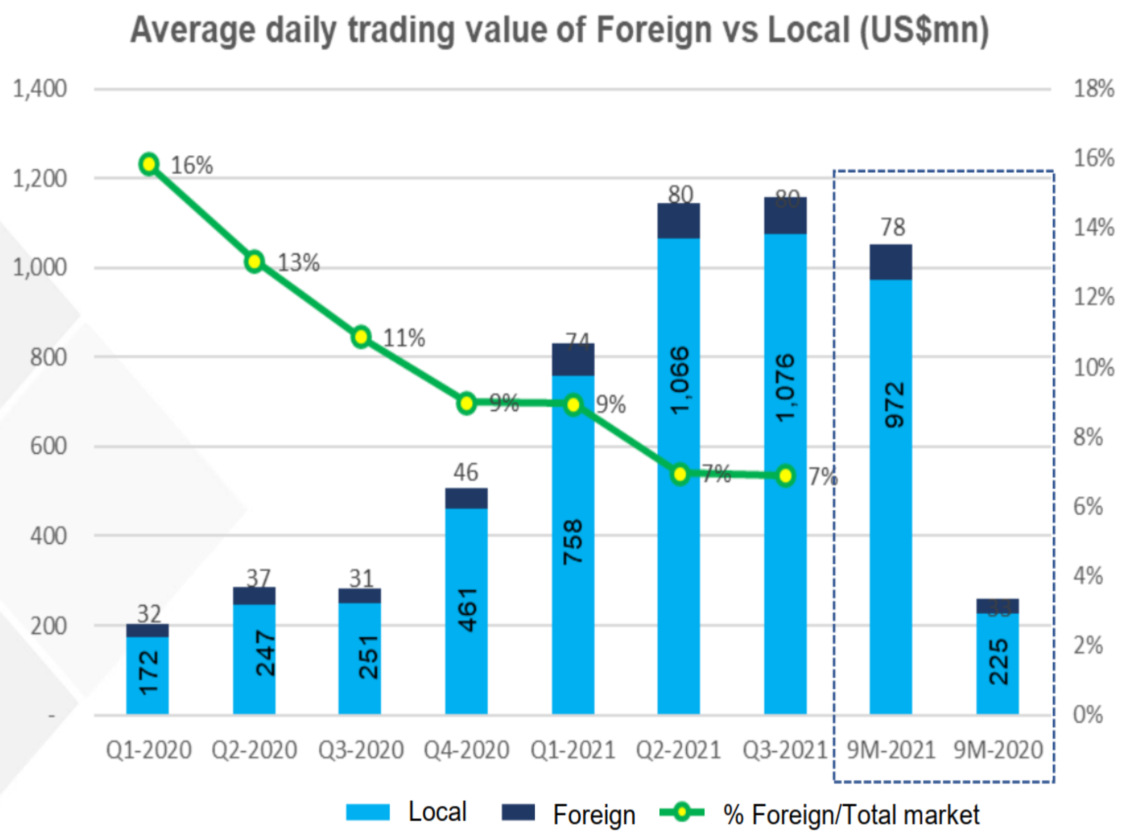
- ✓ Foreign participation has gone up in absolute terms, just not in percentage terms. There may be many reasons for this.
- ✓ Perhaps the key is that Vietnam is an off-index bet, which in uncertain times meant it can be a source of redemption funding, but conversely, it's a leveraged play in a bull market; a bull market which foreigners have so far largely missed.
- ✓ We continue to anticipate that foreign investors will return during any meaningful periods of weakness.
- ✓ There are challenges especially around the availability of large liquid stocks.
- ✓ This is why proper stock selection has to be taken with a view to the long-term view.
- ✓ Foreign investors will return, their level of participation will increase and they will be a key driver for the market.

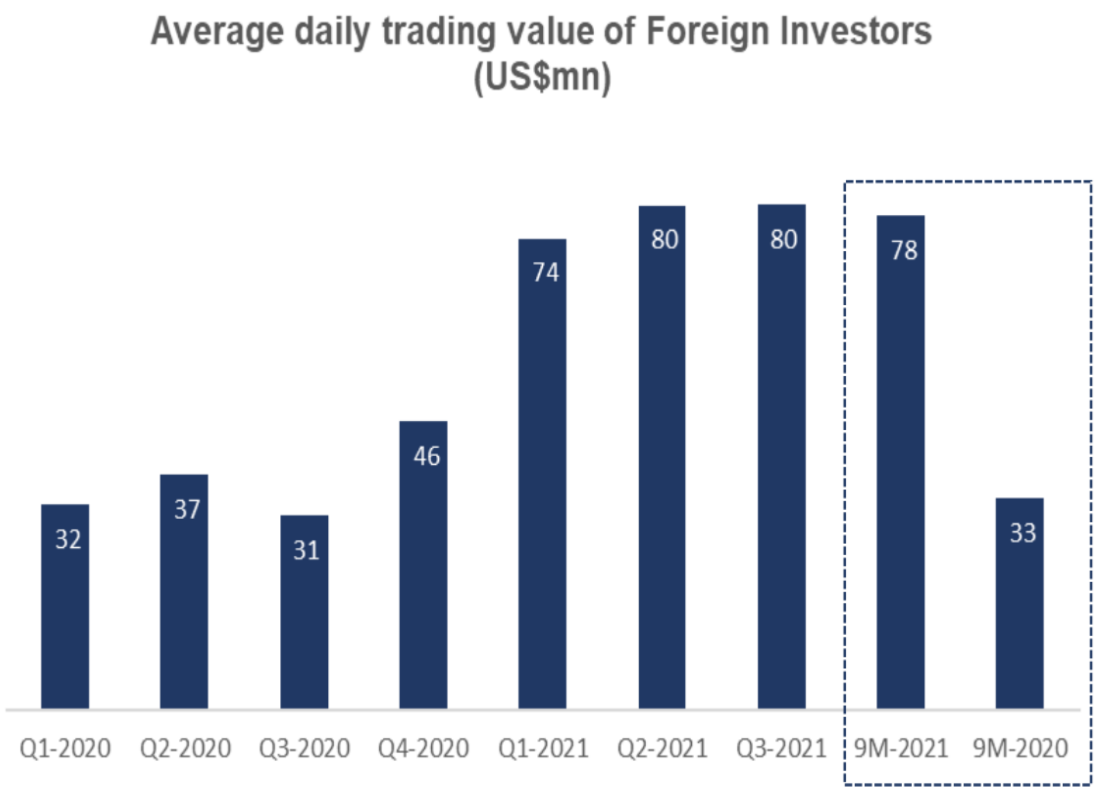
Foreign Equity Participation



Source: Fiinpro, HSC Research

…Even so, foreign volumes have increased markedly

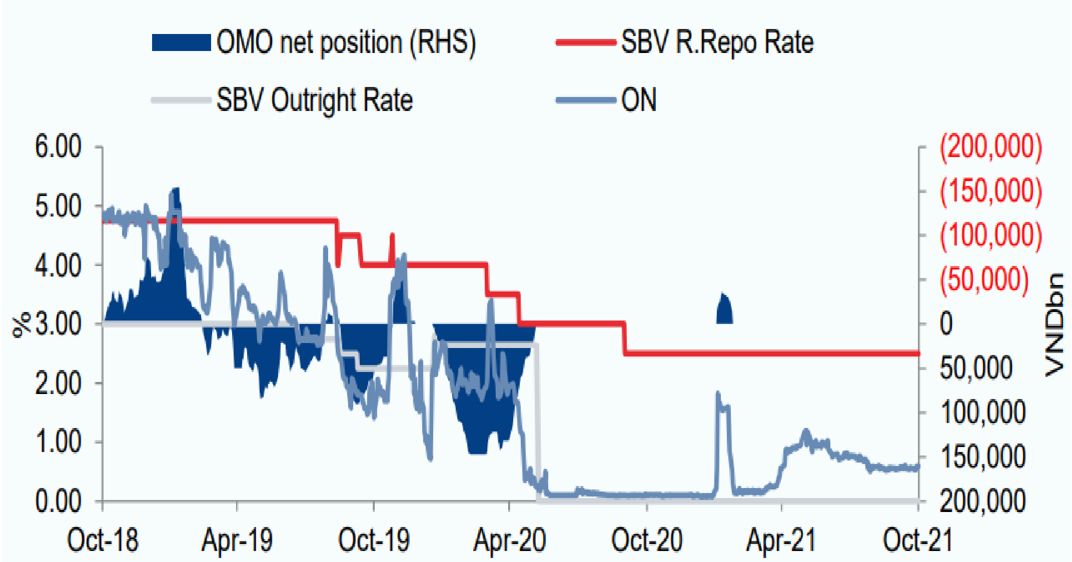




Source: VSD Fiinpro, HSC Research

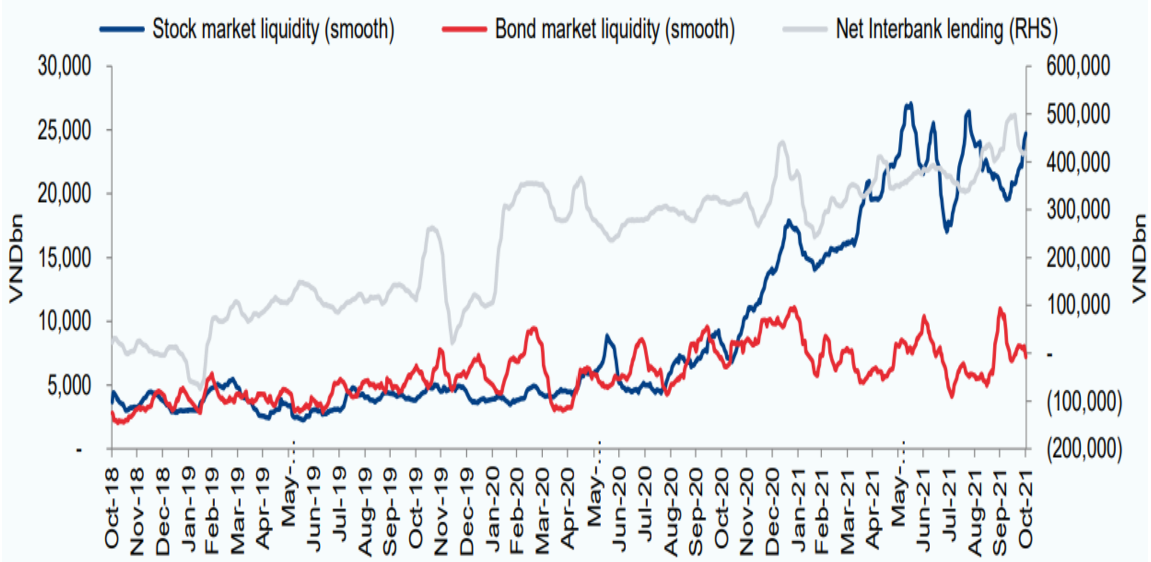
7. Liquidity conditions will remain favourble

The SBV is unlikely to raise rates in the foreseeable future – inflation pressures are incipient



Source: CEIC, SBV, HSC Research

Liquidity remains abundant and will lend support the stock market for the foreseeable future

