Vietcap

Strategy

Vietnam Strategy 2024

January 2024

Macro forecasts	2023	2024F
Real GDP (% YoY)	5.0	6.5
Nominal GDP (USD bn)	426	462
CPI (Avg, % YoY)	3.3	3.8
VND vs USD (% YoY)	-2.8	0.0
Depo rate cap (<6M %)	4.75	5.00
Credit growth (% YoY)	13.5	13.7
Exports val (% YoY)	-4.4	9.5
Imports val (% YoY)	-8.9	11.5
Trade bal (USD bn)	28.0	24.3
Disbursed FDI (USD bn)	23.2	25.5

Market forecasts	2023	2024F
VN-Index	1,130	1,350
EPS growth* (% YoY)	-1%	18%

* Vietcap's HSX-listed coverage

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Growth to accelerate in 2024

We are bullish on the Vietnamese equity market for 2024. We expect robust growth in corporate earnings and domestic interest rates to remain low, while current valuations look undemanding. We project 19% upside to our end-2024 VN-Index target of 1,350 (reduced from our previous target of 1,450 to align more closely with the current aggregate bottom-up upside to our target prices for HSX-listed stocks under our coverage).

Macroeconomic outlook. We forecast GDP growth to accelerate to 6.5% in 2024, driven by the following. First, we expect further gradual recovery in exports, despite near-term headwinds for global growth from the lagged impact of monetary tightening in 2022/23, as we believe inventory restocking can lead a recovery in consumer spending and retail sales in the US and EU and Vietnam will continue to gain market share in global manufacturing value-added. Second, we expect fiscal and monetary policy to remain supportive. The Government's financial position is strong, and we expect relatively high budget disbursement for investment in infrastructure to continue in 2024. Meanwhile, threats to the State Bank of Vietnam's (SBV's) current accommodative stance from inflation or exchange rate concerns have receded. Third, we project FDI disbursements to remain robust following renewed growth in new project registrations in 2023. In addition, there is scope for further recovery in international tourist arrivals, which reached 70% of the 2019 level in 2023, and gradual recovery in real estate and construction activity with lower mortgage rates and ongoing regulatory reforms to ease legal bottlenecks for developers.

Robust growth in corporate earnings projected for 2024/25. We forecast growth in aggregate NPAT-MI for HSX-listed stocks under our coverage of -1%/+18%/+21% in 2023/24/25, respectively. For non-financials, we expect revenue growth to pick up and operating profit margins to expand with less pressure from input costs and less intensive price competition as revenue growth recovers. Net margins should receive a further boost from falling interest costs and there should be less risk of FX losses on USD debt. Meanwhile, banks should benefit from faster credit growth and peaking credit costs as asset quality improves with a stronger economy and an extended period of low interest rates.

Interest rates to remain low. CPI inflation is within the Government's indicated tolerance of up to "about 4.5%", commodity prices generally do not threaten cost-push inflation and we believe there is slack in the labor market after the slowdown in exports and manufacturing in 2023. We believe the SBV will maintain a pro-growth policy stance in 2024 and provide a supportive (i.e., low rate) environment for banks and other creditors to continue to work out problem debts. Credit growth was weak through most of 2023 and low interbank rates indicate excess liquidity in the banking system. Meanwhile, we believe the Fed's tightening cycle has peaked. The Fed's December 2023 'dot-plot' indicates 75-bps of rate cuts in 2024 and consensus forecasts over 100-bps, implying narrowing negative spreads between VND and USD rates and less pressure on the VND to depreciate vs the USD.

Valuations undemanding. VN-Index TTM and consensus 12M forward P/Es of 15.0x and 9.5x and LQ P/BV of 1.6x are below their averages since end-2014 of 16.6x, 12.8x and 2.2x, respectively. Vietnam's P/E multiples also look attractive vs regional peers. We continue to view banks' deposit rates as the effective opportunity cost of equity investment (or proxy 'risk-free rate') for local investors and these are currently at multi-year lows.

Sectors and stocks. We maintain our preference for banks and consumer stocks amongst larger cap sectors in 2024. Banks outperformed the VN-Index in 2023 but valuations remain attractive, in our view. Meanwhile, consumer stocks underperformed in 2023 but should benefit from a recovery in consumption in 2024/25. Our 'bull basket' and 'bear basket' selections from our analysts' top stock picks are presented on pages 14 - 16.

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Growth to accelerate in 2024

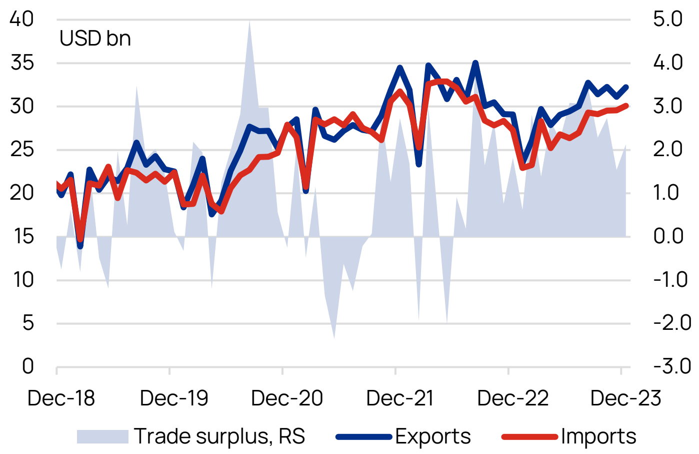
We are bullish on the Vietnamese equity market for 2024. We expect robust growth in corporate earnings and domestic interest rates to remain low, while current valuations look undemanding. We project 19% upside to our end-2024 VN-Index target of 1,350 (reduced from our previous target of 1,450 to align more closely with the current aggregate bottom-up upside to our target prices for HSX-listed stocks under our coverage).

Macroeconomic outlook

We forecast GDP growth to accelerate to 6.5% in 2024, driven by the following.

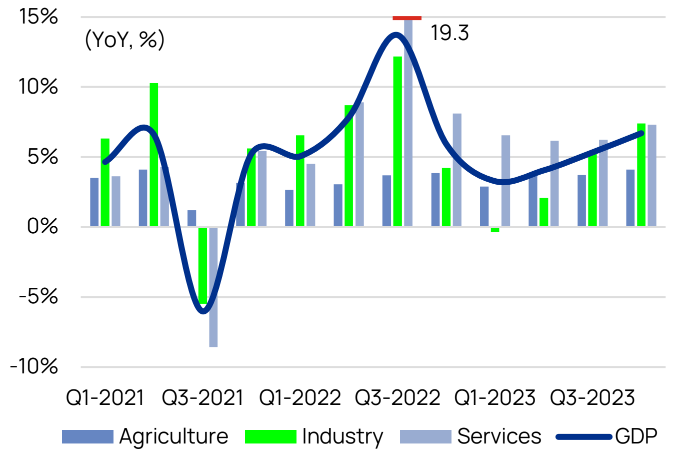
1. Recovery in exports. We expect further gradual recovery in exports, despite near-term headwinds for global growth from the lagged impact of monetary tightening in 2022/23, as we believe inventory re-stocking can lead a recovery in consumer spending and retail sales in the US and EU and Vietnam will continue to gain market share in global manufacturing value-added.

Figure 1: Vietnam's merchandise trade, monthly



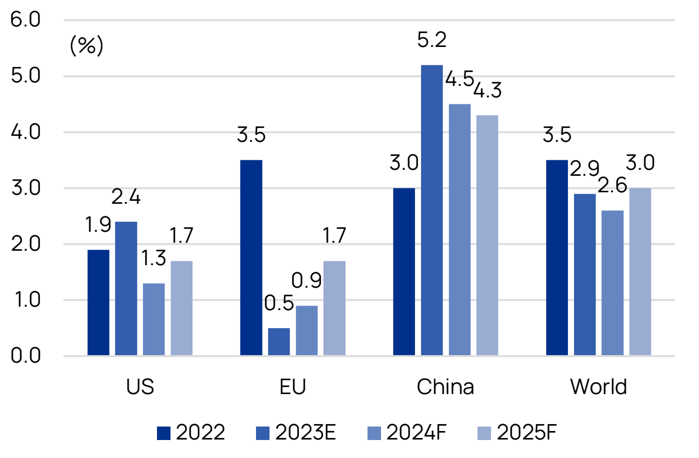
Source: Vietnam Customs, General Statistics Office (GSO), Vietcap

Figure 2: GDP growth by sector, quarterly



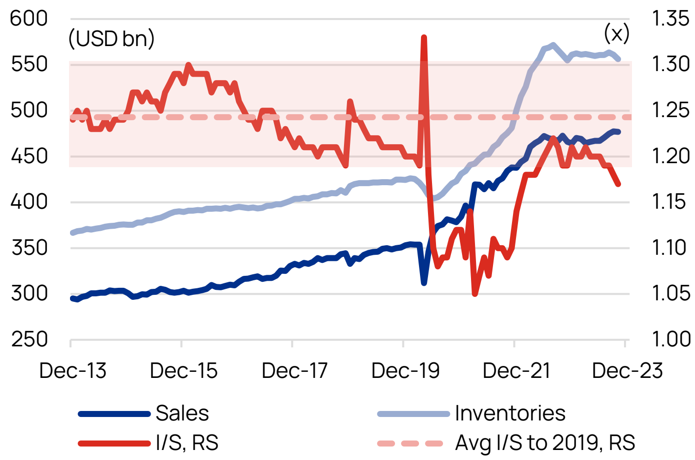
Source: GSO, Vietcap

Figure 3: Consensus GDP growth



Source: Bloomberg, Vietcap

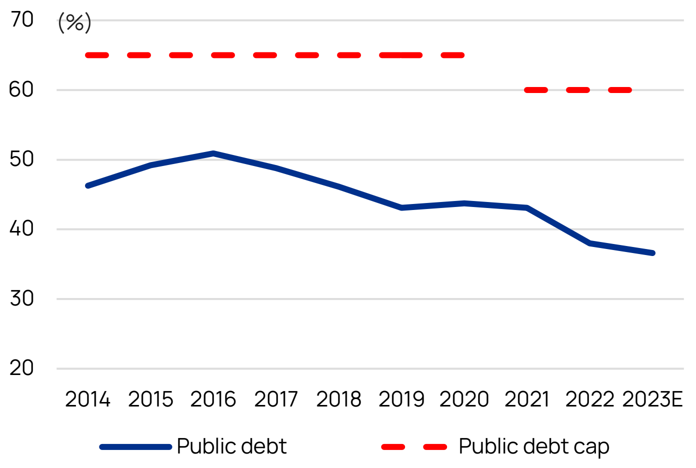
Figure 4: US retail inventories/sales, ex-Motors, monthly



Source: US Census Bureau, FRED, Vietcap (data to October 2023)

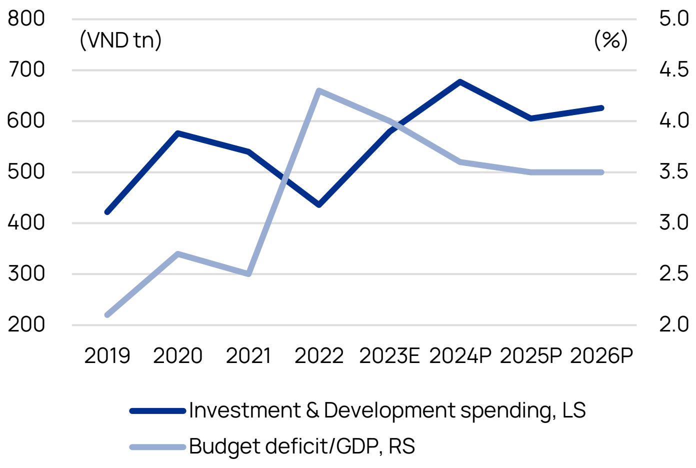
2. Supportive policy stance. We expect fiscal and monetary policy to remain supportive. The Government's financial position is strong and we expect relatively high budget disbursement for investment in infrastructure to continue in 2024. Meanwhile, threats to the SBV's current accommodative stance from inflation or exchange rate concerns have receded.

Figure 5: Vietnam's public sector debt/GDP



Source: MOF, World Bank, Vietcap

Figure 6: State spending for investment & development

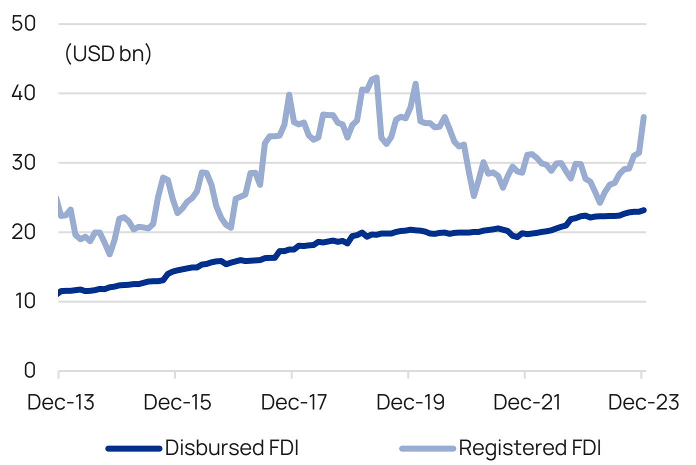


Source: MOF, Vietcap (P = planned)

3. FDI disbursements. Third, we project FDI disbursements to remain robust following renewed growth in new project registrations in 2023.

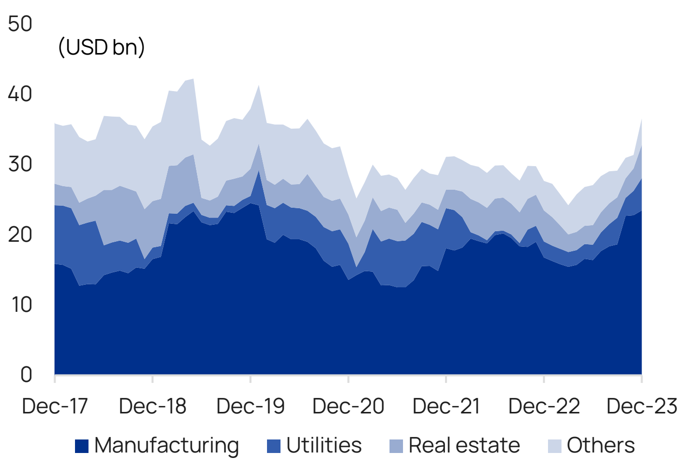
FDI remains a critical pillar of the structural growth outlook for Vietnam, in our view. Vietnam's working age population is projected to grow for around another 20 years, according to the United Nations. There has been a massive shift in the labor force from agriculture to industry and services over the past 30 years but with around 30% of the labor force still employed in agriculture, there is still scope for considerable further 'industrialization'. Data from the World Bank suggests that the average productivity per worker in industry or services is around three times that in agriculture, hence further labor force migration from agriculture implies growth in average productivity per worker. However, one of the reasons for this uplift in productivity of labor on a shift from agricultural employment is higher capital stock per worker, especially in industry. FDI helps to accelerate growth in Vietnam's capital stock and brings other benefits such as upskilling of the labor force and technology transfer, in our view.

Figure 7: FDI disbursement & registrations, 12M rolling sum



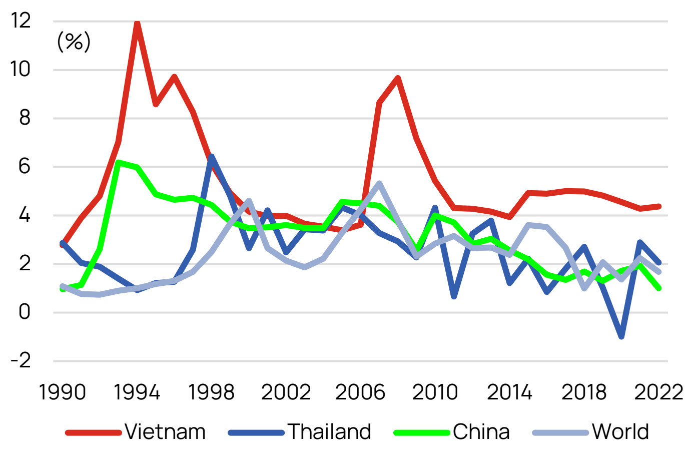
Source: Ministry of Planning & Investment (MPI), Vietcap

Figure 8: FDI registrations by sector (12M rolling sum)



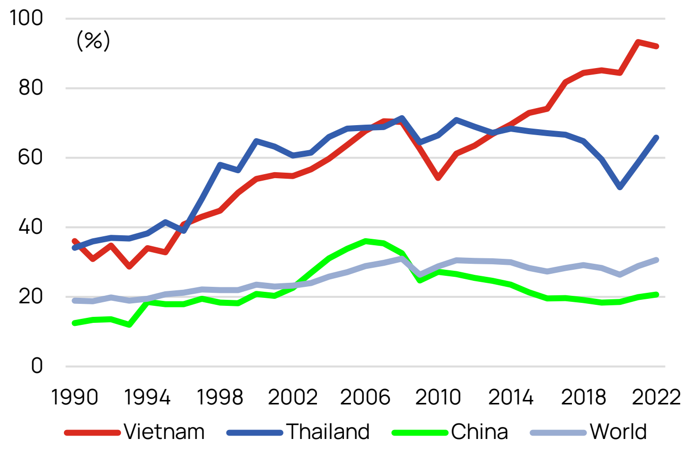
Source: MPI, Vietcap

Figure 9: Net FDI inflows/GDP



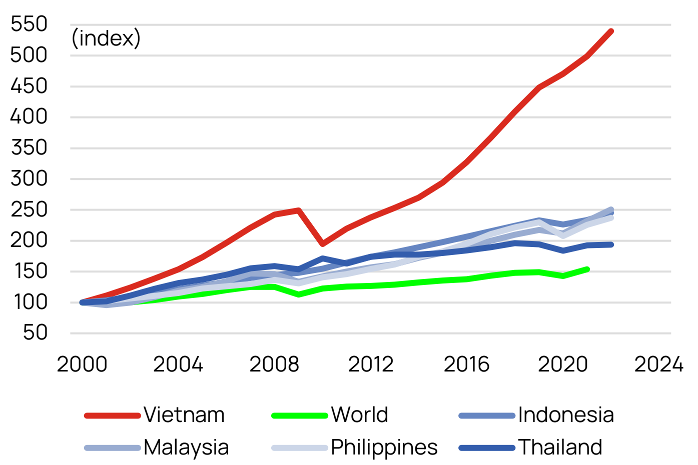
Source: World Bank, Vietcap (data to 2022)

Figure 10: Exports of goods & services/GDP



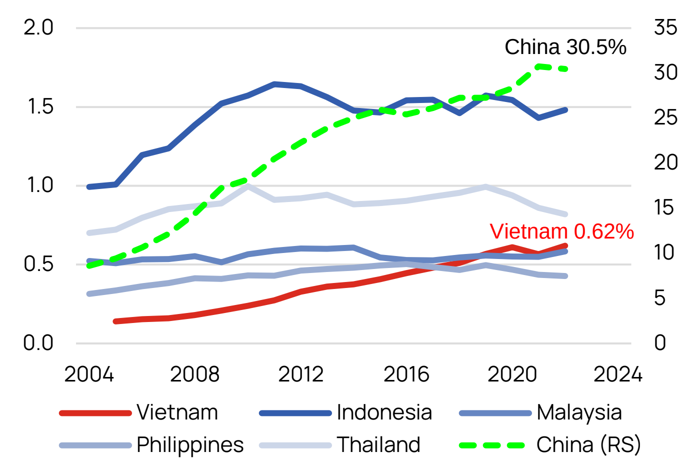
Source: World Bank, Vietcap (data to 2022)

Figure 11: Manufacturing value added, indexed



Source: World Bank, Vietcap (2000= 100, data to 2022)

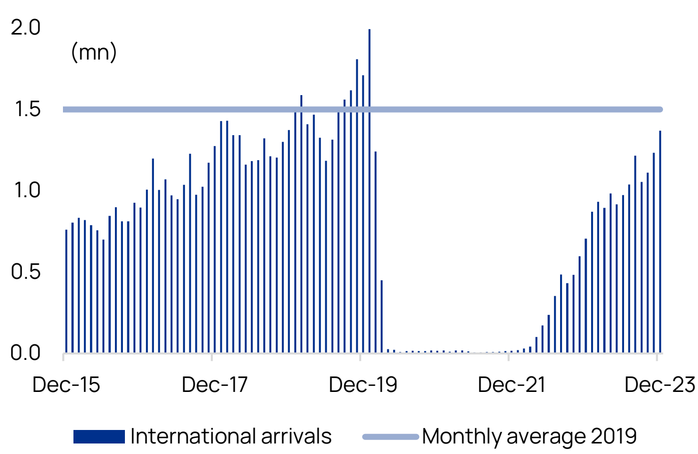
Figure 12: Global share of manufacturing value-added (%)



Source: World Bank, Vietcap (data to 2022)

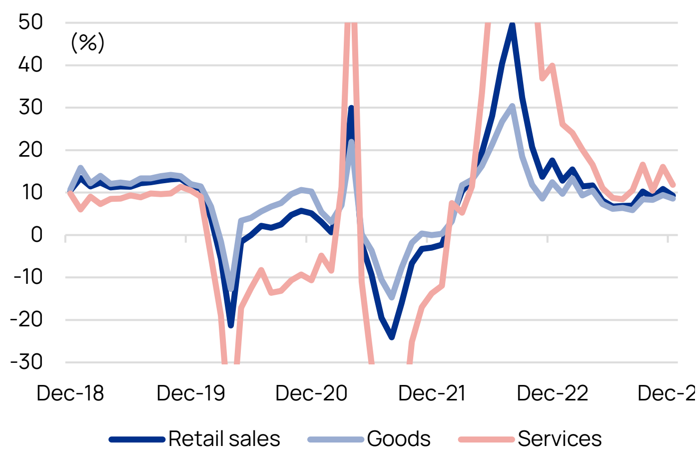
4. Further recovery in tourist arrivals. There is scope for further recovery in international tourist arrivals, which reached 70% of the 2019 level in 2023.

Figure 13: International arrivals



Source: GSO, Vietcap

Figure 14: Growth in retail sales (% YoY)

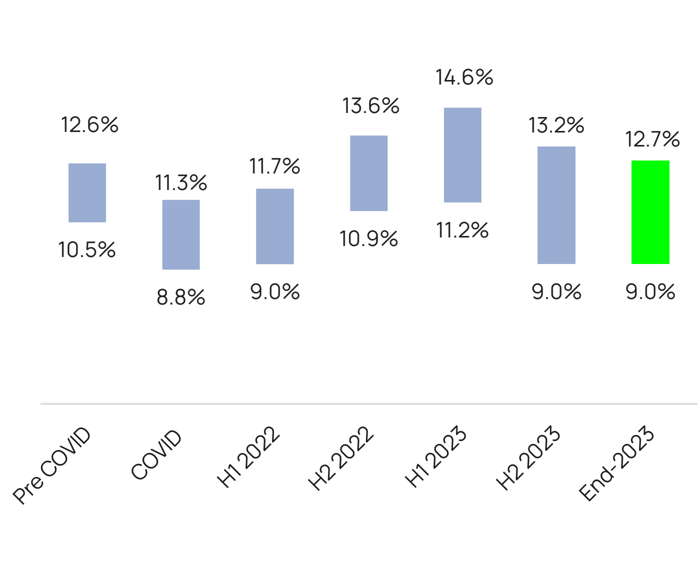


Source: GSO, Vietcap

While FMCG surveys of households indicated that domestic consumer confidence was weak in 2023, the recovery in international tourist arrivals helped to drive stronger growth in retail services vs goods, thus lifting overall retail sales growth to 9.6% in 2023.

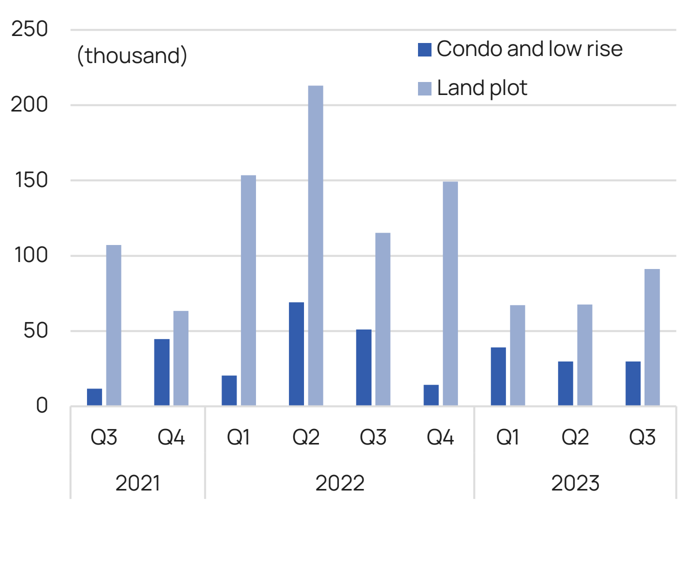
5. Gradual recovery in real estate and construction. With lower mortgage rates and ongoing regulatory reforms to ease legal bottlenecks for developers, we believe there will be gradual recovery in real estate sales and construction activity in 2024 from a very low base in 2023.

Figure 15: Floating mortgage rates (estimated)



Source: Vietcap compilation from select banks

Figure 16: Number of transactions nationwide *



Source: Ministry of Construction, Vietcap (* survey by MoC)

Robust growth in corporate earnings projected for 2024/25

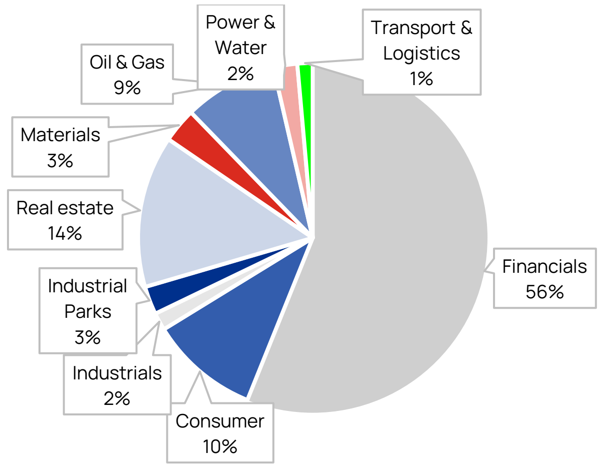
We forecast aggregate NPAT-MI for HSX-listed stocks under our coverage to decline by 1% in 2023, then grow by 18%/21% in 2024/25, respectively. For non-financials, we expect revenue growth to pick up and operating profit margins to expand with less pressure from input costs and less intensive price competition as revenue growth recovers. Net margins should receive a further boost from falling interest costs and there should be less risk of FX losses on USD debt. Meanwhile, banks should benefit from faster credit growth and peaking credit costs as asset quality improves with a stronger economy and an extended period of low interest rates.