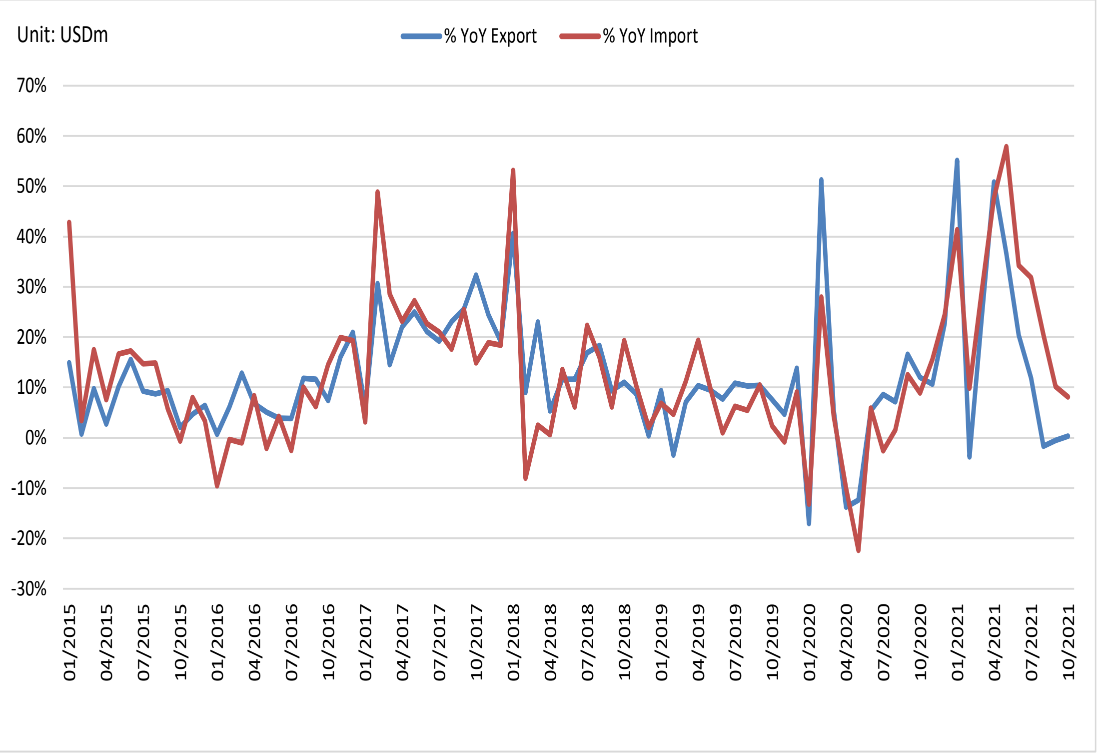


Source: CEIC, HSC Research

8. Globally facing companies should show up well

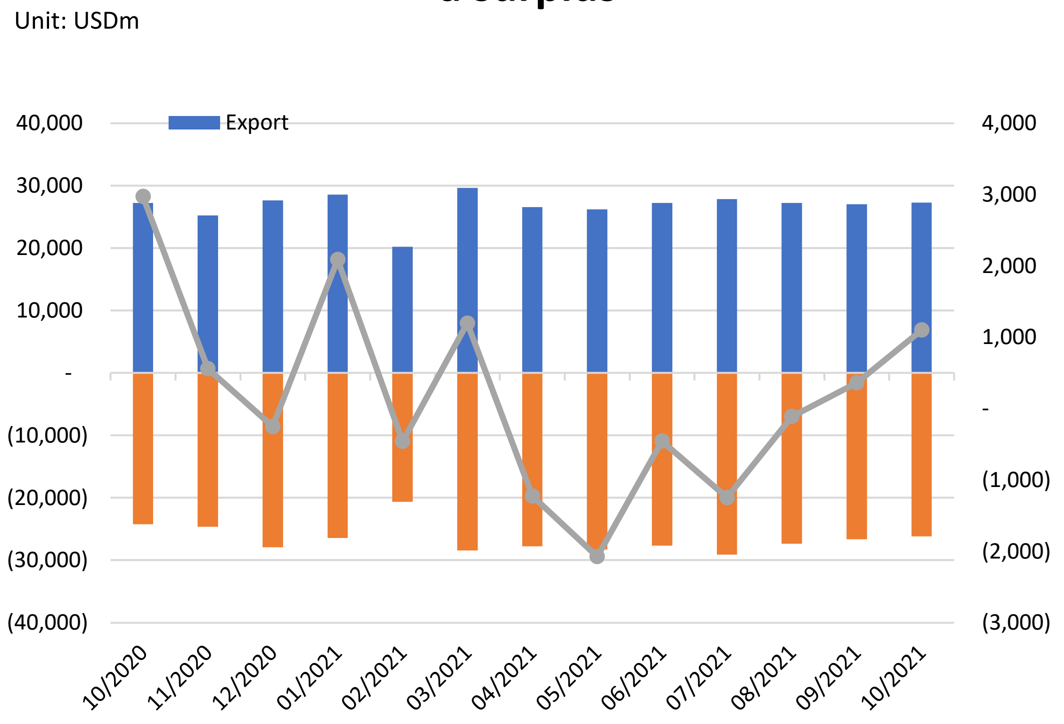
- ✓ Vietnam's trade picture was impacted by lockdowns in 3Q21 and the supply chain disruptions they caused. This is being unwound slowly.
- ✓ Logistics issues and the cost of transportation have also had an impact and again the negative impact is proving hard to unwind, not least due to seasonal factors.
- ✓ Staff shortages have also impacted product as workers have not yet returned to the workplace.
- ✓ Going forward, the falling away of logistics constraints, supply chain disruptions and worker shortages will lead to a sharply improved trade picture in FY22.
- ✓ Export orientated names to consider include **GMD, VSC, the steel sector, fertiliser names, MPC, VNC, STK and DRC.**

The trade picture impacted in 3Q21, but is now showing signs of recovery



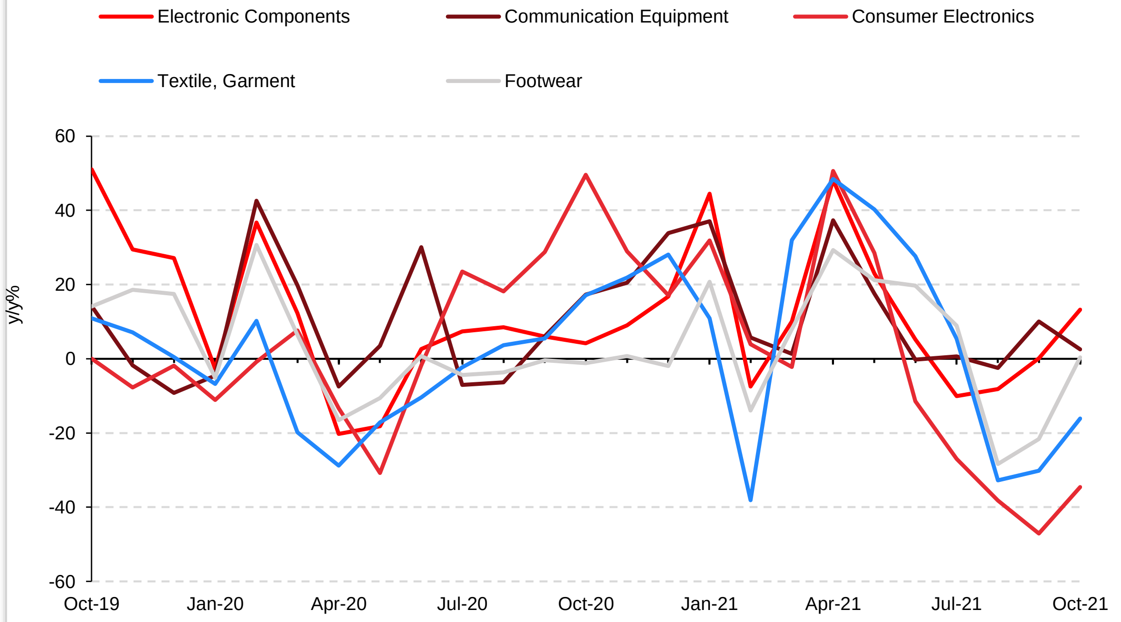
There are clear signs of recovery for the trade sector

Vietnam is a leveraged play on global recovery – after 6 months of trade deficits we have returned to a surplus



Source: HSC Research, GSO, CEIC

A pick up in factory output is now evident - Electronic components (13.3% y/y) have posted growth for a second consecutive month

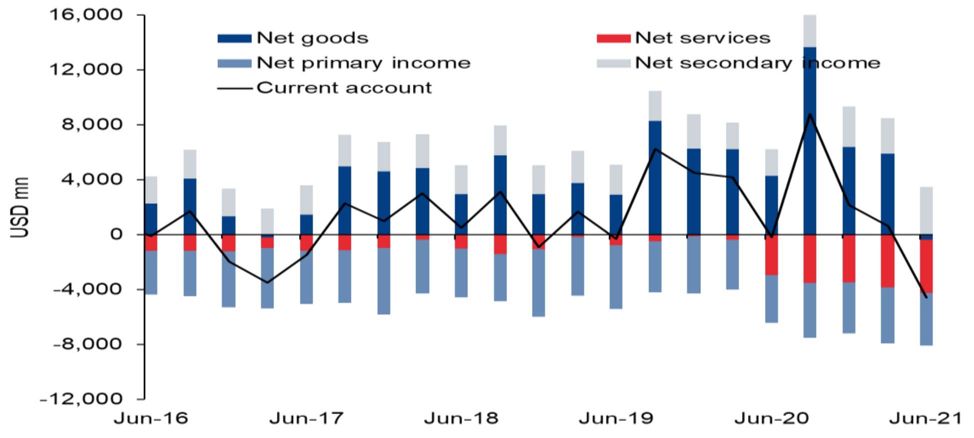


Source: HSC Research, GSO, CEIC

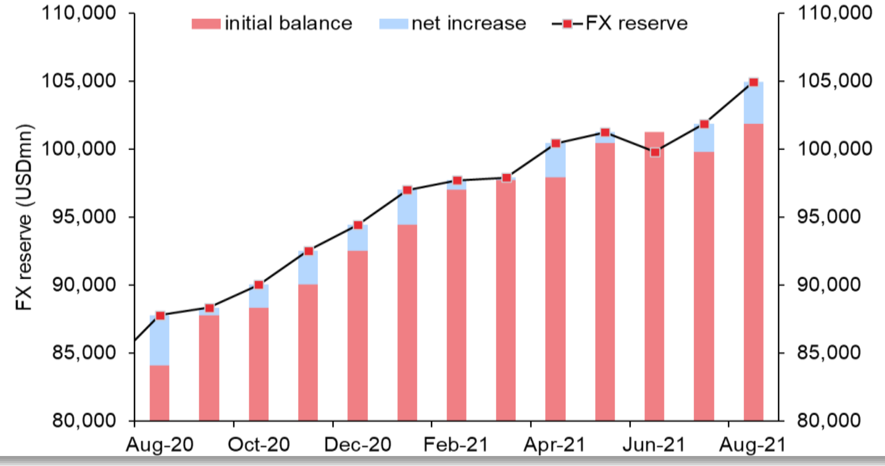
9. USD / VND will stay range-bound but with more flexibility

- ✓ The currency can be a red herring – it will remain pegged within a +/- 3% range.
- ✓ The current trend is for appreciation.
- ✓ We anticipate that VND strength will persist.
- ✓ Accumulation of Reserves remains encouraging and trade will resume its contribution to the current account.

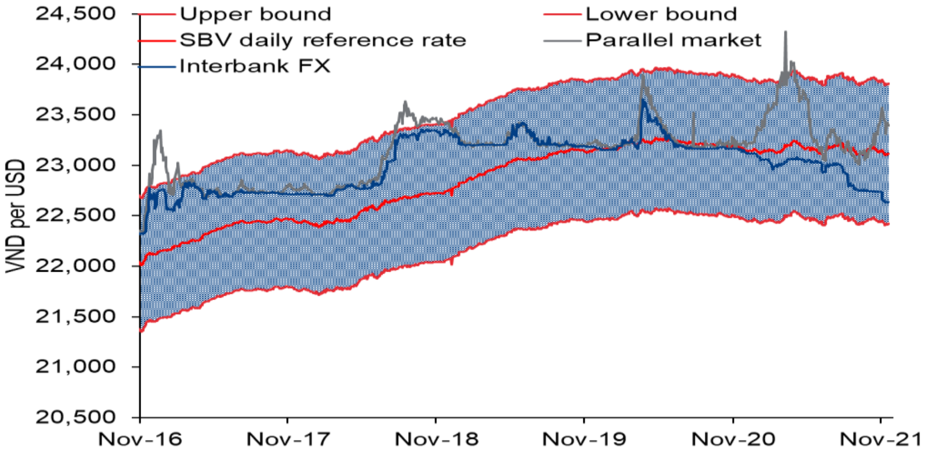
Contributions to current account flows



Trend in accumulation of FX reserves



VND strength is at a 5 year high against the USD

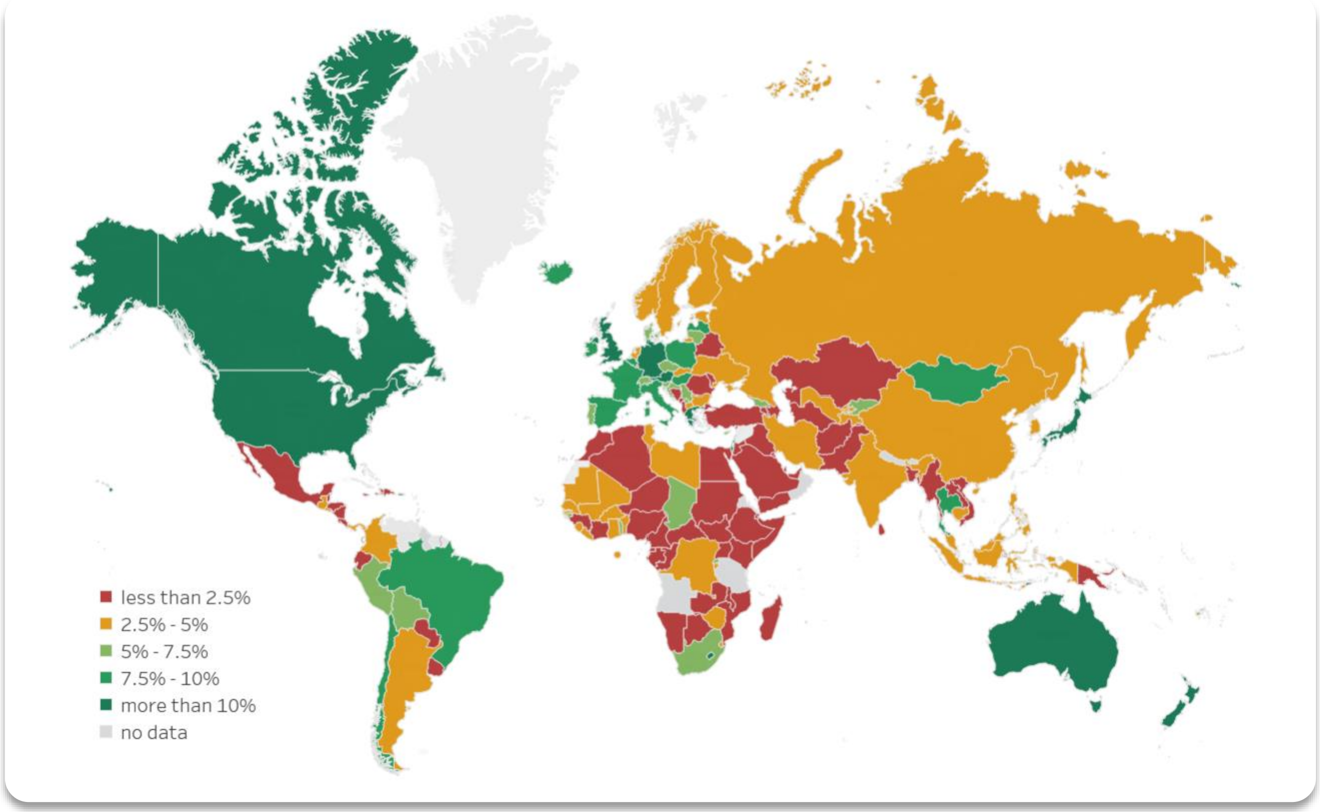


Sources: CEIC, SBV, HSC Research

10. Fiscal stimulus – the world continues to play ball

- ✓ Further fiscal stimulus remains crucial to global recovery.
- ✓ Budgetary fiscal support to people and firms has varied widely across countries.
- ✓ Developed nations have spent more; this is good for export orientated economies, Vietnam in particular.
- ✓ Consumer confidence remains key, in those countries with more progressed vaccinations rollouts, unemployment rates are falling.
- ✓ Vietnam will continue to be a net beneficiary.

Additional spending in response to the COVID-19 pandemic as a % of GDP



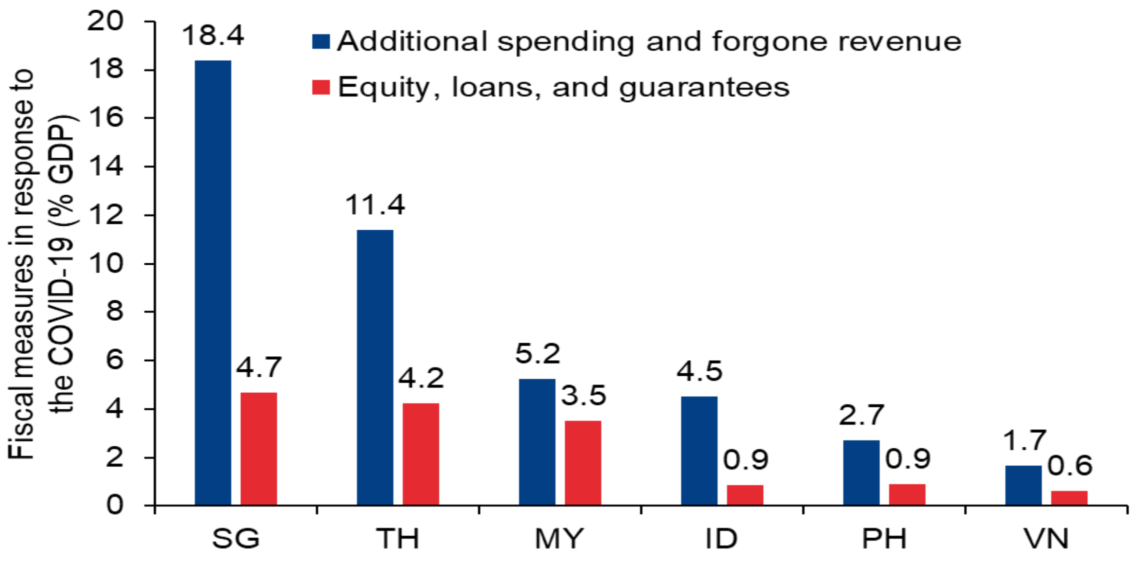
Source: IMF

Vietnam's COVID spending – policy flexibility remains

Vietnam's economy has suffered but is not stressed, allowing policy flexibility - 62% of fiscal support is offered indirectly via deferred revenue, while Tax is the main source of government budget revenue (~70%)

	2011-2015 avg	2016-2020 avg	2021.9M
Inflation	7.8%	3.2%	2.0%
Credit growth	12.9%	13.8%	13.3%
Current account (% GDP)	2.9%	2.8%	-2,5%
FX reserves (months of imports)	2.3	3.2	4.4
Fiscal balance (% GDP)	5.8%	3.5%	4.0%
Public debt (% GDP) Previous ceiling 65% New ceiling 60% (warning level: 55%)	63.7%	55.8% (old GDP) 43.5% (revised GDP)	

Vietnam has spent USD9.4 bn or 2.3% GDP on COVID relief - fiscal spending & forgone revenue has amounted to USD 6.1bn while equity, loans, and guarantees account for USD3.3bn – the lowest rates in ASEAN

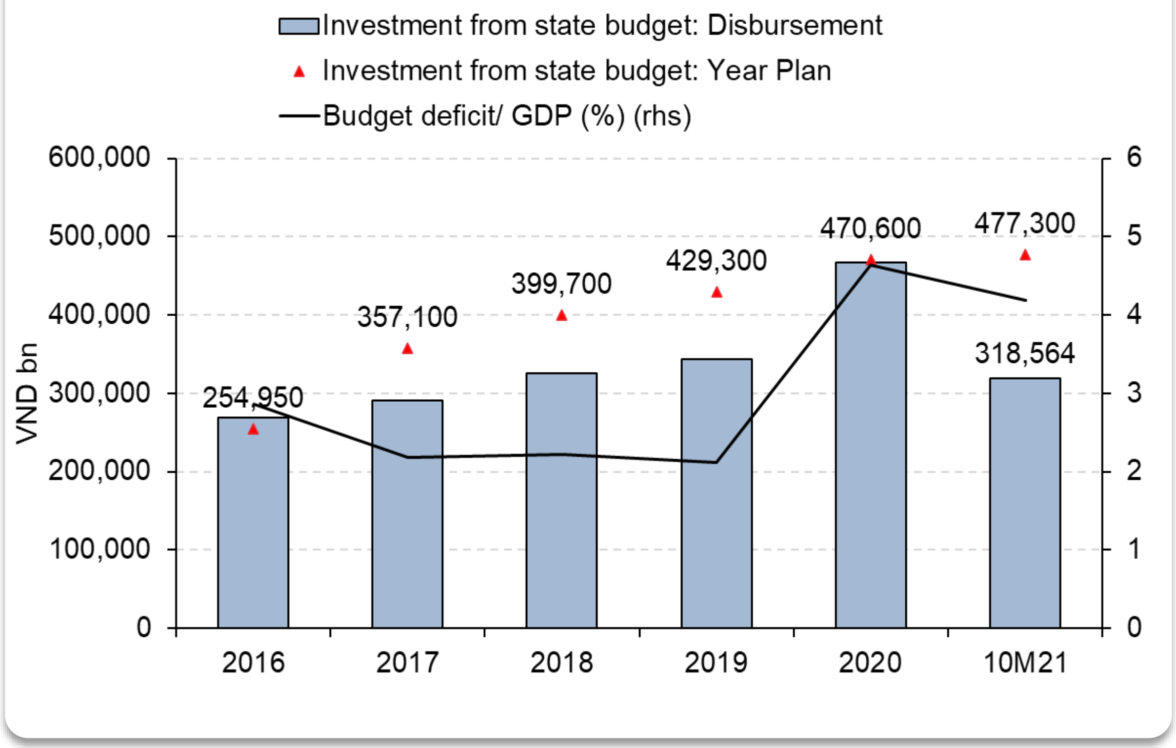


Source: Source: CEIC, IMF, Fulbright University, HSC Research

Vietnam's fiscal position is strong; policy will remain expansionary

- ✓ Fiscal policy is expected to become more expansionary.
- ✓ Public investment has been slow in FY21 – for the first ten months, investment (VND318.6tn) has met 64.7% of the government's FY21 plan (VND477.3tn). This represents an 8.3% y/y decline which is down from 31.6% y/y growth in 10M20.
- ✓ As key provinces and cities have eased mobility restrictions, the pace of public investment projects has been accelerated. In Oct-21, investment using the state budget amounted to VND41.7tn (up 18.6% m/m but down 17.4% y/y) .
- ✓ As of 15 October, the state budget surplus amounted to VND19.7tn versus the VND343.7tn deficit forecasted in the FY21 plan.
- ✓ This is reflected in higher budget revenue (VND1,118.2tn, equivalent to 83.2% of FY21's plan) versus budget expenditure (VND1098.5tn, equivalent to 65.1% of FY21's plan) YTD.