Figure 17: Vietcap total coverage by sector *

	Revenues, YoY				Net margins				NPAT-MI, YoY			
Sector	**2022**	**2023F**	**2024F**	**2025F**	**2022**	**2023F**	**2024F**	**2025F**	**2022**	**2023F**	**2024F**	**2025F**
Financials	nm	nm	nm	nm	nm	nm	nm	nm	34%	6%	20%	19%
Consumer	11%	-2%	11%	11%	8.7%	7.0%	7.7%	8.2%	-4%	-21%	22%	19%
Industrials	23%	-20%	18%	17%	20.7%	17.3%	19.5%	20.0%	72%	-33%	33%	20%
Industrial Parks	-2%	6%	13%	17%	21.8%	18.2%	19.5%	21.5%	23%	-12%	20%	29%
Real estate	-22%	66%	5%	7%	22.5%	14.3%	10.8%	11.7%	0%	5%	-20%	16%
Materials	-2%	-10%	8%	15%	4.0%	4.7%	7.7%	8.7%	-77%	6%	77%	31%
Oil & Gas	60%	-16%	1%	0%	6.7%	5.1%	5.2%	5.7%	74%	-36%	3%	10%
Power & Water	16%	-4%	18%	19%	9.0%	7.1%	8.2%	9.5%	9%	-25%	35%	38%
Transport & Log's	113%	25%	23%	13%	-2.9%	2.4%	4.2%	5.4%	nm	nm	114%	45%
Total	**nm**	**nm**	**nm**	**nm**	**nm**	**nm**	**nm**	**nm**	**14%**	**-3%**	**17%**	**20%**
ex-Financials	21%	1%	9%	9%	8.4%	7.4%	7.7%	8.5%	-2%	-11%	13%	22%

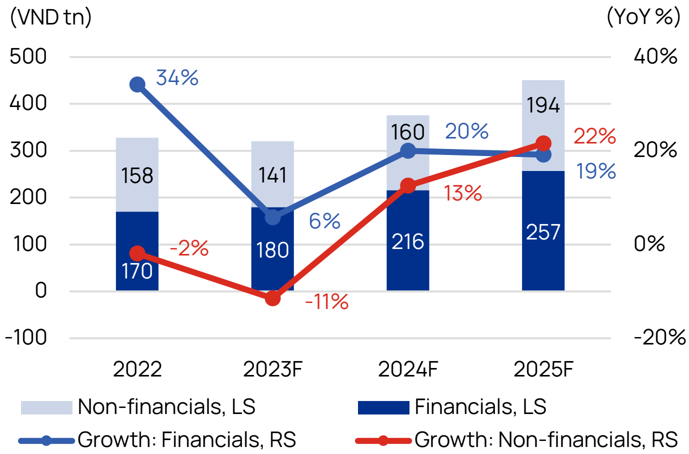
Source: Company data, Vietcap (* Vietcap sector classifications; total coverage includes several stocks that are traded on HNX and UPCoM)

Figure 18: Vietcap total coverage 2023F NPAT-MI by sector



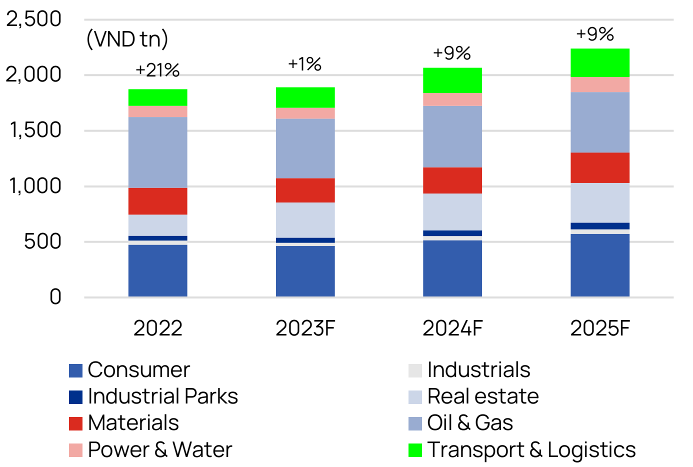
Source: Company data, Vietcap

Figure 19: Vietcap coverage NPAT-MI & growth



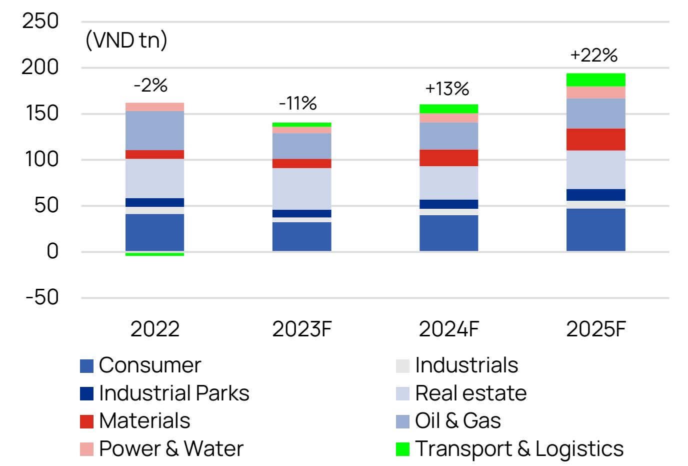
Source: Company data, Vietcap

Figure 20: Non-financials, Revenues



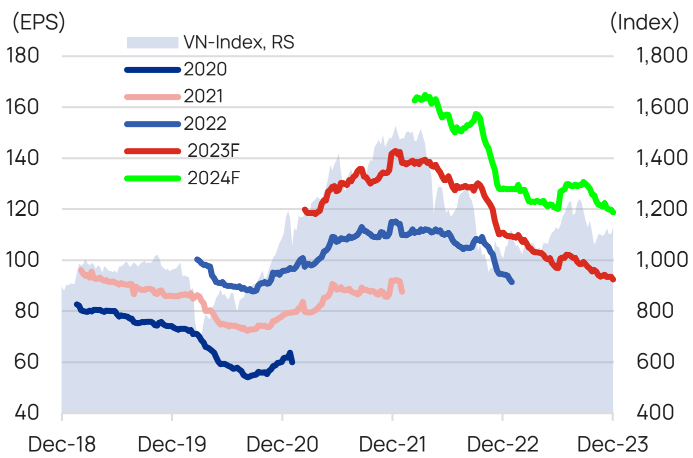
Source: Company data, Vietcap

Figure 21: Non-financials, NPAT-MI



Source: Company data, Vietcap

Figure 22: VN-Index consensus EPS forecasts



Source: Bloomberg, Vietcap

Figure 23: VN-Index & 12M forward consensus EPS

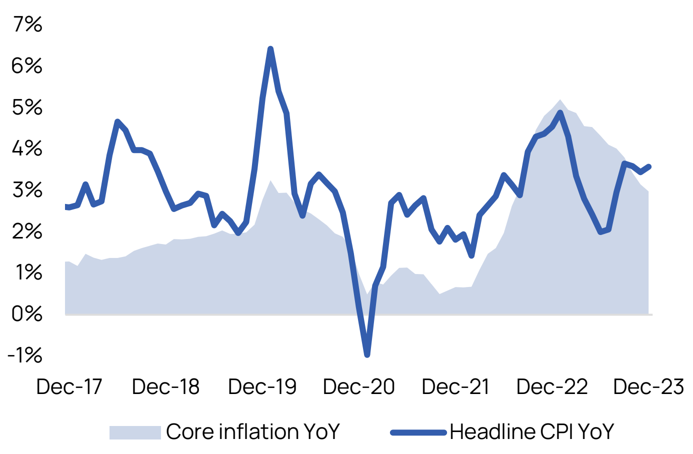
Source: Bloomberg, Vietcap

Interest rates to remain low

CPI inflation is within the Government's indicated tolerance of up to "about 4.5%", commodity prices generally do not threaten cost-push inflation and we believe there is slack in the labor market after the slowdown in exports and manufacturing in 2023. We believe the SBV will maintain a pro-growth policy stance in 2024 and provide a supportive (i.e., low rate) environment for banks and other creditors to continue to work out problem debts.

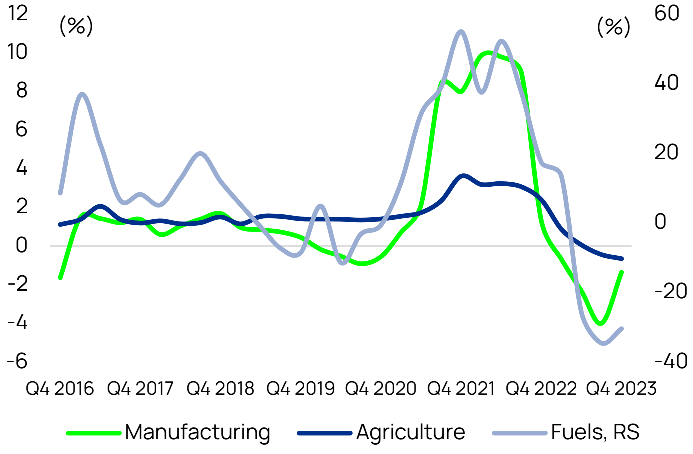
We expect the SBV to leave policy rates unchanged through most of 2024 and forecast one increase of 25-bps towards the end of H2 2024.

Figure 24: CPI inflation, monthly



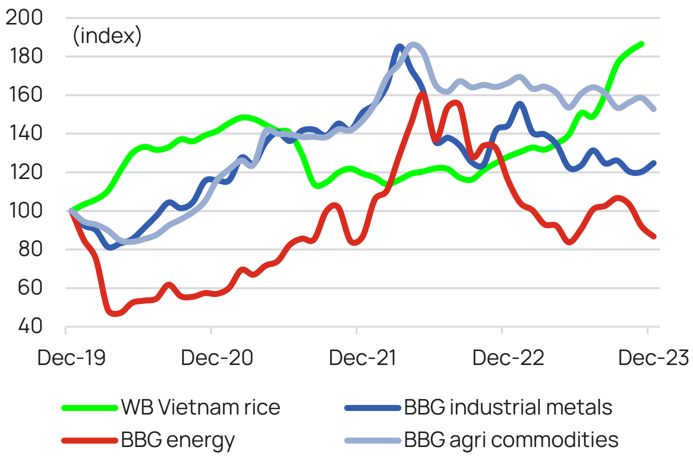
Source: GSO, Vietcap

Figure 25: Import price index, quarterly



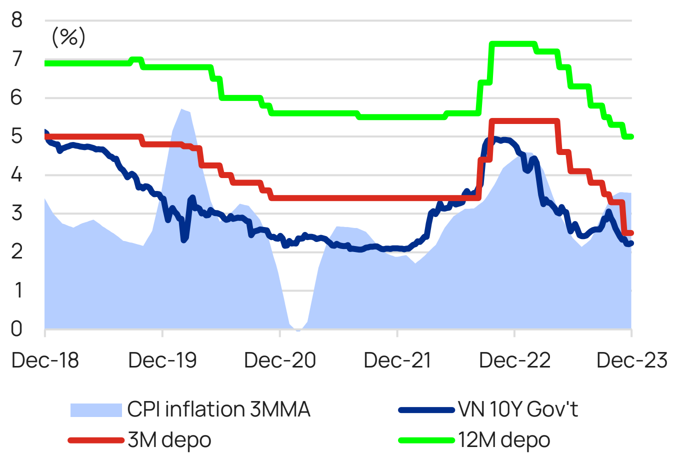
Source: GSO, Vietcap

Figure 26: Commodity price indices



Source: Bloomberg, Vietcap

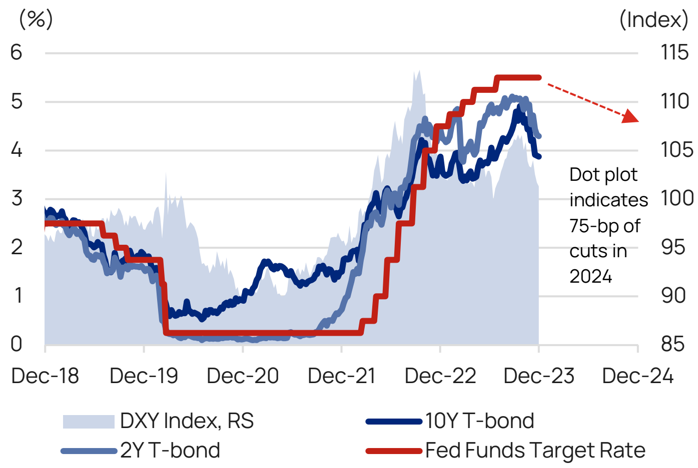
Figure 27: CPI inflation & interest rates *



Source: Company data, Vietcap (* time deposit rates from BIDV)

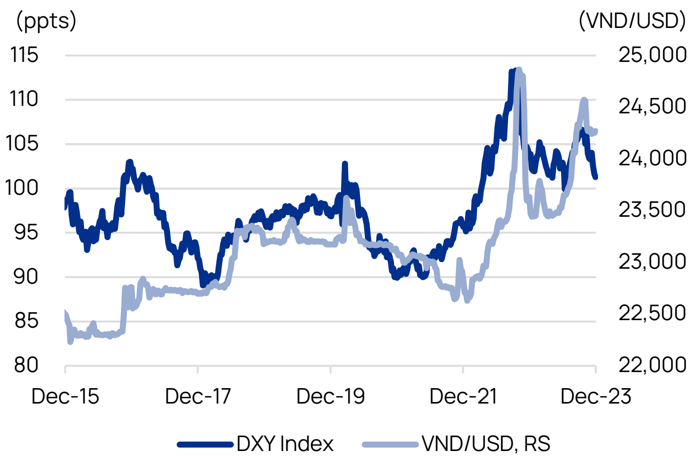
Credit growth was relatively weak through most of 2023 and low interbank rates indicate excess liquidity in the banking system. Meanwhile, we believe the Fed's tightening cycle has peaked. The Fed's December 2023 'dot-plot' indicates 75-bps of rate cuts and consensus forecasts over 100-bps in 2024, implying narrowing negative spreads between VND and USD rates and less pressure on the VND to depreciate vs the USD. We forecast the VND to be stable vs the USD in 2024 and see less risk of intervention from the SBV in the foreign exchange or rates markets to protect the currency compared to 2022/23.

Figure 28: US interest rates & DXY Index



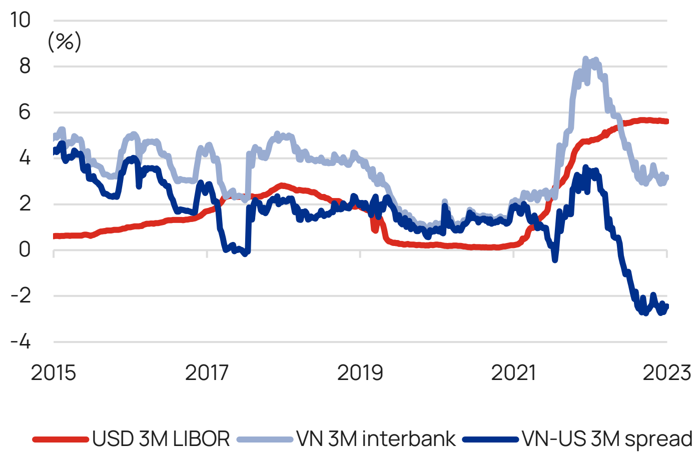
Source: Bloomberg, Vietcap

Figure 29: DXY Index & VNDUSD exchange rate



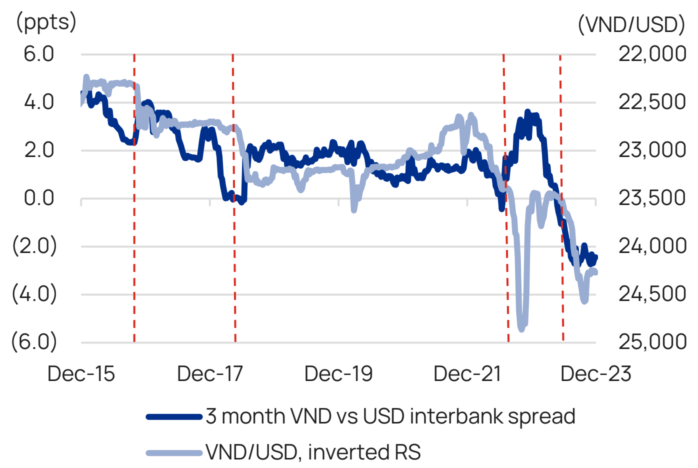
Source: Bloomberg, Vietcap

Figure 30: VND & USD 3M interbank rates



Source: Bloomberg, Vietcap

Figure 31: 3M interbank spread & VNDUSD exchange rate



Source: Bloomberg, Vietcap

Valuations undemanding

VN-Index TTM and consensus 12M forward P/E's of 15.0x and 9.5x and LQ P/BV of 1.6x are below their averages since end-2014 of 16.6x, 12.8x and 2.2x, respectively. Vietnam's P/E multiples also look attractive vs regional peers. We continue to view banks' deposit rates as the effective opportunity cost of equity investment (or proxy 'risk-free rate') for local investors and these are currently at multi-year lows.

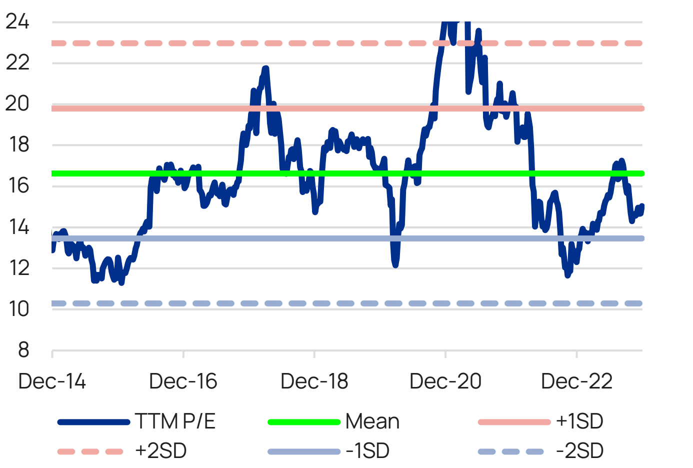
Our VN-Index targets of 1,350 for 2024 and 1,550 for 2025 are illustrated in **Figure 32** below, along with implied P/E multiples at our index targets on a trailing and 12-month forward basis. These implied multiples are somewhat lower than the average TTM and consensus 12M forward P/E multiples for the VN-Index since end-2014. Our forecast for cumulative VN-Index EPS growth for 2023-25F of 41% (-1%/18%/21% for 2023/24/25F, respectively) is lower than the current Bloomberg consensus forecast of 57% (3%/28%/19%, for 2023/24/25, respectively).

Figure 32: EPS growth forecasts and VN-Index targets

	2019	2020	2021	2022	2023E	2024F	2025F
VN-Index (actual/Vietcap targets)	961	1,104	1,498	1,007	1,130	1,350	1,550
Change, %	8	15	36%	-33%	12%	19%	15%
EPS (BBG actual*/Vietcap forecasts)	57.3	45.2	74.4	81.9	81.1	95.6	115.7
Change, %	2%	-21%	65%	10%	-1%	18%	21%
VN-Index P/E at 1,130, end 2023 (x)				12.3	13.9	11.8	9.8
Upside to targets, %						19%	37%
TTM P/E at actual/targets, x	16.8	24.4	20.1	12.3	13.9	14.1	13.4
12M forward P/E at actual/targets, x	21.2	14.8	18.3	12.4	11.8	11.7	N/A

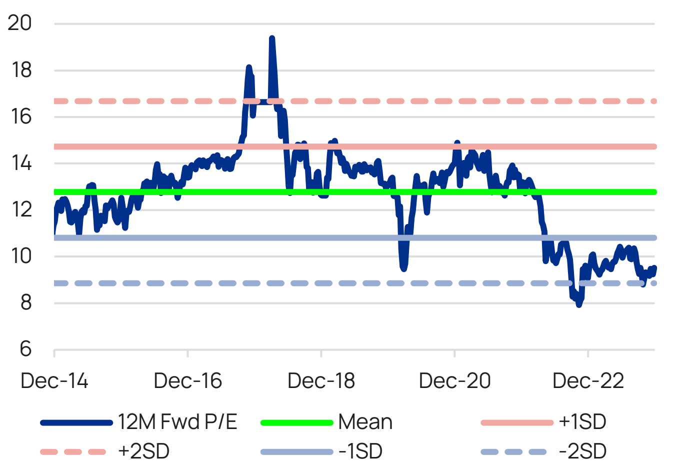
Source: Bloomberg, Vietcap (* Bloomberg diluted EPS from continuing operations)

Figure 33: VN-Index TTM P/E since end-2014



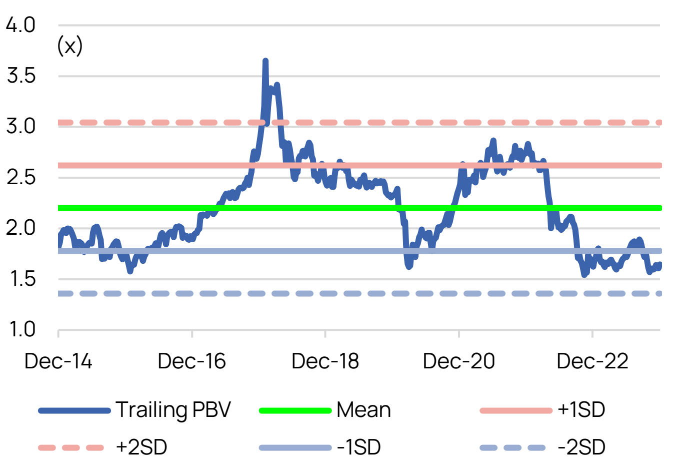
Source: Bloomberg, Vietcap

Figure 34: VN-Index consensus 12M Fwd P/E since end-2014



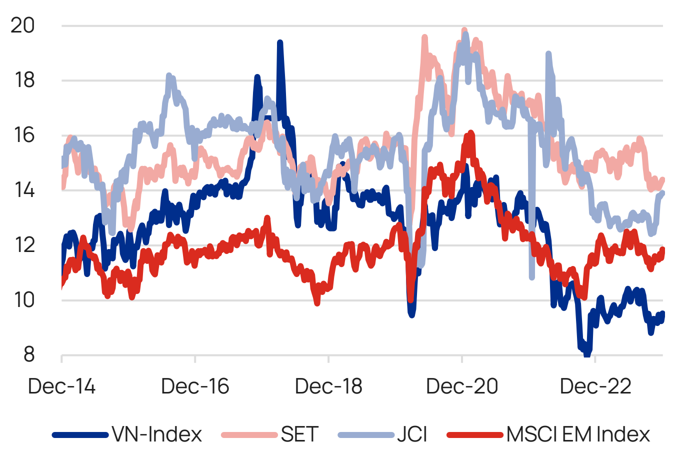
Source: Bloomberg, Vietcap

Figure 35: VN-Index trailing P/BV since end-2014



Source: Bloomberg, Vietcap

Figure 36: VN-Index, TIPs & MSCI EM consensus 12M Fwd P/E



Source: Bloomberg, Vietcap

Catalysts and risks

The key catalysts that we believe will help the VN-Index to rise towards our targets – and key risks that could derail our positive outlook for the market in 2024/25 - are as follows. These are broadly unchanged from the catalysts and risks that we highlighted in our Mid-year 2023 Vietnam Strategy report.

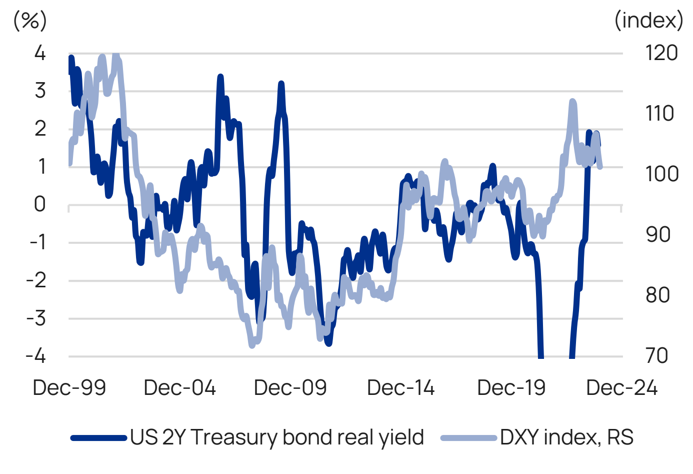
Key catalysts

1. Recovery in export orders. This should support a recovery in manufacturing and overall industrial production, resulting in a firmer labor market and improving household incomes and consumer confidence.

2. Recovery in the real estate sector. While we expect only gradual recovery in 2024, increasing residential market transactions and more visibility that debt restructuring is working (supported by more flexibility in restructuring/rescheduling corporate bonds and bank loans following Circular 02 and other regulatory developments) should be positive for the market. This would indicate that buyer confidence is returning and help to build confidence that banks' earnings and ability to extend new loans is not being unduly constrained by bad debts.

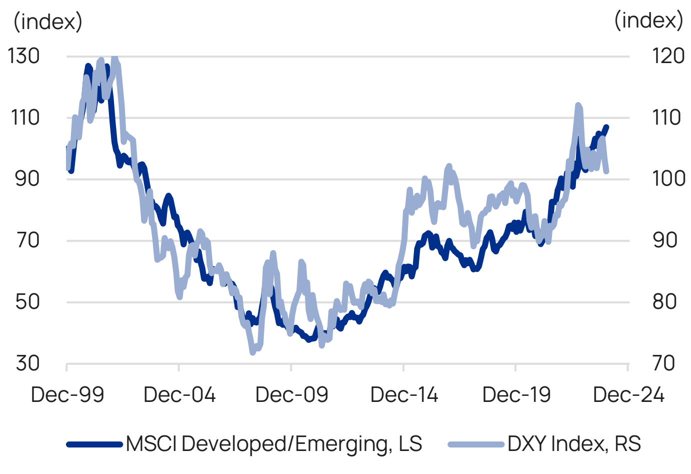
3. Inflation under control, policy easing by the Fed proceeds in 2024. In the absence of renewed inflationary shocks, we expect the Fed to start cutting policy rates in 2024. Lower USD rates and a stable or softer US Dollar have tended to be more supportive of capital flows to developing economies and emerging/frontier market assets in general. We believe such an environment would also be more supportive of the SBV's current pro-growth policy stance as it would imply lower risk that depreciation in the VND might push the SBV into tightening policy to defend the currency.

Figure 37: US 2Y Treasury real yield & DXY Index



Source: Bloomberg, Vietcap

Figure 38: MSCI Developed/Emerging index & DXY Index

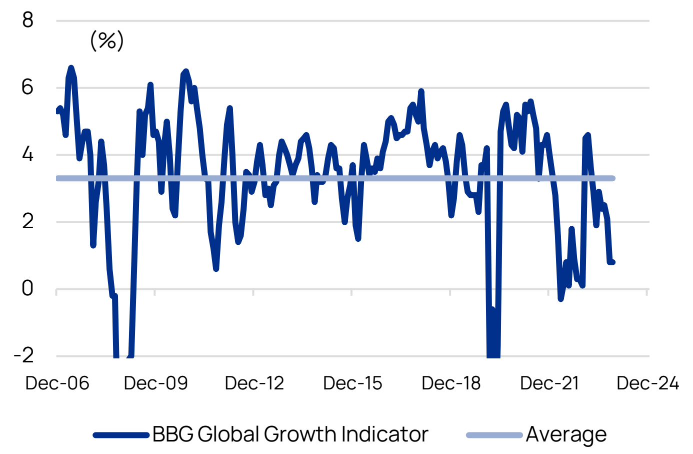


Source: Bloomberg, Vietcap

Key risks

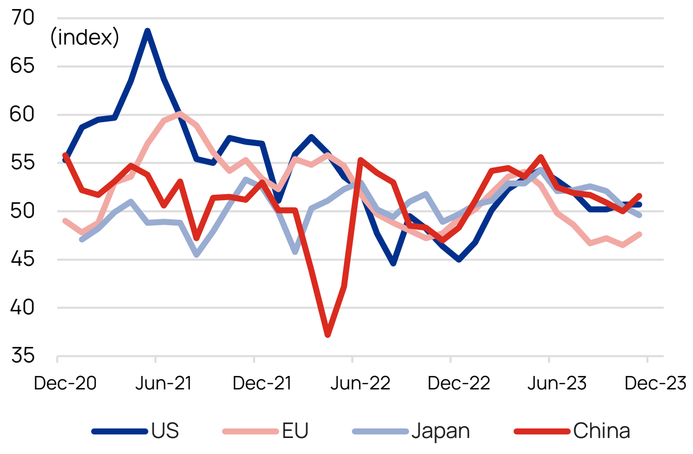
1. Sharper/deeper slowdowns in key export destinations. Markets appear optimistic that the Fed (and other western central banks) will achieve a 'soft landing', i.e., bring down inflation to acceptable levels without pushing economies into recessions. While consensus GDP growth forecasts predict only slower-than-potential growth in the US and EU in 2024, there is still a risk that the lagged impact of tightening by the Fed and ECB in 2022/23 could result in deeper-than-expected slowdowns in these key destinations for Vietnam's exports. Meanwhile, consensus forecasts also predict slower but not disastrous growth in China, Vietnam's largest trading partner in terms of exports and imports combined.

Figure 39: Bloomberg Global Growth Indicator



Source: Bloomberg, Vietcap (monthly data to November 2023)

Figure 40: Composite PMIs

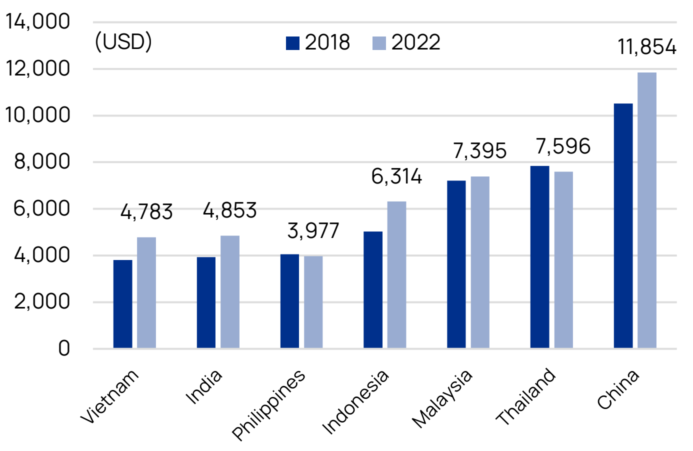


Source: S&P Global, Vietcap (monthly data to November 2023)

2. Vietnam's pro-growth domestic policy stance is derailed. Potential threats to the SBV's current accommodative monetary policy stance include a commodity price driven inflationary shock or unacceptable VND depreciation, while impediments to government approvals for public sector infrastructure investment and/or private sector projects could result in slower-than-expected economic growth.

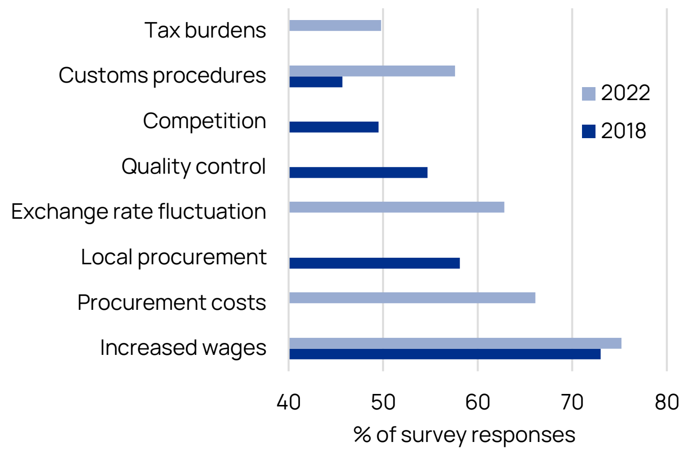
3. Vietnam is perceived to lose competitiveness in attracting FDI inflows. FDI inflows boost growth in the capital stock and support workforce upskilling and development of local supply chains. Recent monthly FDI disbursements and new registrations have been very encouraging, in our view, and we are optimistic that Vietnam will continue to win market share in global manufacturing value added over the next decade. However, potential threats include wage inflation, bureaucratic procedures, implementation of the new global minimum tax (GMT) regime, and competition from other countries. While the annual survey by the Japanese External Trade Organization (JETRO) for 2022 shows that Vietnam's labor costs remain very competitive, it also shows that wage inflation in Vietnam from 2018 to 2022 was one of the highest amongst the countries shown below. Meanwhile, procurement costs and customs procedures also featured prominently amongst the top problems cited by Japanese firms operating in Vietnam.

Figure 41: Annual cost of a manufacturing worker



Source: JETRO, Vietcap (full cost of a worker with 3Y experience)

Figure 42: Top problems cited by Japanese firms in Vietnam



Source: JETRO, Vietcap (JETRO survey of Japanese businesses)

Sectors and stocks

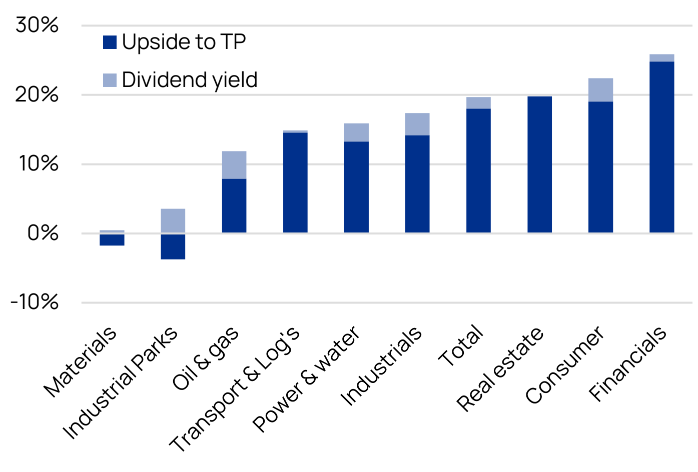
We continue to view 'bottom up' stock-picking as especially important in the Vietnamese market as several industry sectors are very heavily skewed towards one or two stocks that comprise a very large percentage of sector market capitalization. For example: 1) over 50% of the residential real estate stocks under our coverage outperformed the VN-Index in 2023 but the sector underperformed on an overall market cap weighted basis due to underperformance by the large-cap Vingroup stocks and 2) our projected aggregate 12M TSR for industrial parks (IP) under our coverage is zero, however this is heavily skewed by downside to our TP for Vietnam Rubber (GVR, the largest market cap stock in the sector), while we have BUY ratings on four of the seven IP stocks that we cover.

However, sector themes can nevertheless be important drivers and we recommend overweighting banks and consumer stocks in 2024. These sectors show the highest projected 12-month TSRs based on market cap weighted aggregates of stocks under our coverage.

Banks outperformed the VN-Index in 2023, helped in our view by recovery from oversold levels at the end of 2022 as fears of systemic risks remained elevated following the arrest of the Chairwoman of Van Thinh Phat and deposit run at Saigon Commercial Bank in October 2022. While asset quality challenges remain following the COVID-19 pandemic and more recent slowdowns in the export and residential real estate sectors, we believe the banks will be able to work out bad debt problems without a destabilizing collapse in earnings. This is supported by the current low interest rate environment, regulatory developments announced in 2023 which essentially 'buy time' for banks to resolve problem loans, and our expectation for further recovery in GDP growth in 2024/25. Meanwhile, valuations for private banks continue to look undemanding relative to the outlook for earnings growth and ROEs.

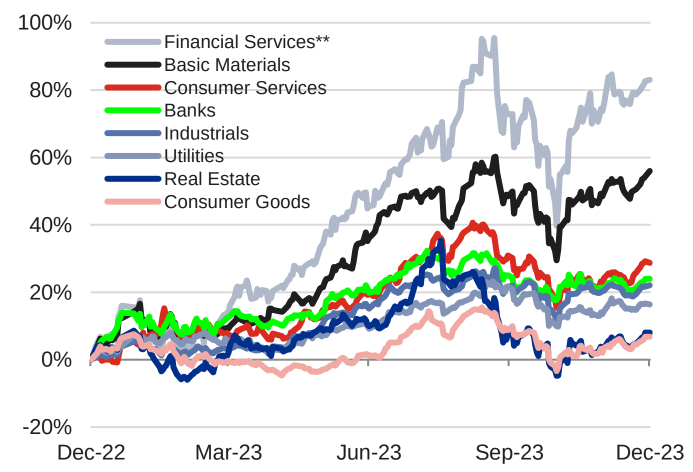
The **consumer** sector continues to offer some of the most attractive investment opportunities in Vietnam, in our view, as we expect growth in disposable income to continue to outpace GDP growth over the next decade and beyond. Retailers and FMCG manufacturers were hit hard by the slowdown in domestic goods consumption that started in H2 2022 and continued through 2023 and suffered greater compression in near-term earnings than we expected at the start of 2023. The consumer sector overall was a relative underperformer in 2023. However, we believe the worst has passed and we forecast a strong recovery in earnings in 2024/25. Meanwhile, we view valuation multiples generally as attractive vs the near-term and long-term growth outlook.

Figure 43: Vietcap coverage, projected 12M TSRs by sector*



Source: Company data, Vietcap (* Vietcap sector classifications)

Figure 44: VN-Index, select ICB sector performance in 2023



Source: Company data, Vietcap (** ex banks & insurance)

Top stock picks

Our 'bull' and 'bear' baskets of top stock picks are shown in **Figure 45** below and summary comments on each stock in **Figures 48 & 49**. To recap, all the stocks featured in these baskets are drawn from our analysts' top picks. The distinction between the groups is that our bull basket contains stocks that we believe are more leveraged to growth and would therefore be expected to outperform in a rising market, while our bear basket contains stocks with relatively defensive characteristics vs their sector (e.g., net cash or lowly geared balance sheets, relatively high dividend yields, or demand for their products or services that is relatively inelastic) that should support relative outperformance if the market declines. Our selections are largely bottom-up driven and are intended to be more strategic than tactical. However, we also take current share prices and our analysts' projected TSRs into account.

We introduced this approach in our January 2020 Vietnam Strategy Report and we have published revised stock baskets every six months in our annual strategy reports and mid-year strategy updates. They are not meant to represent model portfolios as we do not attempt to take account of differences in market caps, trading liquidity or benchmark sector weightings.

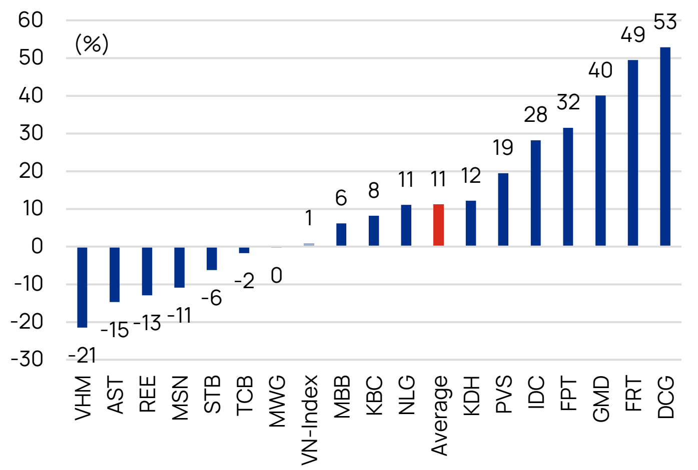
After moderate outperformance by both baskets of 4-5 ppts relative to the VN-Index in H1 2023 (based on simple average price changes – we do not attempt to incorporate dividend payments), our bull basket outperformed the VN-Index by 10 ppts in H2 2023, while our bear basket underperformed by 3 ppts in H2 2022 (**Figures 46 & 47**).

Figure 45: Top picks for 2024

Sector*	Bull basket	Bear basket
Banks	MBB, STB	ACB, VCB
Other financials	none	none
Consumer	FPT, MSN, MWG, PNJ, VHC	CTR, SAB, VEA
Transport & Logistics	GMD	SCS
Industrials	DGC, DHC	none
Materials & Construction	HPG	none
Real estate	KDH, NLG, VHM	VRE
Industrial parks	IDC, KBC	LHG, SIP
Oil & Gas	PVS, PVT	DCM
Power & Water	REE	BWE

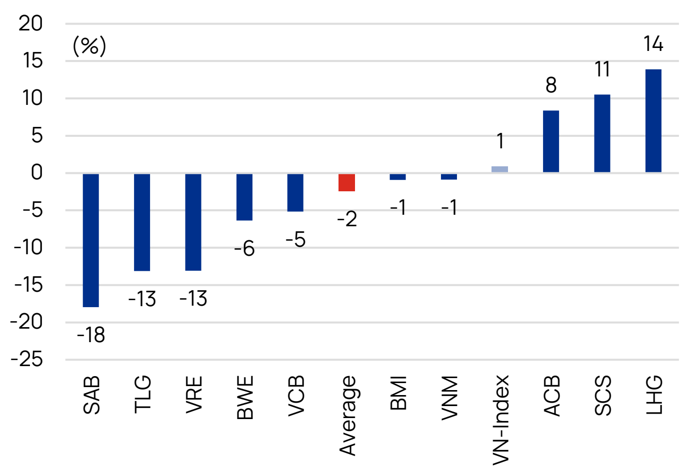
Source: Vietcap (* Vietcap classifications)

Figure 46: Vietcap Bull Basket performance in H2 2023



Source: FiinPro, Vietcap

Figure 47: Vietcap Bear Basket performance in H2 2023



Source: FiinPro, Vietcap

Figure 48: Bull basket for 2024

Stock	Comments
MBB	Strong growth profile and provisioning buffer. Demonstrated success in innovating banking apps and attracting new customers. NIM after credit costs is the highest among banks we cover. Competitive advantage in funding costs and a dynamic growth outlook from extensive network of subsidiaries and strategic partners. We expect MBB to receive preferential credit quotas due to supporting a distressed credit institution.
STB	Positive progress in resolving legacy bad debts supports our conviction in the bank's restructuring story. We expect STB to finish clearing its VAMC balance by end-2023, which will unlock further growth potential and shift focus to enhancing its core business. We expect earnings to soar after restructuring is concluded and we forecast NPAT to increase at a CAGR of 41.6% in the next three years.
FPT	Vietnam's preeminent IT outsourcing company with sustainable cost advantages and strengthening technological capabilities.
MSN	Strong consumer ecosystem that focuses on consumers' daily essential needs
MWG	Well-positioned to benefit from growing demand for modern grocery retailing.
PNJ	Leader in fashion gold jewelry, benefiting from growth in discretionary spending.
VHC	Best-of-breed firm in Vietnam's near global monopoly pangasius exports; growing profitable collagen and gelatin business.
GMD	One of Vietnam's largest port operators and domestic logistics service providers. We expect GMD will be a major beneficiary of increasing manufacturing activity in Vietnam over the long term.
HPG	Long and flat steel producer with a leading market position, established scale, and proven operational efficiency. We believe 2023 is a cyclical low and anticipate a recovery in earnings in 2024. New capacity from Dung Quat Steel Complex Phase 2 is expected to come online in 2025.
DGC	A top-two global exporter of yellow phosphorus. DCG's resource and technological advantages support our average 2020-2025F forecast ROE of 38%.
DHC	DHC accounts for 10% of Vietnam's packaging paper capacity and possesses superior cost advantages.
KDH	Reputable residential developer with strong brand equity and a large, undervalued land bank in HCMC.
NLG	Experienced residential developer with a focus on the mid-range condo and landed property segments in HCMC and second-tier provinces.
VHM	Market leader in residential housing with the country's largest land bank that is well-positioned to capitalize on a sector recovery.
IDC	Major IP developer with a sustainable land bank pipeline; resilient land sales and profit outlook.
KBC	Reputable IP developer with a track record of attracting brand-name tenants; benefiting from its cleared residential land bank near industrial hubs.
PVS	One of the reputable mechanical & construction contractors in Asia Pacific to benefit from global/domestic Exploration & Production recovery and the huge potential from offshore wind power projects.
PVT	Leading petroleum transporter in Vietnam. We forecast 2024F recurring NPAT-MI growth of 27% YoY due to a full-year contribution from six new tankers acquired in 2023 and a continued tight market.
REE	Exposure to Vietnam's renewable power sector with strong financial capacity and potential IPO of REE Energy in the longer term. REE's 2024F P/E is the cheapest among renewable power stocks under our coverage.

Source: Vietcap

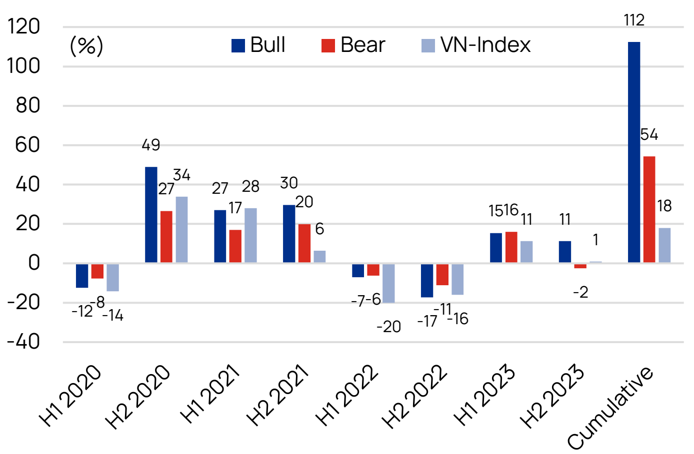
Figure 49: Bear basket for 2024

Stock	Comments
ACB	The most conservative among Vietnamese private banks, with a focus on retail and SME loans and minimal exposure to real estate developers. Loyal customer base and extensive physical presence in the southern region contribute to low-cost funding. This advantage enables ACB to offer competitive lending rates to its customers. Demonstrated excellence in bancassurance.
VCB	Defensive bank, well-positioned to tackle economic uncertainty with a strong provisioning buffer and a healthy balance sheet backed by a high-quality customer base and conservative loan disbursement approach. Low exposure to corporate bonds and loans to real estate developers. Potential higher-than-peer credit growth from participating in the distressed credit institution scheme.
CTR	Capitalizing on growing mobile data consumption via telecom infrastructure leasing.
SAB	Top-two beer company in Vietnam with a strong financial position and cash generation.
VEA	Exposure to Vietnam's fast-growing automobile and extensive motorbike markets; high dividend yields.
SCS	Air cargo handler in southern Vietnam's duopoly market generating high returns on capital and cash dividends.
VRE	Vietnam's largest mall operator/developer with resilient cashflow generation and solid new mall opening outlook.
LHG	Undervalued IP developer that is a main beneficiary of high demand for IP land in Long An Province and HCMC.
SIP	Cash-rich IP developer with substantial IP and UA land bank mainly in Tay Ninh that should benefit from developing infrastructure and growing FDI demand.
DCM	One of the two largest urea producers in Vietnam. To benefit from a brighter urea price outlook in 2024. Projected DPS yields of 6%-10% in the next three years.
BWE	One of the leading water companies in Vietnam, poised to benefit from long-term double-digit volume growth in Binh Duong province (one of Vietnam's top FDI destinations) and projected 3% annual tariff increases from July 2024.

Source: Vietcap

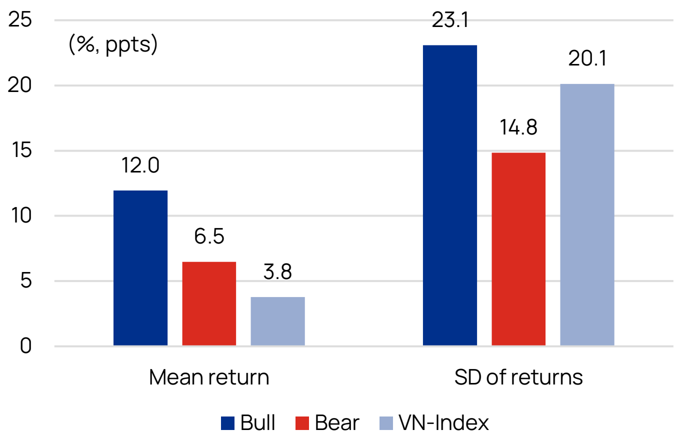
The price performance of our stock baskets since inception in January 2020 is illustrated below.

Figure 50: Vietcap stock baskets, simple avg price change



Source: Fiinpro, Vietcap

Figure 51: Mean & standard deviation of 6M returns *

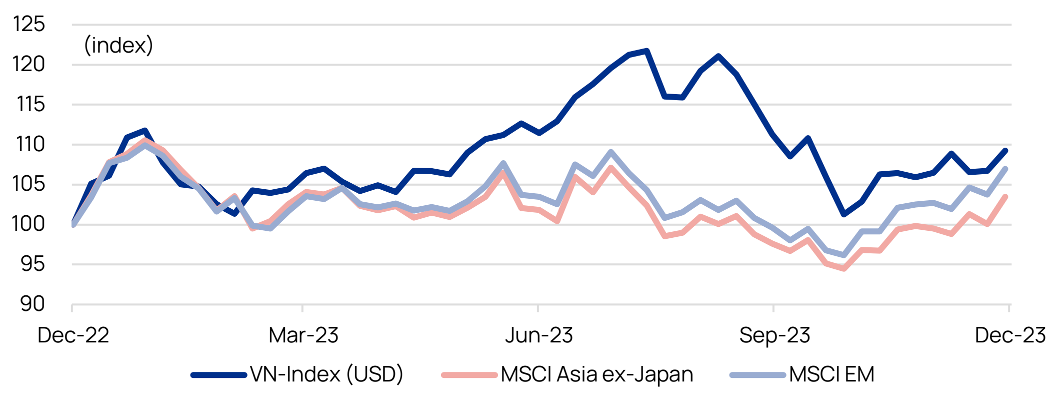


Source: Fiinpro, Vietcap (* returns = simple average price changes)

Share price changes in 2023

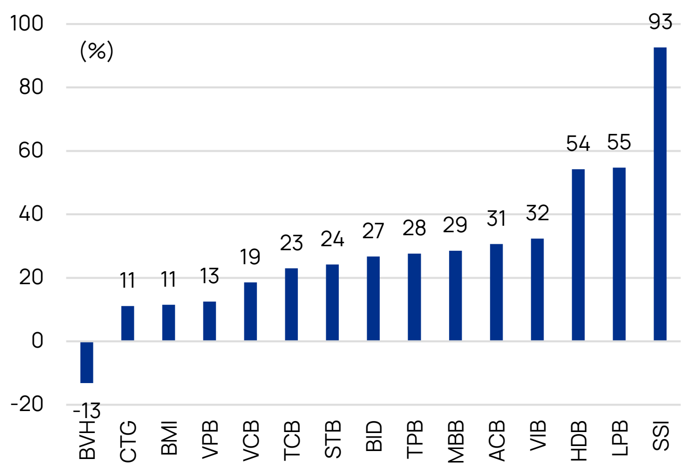
Changes in 2023 in the VN-Index and share prices for all the stocks under our coverage (grouped according to our industry classifications) are illustrated in **Figures 52 – 61** below.

Figure 52: VN-Index, MSCI Asia ex-Japan and Global Emerging Markets indices in 2023



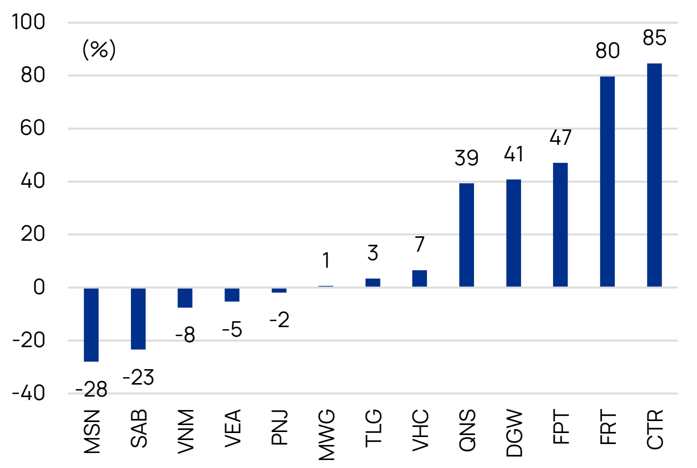
Source: Bloomberg, Vietcap

Figure 53: Financials



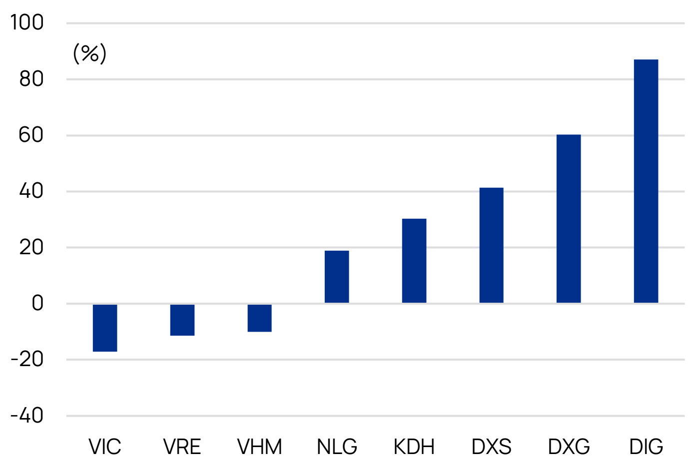
Source: FiinPro, Vietcap

Figure 54: Consumer



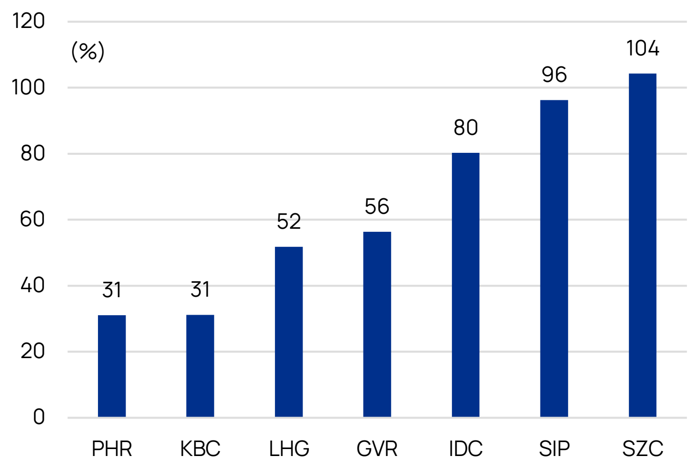
Source: FiinPro, Vietcap

Figure 55: Real estate



Source: FiinPro, Vietcap

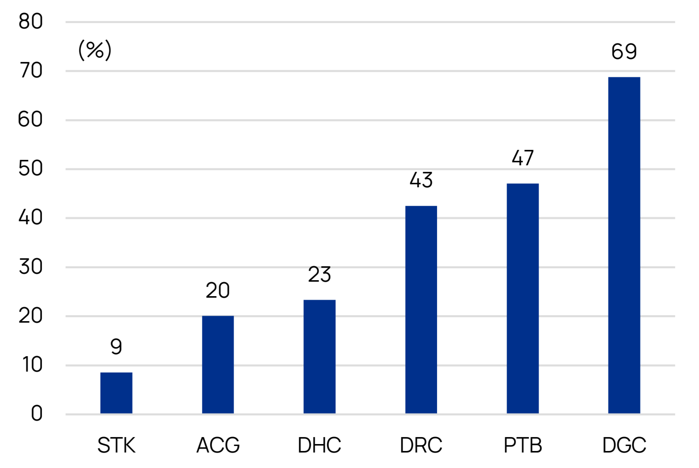
Figure 56: Industrial parks



Source: FiinPro, Vietcap

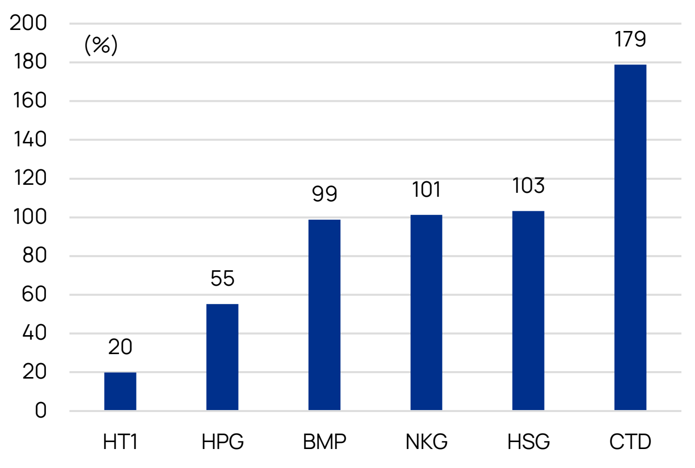
Vietcap

Figure 57: Industrial manufacturers



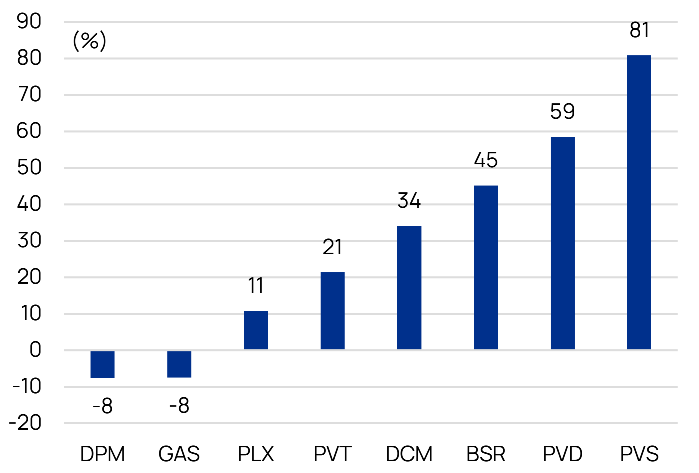
Source: FiinPro, Vietcap

Figure 58: Construction materials



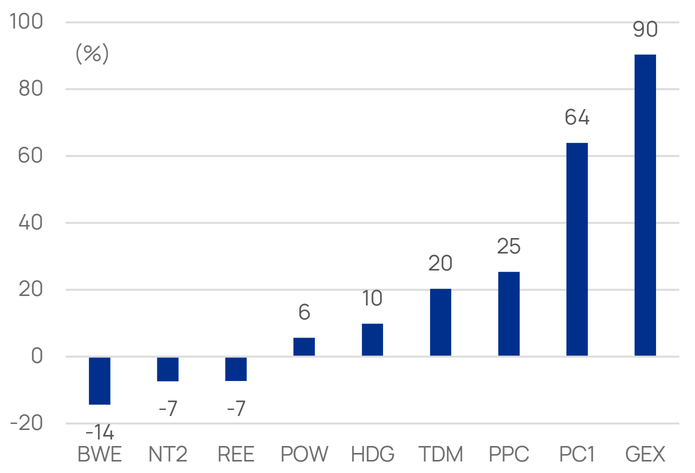
Source: FiinPro, Vietcap

Figure 59: Oil & Gas



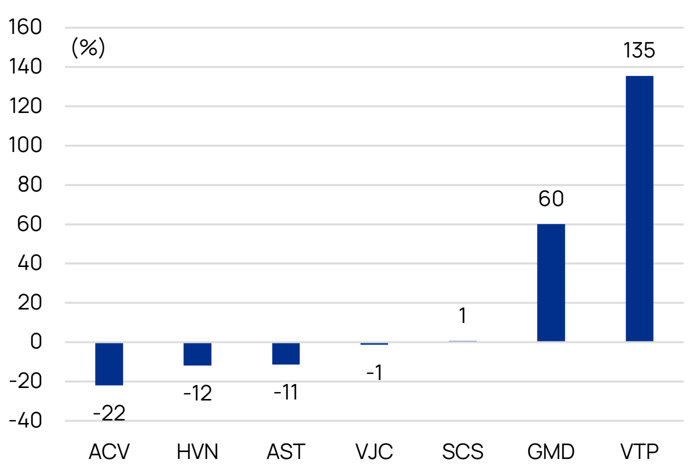
Source: FiinPro, Vietcap

Figure 60: Power & Water



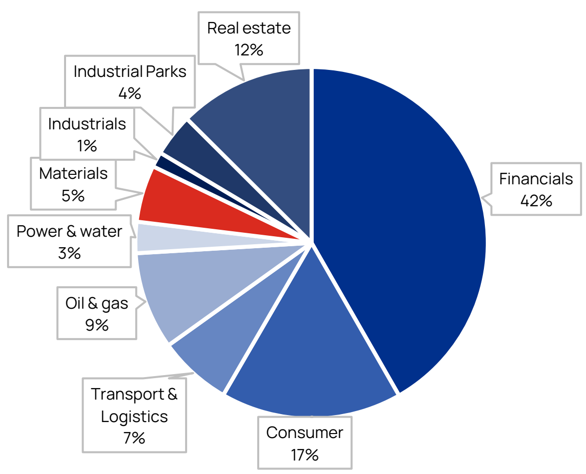
Source: FiinPro, Vietcap

Figure 61: Transportation & Logistics



Source: FiinPro, Vietcap

Figure 62: Vietcap coverage market cap by sector *



Source: FiinPro, Vietcap (* Vietcap classifications)

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Vietnam Macro

Summary outlook

We lower our 2024 GDP growth forecast from 7.0% to 6.5% as we expect export demand to remain weak in H1 2024 before a fuller recovery in H2 2024. **We forecast GDP growth at 6.8% in 2025F and 7.0% in 2026F** (which is similar to Vietnam's average growth rate in the five years before the COVID-19 pandemic).