Public investment has lagged – we expect this to accelerate as the government strives to reach its FY21 target and looks to FY22



Source: Source: GSO, MoF, CEIC, HSC Research

Public spending – expect this to accelerate into FY22

✓ In the 2021-2025 period, total public investment spending in Vietnam is planned at VND2,750tn. This is:

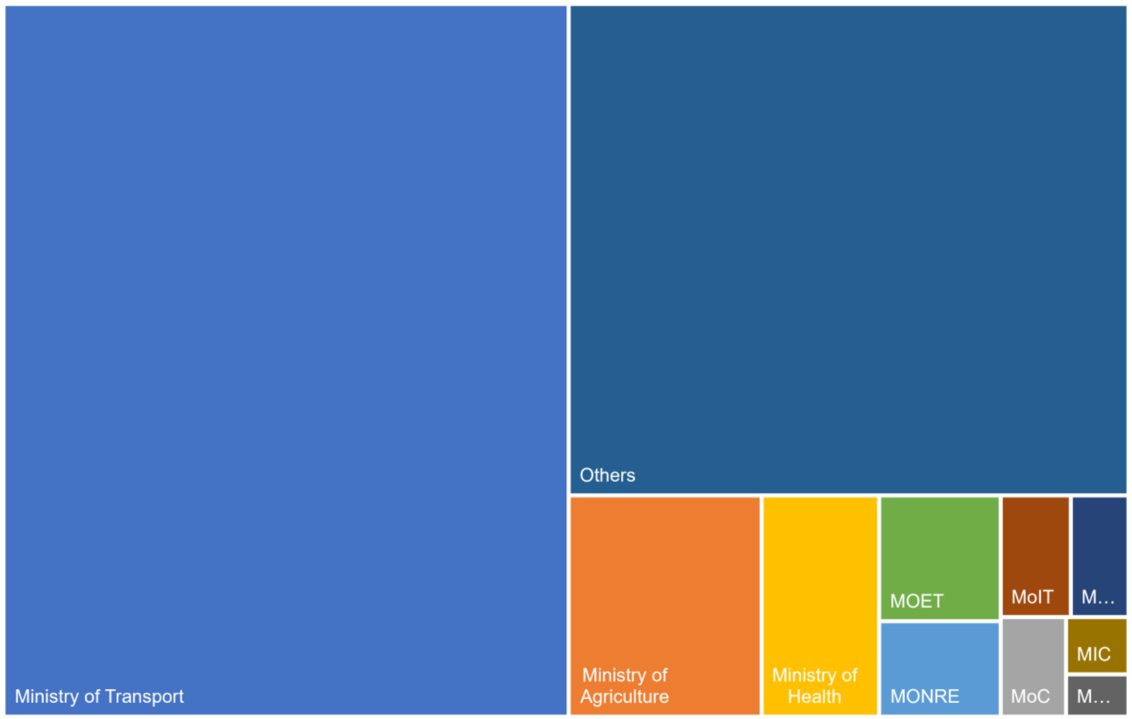
- 54.5% higher than the public investment plan for the 2016-2020 period (VND1,788tn).
- 90.0% higher than disbursement in the 2015-2019 period (VND1,447tn).

✓ Leading companies will benefit most from quickening public investment.

✓ Consider names such as **REE, BMP, Steel Companies, CTD, CII, VGC.**

Source: GSO, CEIC, HSC Research

Public Investment Allocation - Infrastructure spending is the key. It Is clear where the priority lies

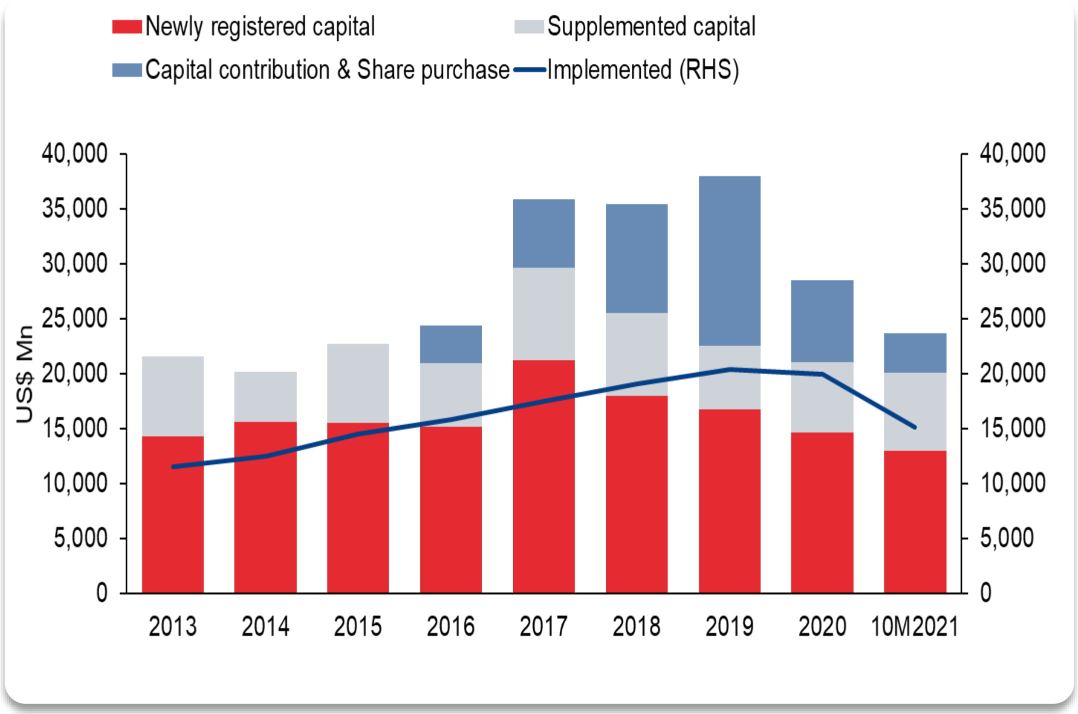


Source: GSO, CEIC, HSC Research

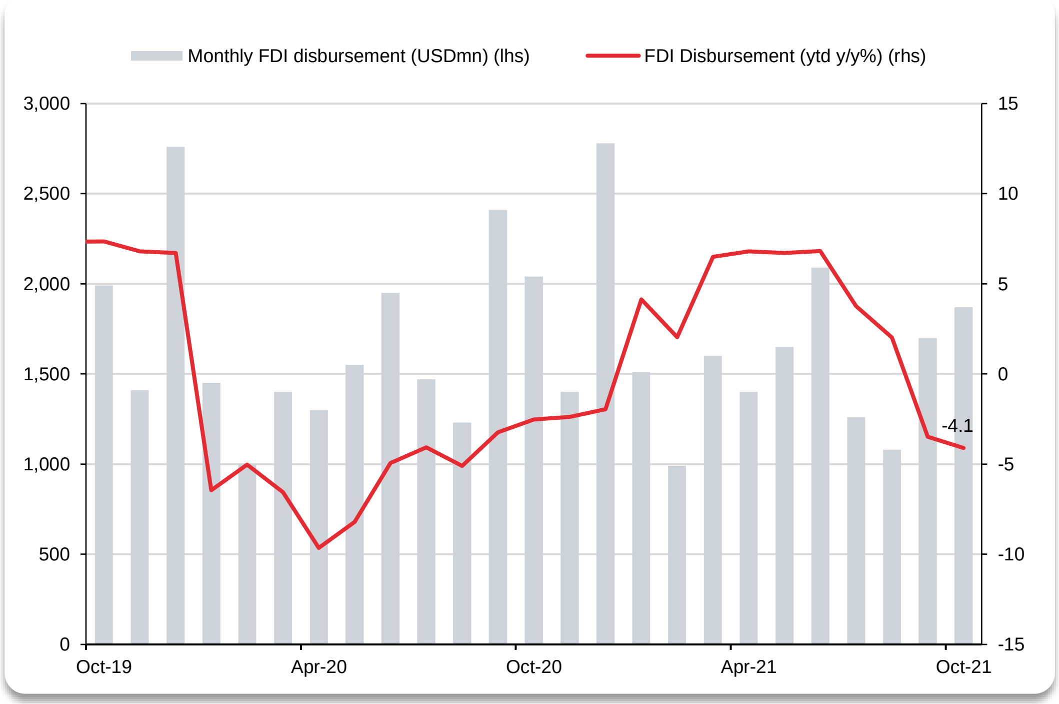
11. Foreign Direct Investment – a long-term driver

Manufacturers, port operators, air cargo, energy and real estate are leveraged plays

FDI registered capital (USD20bn) is staying relatively steady, although FDI implementation is down 25% for 10M21



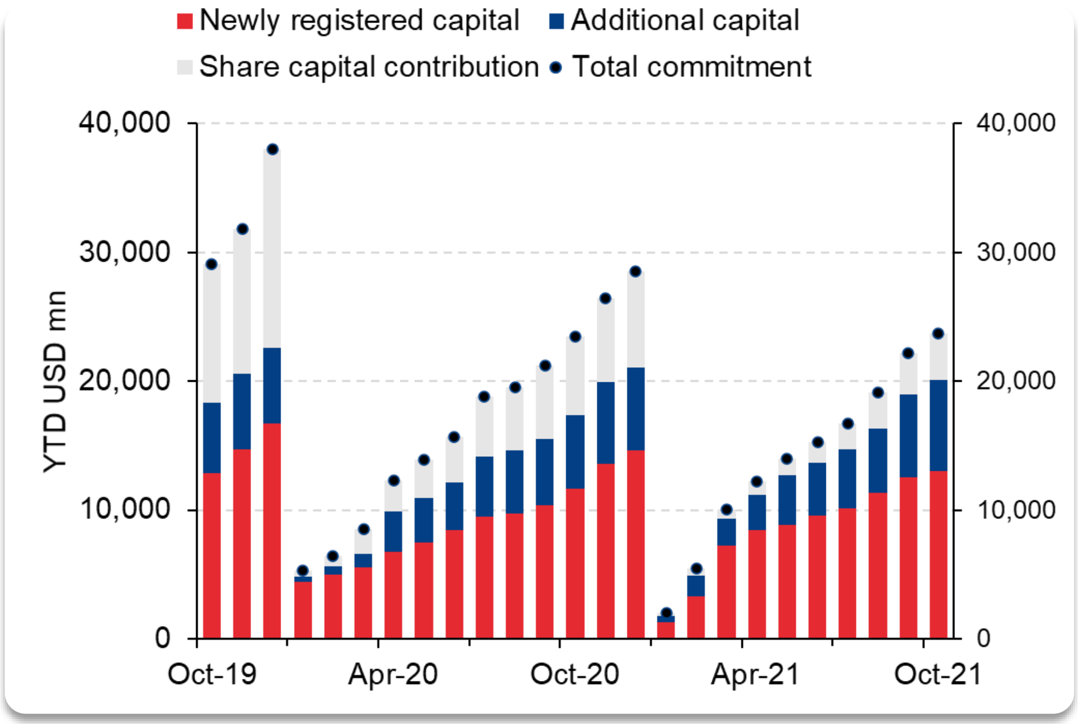
COVID-19 has impacted FDI activity but this will pick up. In 10M21, FDI disbursement decreased 4.1% y/y compared to a 2.5% y/y decline in 10M20



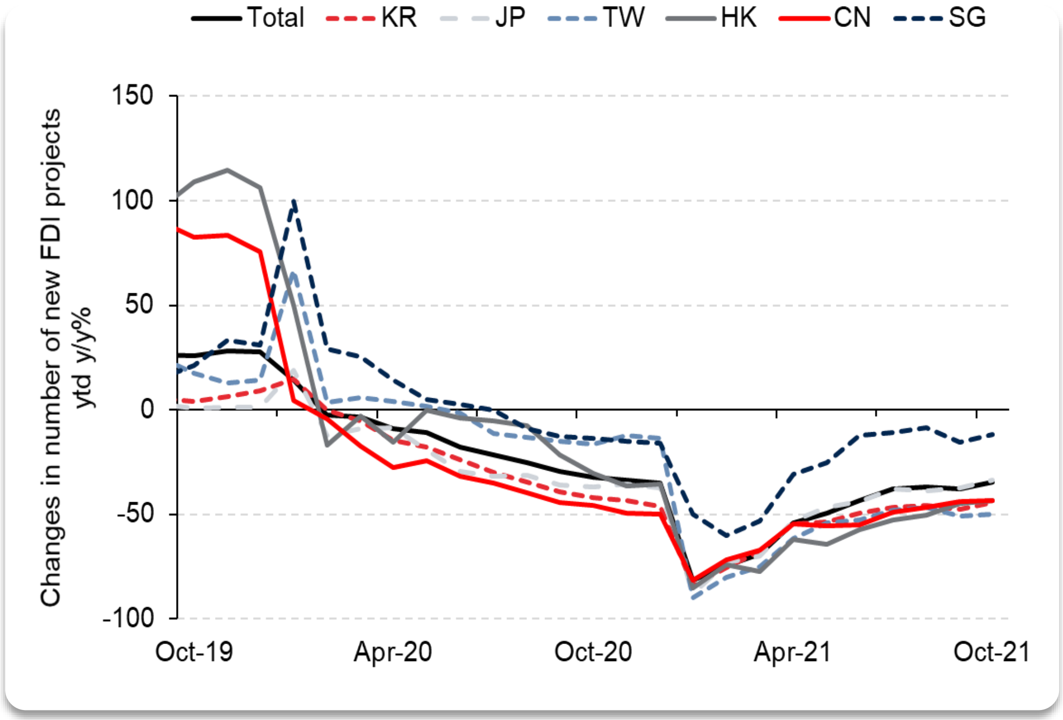
Source: GSO, CEIC, HSC Research

Foreign Direct Investment – overcoming stumbling blocks

FDI commitments (USD23.74bn) have increased 1.1% y/y in 10M21 vs. a 19.4% y/y decline in 10M20