We expect economic growth in 2024 to be supported by:

1) **Fiscal policy:** Several fiscal measures should support economic growth in 2024, including**:** **1.1)** Public sector salary reform, which is scheduled to be implemented from H2 2024. **1.2)** extension of VAT cuts to June 30, 2024, and extension of the 50% reduction in the environmental protection tax on petroleum to full-year 2024. **1.3)** Disbursement of the 2022-2023 fiscal support package could be extended to 2024.

2) **SBV to maintain a loose monetary stance in 2024:** We expect the SBV to maintain a loose monetary stance to support the economy in 2024 and we forecast one increase in policy rates of 25 bps by the end of 2024.

3) **FDI to increase further:** We expect FDI disbursement to improve further to USD25.5bn in 2024 (+10% YoY), equivalent to around 5.5% of GDP, following robust FDI registrations in 2023 (USD36.6bn; +31.1% YoY).

4) **Improvement in trade and production to stimulate consumption:** Although global demand could remain weak in H1 2024, exports could still achieve double-digit growth in H1 2024 due to a low base in H1 2023 and we expect ongoing recovery in H2 2024. The recovery in exports and several new factories commencing production in late 2023 and potentially in 2024 (Amkor, Long Son LNG, LEGO, amongst others) should support production, the labor market, and subsequently, consumption.

5) **Ongoing recovery of foreign inbound tourism:** International arrivals reached 12.6 million in 2023 – equivalent to 70% of the pre-COVID level of 18 million in 2019. We expect an ongoing recovery in foreign arrivals to continue to support the tourism industry and enhance economic growth.

6) **A gradual recovery in real estate & construction activity** with lower mortgage rates and ongoing regulatory reforms that could help to ease legal bottlenecks for developers.

Other key macro forecasts:

- **We expect FDI disbursement to increase, growing by around 10% per annum in 2024/25/26**, driven by: (1) robust FDI pledges recorded in 2023, (2) ongoing investment diversification out of China by foreign companies, (3) Vietnam's fundamental advantages (e.g., location, competitive labor costs, and a long list of free trade agreements), (4) the recent upgrades of diplomatic ties between Vietnam and South Korea, Vietnam, and the United States, and most recently, Vietnam and Japan, which could continue to fuel FDI inflows into Vietnam.
- **We cut our export and import growth forecasts for 2024 to 9.5% and 11.5%, respectively**, from 10.3% and 12.6% previously, (implying a trade surplus of USD24.3bn), due to slower-than-expected recovery in export orders. We expect that Vietnam's trade could gradually improve in H1 2024 before a stronger recovery in the second half of 2024. We also forecast stronger export and import growth for 2025F at 11.0% and 11.5%, respectively, as new orders could increase further in 2025.

- **We expect average CPI at 3.8% in 2024** and we forecast average CPI at 3.8% and 3.5% in 2025F and 2026F, respectively. Several factors that could put pressure on inflation in 2024 include: higher agricultural commodity prices due to export bans and the potential negative impact of the El Niño phenomenon; (2) public sector salary reform (starting from July 1, 2024) and potential increases in private sector regional minimum wages (+6.0% starting from July 1, 2024); (3) the Government could continue to raise prices of several goods/services under their management including healthcare service prices (expected to increase 5.0% starting from July 2024), tuition fees, and electricity prices.
- **We expect the USD/VND exchange rate to remain stable in 2024.** Potential Fed rate cuts could help to narrow the negative spreads between short-term VND and USD interest rates and ease pressure on the exchange rate in H2 2024. Moreover, we expect solid foreign inflows from remittances, FDI inflows, a trade surplus, and a narrowing services trade deficit that should help to support the stability of the Vietnam dong.

Fiscal and monetary support

Expansionary fiscal and monetary policies in the context of weak global demand

Since the end of 2022, the Government has issued a series of measures to stimulate economic growth amid a global demand slowdown. Some key measures include a public investment plan for 2023 of VND727tn (USD30.9bn) — 38% more than 2022's plan — a deferral of taxes and fees by up to six months, reductions in 36 types of fees in H2 2023, a VAT cut of 2ppts (from 10% to 8%) for a wide range of sectors in H2 2023 and H1 2024, and a 50% reduction in environmental taxes on petroleum products in 2024, among others.

In addition, the SBV lowered various policy rates on four occasions in H1 2023 by between 50 bps and 200 bps. As a result, commercial banks have lowered deposit and lending rates significantly to the lowest levels in 20 years (according to the SBV's Deputy Governor at the beginning of 2024).

These fiscal and monetary policy developments have helped to offset the negative impact of weak global demand on the economy in 2023 and are expected to enhance economic growth further in 2024.

Figure 63: Key Government support measures since late 2022 (1)

Date	Event	Major content
11-Nov-22	NA passed Resolution 69/2022/QH15	The National Assembly passed the State budget plan for 2023, in which the budget for public investment is VND727tn (USD30.9bn) — 38% more than 2022's plan.
16-Jan-23	Vietnam General Confederation of Labor issued Resolution 06/ NĐ-DCT	Direct support of VND1.0mn to VND3.0mn for trade unionists and employees who are forced into reduced working hours or made redundant by termination of their labor contracts due to their companies' cancellation or reduction of purchase orders.
5-Mar-23	Government released Decree 8/2023/ND-CP	Amending, supplementing, and delaying the effective date of some articles in Decree 65.
14-Mar-23	SBV reduced policy rates	The SBV cut the discount rate by 100 bps and lowered the short-term lending rate cap for priority sectors by 50 bps.
31-Mar-23	SBV reduced policy rates	The SBV cut the refinancing rate by 50 bps, the deposit rate cap by 50 bps, and the short-term lending rate cap for priority sectors by 50 bps (effective from April 3, 2023).
3-Apr-23	PM released Decision 388/QD-TTg	The Prime Minister approved the plan of "building at least one million social housing units for low-income people and workers in industrial parks in 2021-2030."
3-Apr-23	Government issued Decree 10/2023/ND-CP	The decree provides clearer guidance to address common legal bottlenecks for real estate developers.
14-Apr-23	Government issued Decree 12/2023/ND-CP	The decree extends the deadline for payment of value-added tax, corporate income tax, personal income tax, and land rent in 2023.
23-Apr-23	SBV issued Circular 02/2023/TT-NHNN	Allowing banks to restructure repayment terms and maintain the loan group for customers facing difficulties.
23-Apr-23	SBV issued Circular 03/2023/TT-NHNN	Delayed the tightening of bond trading regulations for credit institutions.
14-May-23	Government issued Decree 24/2023/ND-CP	Increase in the statutory base rate for officials and public employees' salaries, effective from the beginning of July 2023.

(Table continued on next page)

Figure 64: Key Government support measures since late 2022 (2)

Date	Event	Major content
23-May-23	SBV reduced policy rates	The SBV cut the refinancing rate by 50 bps and the deposit rate cap for terms from one month to less than six months by 50 bps.
16-Jun-23	SBV reduced policy rates	The SBV cut the refinancing rate by 50 bps and the discount rate by 50bps, deposit rate cap for terms from one month to less than six months by 25 bps.
24-Jun-23	National Assembly issued Resolution 101/2023/QH15	The National Assembly approved a VAT cut of 2% (from 10% to 8%) for a wide range of sectors, effective from July 1 to December 31, 2023.
28-Jun-23	SBV issued Circular 06/2023/TT-NHNN	Regarding credit institutions' lending activities that (1) allow retail borrowers to borrow from another bank to refinance existing loans and (2) tighten some lending activities to unqualified for sale projects.
29-Jun-23	MoF released Circular 44/2023/TT-BTC	The MoF announced reductions in 36 types of fees, effective from July 1 to December 31, 2023.
23-Aug-23	SBV issued Circular 10/2023/TT-NHNN	Defer the implementation of additional prohibited lending purposes to support funding for developers.
9-Nov-23	National Assembly passed 2024 Socio-Economic plan	National Assembly approved 6 - 6.5% GDP growth target for 2024.
14-Nov-23	National Assembly passed public salary reform	Salary reform is expected to enhance civil servants' income and quality of life, boost labor productivity, and support economic growth.
27-Nov-23	National Assembly passed Amended Housing Law	The Amended Housing Law provides a clearer procedure and more flexibility for developers on social housing development.
28-Nov-23	National Assembly passed Amended Real Estate Business Law	The Amended Real Estate Business Law regulates stricter legal requirements for developers before they can pre-sell off-the-plan projects and raise funds from homebuyers.
29-Dec-23	Resolution 42/2023/UBTVQH15	National Assembly Standing Committee approved an extension on the 50% reduction of the environmental protection tax on petroleum until the end of 2024.

Source: Vietcap compilation

GDP

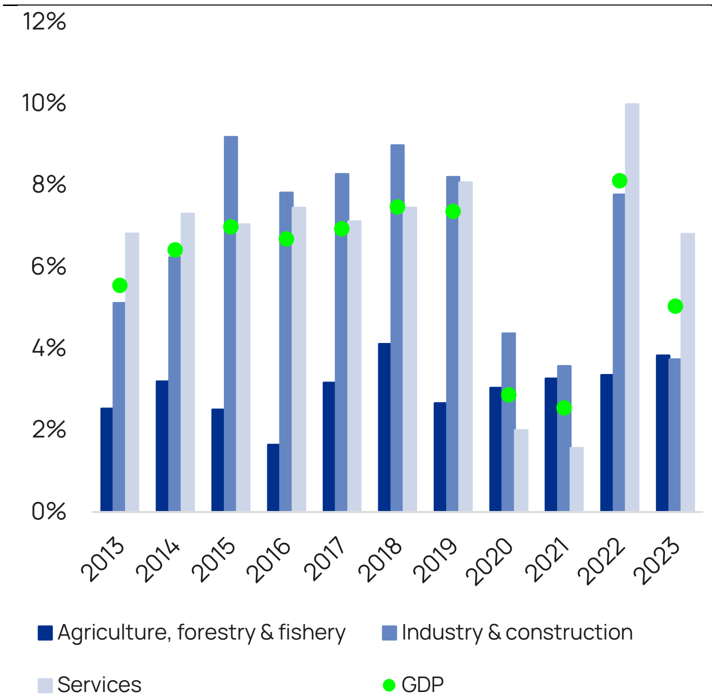
A strong rebound in Q4 lifts full-year 2023 GDP growth to 5%

According to the General Statistics Office of Vietnam (GSO), Vietnam's GDP increased 6.7% YoY in Q4 2023 – the highest Q4 growth since 2019 – bringing overall GDP growth in 2023 to 5.0% YoY. This figure was in line with our 2023 GDP growth forecast; however, it is lower than the Government's target of 6.5%.

The performance of the three main sectors was as follows:

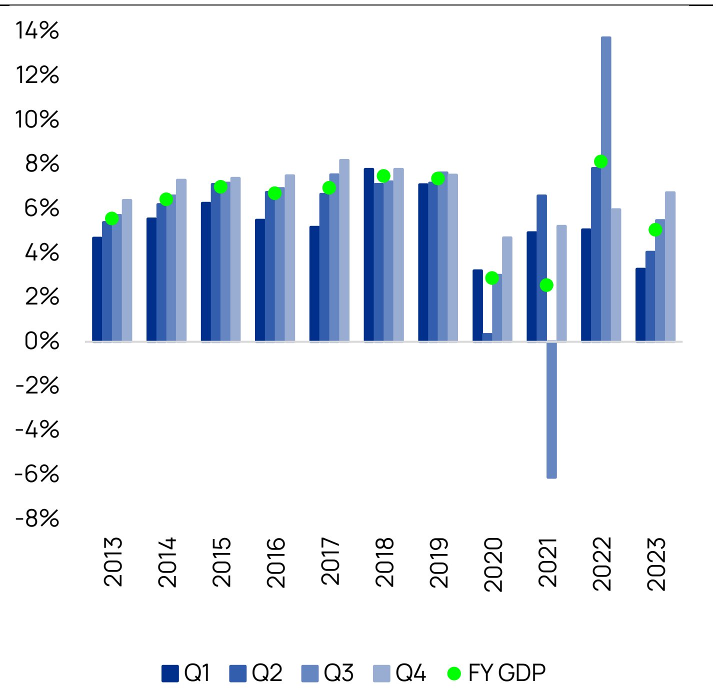
- **The services sector continued to be the key driver**, growing 7.3% YoY in Q4 and 6.8% YoY in 2023 and contributing 62.2% to overall GDP growth in 2023. Within the services sector, all sub-sectors recorded growth including accommodation & catering services (Q4: +8.9% YoY; 2023: +12.2% YoY), transportation & logistics (Q4: +10.0% YoY; 2023: +9.2% YoY), and wholesale & retail sales (Q4: +9.9% YoY; 2023: +8.8% YoY).
- **The industry & construction sector continued to recover further in Q4 2023**, growing 7.4% YoY in Q4 2023 (Q1: -0.5% YoY; Q2: +2.1%; Q3: +5.2% YoY) and bringing full year 2023 growth to 3.7% YoY, contributing 28.9% to overall GDP growth. The manufacturing subsector recovered notably at 6.9% YoY in Q4 2023 (Q1: -0.7% YoY; Q2: 0.9% YoY; Q3: 4.5% YoY), bringing growth in 2023 to 3.0% YoY. Meanwhile, the construction subsector increased 9.3% YoY in Q4 and 7.1% YoY in 2023.
- **The agriculture, forestry, & fishery sector recorded its strongest annual growth in five years.** This sector increased 4.1% YoY in Q4 2023 and 3.8% YoY in 2023, contributing 8.8% to overall GDP growth. The solid growth of the agriculture, forestry, & fishery sector was supported by robust growth in exports of several agricultural products (e.g., rice: +39.4% YoY; fruits and vegetables: +65.9% YoY) and the development of high-tech agriculture.

Figure 65: GDP growth by sector



Source: GSO, Vietcap

Figure 66: GDP growth by quarter



Source: GSO, Vietcap

Vietcap

Figure 67: Agriculture, forestry, & fishery GDP growth

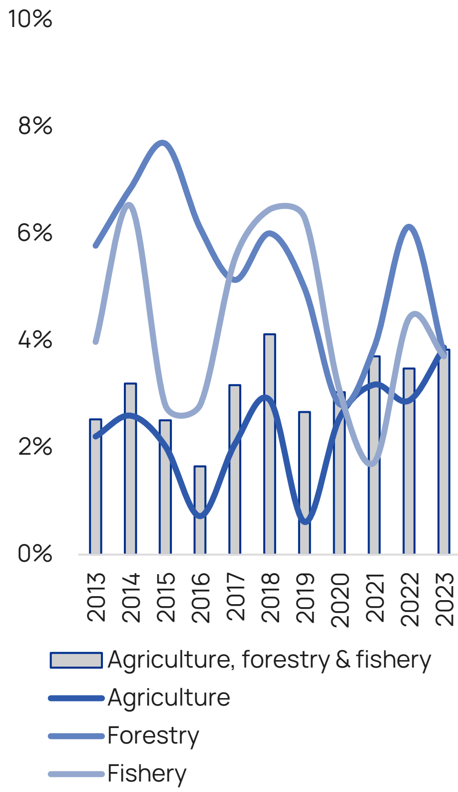


Figure 68: Industry & construction GDP growth

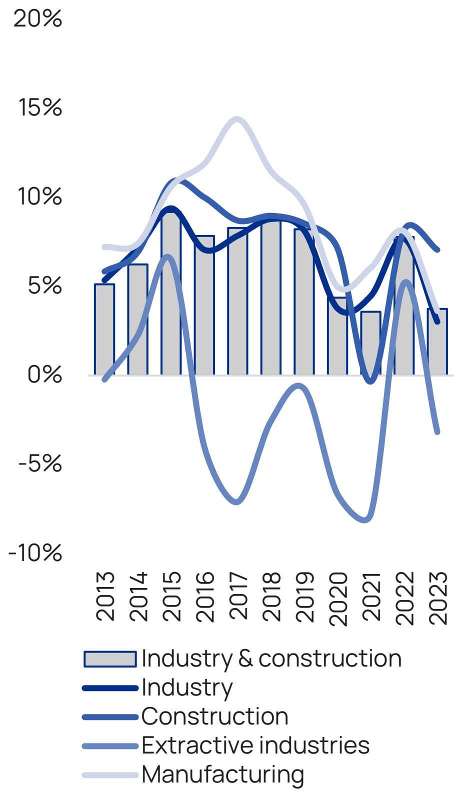
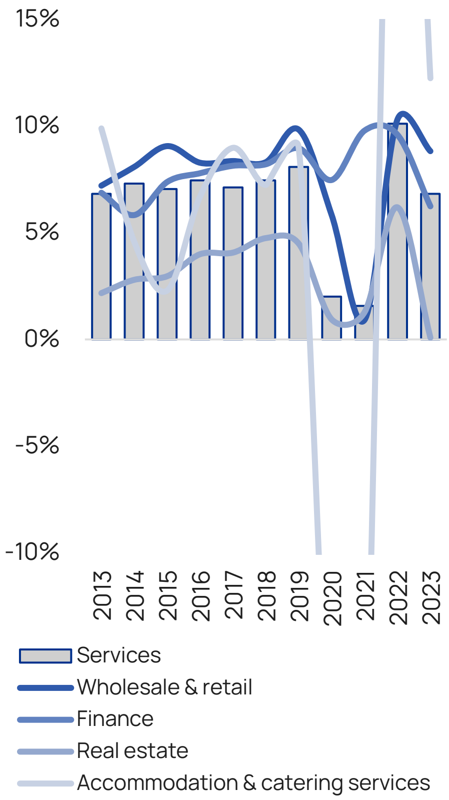


Figure 69: Services sector GDP growth



Source: GSO, Vietcap

***Outlook*:** **We lower our 2024 GDP growth forecast from 7.0% to 6.5%** as we expect export demand could remain weak in H1 2024 before rebounding in H2 2024. **We forecast GDP growth at 6.8% in 2025F and 7.0% in 2026F** (which is similar to the average growth in the five years before the COVID-19 pandemic).

We expect economic growth in 2024 to be supported by:

1) **Fiscal policy:** The Government has announced several fiscal measures to support economic growth in 2024, including**:**
   - **Public sector salary reform**, which is scheduled to be implemented from H2 2024, is expected to add 0.3 ppts to GDP growth in 2024 and 0.2 ppts in 2025 (according to the Ministry of Planning and Investment - MPI).
   - **Tax cuts:** On November 29, 2023, the National Assembly passed the Government's proposal on extension of the 2% VAT cut until the end of June 2024. Also, on December 29, 2023, the National Assembly Standing Committee approved the extension of the 50% reduction of the environmental protection tax on petroleum to full-year 2024.
   - **Disbursement of 2022-2023 support package could be extended to 2024:** As of the end of November 2023, only 50% of the support package passed in 2022 had been disbursed. Parts of the remaining amount could be extended to 2024.
2) **SBV to maintain a loose monetary stance in H1 2024:** We expect the SBV to maintain a loose monetary stance to support the economy in 2024 and we forecast one increase in policy rates of 25 bps by the end of 2024.

3) **FDI to accelerate further:** We expect FDI disbursement to improve further to USD25.5bn in 2024 (+10% YoY), equivalent to around 5.5% of GDP, following robust FDI registrations in 2023 (USD36.6bn; +31.1% YoY).

4) **Improvement in trade and production to stimulate consumption:** Although global demand could remain weak in H1 2024, exports could still achieve double-digit growth in H1 2024 due to a low base in H1 2023 and we expect further recovery in H2 2024. The recovery in exports and several new factories commencing production in late 2023 and potentially in 2024 (Amkor, Long Son LNG, LEGO, amongst others) should support production, the labor market, and subsequently, consumption.

5) **Ongoing recovery of foreign inbound tourism to support growth:** International arrivals reached 12.6 million – equivalent to 70% of the pre-COVID level (18 million in 2019). We expect an ongoing recovery of foreign arrivals to continue to support the tourism industry and enhance economic growth.

6) **A gradual recovery in real estate & construction activity** with lower mortgage rates and ongoing regulatory reforms that could help to ease legal bottlenecks for developers.

Downside risks to our forecast:

- Stronger-than-expected impact of El Niño, which could negatively impact the agriculture sector.
- Slower-than-expected recovery of the real estate sector.
- Weaker-than-expected recovery in global growth, particularly a stronger than-expected slowdown in China, which could drag on Vietnam's exports, production, and tourism.
- Geopolitical and other global uncertainties: (1) The Russia – Ukraine conflict; (2) The Israel – Hamas conflict; (3) Continuing high inflation in the US, leading to a delay in Fed cut rates; (4) Outcome and consequences of the US Presidential election.

Potential upside to our forecast:

- Faster recovery in the real estate sector.
- Faster-than-expected global growth, especially from the US and China that could drive a stronger recovery in Vietnam's trade and production.

Industrial Production

Production continues to show signs of recovery

The overall index of industrial production (IIP) grew 5.0% YoY in Q4 2023 (vs -2.6% YoY in Q1 2023; -0.2% YoY in Q2 2023 and +2.8%YoY in Q3 2023). However, in 2023, overall IIP only inched up 1.5% YoY – the lowest annual figure in the period 2012 – 2022. In addition, IIP of the manufacturing sub-sector grew 5.6% YoY in Q4 2024 (vs -2.9% YoY in Q1 2023; -0.7% YoY in Q2 2023 and +3.5%YoY in Q3 2023) and 1.6% YoY in 2023, respectively.

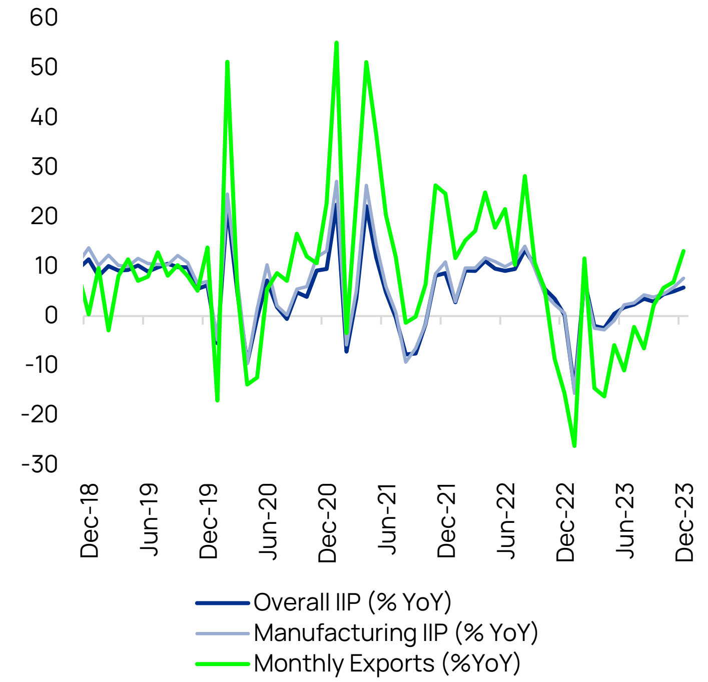
In 2023, among manufacturing sub-sectors, production of rubber and plastic products (+13.2% YoY), tobacco (+10.1% YoY), chemicals and chemical products (+9.5% YoY), and prefabricated metal products excluding machinery and equipment (+8.3% YoY) were the leading sub-sectors in 2023, whereas production of other transportation vehicles (-10.7% YoY), other non-metallic mineral products (-4.2% YoY), and motor vehicles (-2.4% YoY) were the top laggards.

Figure 70: Industrial Production Index

	MoM	YoY	2023 vs 2022
Overall IIP	0.1%	5.8%	1.5%
Extractive industries	-6.6%	-12.8%	-3.9%
Manufacturing	0.9%	7.6%	1.6%

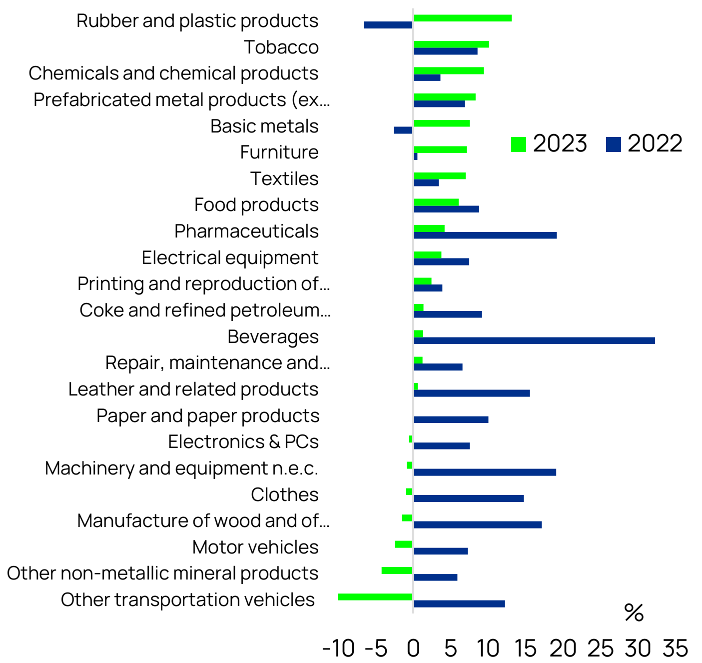
Source: General Statistics Office of Vietnam (GSO), Vietcap

Figure 71: Monthly IIP and export growth



Source: GSO, Customs, Vietcap

Figure 72: IIP of Manufacturing sub-industries



Source: GSO, Vietcap

Weak export demand dampens Vietnam's manufacturing PMI

The S&P Global Vietnam Manufacturing Purchasing Manager Index (PMI) was below 50 (the no-change mark) in most of the months in 2023 (the PMI was 51.2 in February and 50.5 in August), leading to an average PMI of 48.4 in 2023. This is the second lowest level since the survey started in 2012 as it is only higher than an average reading of 47.2 seen in 2020.

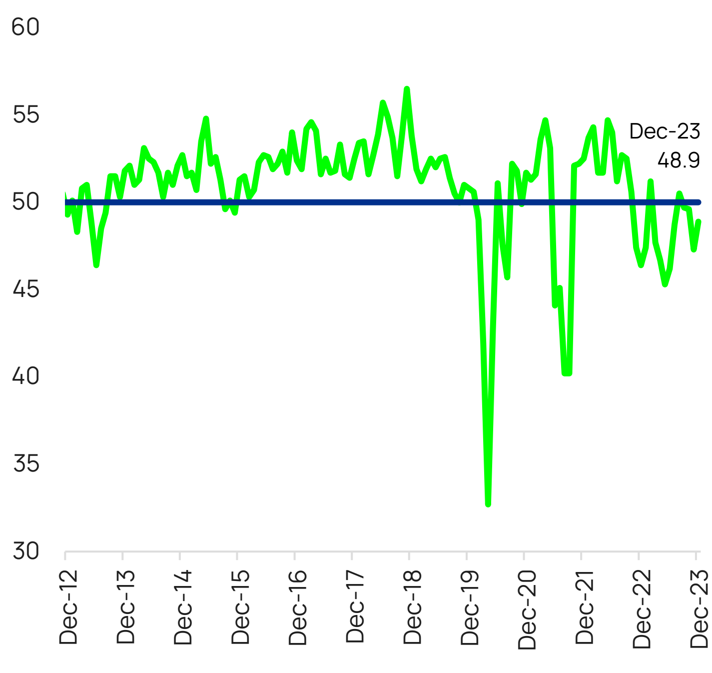
The weak PMI results of Vietnam were driven by falling new orders, particularly new export orders, given its manufacturing sector's high dependence on exports. In 2023, the ratio of Vietnam's exports to GDP was 83% (down from 91% in 2022 – ranking ninth globally). Similarly, poor PMI data was also reported in Malaysia (average PMI at 47.8 in 2023), where merchandise exports were equivalent to 87% of GDP in 2022 (ranking tenth globally).

Outlook: Vietnam's manufacturing PMI ended the year at 48.9 in December – a fourth consecutive monthly contractionary reading of business conditions in the sector - signaling a continued challenging environment for business and production activity in the short term.

Nevertheless, **we expect production to improve in FY2024 due to several factors:**

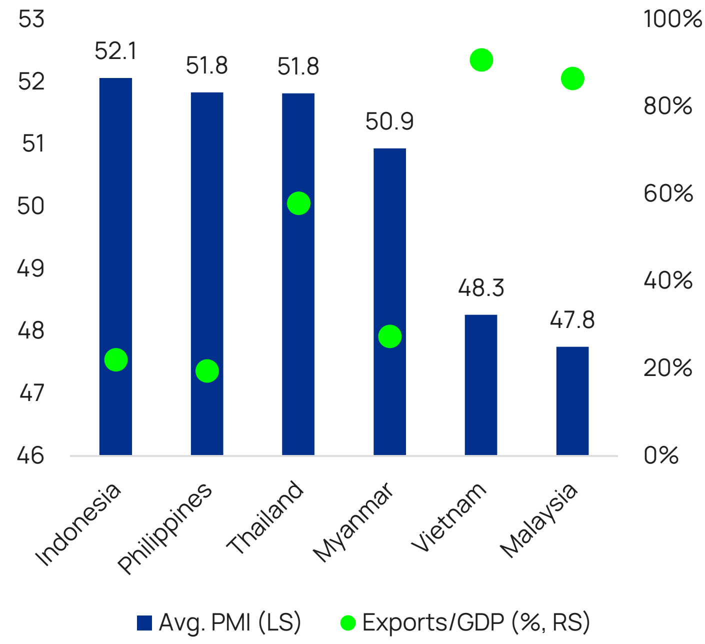
- We forecast exports and imports to rebound in 2024.
- Numerous new factories could start commercial production in 2024 including: (1) 30 industrial factory projects in Ba Ria - Vung Tau, including the Long Son Petrochemical Complex (USD5.1bn), (2) the Lego Vietnam Factory (USD1.0bn), and Amkor (USD1.6bn), among others.
- The extension of the 2% VAT cut until the end of June 2024 and the extension of the 50% reduction of the environmental protection tax on petroleum in 2024 could help to ease production costs and stimulate demand.
- According to S&P Global's December 2023 PMI report, firms expect a recovery in demand and output in 2024, with business sentiment hitting a three-month high.

Figure 73: Vietnam Manufacturing PMI



Source: S&P Global, Vietcap

Figure 74: Avg. 2023 PMI and merchandise exports/GDP ratio



Source: World Bank, S&P Global, Vietcap

Consumption

Robust rebound in foreign inbound arrivals supports retail sales

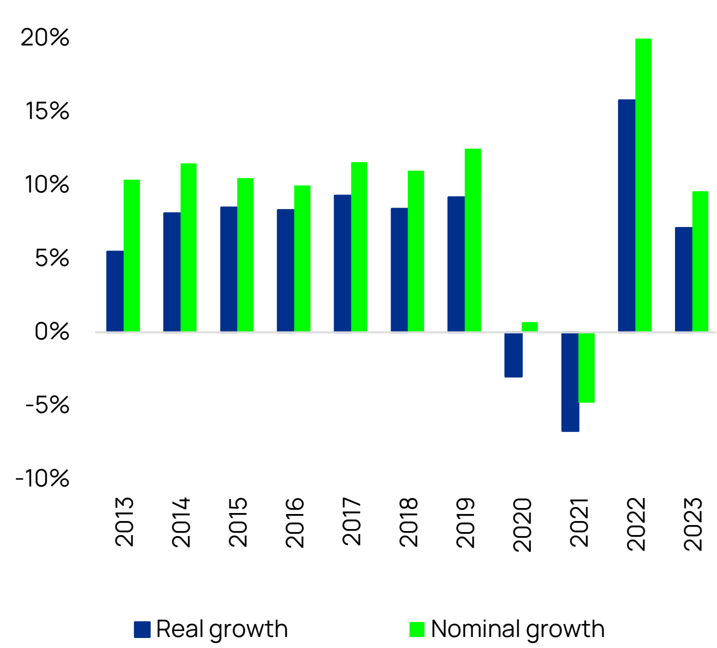
According to the GSO, total retail sales of goods and services achieved 9.6% YoY growth in nominal terms and 7.1% YoY in real terms, respectively, in 2023 (vs 19.8% and 15.6% in 2022). Nevertheless, these are the lowest levels since 2013, excluding the pandemic period from 2020-2021.

The growth of overall retail sales of goods and services was supported by a strong rebound of foreign inbound arrivals (12.5 million in 2023 vs 3.7 million in 2022). Retail sales of accommodation & catering services and retail sales of tourism surged 14.7% YoY and 52.5% YoY, respectively. These two sectors combined contributed 18.2% to overall retail sales growth in 2023 (vs only 10.8% in 2019).

Meanwhile, retail sales of goods grew 8.6% YoY mainly due to solid growth of some key products, including educational & cultural products (+14.4% YoY) and food/foodstuffs (+11.7% YoY).

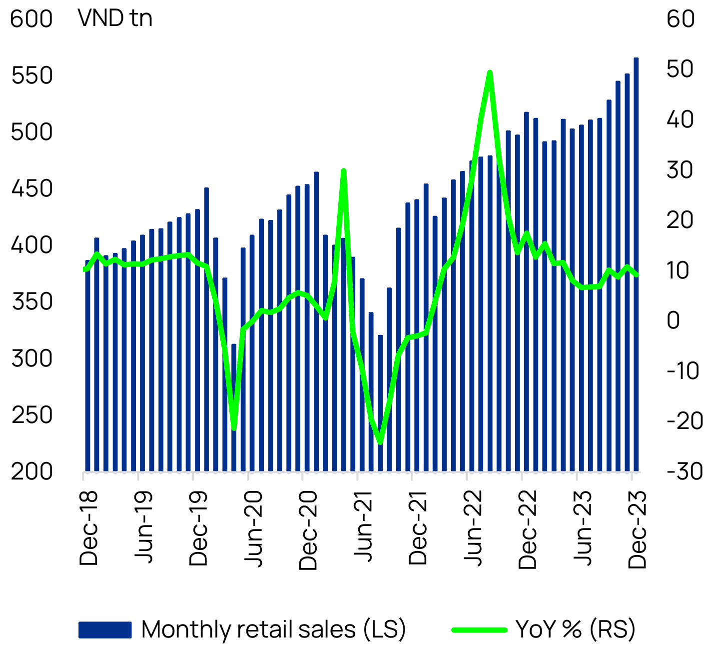
Outlook: In 2024, we expect retail sales, particularly retail sales of the accommodation/catering and tourism sectors, to improve further given the ongoing recovery in the tourism sector, particularly foreign arrivals. (In 2023, total international arrivals reached 70% of the pre-COVID level, in which arrivals from other countries, excluding China, reached 89% of the level seen in 2019; however, arrivals from China reached only 30% of the pre-COVID level.) In addition, the fifth public salary reform (please see more details in our Macro Flash Note published on November 24, 2023) and a 6.0% minimum wage hike in the private sector (waiting for the Government's approval) could help to enhance domestic consumption. Also, the extension of the 2% VAT cut in H1 2024 and the extension of the 50% reduction of the environmental protection tax on petroleum in 2024 should help to support both businesses and consumers.

Figure 75: Retail sales, YoY



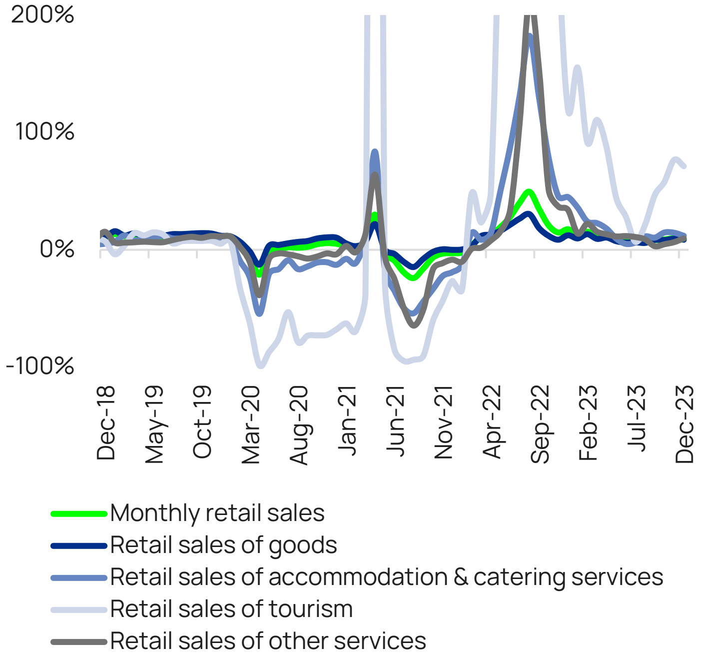
Source: GSO, Vietcap

Figure 76: Monthly retail sales



Source: GSO, Vietcap

Figure 77: Retail sales growth - Breakdown

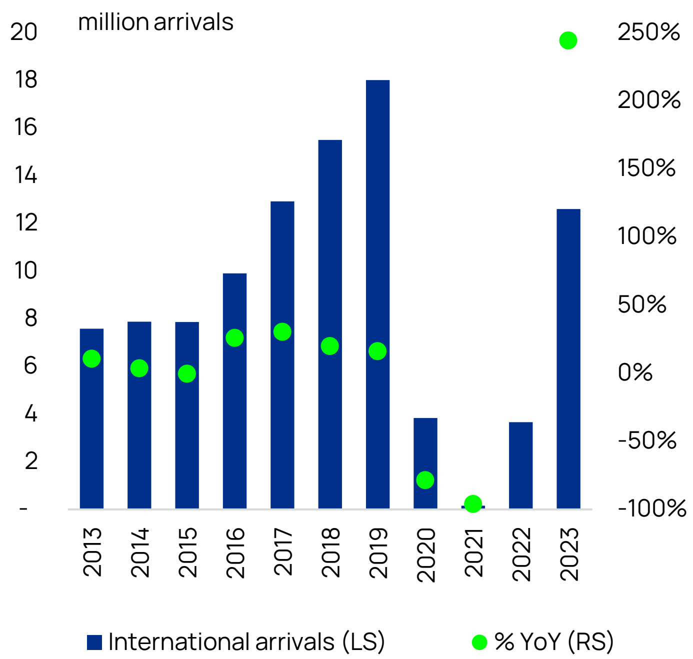


Source: GSO, Vietcap

Figure 78: Contribution to total retail sales growth

Source: GSO, Vietcap

Figure 79: International arrivals



Source: GSO, Vietcap

Figure 80: Monthly international arrivals

	Dec 2023 vs Dec 2019	2023 vs 2019
Total international arrivals	80.2%	70.0%
China	41.9%	30.3%
Excluding China	98.7%	89.0%

Source: GSO, Vietcap

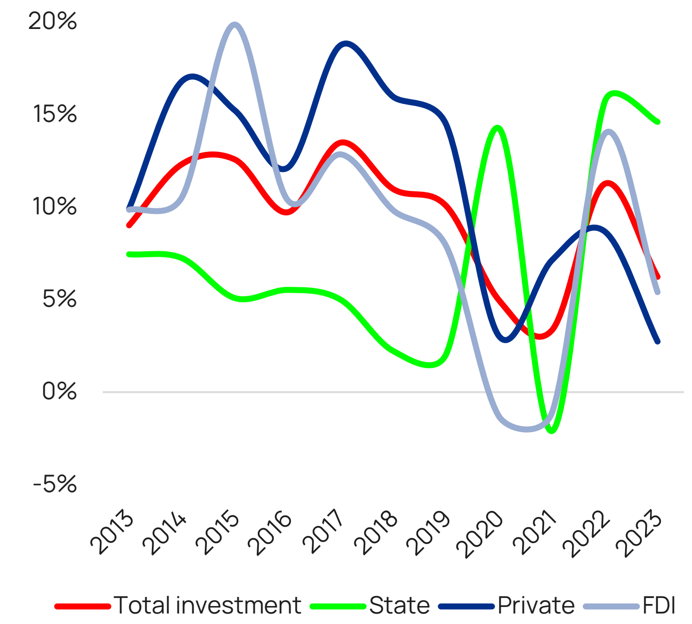
Total investment

State sector investment expands in the context of slow private investment

In 2023, total investment increased 6.2% YoY to VND3,423tn (USD143bn), equivalent to 33.5% of GDP, supported by robust growth in State sector investment amid sluggish growth in private sector investment.

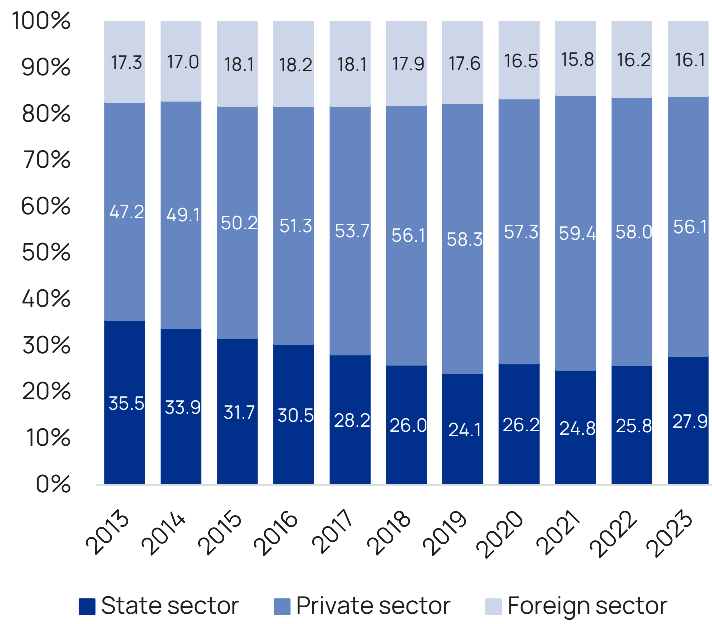
- Investment from the State sector jumped 14.6% YoY in 2023 (vs an average of 4.0% p.a. in the five years pre-COVID) to VND954tn (USD39.7bn), accounting for 27.9% of total investment – the highest level over the past six years.
- In contrast, investment from the domestic private sector inched up 2.7% (vs an average of 15.3% during 2015 – 2019) to VND1,920tn (USD80bn), contributing 56.1% to total investment – the lowest level over the past five years.
- Meanwhile, investment from the FDI sector remained resilient, increasing 5.4% to VND550tn (USD23.2bn), accounting for 16.1% of total investment.

Figure 81: Investment growth by sector



Source: GSO, Vietcap

Figure 82: Contribution to total investment by sector



Source: GSO, Vietcap

State Budget

Fiscal spending accelerates to stimulate economic growth

According to the Ministry of Finance's (MoF) preliminary estimates, total State revenue fell 5.4% to VND1,717.8tn (USD70.8bn), completing 106% of 2023's plan. Meanwhile, budget expenditures increased 10.9% YoY to VND1,731.9tn (USD71.4bn), fulfilling 83.4% of the annual plan. These figures led to a fiscal deficit of VND14.1tn (USD581.0mn), which is much lower than 2023's fiscal deficit plan of VND455tn (USD19bn).

Of the total budget revenue, domestic revenue edged down 0.3% YoY to VND1439.0tn (USD59.3bn). Meanwhile, revenue from crude oil and revenue from exports & imports dropped 19.5% YoY and 25.4% YoY to VND62.8tn (USD2.6bn) and VND 213.0tn (USD8.8bn), respectively, due to falling global crude oil prices and declines in exports and imports.

In terms of budget expenditures, spending for investment and development surged by 33.1% YoY to VND579.8tn (USD23.9bn), including USD72.7tn from the 2022-2023 Recovery package, but this figure fulfilled only 79.8% of the annual plan approved by the National Assembly as 2023's budget plan for investment and development expenditures jumped 38% from 2022's plan. If investments using budget transferred from previous years are included, total disbursements amounted to VND622tn (USD25.9bn).

Figure 83: Breakdown of State budget

Unit: VND tn	2023E	% YoY Growth	% of 2023 plan	2023P	2024P	2025P	2026P
Budget revenue	**1,718**	**-5.4%**	**106.0%**	**1,621**	**1,701**	**1,714**	**1,801**
Domestic revenue	1,439	-0.3%	107.9%	1,334	1,444	1,456	1,535
Revenue from crude oil	63	-19.5%	149.5%	42	46	42	42
Revenue from export-import	213	-25.4%	89.1%	239	204	212	221
Budget expenditures	**1,732**	**10.9%**	**83.4%**	**2,076**	**2,119**	**2,140**	**2,268**
Current expenditures	1,059	3.2%	90.3%	1,172	1,176	1,222	1,265
Investment & development	**580**	**33.1%**	**79.8%**	**727**	**677**	**606**	**626**
Interest repayment	90	-7.6%	87.6%	103	112	120	137
Budget balance	-14			(456)	(399)	(426)	(467)
Budget deficit/GDP				4.4%	3.6%	3.5%	3.5%

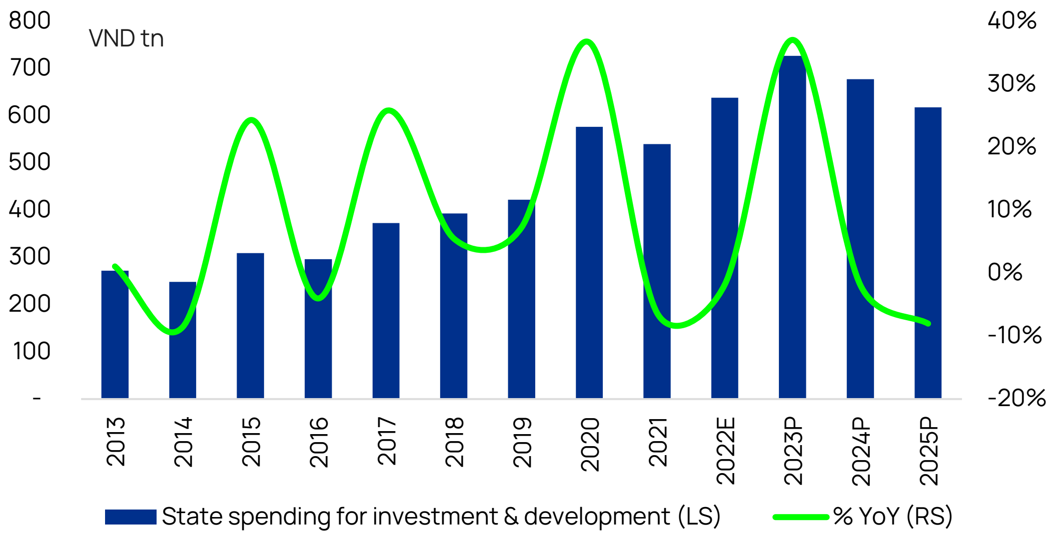
Source: Ministry of Finance, GSO, Vietcap compilation

Outlook: We believe the Government will continue to boost public investment in 2024 and fiscal spending will continue to be a key driver for Vietnam's economy over the short term.

According to the MoF's 2024 plan for the State budget that was approved by the National Assembly, budget revenue and expenditures are projected at VND1,701tn (USD70.9bn) and VND2,119tn (USD88.3bn), respectively, resulting in a fiscal deficit of USD399tn (USD16.6bn) — or equivalent to 3.6% GDP in 2024. Of this amount, the budget for investment and development expenditures is planned at VND677tn (USD28.2bn), declining 6.8% from 2023's plan.

However, the budget for investment each year could be higher due to the transferred budget from previous years. In addition, according to data from the MoF, as of the end of November 2023, only around half of the recovery package approved in January 2022 has been disbursed, comprising (1) disbursement under support policies of the recovery package of VND109.5tn (USD4.6bn) as of the end of November 2023 and (2) disbursement for investment and development under this package reached around VND63tn (USD2.6bn). Part of the package could be terminated, while some parts could continue to be disbursed in 2024.

Figure 84: State spending for investment and development



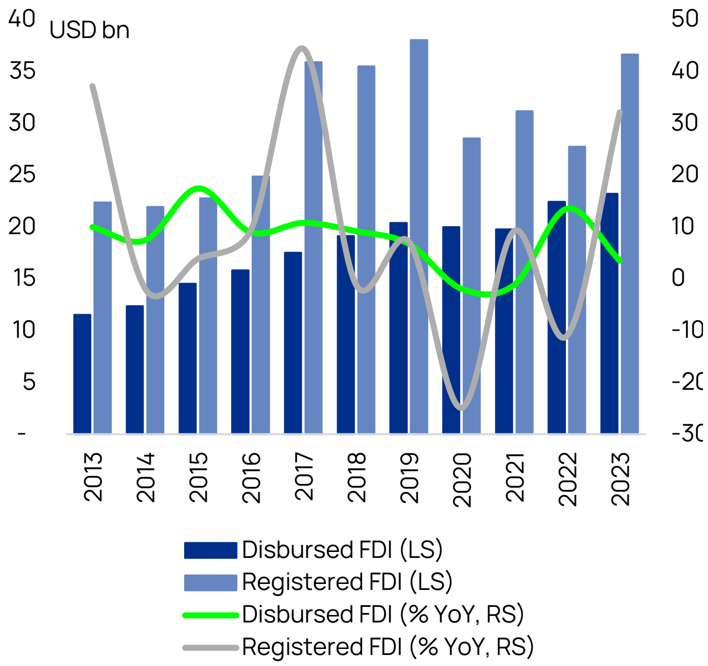
Source: MoF, Vietcap

FDI

Vietnam records robust new FDI registrations post-pandemic

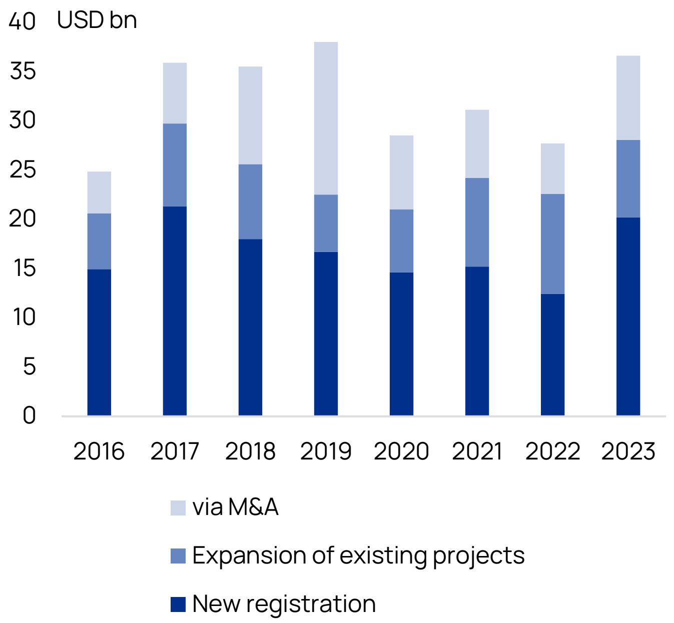
In 2023, FDI disbursement rose 3.5% YoY to USD23.2bn (+3.5% YoY). Meanwhile, FDI registrations surged 32.1% to USD36.6bn (+32.1% YoY). Registrations of new projects jumped 62.2% YoY to USD20.2bn, the highest level over the past six years.

Figure 85: Disbursed and registered FDI, growth



Source: MPI, Vietcap

Figure 86: Registered FDI by type

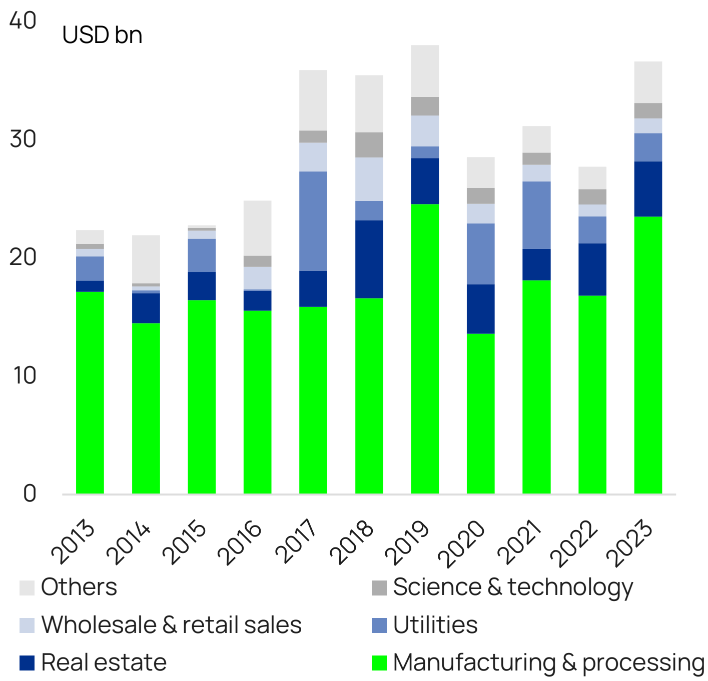


Source: MPI, Vietcap

The manufacturing & processing sector continued to account for the largest share of FDI registrations with USD23.5bn, or 64.2% of total FDI pledges in 2023. The real estate and utilities sectors ranked second (USD4.7bn; accounting for 12.7%) and third (USD2.4bn; accounting for 6.5%), respectively.

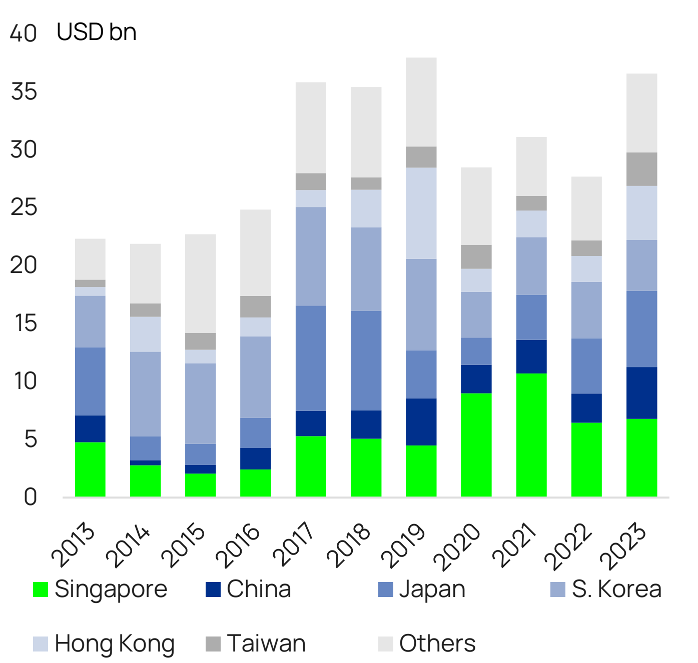
In terms of registrations by country/region, Singapore led with USD6.8bn, accounting for 18.6% of the total registrations. Singapore was followed by Japan (USD6.6bn; accounting for 17.9%), Hong Kong (USD4.7 bn; accounting for 12.8%), and China (USD4.5bn; accounting for 12.2%).