Travel restrictions have continued to discourage investors from making new investment decisions



Source: GSO, CEIC, HSC Research

Foreign Direct Investment; a destination of choice for overseas manufacturers

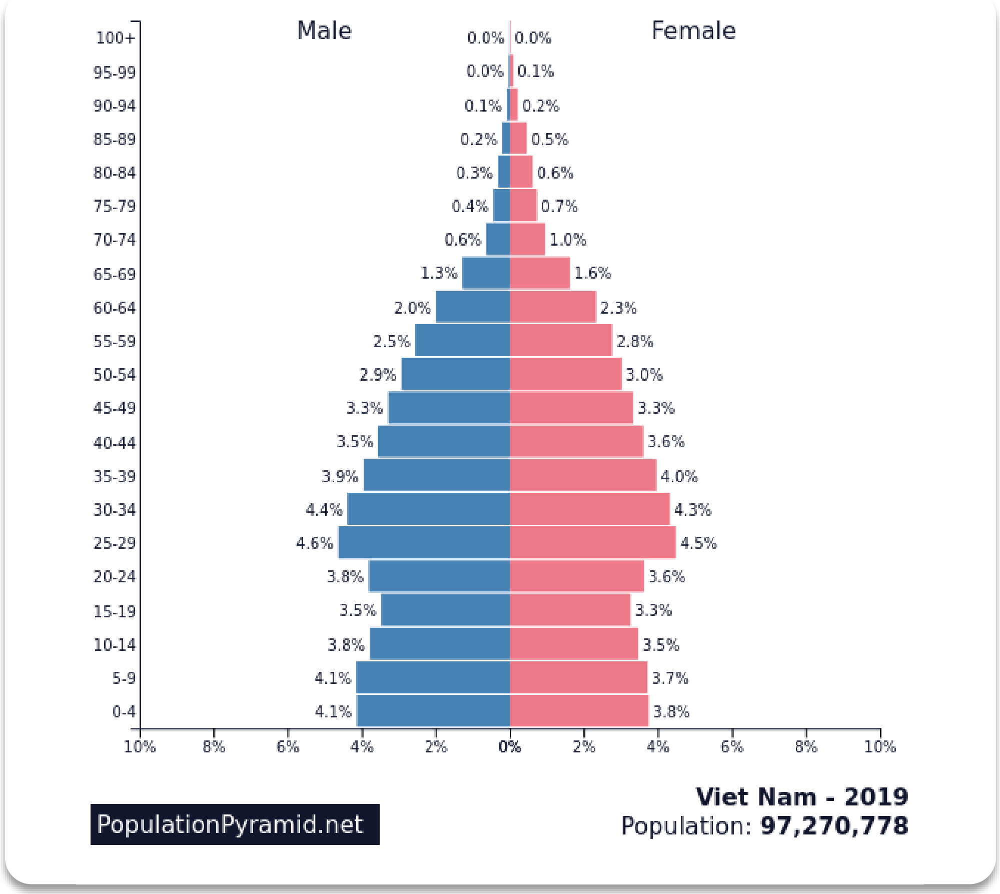
Nidec All for dreams	**Nidec Shimpo Vietnam** (Hanoi): 2018, USD200m **Nidec Techno Motor Vietnam** (Hanoi): 2018, USD200mn **Upcoming projects** (Hanoi):3 projects to increase total investment up to USD1bn	FOXCONN	**Fuhong Precision Component** (Bac Giang): 2007; 2019: USD134mn **Funing Precision Component** (Bac Ninh): 2007 **New Wing Interconnect** (Bac Giang): 2015; 2018: USD210mn **3 affordable housing projects** for workers: seeking approval to invest USD325mn
LG	**LG Electronics** (Hai Phong): 2013, USD1.5bn **LG Display** (Hai Phong): 2016: USD1.5bn; 2018: USD2.0bn; 2019: USD2.41bn **LG Innotek** (Hai Phong): 2016: USD0.55bn; 2018: USD1bn **new R&D center** for vehicle component solutions (Da Nang); approved in Oct/20	PEGATRON	**Pegatron Vietnam 1** (Hai Phong): Mar/20: USD19mn **Pegatron Vietnam 2** (Hai Phong): upcoming: USD481mn **Pegatron Vietnam 3** (Hai Phong): planning in 2026-2027: USD500mn **plan to move R&D center from China to Vietnam**: planning in 2026-2027
TTi	**Techtronic Tool Vietnam** (HCM): 2019: USD650mn. The project will progress from 2021 to 2028	USI	**Universal GlobalTechnology** (Hai Phong): July/20: USD400mn in 2 phases (producing smartphones and earbuds parts for Leveno and Sony)
Goertek	**Goertek Vina** (Bac Ninh): 2019: USD260mn	Panasonic ideas for life	**plan to move its production line** (for refrigeratorsand large-capacity washing machines) from Thailand to Vietnam

Source: HSC Research

12. The consumer and the rise of the middle class

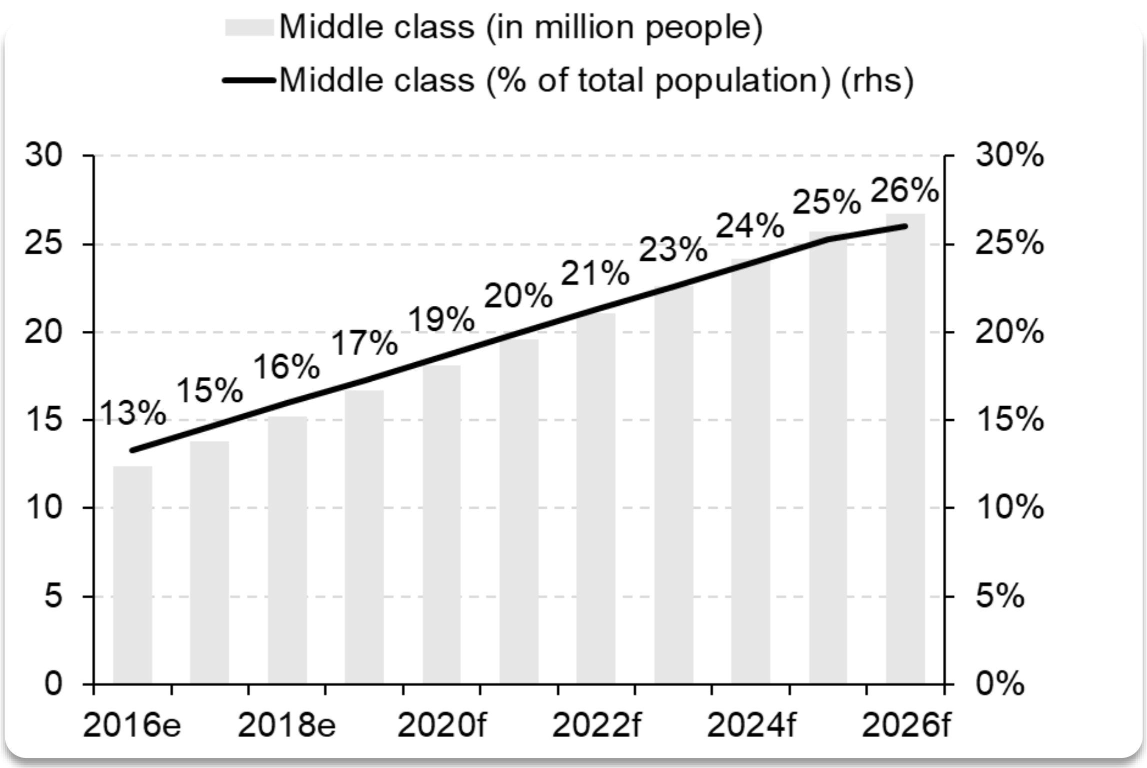
- ✓ Consumption demand is strong.
- ✓ COVID-19 has changed consumption behavior - online shopping, less traffic to brick-and-mortar stores and the continued success of modern trade channels.
- ✓ Levels of unemployment and disposable income may present a negative headwind; but the global economy, tourism and FDI will drive growth from FY22…
- ✓ **Long-term, there is three-pronged consumption engine:**
  - Demographics – Vietnam has a young, well educated, increasingly prosperous population.
  - Urbanization - At 37%, Vietnam has one of the lowest urbanization rates in Asia, yet also one of the fastest rates of growth.
  - A rising middle class – people are consuming more.
- ✓ Consumer names we like include **VEA, MWG, SAB, PNJ, STK** and **QNS**. In the agricultural space we like **LTG** and **DCM**. Real estate sector names we like include **KBC, CRE** and **VRE**.

Bulging in all the right places

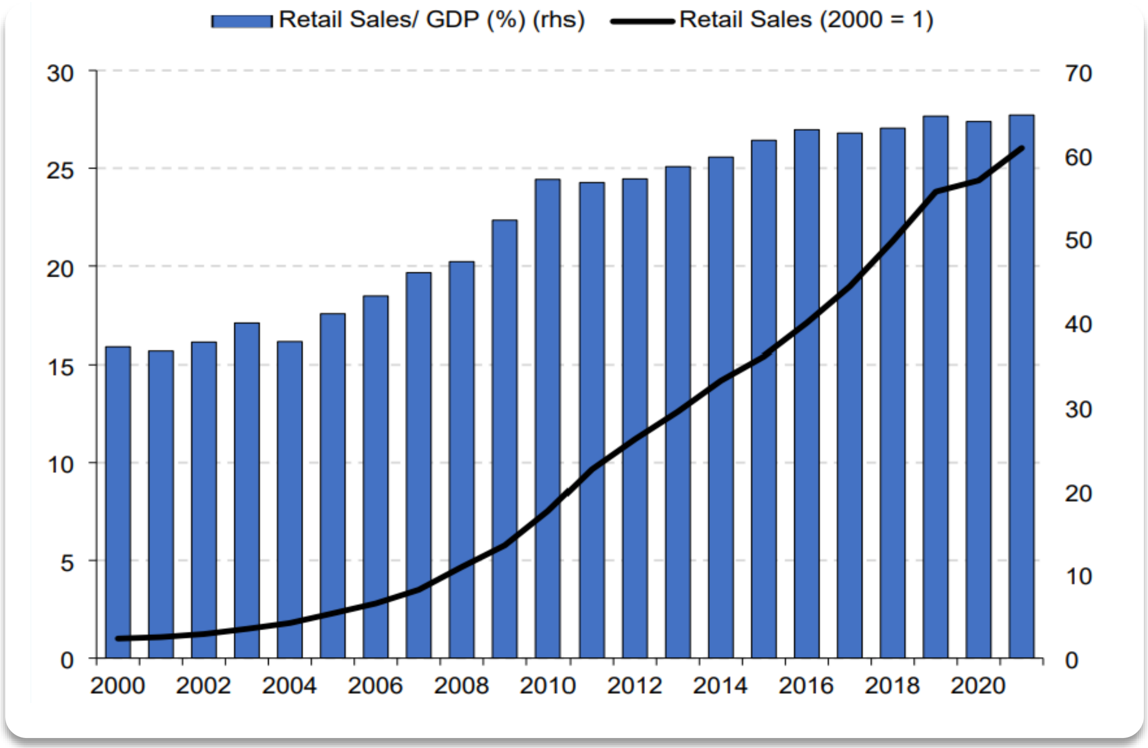


Vietnam's middle-class consumers are already 20% of the population

Vietnam's middle class consume more than USD15 per day: GDP per capita is then around USD8,500.



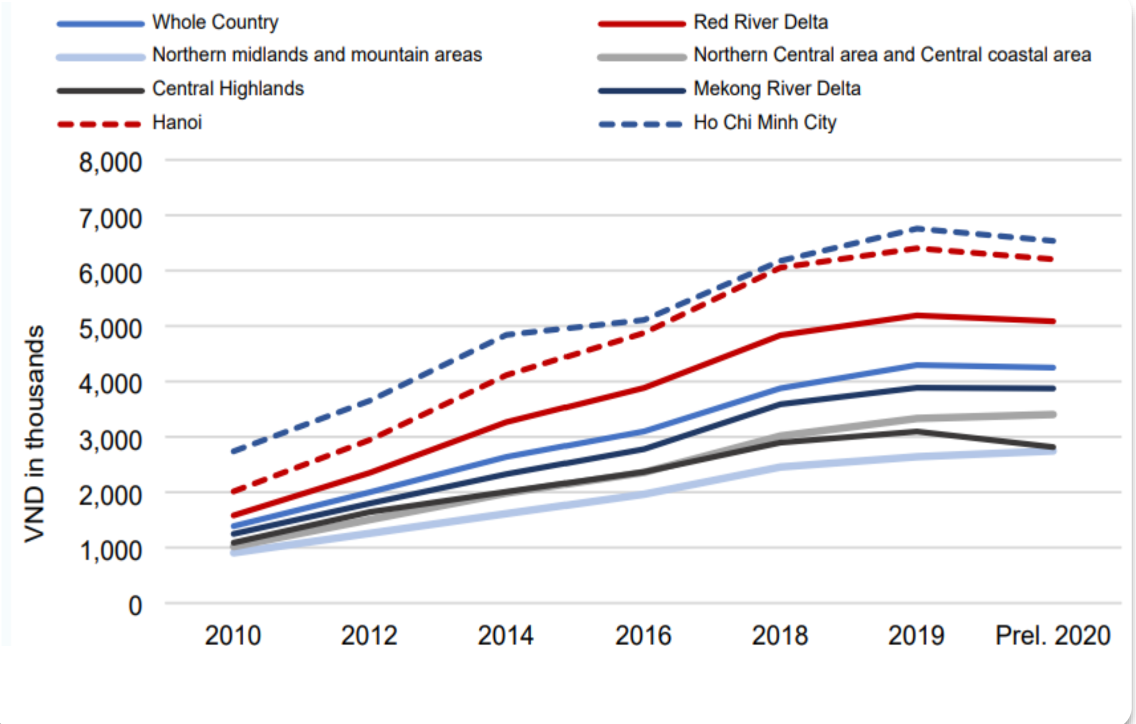
Retail sales in Vietnam have grown by more than 25-fold since FY20



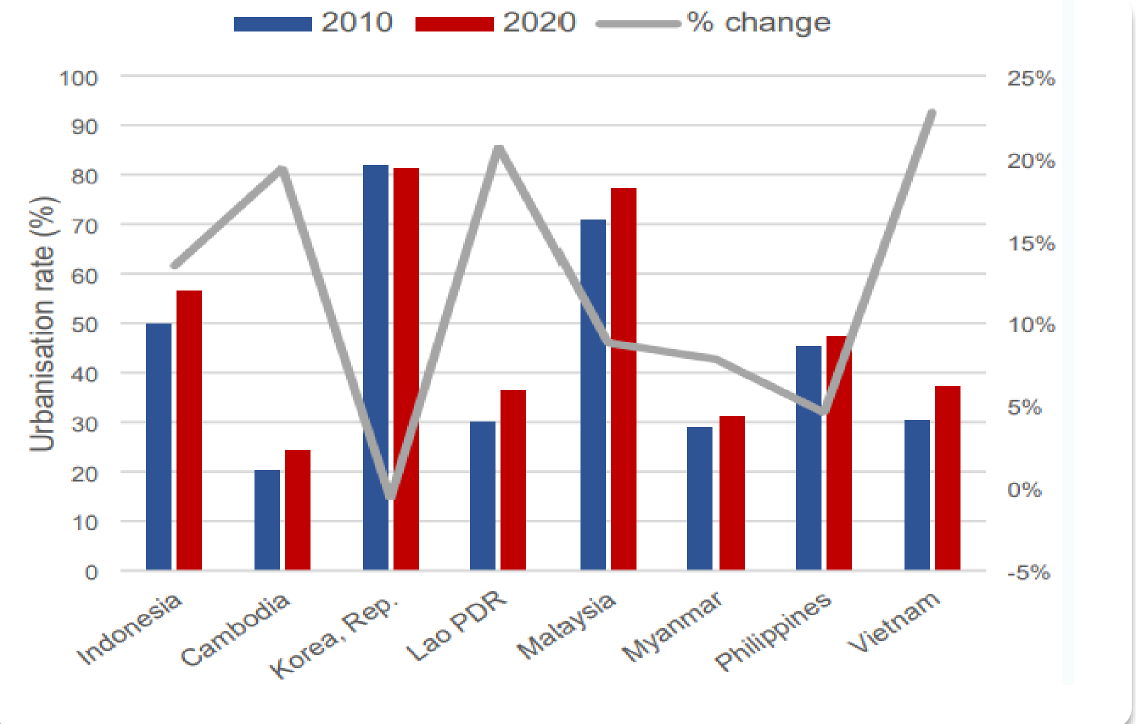
Source: GSO, CEIC, HSC Research

GDP per capita growth will resume, urbanization is a powerful factor

While flattened by COVID-19, the upward trend in income per capita is set to resume following post lockdown recovery



On a regional basis, Vietnam can be said to have low rates of urbanization, but that is changing very rapidly – 37mn people out of 98mn currently live in cities

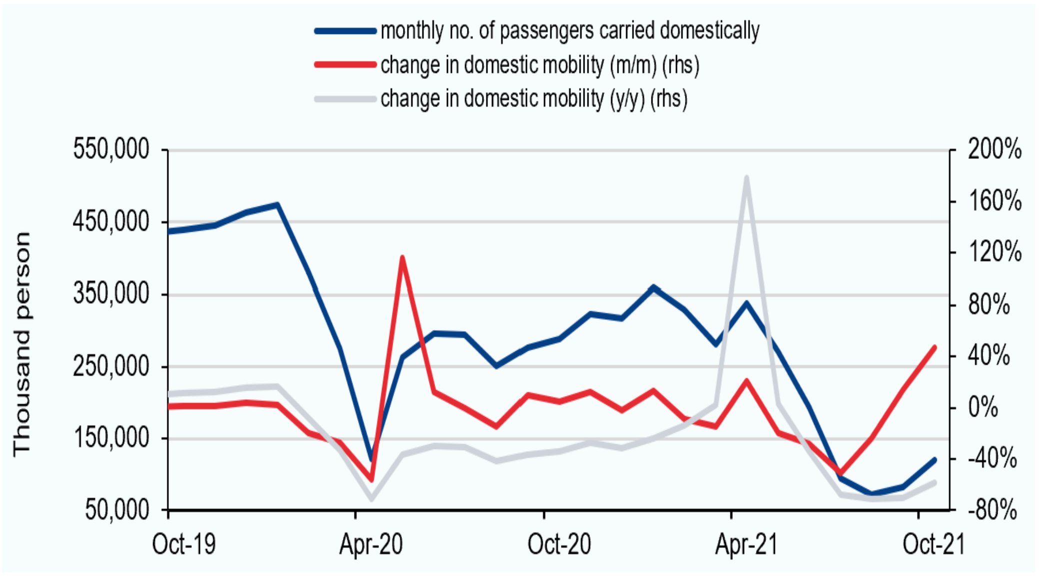


Source: World Bank, GSO

13. Tourism – an outsized impact

- ✓ Vietnam's borders largely remain closed to tourism. Only now have arrivals been allowed into Phu Quoc. Full opening may come at the end 1H22.
- ✓ Vietnam's economy lost as much as USD13bn in international tourist expenditure for both of FY20 and FY21. This represents approximately 5% of total GDP. Some studies suggest the indirect impact may have been as much as USD60bn.
- ✓ Domestic tourism has been offsetting this impact to a degree, but the 3Q21 COVID-19 resurgence has not helped.
- ✓ Vaccination programmes are the key – the Government is focused on achieving majority vaccination by 4Q21 / 1Q22 .
- ✓ Key tourism plays include **AST, VJC** (both uncovered), **ACV, HVN** and, indirectly **VIC** through Vinpearl.

One day international Tourists will return – arrivals are down to virtually zero; domestic mobility is increasing sharply post lockdowns



Source: GSO,CEIC, HSC Research

14. ESG – the start of something positive?

- ✓ More than USD30tn is now invested in sustainable funds generally.
- ✓ HSC analysts were asked to look 42 ESG categories for @100 companies.
- ✓ The analysts were then asked to score each company out of 4, with a score of 4 being the highest level of attainment
- ✓ From next year, ESG analysis will be regularly included in stock research and will impact recommendations.
- ✓ The key going forward is positive change.

ENVIRONMENT	Technology	Retail	Banks	Distribution	Pharmaceutical	Conglomerates	Consumer	Real Estate	Transportation	Agriculture a	Textiles	Infrastructure	Manufacturing	Utilities	Oil & Gas	Avg
Pollution and Waste	2.7	3.0	2.1	2.3	2.1	2.2	2.0	2.1	1.9	1.7	1.9	2.0	1.7	1.7	1.5	2.1
Climate change	3.0		2.2	2.3	2.3	2.0	2.0	2.0	1.9	2.2	2.0	1.7	2.0	1.5	1.3	2.0
Natural Resource Management			2.4	2.0	2.0	2.4	2.7	2.2	1.8	1.7	2.0	1.5	1.5	1.0	1.3	1.9
Environmental Opportunities	2.5	2.3	2.1	2.0	1.9	1.7	1.5	1.9	2.2	2.1	1.5	1.5	1.0	1.6	1.5	1.8
Average	**2.7**	**2.6**	**2.2**	**2.2**	**2.1**	**2.1**	**2.0**	**2.0**	**2.0**	**1.9**	**1.9**	**1.7**	**1.6**	**1.5**	**1.4**	**2.0**

SOCIAL	Technology	Retail	Banks	Distribution	Pharmaceuticals	Conglomerates	Consumer	Real Estate	Transportation	Agriculture a	Textiles	Infrastructure	Manufacturing	Utilities	Oil & Gas	Avg
Human Capital	2.8	2.9	2.7	2.6	3.1	3.0	2.8	2.6	2.4	2.2	2.0	2.3	2.3	1.6	2.0	2.5
Social Opportunities	2.7	3.0	3.0	2.7	2.6	2.8	2.7	2.5	2.6	2.0	2.0	1.6	1.6	2.0	2.1	2.4
Product Liability	2.8	2.4	2.5	2.6	2.4	2.8	2.5	2.5	2.4	2.1	1.8	2.3	2.3	1.7	1.9	2.3
Data Security	3.5		2.0	3.0	2.0	2.0	2.0	2.0	1.8			2.0	2.0		1.5	2.2
Stakeholder Opposition	3.0		3.0	2.0	2.7	2.0		2.6	2.3		2.0	1.0	1.0	2.0	1.0	2.1
Average	**2.9**	**2.8**	**2.6**	**2.6**	**2.5**	**2.5**	**2.5**	**2.4**	**2.3**	**2.1**	**2.0**	**1.8**	**1.8**	**1.8**	**1.7**	**2.3**