Figure 87: Registered FDI by sector



Source: MPI, Vietcap

Figure 88: Registered FDI by country/region



Source: MPI, Vietcap

Figure 89: Top FDI projects by registered capital in 2023

No	Project	USD mn	Country	Sector	Location
1	LNG thermal power plant	2,000	Japan	Utilities	Thai Binh
2	Jinko Solar Hai Ha Vietnam photovoltaic cell technology complex	1,500	Hong Kong	Manufacturing	Quang Ninh
3	LG Innotek Factory	1,000	South Korea	Manufacturing	Hai Phong
4	Lite-on Quang Ninh Factory	690	Taiwan	Manufacturing	Quang Ninh
5	Fulian Bac Giang	621	Singapore	Manufacturing	Bac Giang
6	Haohua tire production project	500	China	Manufacturing	Binh Phuoc
7	Ecovance high-tech biodegradable materials factory	500	South Korea	Manufacturing	Hai Phong

Source: MPI, Vietcap

Outlook: We expect FDI disbursement to accelerate, growing by around 10% per annum in 2024/25/26, driven by:

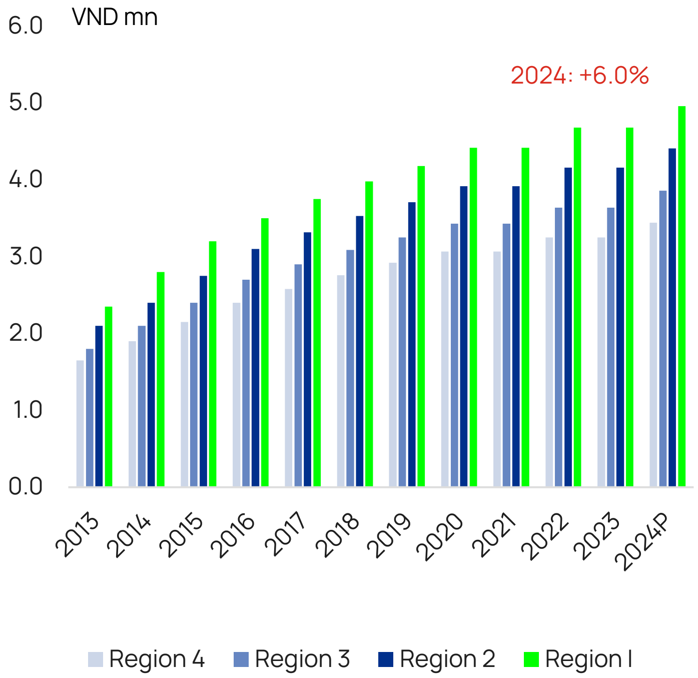
(1) Robust FDI pledges recorded in 2023,

(2) Ongoing investment diversification out of China from foreign companies,

(3) Vietnam's fundamental advantages (e.g., location, competitive labor costs, and a long list of free trade agreements),

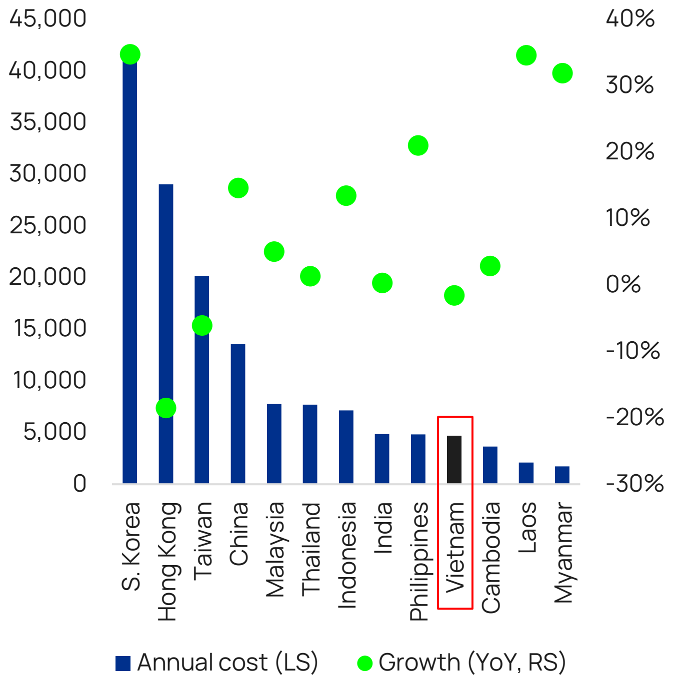
(4) The recent upgrades of diplomatic ties between Vietnam and South Korea, Vietnam, and the United States, and most recently, Vietnam and Japan, which could continue to fuel FDI inflows into Vietnam.

Figure 90: Vietnam monthly minimum wage by region



Source: Vietcap compilation

Figure 91: Annual cost of a manufacturing worker in 2023



Source: JETRO, Vietcap (data incl. bonus, social security and other obligations)

We expect the Global Minimum Tax will not have material impact on Vietnam's FDI inflows

On November 29, the National Assembly passed a resolution on applying global minimum tax (GMT), to be effective from January 1, 2024. Accordingly, a tax rate of 15% will be applied to Multinational Enterprises (MNEs) that have a global annual revenue of at least EUR750mn in two of the four most recent years. According to the Vietnam General Department of Taxation, 122 MNEs in Vietnam will be subject to the GMT. The GMT could add VND14.6tn (USD600mn) to the State's budget revenue.

The GMT could reduce Vietnam's current attractive tax incentives for many large MNEs operating in Vietnam as Vietnam has historically offered substantial tax incentives to large MNEs at lower rates than the GMT of 15%. However, the National Assembly has assigned the Government to develop a draft decree on using the GMT revenue to support and attract MNEs. The draft decree should be completed in 2024.

Figure 92: Vietnam's bilateral and multilateral Free Trade Agreements

No	FTAs	Status	Launched	Signed	Effective
1	ASEAN Free Trade Area (AFTA)	Signed, in effect			1993
2	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement	Signed, in effect			2003
3	ASEAN-Korea Comprehensive Economic Cooperation Agreement	Signed, in effect			2007
4	ASEAN-Japan Comprehensive Economic Partnership	Signed, in effect			2008
5	Vietnam-Japan Economic Partnership Agreement	Signed, in effect			2009
6	ASEAN-India Comprehensive Economic Cooperation Agreement	Signed, in effect			2010
7	ASEAN-Australia and New Zealand Free Trade Agreement	Signed, in effect			2010
8	Vietnam-Chile Free Trade Agreement	Signed, in effect			2014
9	Vietnam-Korea Free Trade Agreement	Signed, in effect			2015
10	Vietnam-Eurasian Economic Union	Signed, in effect			2016
11	Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	Signed, in effect			Jan-19
12	ASEAN-Hong Kong, China Free Trade Agreement	Signed, in effect			Jun-19
13	Vietnam-European Union Free Trade Agreement (EVFTA)	Signed, in effect			Aug-20
14	UK - Vietnam Free Trade Agreement	Signed, in effect			May-21
15	Regional Comprehensive Economic Partnership (RCEP)	Signed, in effect			Jan-22
16	Vietnam – Israel Free Trade Agreement	Signed, in effect			Jul-23
17	Vietnam-European Free Trade Association (EFTA)	Negotiations launched	May-12		
18	ASEAN - Canada	Negotiations launched	Nov-21		
19	Vietnam - UAE	In preparation to launch negotiations			

Source: Vietcap compilation

Trade

Record high trade surplus hit due to slowdown in exports & imports

In Q4 2023, exports and imports rebounded strongly by 8.8% YoY (vs Q1: -11.9% YoY, Q2: -11.1% YoY, Q3: -2.4%) and 8.0% YoY (vs Q1: -15.5% YoY, Q2: -19.9% YoY, Q3: -5.8%), respectively. However, in 2023, exports and imports fell 4.4% and 8.9% to USD355.5bn and USD327.5bn, respectively, leading to a trade surplus of USD28.0bn – the highest figure ever recorded.

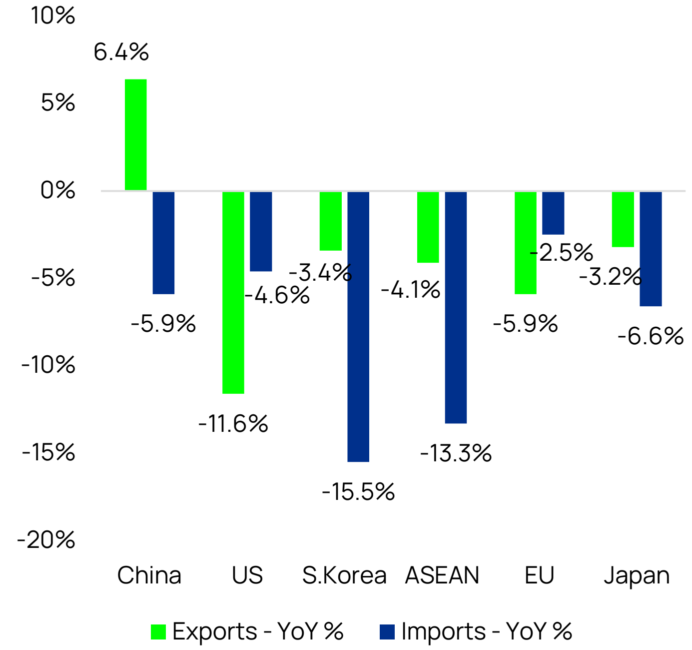
In 2023, several key export products recorded strong declines including wood & wooden products (USD13.4bn; -16.2%), textiles & garments (USD33.2bn; -11.6%), footwear (USD20.4bn; -14.7%), and mobile phones & parts (USD53.2bn; -8.3%). However, robust export growth was seen in agricultural products such as vegetables (USD5.6bn; +65.9%), rice (USD4.8bn; +39.4bn), and other key items such as transportation vehicles (USD13.7bn; +14.6% YoY) and cameras (USD7.7bn, +20.6%). Meanwhile, among key imports, almost all items recorded declines, except for PCs & electronic items (USD88.2bn; +7.7% YoY). Notably, imports of phones and parts plummeted 58.3% YoY.

With the exception of exports to China, which grew 6.4% YoY to USD61.7bn, Vietnam's exports to all other key markets declined, including the US (USD96.8bn, -11.6% YoY) and the EU (USD44.1bn; -5.9% YoY). Meanwhile, imports from all key markets declined, such as China (USD111.6bn; -5.9% YoY), South Korea (USD52.6bn, -15.5% YoY), and ASEAN countries (USD41.0bn; -13.3% YoY).

Figure 93: Export, import turnover, and trade balance

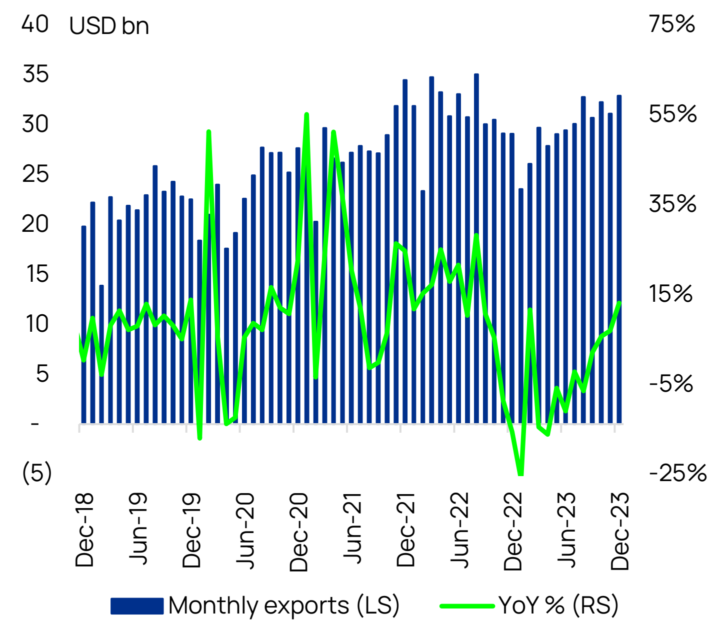
Source: Vietnam Customs, GSO, Vietcap

Figure 94: Top trade markets in 2023



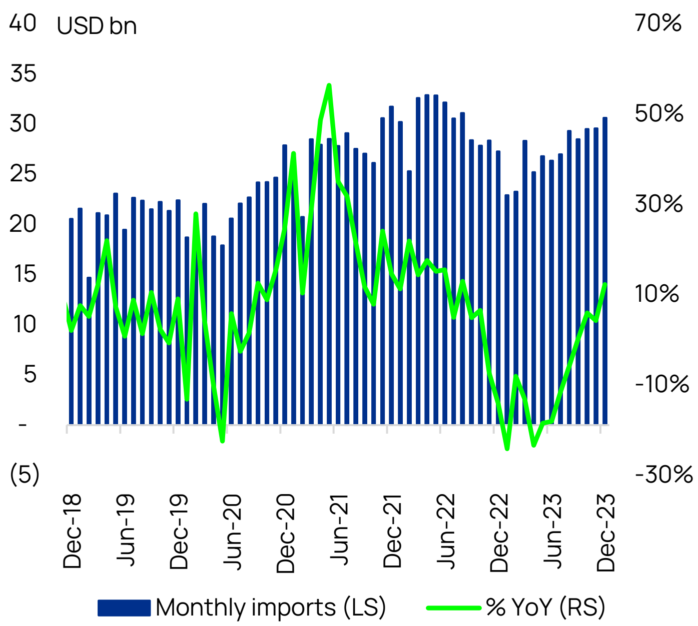
Source: Vietnam Customs, GSO, Vietcap

Figure 95: Monthly exports



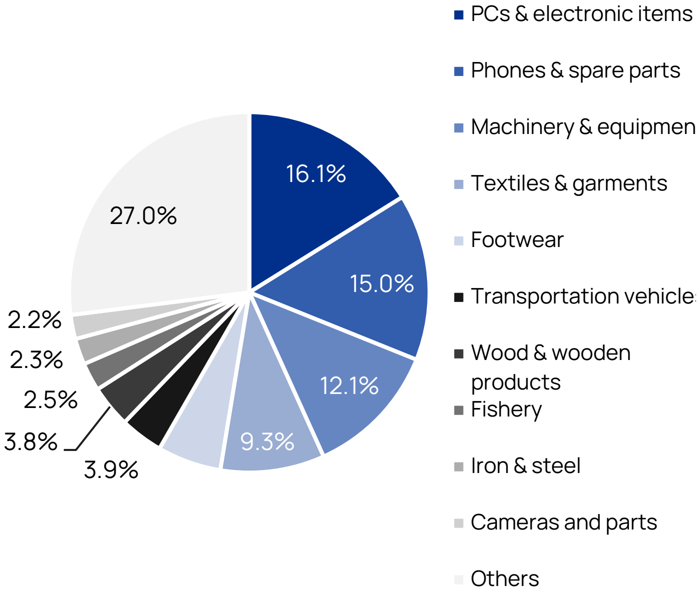
Source: Vietnam Customs, GSO, Vietcap

Figure 96: Monthly imports



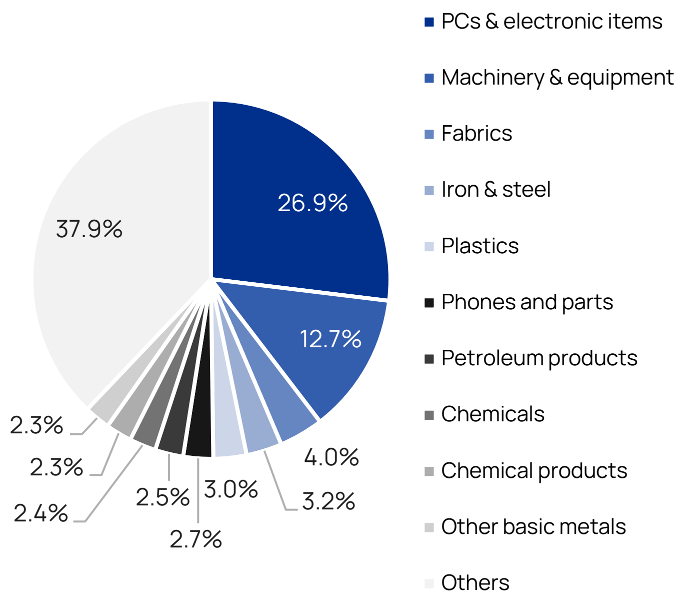
Source: Vietnam Customs, GSO, Vietcap

Figure 97: Top export products in 2023



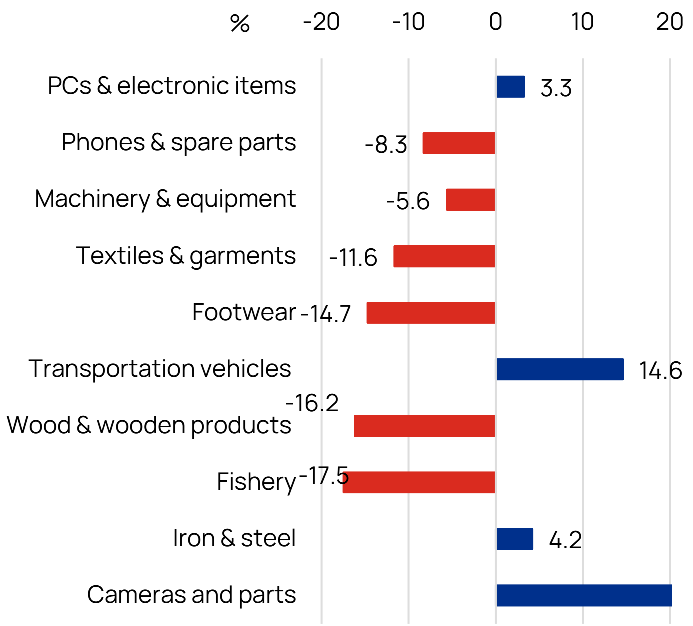
Source: GSO, Vietcap

Figure 98: Top import products in 2023



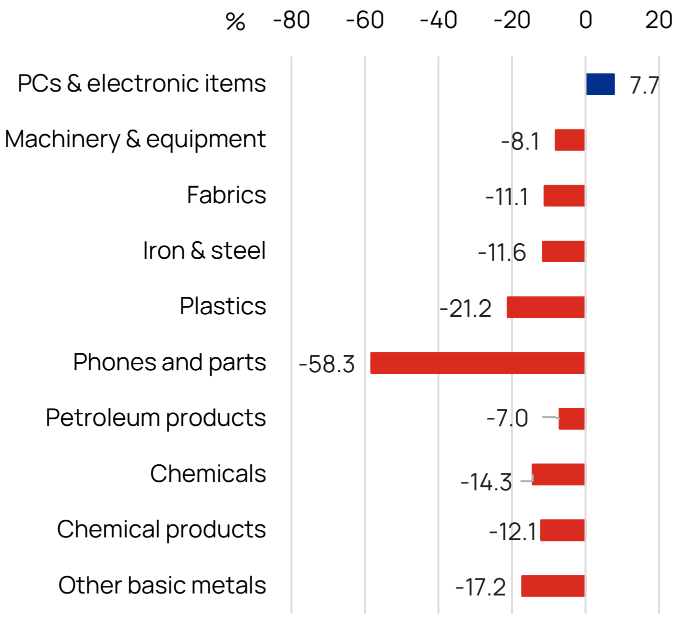
Source: GSO, Vietcap

Figure 99: 2023 top exports (YoY %)



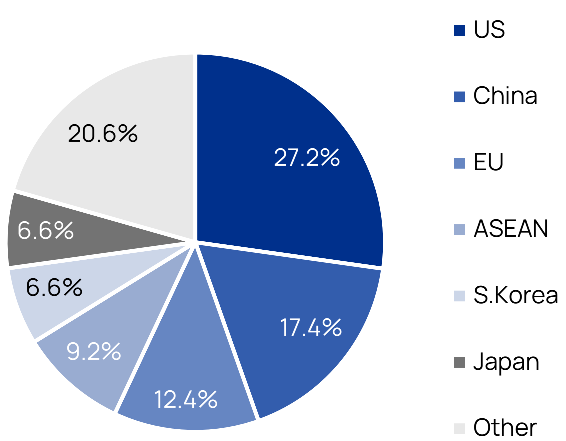
Source: GSO, Vietcap

Figure 100: 2023 top imports (YoY %)



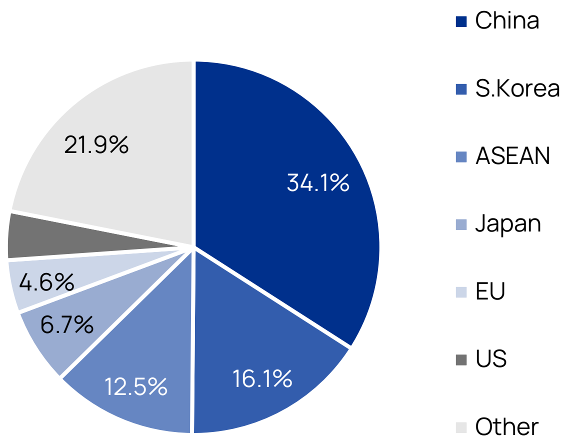
Source: GSO, Vietcap

Figure 101: Top export markets in 2023



Source: GSO, Vietcap

Figure 102: Top import markets in 2023



Source: GSO, Vietcap

Outlook:, **We cut our export and import growth forecasts for 2024 from 10.3% and 12.6% to 9.5% and 11.5%,** respectively (implying a trade surplus of USD24.3bn), due to slower-than-expected recovery in export orders. We expect Vietnam's trade could gradually improve in H1 2024 before a stronger recovery in the second half of 2024. We also forecast stronger export and import growth for 2025 at 11.0% and 11.5%, respectively, as new orders could increase further in 2025. We expect trade in 2024 could be supported by:

- Exports of the largest item – PCs & electronics (+3.3% YoY in 2023) - could remain solid in 2024 as Vietnam will continue to be important in the supply chain for exports of electronic products.
- Exports of agricultural products could grow further in 2024 due to: (1) Exports of fruits and vegetables in 2024 (USD5.6bn; +65.9% YoY in 2023) could increase, especially to China (accounting for around 65.5% of total exports of fruits and vegetables) driven by global demand for fruits and vegetables and the potential for China to open its market for many other Vietnamese agricultural products such as fresh coconuts, frozen fruit products, and citrus fruits and (2) exports of rice could continue at a high level on higher demand due to export bans in several countries and unfavorable weather.
- Higher consumer confidence in the US (Vietnam's largest export market – accounting for 27.2% of total exports). According to the Conference Board, the consumer confidence index increased to 110.7 in December (from 101.7 in November), the Present Situation Index (based on consumers' assessment of current business and labor market conditions) rose to 148.5 (from 136.5 in November), and the Expectations Index (based on consumers' short-term outlook for income, business, and labor market conditions) increased to 85.6 (from 77.4 in November). These indicators indicate an improving outlook for future business conditions and incomes that could support consumption in the coming months.

We note these trade numbers are the GSO's preliminary estimates. The official data that will be announced later by Vietnam Customs could show some substantial variances.

Inflation

2023 inflation stayed below the Government's target

As of December 2023, the CPI rose 0.12% MoM and 3.58% YoY, bringing average CPI inflation in 2023 to 3.25% YoY (vs our forecast of 3.4%) – well below the Government's target cap of 4.5%.

In 2023, average inflation was mainly driven by the following factors:

- CPI of the education category increased 7.44% YoY, lifting average headline CPI by 0.46 ppts, as several cities/provinces increased tuition fees.
- CPI of the housing & construction materials category increased 6.58%, raising headline CPI by 1.24 ppts, due to higher prices of input materials and rents.
- CPI of the food/foodstuffs/catering services category increased 3.44%, lifting headline CPI by 1.15 ppts, attributed partly to a 6.77% increase in rice prices, which raised headline CPI by 0.17 ppts.
- In addition, an increase of 4.9% in electricity CPI due to electricity price hikes in May (+3.0%) and November (+4.5%), lifted headline CPI by 0.16 ppts.

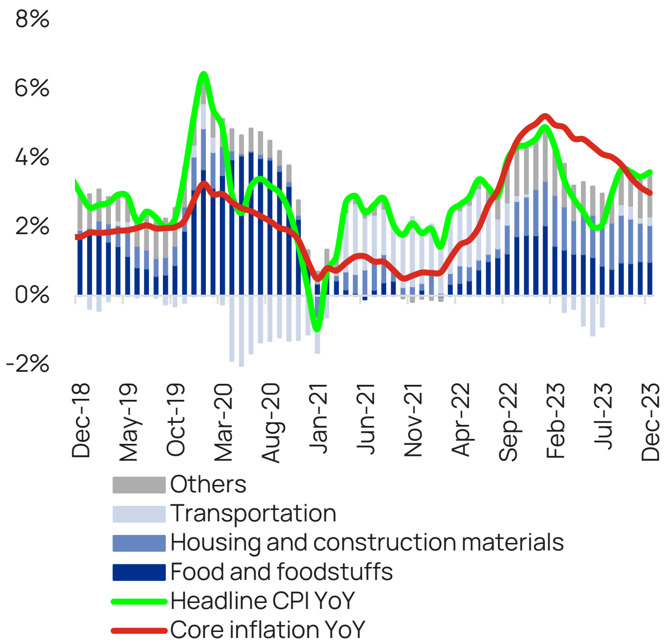
In contrast, declines in domestic petroleum prices (-11% YoY) and gas cylinder prices (-6.9% YoY) helped to curb headline CPI by 0.4 ppts and 0.1 ppts, respectively. Declines in import prices also helped to ease inflation in 2023.

Figure 103: Inflation in 2023

	MoM CPI (Dec 2023 vs Nov 2023	YoY CPI (Dec 2023 vs Dec 2022)	YTD CPI (Dec 2023 vs Dec 2022)	Average CPI (2023 vs 2022)
Headline inflation	0.12%	3.58%	3.58%	3.25%
Core inflation	0.17%	2.98%	N/A	4.16%

Source: GSO, Vietcap

Figure 104: Contribution to monthly CPI (ppts)



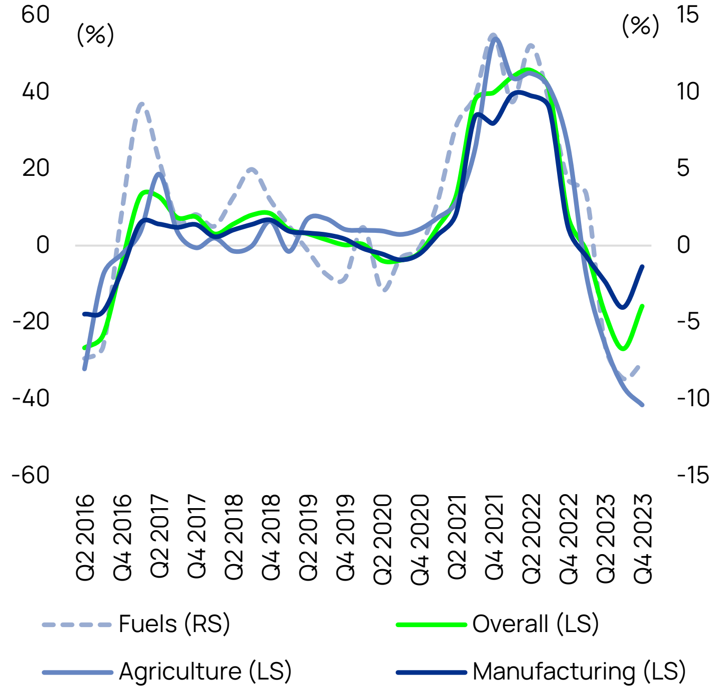
Source: GSO, Vietcap

Figure 105: Average CPI by category

Category	Weight	Avg. 2022	Avg. 2023
Total CPI	**100%**	**3.15%**	**3.25%**
Food, foodstuffs, and catering services	33.56%	2.55%	3.44%
Beverages and tobacco	2.73%	3.15%	3.29%
Garments, footwear, and hats	5.70%	1.63%	2.21%
Housing and construction materials	18.82%	3.11%	6.58%
Family appliances and tools	6.74%	2.03%	2.09%
Medicine and healthcare	5.39%	0.40%	1.23%
Transportation	9.67%	11.27%	-2.49%
Telecommunication	3.14%	-0.37%	-0.81%
Education	6.17%	1.68%	7.44%
Culture, sport, and entertainment	4.55%	3.10%	2.55%
Other consumer goods and services	3.53%	2.36%	4.65%

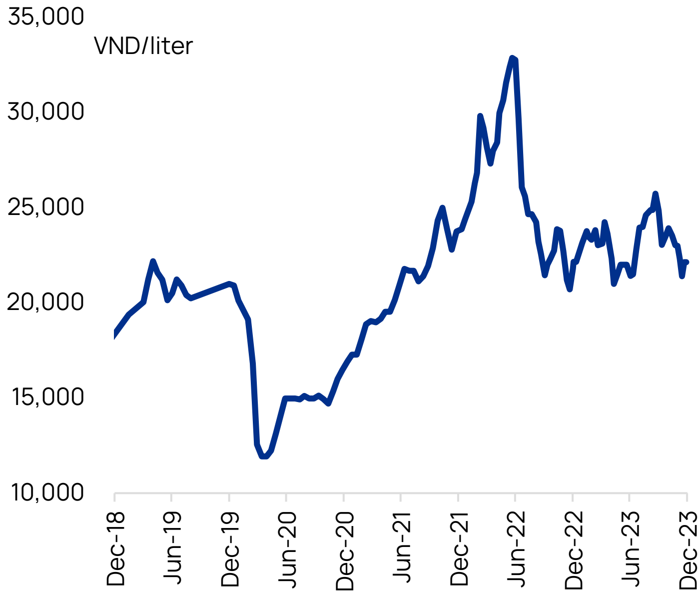
Source: GSO, Vietcap

Figure 106: Import price index



Source: GSO, Vietcap

Figure 107: Domestic petroleum prices (RON95)



Source: Petro Vietnam, Vietcap

Outlook: **We expect average CPI at 3.8% in 2024.** We also forecast average CPI at 3.8% and 3.5% in 2025F and 2026F, respectively.