GOVERNANCE	Technology	Retail	Banks	Distribution	Pharmaceutica	Conglomerate	Consumer	Real Estate	Transportation	Agriculture a	Textiles	Infrastructure	Manufacturing	Utilities	Oil & Gas	Avg
Corporate Behavior	2.9	2.8	2.8	3.0	2.3	2.5	2.4	2.6	2.5	2.5	2.1	2.3	1.9	2.0	1.9	2.4
Shareholder Accessibility	2.9	2.8	2.5	2.0	2.5	2.5	2.5	2.3	2.4	1.9	2.4	1.7	2.1	1.7	1.7	2.3
Corporate Governance	2.6	2.5	2.6	2.8	2.9	2.6	2.4	2.2	2.0	2.1	1.9	2.0	1.8	2.1	1.9	2.3
Average	**2.8**	**2.7**	**2.6**	**2.6**	**2.5**	**2.5**	**2.4**	**2.4**	**2.3**	**2.2**	**2.1**	**2.0**	**1.9**	**1.9**	**1.8**	**2.3**

Source: Bloomberg, Company Data, HSC research

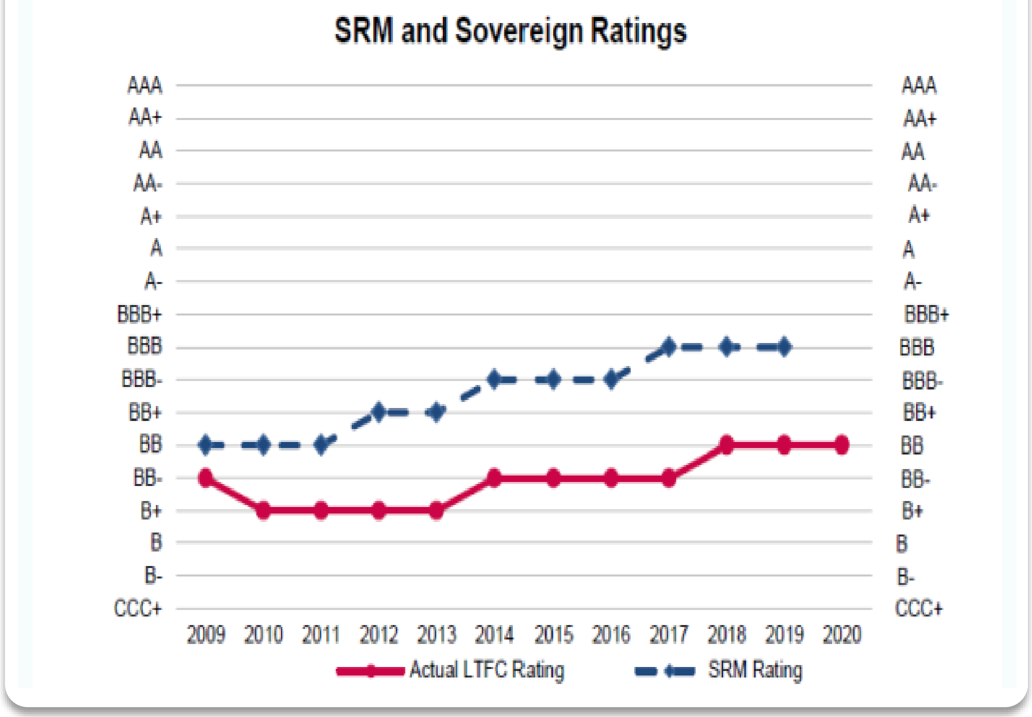
15. Financial sector restructuring – a stimulus to come

- ✓ The economy requires capital.
- ✓ The banks require capital.
- ✓ Companies require more capital.
- ✓ Yet equity and bond markets are strangled at present.
- ✓ There remains an over reliance on bank credit.
- ✓ Growth is always going to be capped so long as access to capital is stifled.
- ✓ We expect the nascent bond market to expand over coming years; there is no ratings agency and this needs to change.
- ✓ Issuance of government bonds is decreasing, but the corporate bond market is growing fast at 50% per annum, but still only represents 12% of total number of bonds issued.
- ✓ A difficult IPO process and recent failures have limited activity while Foreign ownership Limits prevent full and meaningful market participation.
- ✓ NVDRs have been approved and have technically come into effect from January 1st 2021 – although we positive about this outcome and expect progress, progress in fleshing out legislation has halted.
- ✓ MSCI inclusion seems distant.

16. Sovereign debt rating

- ✓ Vietnam's sovereign rating (or long-term foreign currency credit rating) is currently at BB (Fitch & S&P ratings) or Ba3 (Moody's). All these ratings are still two notches below investment grade.
- ✓ This creates an obstacle for Vietnam when either government and / or corporate entities wish to access external financing from private creditors
- ✓ Vietnam has performed well relative to peers, be that economic growth, strong public finances, resilience to external shocks, foreign investment inflows or external debt levels. These are key steps along the way to achieving an investment grade of BBB-
- ✓ Economic success will propel Vietnam's GDP per capita past the Philippines and Indonesia in the next two years. This is key to a credit rating upgrade.
- ✓ We expect Vietnam's Fitch rating to be upgraded to BB+ in FY22 (or FY23, worst case) from BB currently.

According to Fitch's own sovereign rating model (SRM), Vietnam's rating could have been upgraded three if not four notches since 2009; instead, its rating is only one notch higher



Source: Fitch Ratings

17. ETFs – an unremarked upon driver for the right stocks

- FY21 has been a year of uncertainty thanks to COVID-19, which has significantly affected investor sentiment and cashflow volumes into ETFs.
- However, statistics show that the total assets of the main ETFs have increased steadily, while showing good performance.
- Since the beginning of FY21, a steady net capital inflow into specific funds has been recorded. So far net inflows were dominated by the Fubon and Diamond ETFs. Inflows into these funds offset outflows across most of the remaining ETFs.
- Domestic ETFs still outperformed the VNINDEX - it is expected that ETFs will follow historic trends and attract positive inflows in coming months.
- Stocks that are predicted to be included in ETF baskets in the next reviews should also receive a knock-on benefit.

Stocks which may see inclusion into ETFs

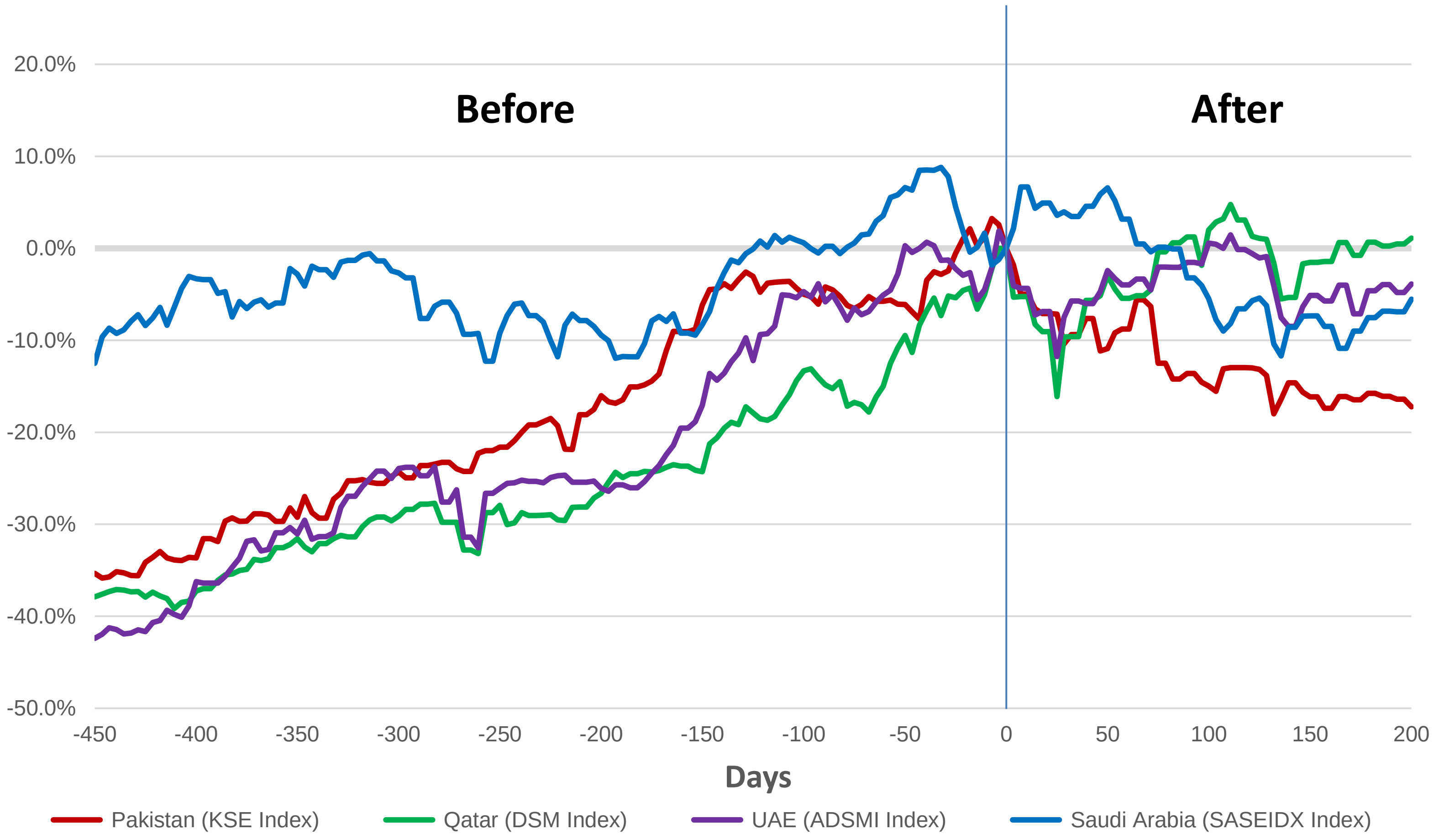
Fund name	Index	Candidates	Note
DCVFM VN30 ETF	VN30 Index	VIB	VIB's market capitalization must reach the Top 20 highest capitalization stocks on HSX to be added in the VN30 in 1H22 review
VFMVN Diamond ETF	VN Diamond Index	OCB, HCM	The FOL ratio of OCB and HCM needs to be maintained or increased by more than 95% from now until the end of Mar-22 to be added in the VN Diamond
SSIAM VNFIN Lead ETF	VNFIN Lead Index	VND	Best candidate for VNFIN Lead Index 1H22 review
FTSE Vietnam ETF	FTSE Vietnam Index	DIG, DGC, NLG, DPM	Best candidates for FTSE Vietnam Index 4Q21 review
VanEck Vectors Vietnam ETF	MVIS Vietnam Index	KDH	An increase in market capitalization is needed before inclusion in the MVIS Vietnam Index can occur

Source: HSC Research

18. MSCI inclusion

What happens after MSCI Emerging Markets inclusion?