Several factors that could put pressure on inflation in 2024 include:

- Global rice prices could remain high as several countries such as Russia and India could continue to extend rice export restrictions through H1 2024. Meanwhile, the El Niño phenomenon could have a negative impact on agricultural yields globally.
- According to the MPI, public salary reform (starting from July 1, 202) could raise headline CPI by 0.7 ppts per annum from 2024 to 2026. Also, the Government could raise the private sector regional minimum wage by 6.0% starting from July 1, 2024.
- In addition, the Government could continue to raise prices of several goods/services under their management including healthcare service prices (expected to increase 5.0% starting from July 2024), tuition fees, and electricity prices.
- Meanwhile, there are several other risks for inflation, such as unfavorable weather, natural disasters, and geopolitical tensions that could affect commodity prices.

Foreign Exchange

Diverging monetary policy between the SBV and the Fed pressured the USD/VND exchange rate in 2023

Due to strong foreign inflows (from overseas remittances, FDI inflows, and a substantial trade surplus), the dong appreciated 0.5% against the USD in 5M 2023. We estimate the SBV purchased over USD6.0bn from commercial banks during this period to lift foreign reserves to around USD93bn (equivalent to 3.1 months of imports) after the SBV used around USD25bn from its foreign reserves in 2022 to defend the dong and limit imported inflationary pressures.

However, aggressive Fed rate hikes to combat the US's 40-year high inflation and interest rate cuts from the SBV to stimulate economic growth widened the negative spreads between short-term VND and USD interest rates in the interbank market (with the overnight gap at around -5% throughout most of H2 2023). A large negative gap between the VND and USD short-term interest rates, in addition to a strong greenback, placed depreciation pressure on the dong.

In response to mounting pressure on the exchange rate, on September 21, 2023, the SBV resumed T-bill issuance to absorb excess liquidity in the banking system. The SBV's action, in conjunction with a sharp decline in the US Dollar Index (DXY, -5.0% in Q4 2023 as the Fed signaled a potential end to its rate hike cycle) and strong foreign inflows towards the end of the year, eased pressure on the dong. As of December 29, the USD/VND traded at 24,269 in the interbank market, equivalent to depreciation of 2.8% in 2023.

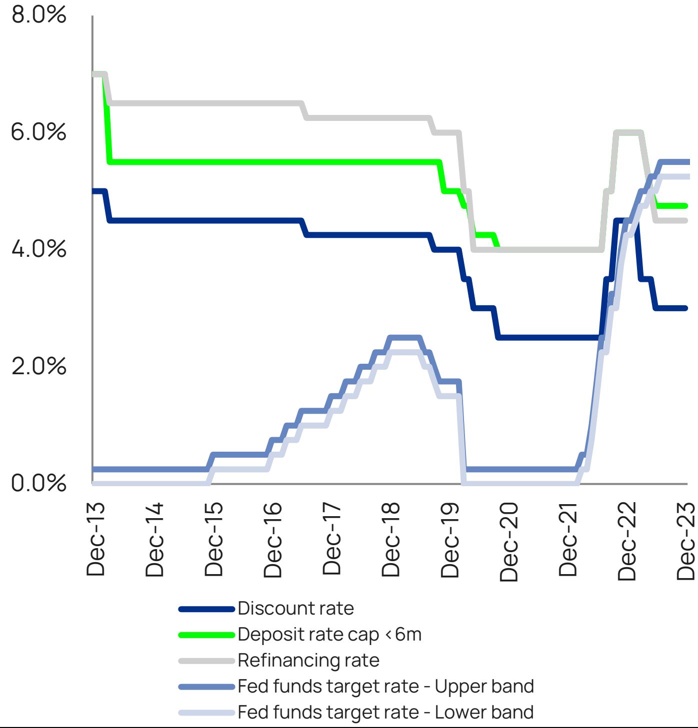
That said, the VND's performance vs the USD in 2023 was similar compared to several other currencies of Vietnam's major trading partners, including the CNY (-2.8% against the USD in 2023) and the KRW (-2.6%), while it was better than the JPY (-7.1%) but worse than the EUR (+3.1%).

Outlook: **We expect the USD/VND exchange rate to remain stable in 2024**

The ongoing large negative spread between VND and USD interbank interest rates and Dung Quat refinery's maintenance plan (to shut down operations for 50 days in March and April 2024 – which could raise demand for imported petroleum products) could continue to place depreciation pressure on the USD/VND exchange rate in H1 2024. However, we expect solid foreign inflows, particularly remittances from overseas (a seasonal factor), could help to ease pressure on the USD/VND exchange rate in H1 2024.

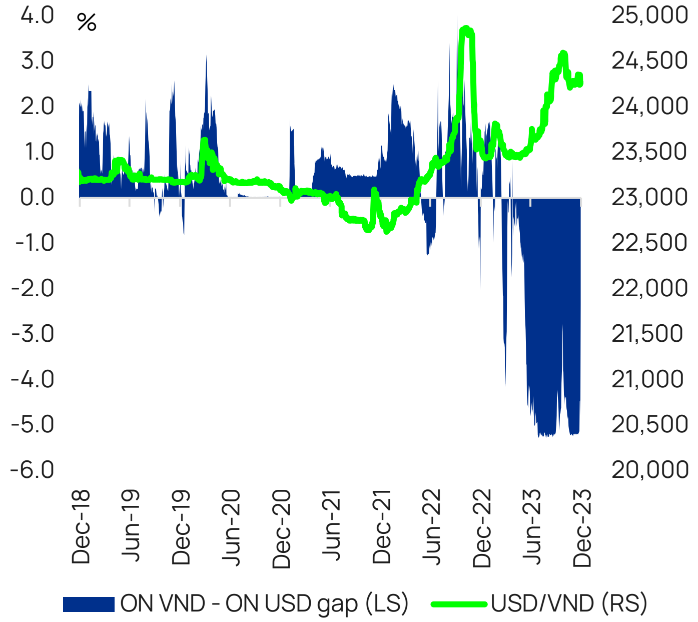
Meanwhile, the Fed has indicated that its rate hike cycle has likely peaked and the Fed's 'dot plot' indicates potential for three 25-bps cuts in policy rates in 2024. Meanwhile, Bloomberg consensus forecasts suggest that the Fed could lower its policy rate by 125 bps to 4.0% - 4.25%, from the current level of 5.25% - 5.50% bps in 2024. In addition, the CME FedWatch Tool currently shows a probability of 90% for a first-rate cut at the Fed's policy meeting on May 1, 2024. Fed rate cuts could help to narrow the negative spreads between short-term VND and USD interest rates and ease pressure on the VND in H2 2024. Moreover, we expect solid foreign inflows from remittances, FDI inflows, a trade surplus, and a narrowing services trade deficit could help to support the stability of the dong.

Figure 108: SBV policy rates & Fed Funds Target rates



Source: SBV, Vietcap compilation

Figure 109: Overnight VND - USD spread & USD/VND

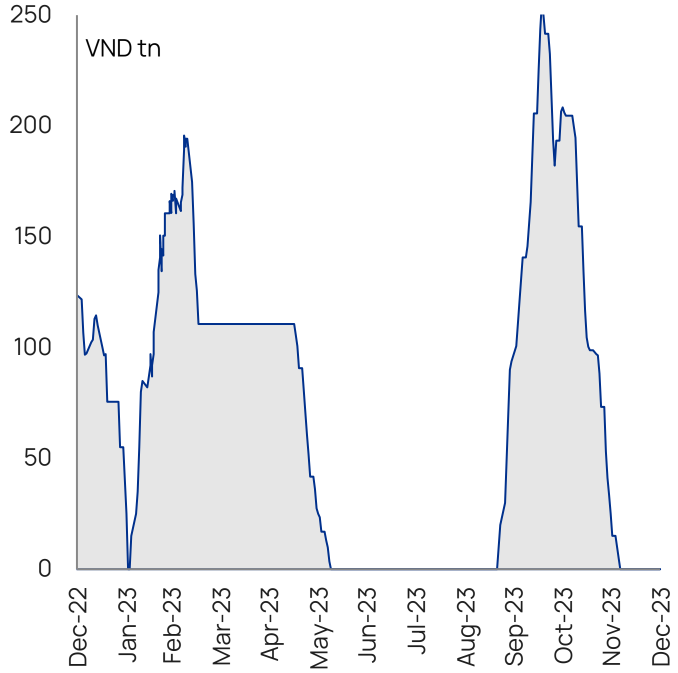


Source: SBV, Vietcap compilation

Figure 110: DXY Index & USD/VND

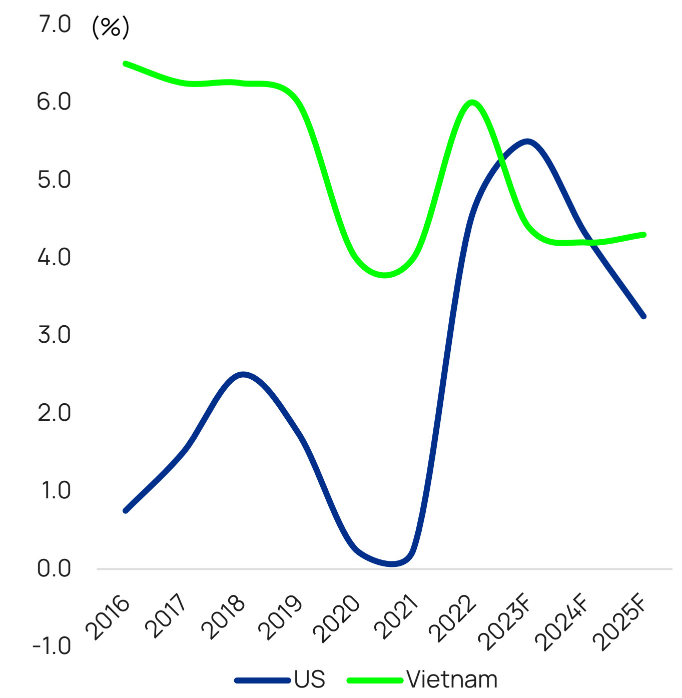
Source: Bloomberg, Vietcap

Figure 111: Outstanding T-bills



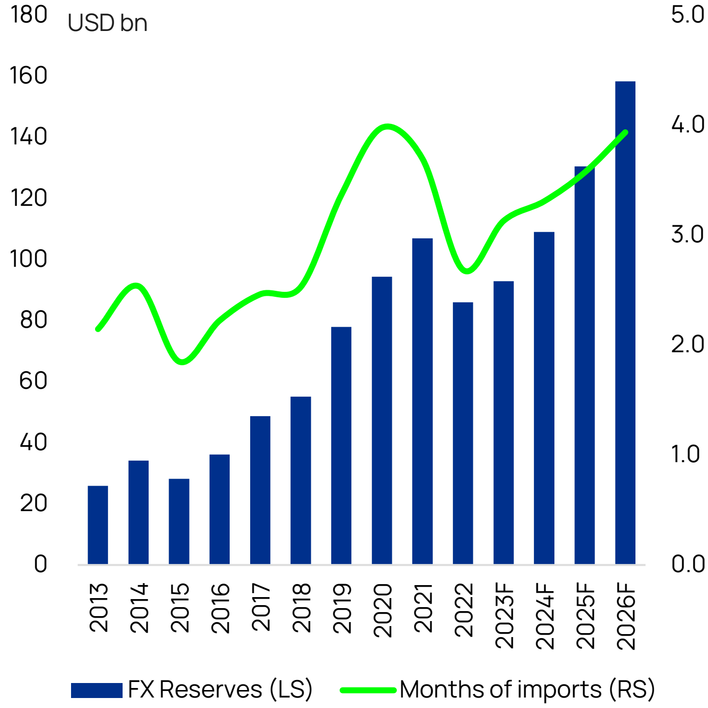
Source: SBV, Vietcap

Figure 112: Consensus Central Bank policy rates



Source: Bloomberg

Figure 113: FX reserves



Source: Bloomberg, Vietnam Customs, GSO, Vietcap

Macro Scorecard

MACRO INDICATORS	2018	2019	2020	2021	2022	2023E	2024F	2025F	2026F	UNITS	Source of historical data
GDP growth (real)	7.5	7.4	2.9	2.6	8.1	5.0	6.5	6.8	7.0	% YoY	GSO
Nominal GDP	310	334	347	366	409	426	462	504	550	USD bn	WB
GDP per capita	3,267	3,491	3,586	3,756	4,112	4,248	4,564	4,932	5,329	USD	WB
Unemployment rate	2.0	2.0	2.5	3.0	2.1	2.2	2.1	2.1	2.0	%	GSO
FDI disbursement	19.1	20.4	20.0	19.7	22.4	23.2	25.5	28.0	30.5	USD bn	FIA
FDI disbursement (% of GDP)	6.2	6.2	5.8	5.4	5.5	5.4	5.5	5.5	5.5	% of GDP	FIA
Exports (% of GDP)	78.9	80.0	82.3	92.7	92.1	82.9	84.2	85.7	87.2	% of GDP	Customs, GSO
Export growth	13.3	8.4	6.9	18.9	10.6	-4.4	9.5	11.0	11.0	% YoY	Customs, GSO
Import growth	11.2	7.0	3.7	26.7	8.0	-8.9	11.5	11.5	10.5	% YoY	Customs, GSO
Goods trade balance	6.8	10.9	19.9	3.3	12.1	28.0	24.3	25.2	30.0	USD bn	Customs, GSO
Foreign reserves	55.0	78.0	94.4	107	86	93	109	131	158	USD bn	SBV, WB
FX reserves (% of GDP)	18.0	23.7	27.6	30.2	21.0	21.8	23.6	26.0	28.7	% of GDP	SBV
Inflation (average)	3.5	2.8	3.2	1.8	3.2	3.3	3.8	3.8	3.5	% YoY	GSO
VND appreciation (depreciation)	-2.1	0.0	0.3	1.2	-3.4	-2.8	0.0	0.0	0.0	%	Bloomberg
Deposit rate cap (<6 mo)	5.5	5.0	4.0	4.0	6.0	4.75	5.00	5.25	5.25	%	SBV
Credit growth	13.9	13.6	12.2	13.6	14.2	13.5	13.7	13.3	12.3	% YoY	SBV
Budget deficit (excl. principal pmt)	-2.2	-2.1	-2.7	-2.5	-4.3	-4.0	-3.6	-3.5	-3.5	% of GDP	MoF
Public debt	46.1	43.1	43.7	43.1	38.0	36.6	N/A	N/A	N/A	% of GDP	MoF, WB

Note: *Vietcap is the source for all forecasts — except for budget deficit and public debt, which come from the Ministry of Finance (MoF).*

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Market data

Vietnam's three bourses all delivered positive performance in 2023 after substantial falls in 2022.

- The VN-Index, which represents all stocks traded on the Ho Chi Minh City Stock Exchange (HOSE or HSX), increased by 12%, and the large-cap VN30 Index increased by 13%.
- The Hanoi Stock Exchange (HNX) increased by 13%.
- The Unlisted Public Company Market (UPCoM) increased by 21%.

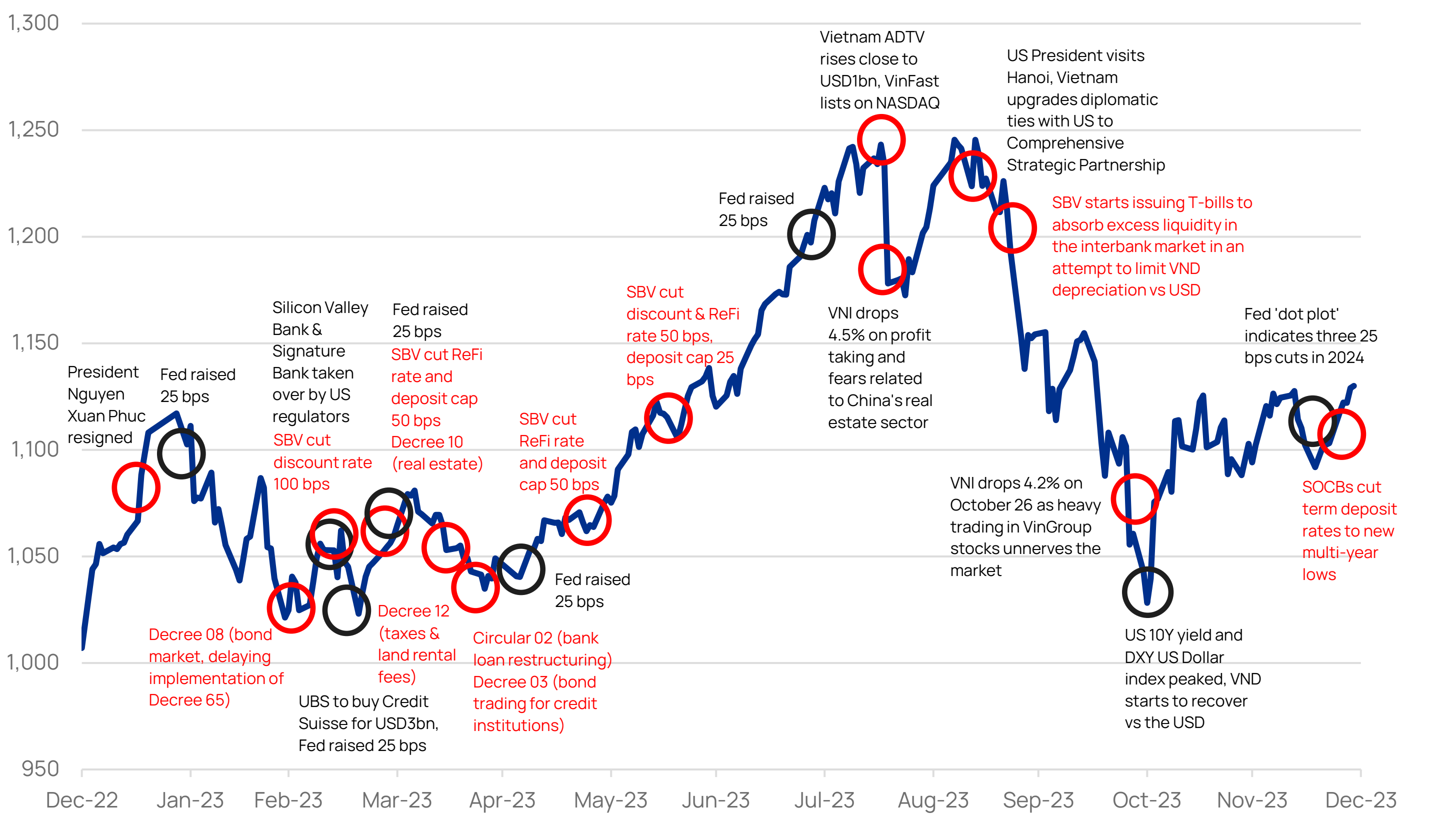
By ICB sector, the leading performers were financial services (excluding banks and insurance), basic materials, and technology, while the laggards (and the only three sectors that underperformed the VN-Index) were real estate, consumer goods, and insurance.

At the stock level, large-cap sector leaders in the three top-performing sectors featured among the 10 largest contributors to the gain in the VN Index – SSI (financial services), HPG (materials) and FPT (technology). Meanwhile, six of the 10 largest positive contributions came from banks (VCB, BID, VPB, TCB, MBB, and ACB). Most of the largest negative individual contributions to the index's performance came from the laggard sectors with VIC, VHM & VRE (real estate), MSN, SAB & VNM (consumer goods), and BVH (insurance) among the top-ten negative contributors.

The chart below illustrates selected key events which we believe were significant drivers of the VN-Index in 2023, including:

- Several policy rate cuts by the State Bank of Vietnam (SBV) from March through May,
- Multiple Decrees and Circulars targeted at providing increased flexibility for struggling borrowers (primarily in the real estate sector) to restructure/reschedule debts with creditors (banks and bond holders),
- Further tightening by the US Federal Reserve through 9M 2023, followed by increasing market confidence that the tightening cycle had peaked in Q4 2023.

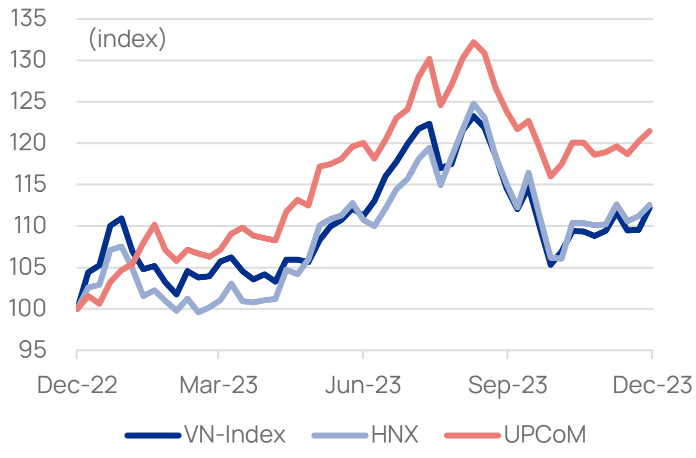
Figure 114: VN-Index performance and key events in 2023



Source: FiinPro, Vietcap compilation

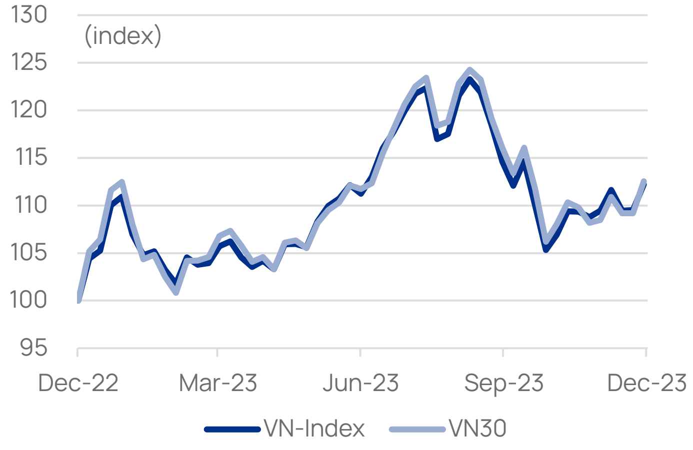
Vietcap

Figure 115: Three exchanges' performance in 2023



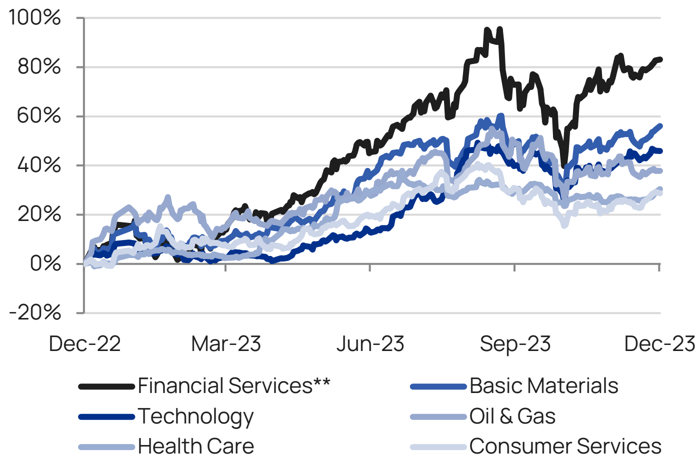
Source: Fiinpro, Vietcap

Figure 116: VN-Index and VN30 Index performance in 2023



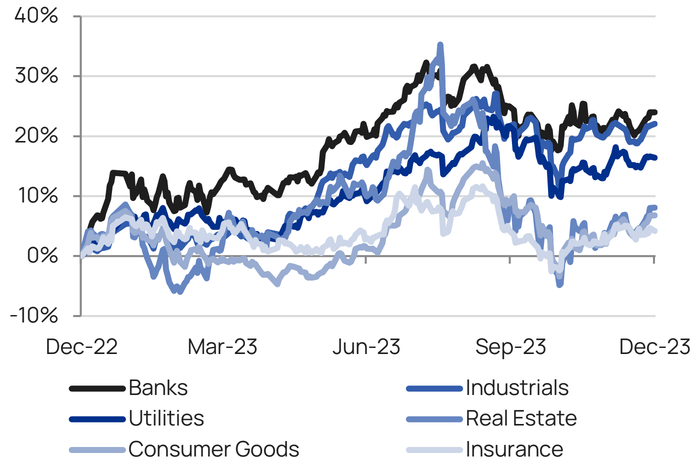
Source: Fiinpro, Vietcap

Figure 117: VN-Index, leading sectors in 2023



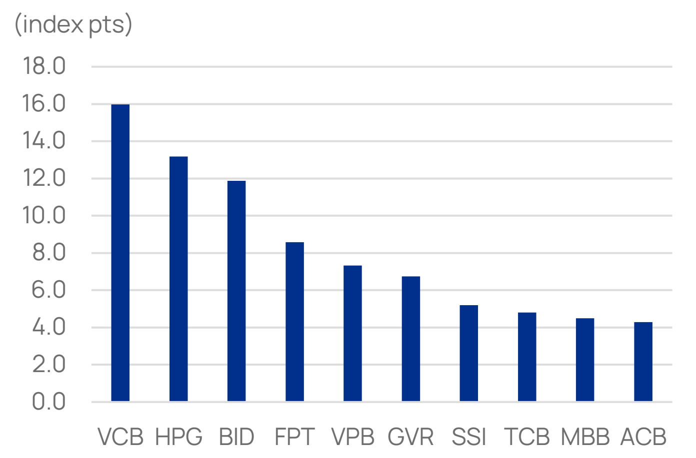
Source: Fiinpro, Vietcap (ICB classification, ** ex banks & insurance)

Figure 118: VN-Index, lagging sectors in 2023



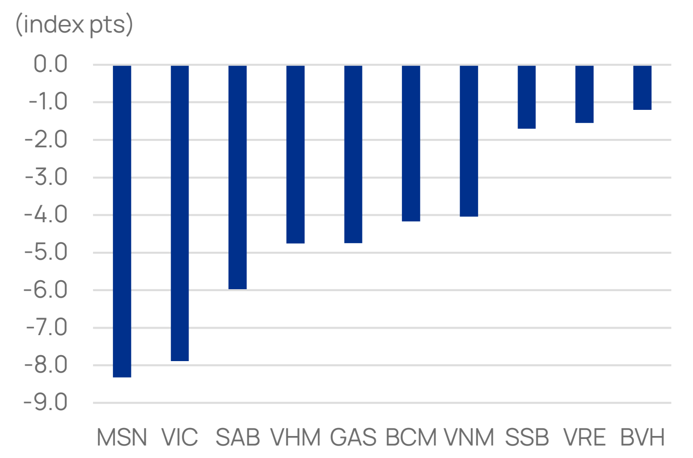
Source: Fiinpro, Vietcap (ICB classification, ** ex banks & insurance)