Performance of the Pakistan, Qatar, UAE and Saudi Stock markets prior to and after inclusion into the MSCI Emerging Markets Index



Source: Bloomberg, MSCI, HSC Research

Other thematics to consider:

Beyond the current themes we talk about above, there is a whole raft of other thematics we are working on – as a developing economy, Vietnam offers a huge swathe of opportunities:

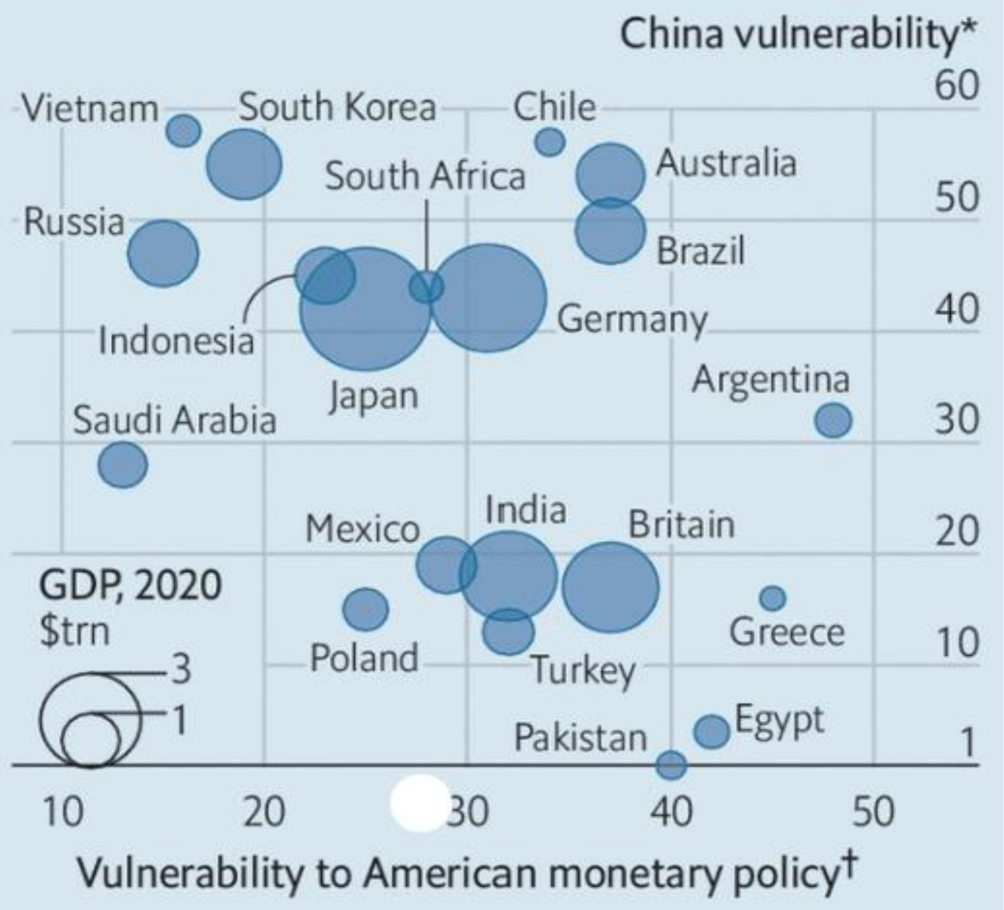
- ✓ Dividend plays – value growth story **(Neutral)**
- ✓ Free Trade Agreements, CTTPP (Canada, Asia Pacific), TA (Europe), RCEP (Asia, ex India) **(+ve short term, +ve long-term)**
- ✓ Logistics and Infrastructure – essential for success in attracting FDI **(+ve long-term)**
- ✓ Tourism – the future post COVID-19 **(+ve long-term)**
- ✓ Agriculture in the Mekong **(-ve short-term, -ve long-term)**
- ✓ Detailed study on cashflows and balance sheets **(Neutral)**
- ✓ Vietnam's power sector positioning **(-ve short-term, +ve long-term)**
- ✓ Vietnam as an FDI destination: what's actually happening and why **(+ve long-term)**
- ✓ Changes in work practices post COVID-19 **(Neutral)**
- ✓ A lot more on ESG! **(+ve long-term)**
- ✓ The development of corporate bond market and what it means **(+ve long-term)**
- ✓ Small cap - the search for the next Google **(?)**

Risk and Challenges

Nothing is ever straightforward!

Currently there are three major risks:

- ✓ **The advent of Omicron** has sparked a wave of selling on financial markets on the basis that a new potentially highly transmissible strain of the virus could set back economic recoveries worldwide.
- ✓ **Monetary tightening in the US** can be associated with a decline in global risk appetite despite the link with increased consumer demand. Capital flows towards emerging markets tend to ebb; a strengthening dollar reduces trade flows because of the USD's role in trade invoicing, but as the graphic shows, *Vietnam has low vulnerablity.*
- ✓ **A slowdown, or hard landing in China** seems more likely than at any stage in recent history. The property market has since become only more overextended, and the debt loads of households and firms have risen. *High levels of exports to China as a % of GDP, gives Vietnam high vulnerablity*



*Ranking of 60 countries based on exports to China as % of GDP
†Ranking of 60 countries based on five indicators including inflation and debt to GDP
Sources: IMF; World Bank; BIS; *The Economist*

Risks and challenges - domestic

Where would the satisfaction be without the challenge?

- ✓ Concentration risk – many are invested in a number of key names. A narrow market can be very unhealthy. **High**
- ✓ Trade wars – currently a direct beneficiary, could Vietnam be the next China? We think not. **Low**
- ✓ Domestic Inflation – should remain under control, but… **High**
- ✓ US / China relations. **Medium**
- ✓ Rapidity of regulatory change especially around capital market liberalization. **High**
- ✓ Finance sector restructuring. **High**
- ✓ Depth of the debt market – access to capital remains an issue and a cap on growth. **Medium**
- ✓ The government balance sheet – strengthening, but there is a need for private investment. **Low**
- ✓ Power Shortages – they are coming, what can and will be done? **Medium**
- ✓ Agriculture – huge structural issues including the Mekong, Laos and China Hydro, swine fever etc. **Medium**
- ✓ Infrastructure spending – as FDI accelerates, there will be more and more demand for first class logistics. **Low**

Risks and challenges – global

- ✓ Global growth – Vietnam will be affected and not just by COVID-19. **High**
- ✓ Inflation risk I - Rising demand stimulated by fiscal spending. In democracies, commitment to largescale government spending is almost a political norm. **Very High**
- ✓ Inflation risk II - Shrinking labour supply as we shift towards smaller working populations in Europe, US and China. **Low**
- ✓ Inflation risk III - The desire for more resilient supply chains closer to home could drive up costs; globalization won’t be as powerful a deflationary force. **Low**
- ✓ Monetary policy errors – timing is everything; ease too late tighten to early – the consequences wouldn’t be good. **High**
- ✓ Too much money creating excessive risk appetite may create systemic risk although banking sectors are much better capitalized and regulated when compared to FY08… we hope… **Medium**
- ✓ The commodity cycle. **Medium**

Risks and challenges – global

- ✓ COVID-19 persists – continues to be a major danger, especially as a percentage of populations don't want to take up the vaccine. This may mean that herd immunity isn't achieved and new variants evolve. **Medium**
- ✓ Geopolitical crises – getting closer rather than further away; Middle East, Asian regional waters, North Korea. **Medium**
- ✓ Cyberattacks – more often, and with the potential to do more damage. How do markets price this? **Low**
- ✓ China – Geopolitics, domestic economic stresses and a potential slowing of demand for imports should credit be reigned in and monetary policy tighten in the face of inflation. **Medium**
- ✓ Developed market savings rates – what if they are not spent? Real disposable income has not grown so fast since the mid-50s post war economic boom. If this cash sits on household balance sheets this would not be good. **Low**

The longer-term outlook:
Positive change is a powerful force

The long-term, multi-year, view remains excellent

What a story!

✓ A supportive macro environment with a stable currency outlook.

✓ Vietnam's geopolitical position is good, domestic politics are stable.

✓ The global trade picture is working in Vietnam's favour, FDI is increasing.

✓ GDP Per capita is rising, the population is young and the middle class is growing.

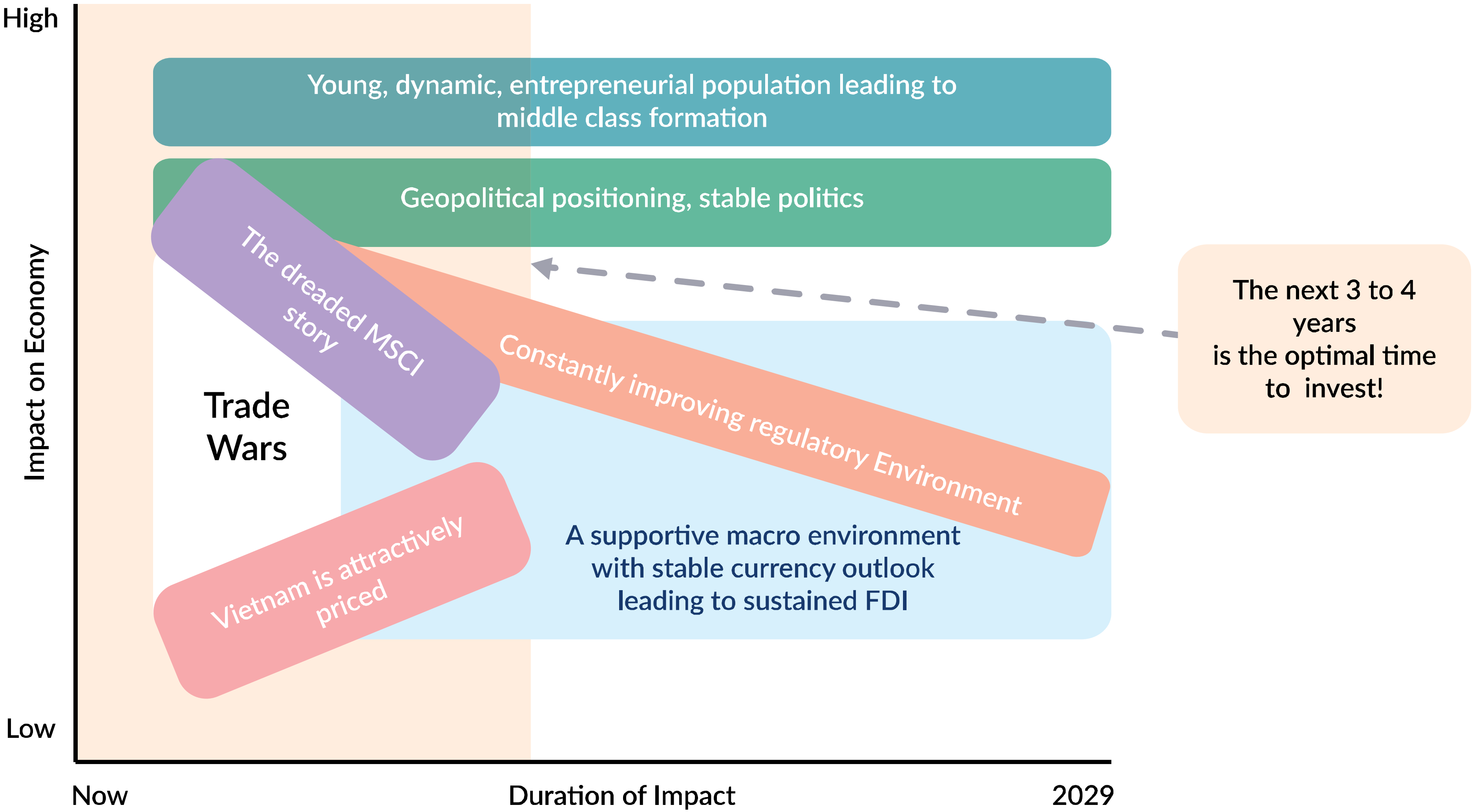
✓ The regulatory environment is improving steadily.

✓ The dreaded MSCI Story.

✓ Vietnam is attractively priced will continue to rerate.

However, as COVID-19 proves, nothing is straightforward!

The long-term view over 10 years



The long-term view – steps in the right direction

It's all about Positive Change:

Outsize returns are best achieved when there is positive change which is both real and structural:

Where we were in 2019:

- GDP Per Capita <USD3,000
- Illiquid Equity markets with limited investment choices
- A regulatory thicket
- Shallow debt markets
- Evolving corporate governance
- Infrastructure investment required
- Surging FDI

Where we will be in 10 years time:

- GDP Per Capita >USD6,000,
- Liquid, deep and high functioning capital markets
- Streamlined regulatory and investment environment
- Extensive and enriched bond & debt market
- High standard of corporate governance,
- Robust infrastructure (Power, Logistics)
- FDI Destination of choice

THANK YOU