Figure 119: Top positive contributors to VN-Index in 2023



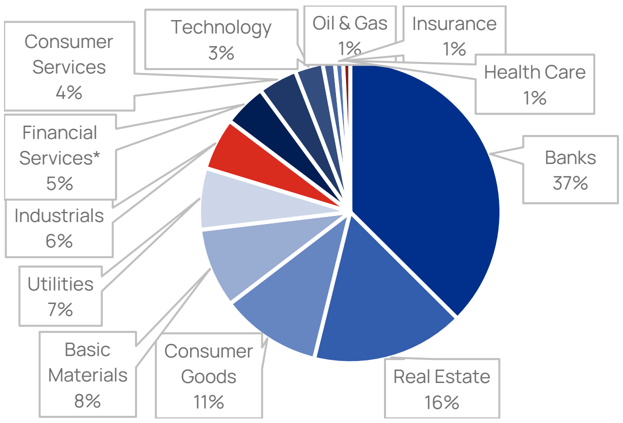
Source: Fiinpro, Vietcap

Figure 120: Top negative contributors to VN-Index in 2023



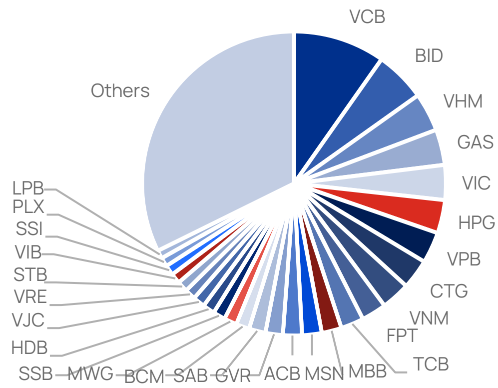
Source: Fiinpro, Vietcap

Figure 121: VN-Index market cap by sector



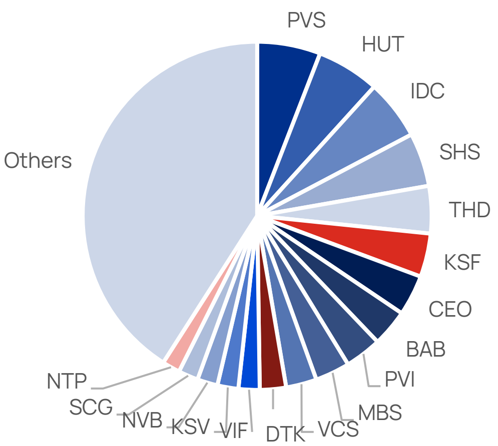
Source: Fiinpro, Vietcap

Figure 122: VN-Index market cap by stock



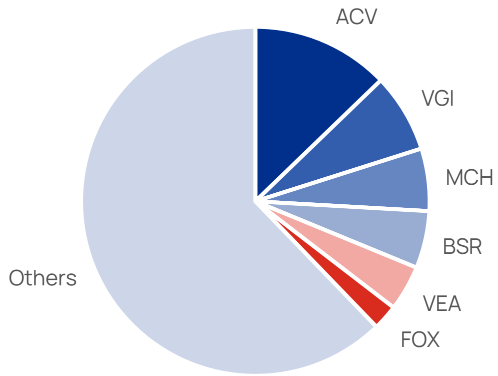
Source: Fiinpro, Vietcap

Figure 123: HNX-Index market cap by stock



Source: Fiinpro, Vietcap

Figure 124: UPCoM market cap by stock



Source: Fiinpro, Vietcap

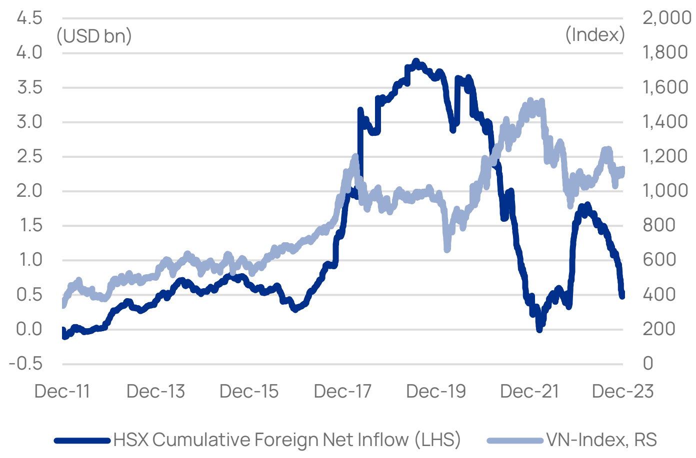
Flows

Foreign net buying/selling

Foreign investors were net sellers of USD1.0bn in 2023, effectively reversing the burst of foreign net buying that occurred in Q4 2022 when the VN-Index dipped below 1,000. Potential explanations for the exodus by foreign investors include:

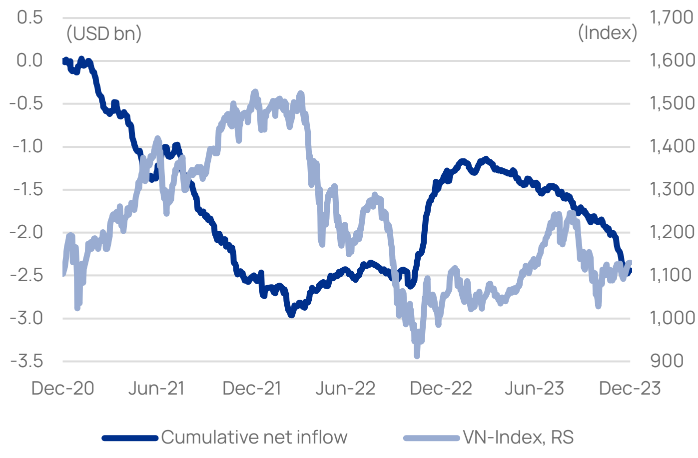
- Profit-taking after the VN-Index rallied significantly in 2023 from its Q4 2022 lows,
- Global asset allocation decisions favoring developed markets over developing markets as the Fed continued to raise policy rates and the USD was strong through most of the year,
- Relatively weak GDP growth in Vietnam in 2023, especially in the earlier part of the year, as a slowdown in export demand dampened manufacturing production, resulting in a softer labor market and caution on the part of Vietnamese consumers,
- Lingering concerns over problems in the real estate and corporate bond markets, despite substantial policy measures to support debtors and creditors in resolving problem debts.

Figure 125: VN-Index and foreign net flows since 2011



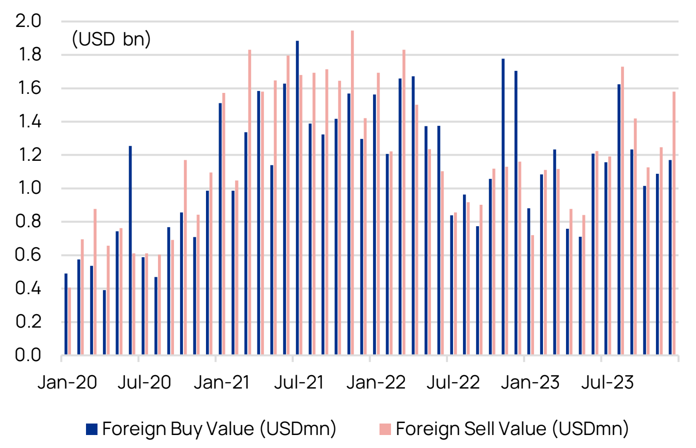
Source: Fiinpro, Vietcap

Figure 126: VN-Index and foreign net flows, 2021-23



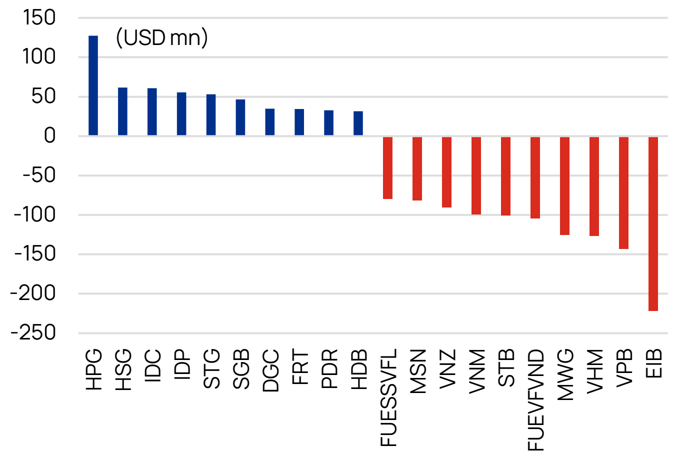
Source: Fiinpro, Vietcap

Figure 127: Gross foreign purchases and sales, monthly



Source: Fiinpro, Vietcap

Figure 128: Top net foreign purchases and sales



Source: Fiinpro, Vietcap

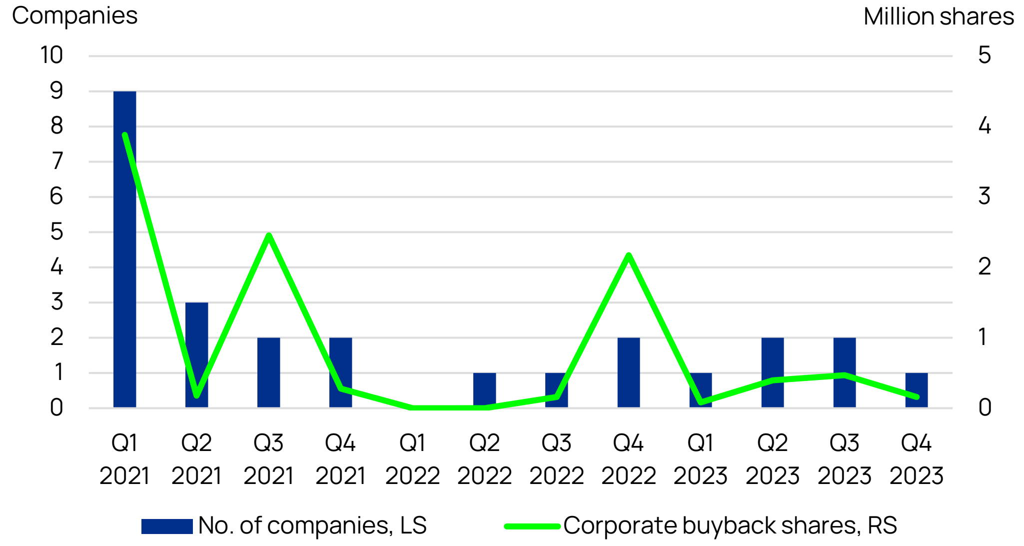
Corporate buybacks

Corporate buybacks remained low in 2023. We believe this reflected companies' tighter financial positions during the economic slowdown and low confidence amongst company owners and managers that their share prices were undervalued.

According to FiinPro, only four companies executed share buybacks in 2023 with Mobile World (HOSE: MWG) accounting for 88% of the total shares repurchased. In 2023, MWG repurchased 978,328 shares in total from employees who left the company through the employee stock option program (ESOP). Due to weak consumption, MWG substantially reduced its workforce in 2023, with a reduction of 8% of total headcount in H1 2023.

We also note that the small number of buybacks in 2023 might also have been attributable to a change in buyback regulations that became effective from January 1, 2021. Under the new regulations, a public company must now obtain shareholder permission to reduce its charter capital before buying back its own shares.

Figure 129: Corporate buybacks in 2021-2023



Source: Fiinpro, Vietcap

Major ETFs

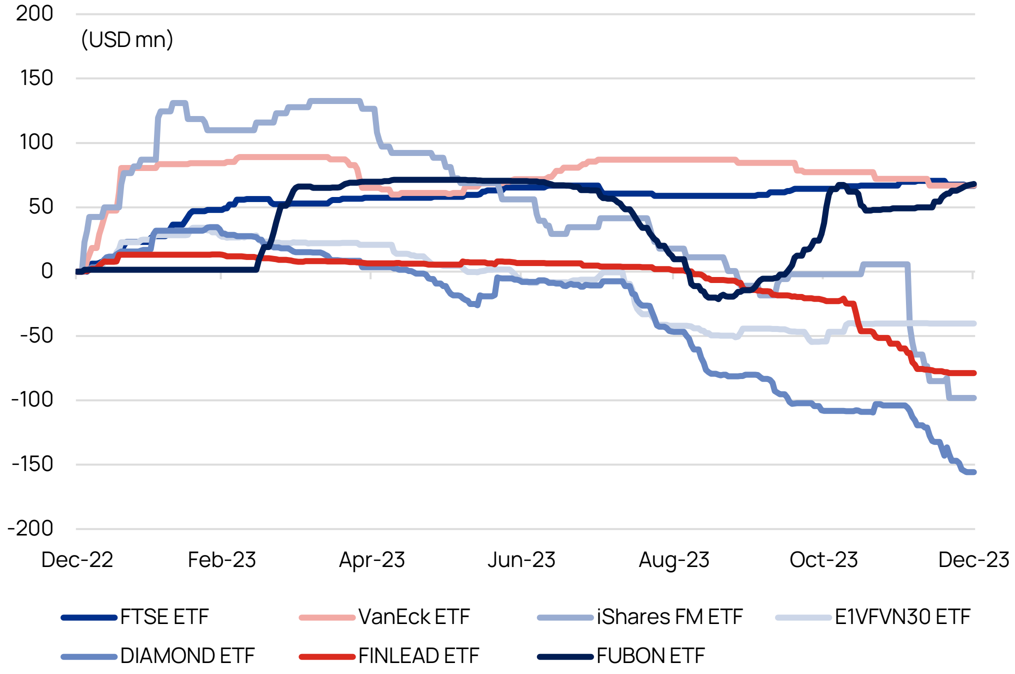
Major ETFs investing in Vietnam are listed in the table below. The Fubon, FTSE Vietnam Swap, and Van Eck ETFs saw positive net inflows in 2023, however there were relatively larger combined outflows at the VN30 ETF, Diamond ETF and FINLEAD ETFs.

Figure 130: Major ETFs investing in Vietnam

Type	Fund name	Country	Starting date	Underlying index	AUM (USD mn)	Vietnam weight (%)
Local	VFMVN DIAMOND ETF	VN	27/02/2020	VN Diamond Index	709.7	100%
	VFMVN30 ETF	VN	13/08/2014	VN30 Index	310.4	100%
	SSIAM VNFIN LEAD ETF	VN	19/12/2019	VN FINLEAD Index	94.3	100%
	Mirae Asset VN30 ETF	VN	08/12/2020	VN30 Index	14.3	100%
	SSIAM VNX50 ETF	VN	10/12/2014	VNX50 Index	6.4	100%
	SSIAM VNX30 ETF	VN	27/07/2020	VN30 Index	5.8	100%
Foreign	Fubon FTSE VN30 ETF	Taiwan	30/03/2021	FTSE VN30	847.6	100%
	VanEck Vectors Vietnam ETF	USA	11/08/2009	MVIS Market Vector Vietnam Local Index	528.3	100%
	iShare MSCI Frontier and Emerging Markets Select ETF	USA	12/09/2012	MSCI Frontier Markets and Select EM Index	507.2	27.9%
	FTSE Vietnam Swap UCITS ETF	Luxembourg	15/01/2008	FTSE Vietnam Index	353.6	100%
	Premia MSCI Vietnam ETF	Hong Kong	17/07/2019	MSCI Vietnam Index	15.2	100%

Source: Bloomberg, Vietcap

Figure 131: Cumulative ETF flows



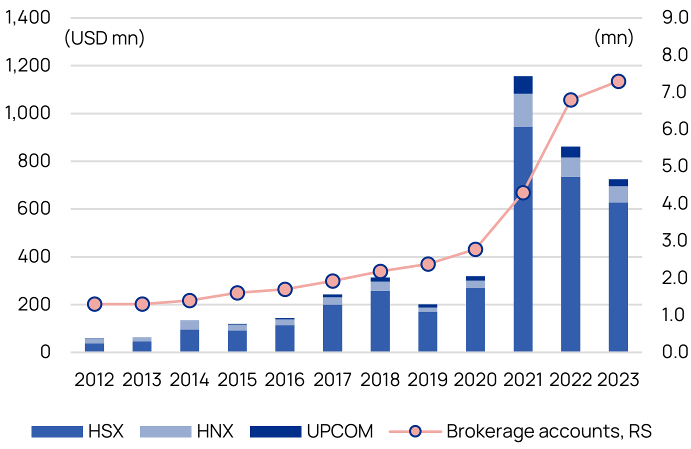
Source: Bloomberg, Vietcap

ADTV & velocity of turnover

Average daily trading value (ADTV) on the three bourses combined declined from USD862mn in 2022 to USD725mn in 2023. Meanwhile, the total number of brokerage accounts increased from 6.8 million to 7.3 million. Velocity of turnover (total value of trading/market cap) was relatively stable at 78% in 2023 vs 76% in 2022.

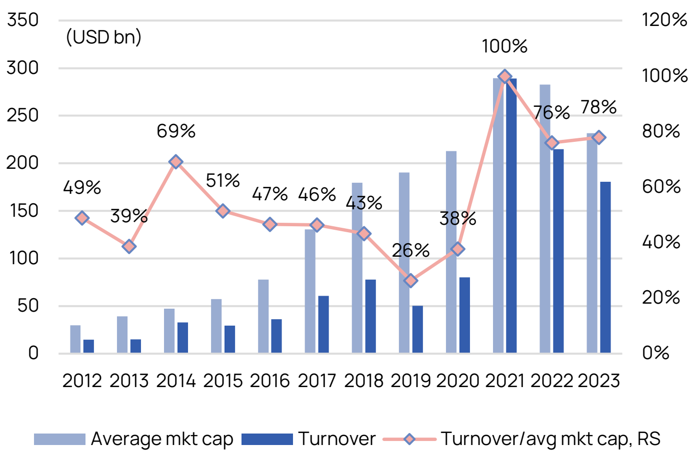
We estimate that total margin loans outstanding increased from USD4.6bn at the end of 2022 to USD6.4bn at the end of Q3 2023 (Q4 2023 data is not yet available).

Figure 132: Average daily trading value & brokerage accounts



Source: Fiinpro, VSD, Vietcap

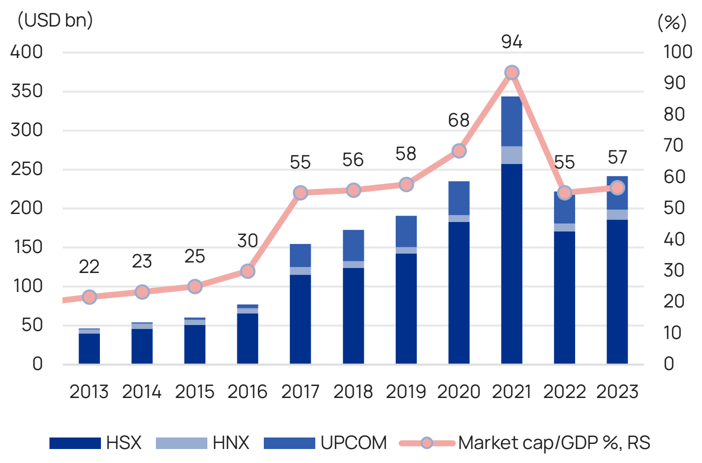
Figure 133: Velocity of turnover



Source: Fiinpro, Vietcap

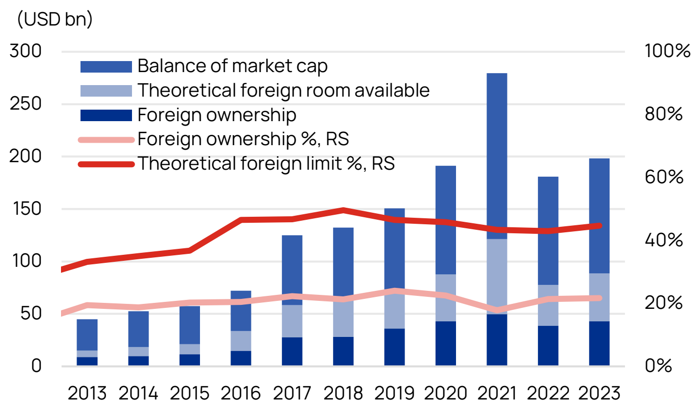
Vietnam's total market cap at the end of 2023 was USD242bn (57% of 2023E nominal GDP). The theoretical foreign ownership limit (FOL) on HSX and HNX (the maximum amount of market cap that could be owned by foreign investors, assuming no practical limitations due to major domestic shareholdings) was USD89bn, or just under 45% of combined HSX and HNX market cap.

Figure 134: Total market cap and market cap/GDP



Source: Fiinpro, Vietcap

Figure 135: Foreign ownership and theoretical limit



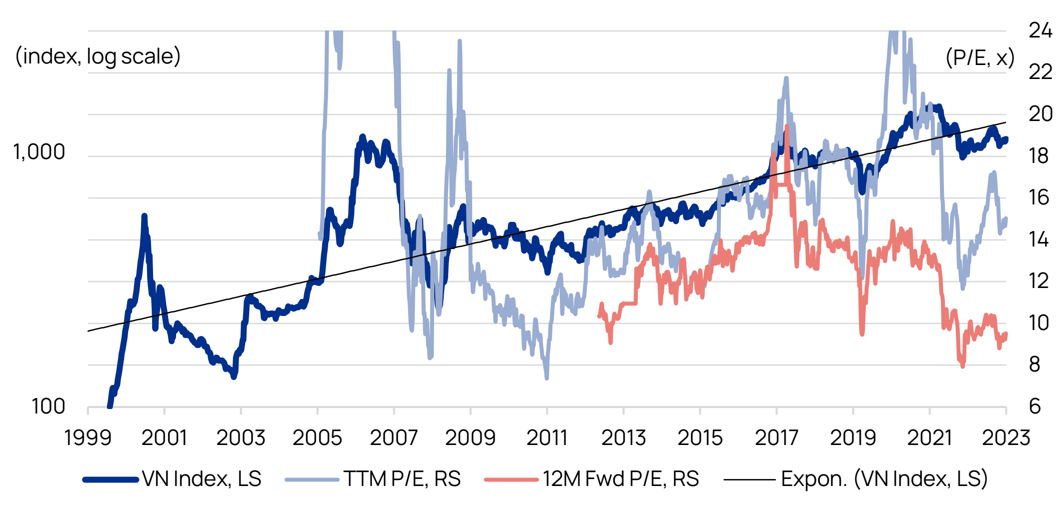
Source: Fiinpro, Vietcap

Earnings forecasts and market valuations

TTM & consensus 12M forward P/Es

The VN-Index ended 2023 at 1,130. The index's trailing 12-month (TTM) P/E (based on Bloomberg's adjusted earnings from sustainable operations) was 15.0x — about 0.5 standard deviations (SD) below the average since the end of 2014 of 16.6x. The 12M forward P/E based on Bloomberg consensus earnings forecasts (which are not adjusted and therefore less conservative than the measure of TTM earnings cited above) was 9.5x — or about 1.7 SD below the average since the end of 2014 of 12.8x.

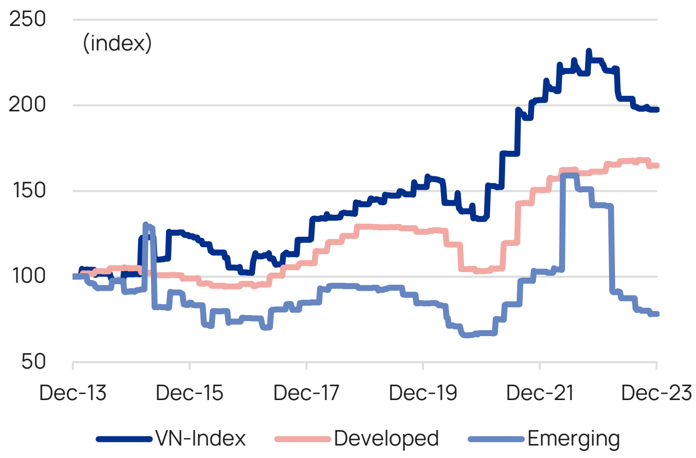
Figure 136: VN-Index, TTM P/E & 12M forward P/E



Source: Bloomberg, Vietcap

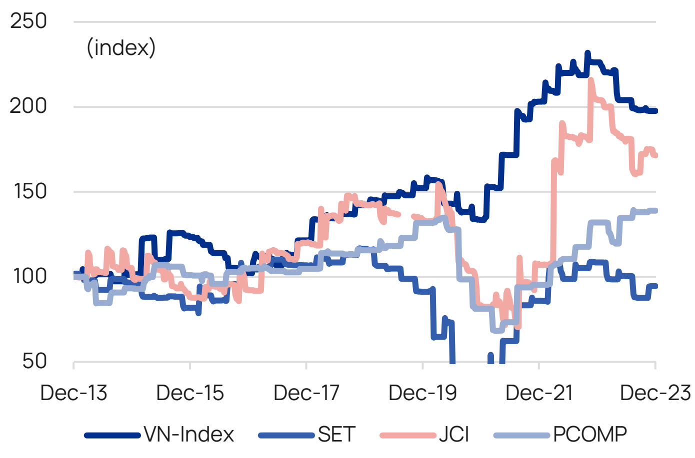
VN-Index earnings have grown faster than the earnings of MSCI global indices and TIPS markets on a cumulative basis since the end of 2013. Rolling 12M forward consensus EPS forecasts show a similar profile. Meanwhile, P/E multiples for the VN-Index look undemanding in comparison with global markets and TIPS markets.

Figure 137: VN-Index & MSCI global indices, TTM EPS



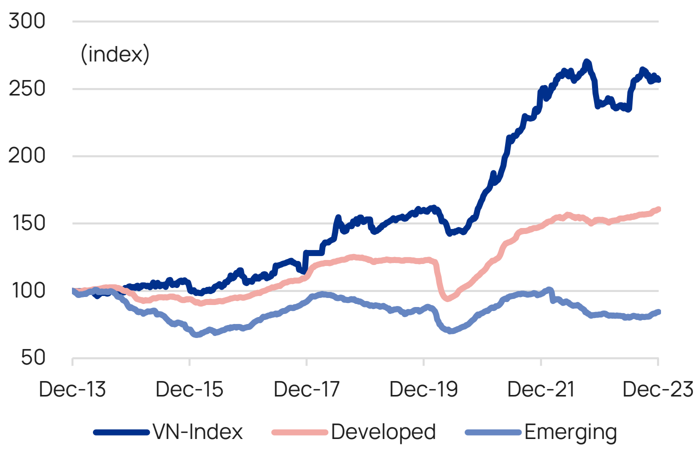
Source: Bloomberg, Vietcap

Figure 138: VN-Index & TIPs markets, TTM EPS



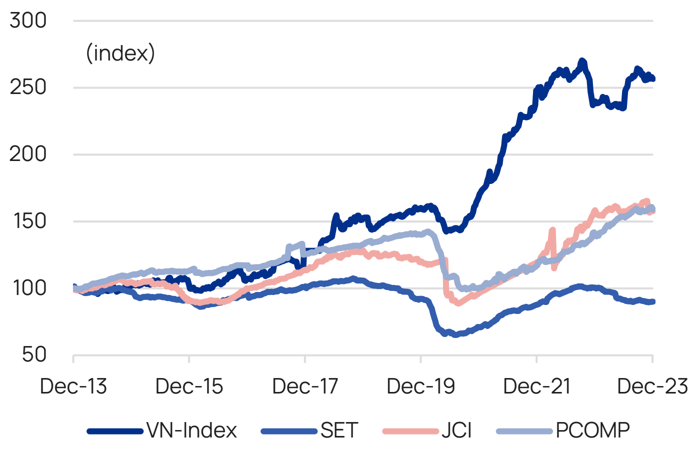
Source: Bloomberg, Vietcap

Figure 139: VN-Index & MSCI global indices, 12M fwd EPS*



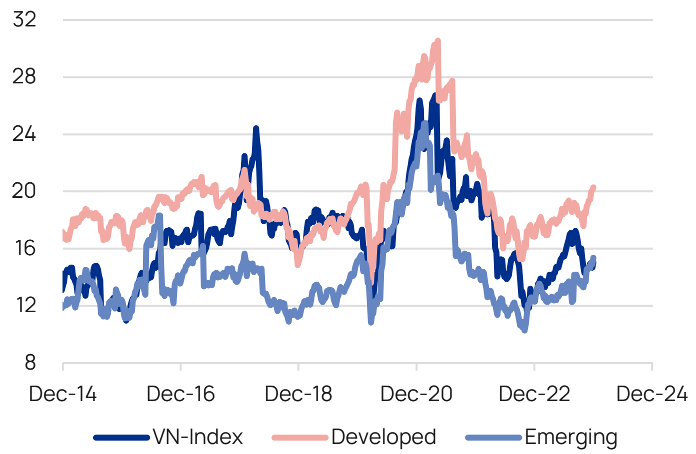
Source: Bloomberg, Vietcap (* Bloomberg consensus forecasts)

Figure 140: VN-Index & TIPs markets, 12M forward EPS*



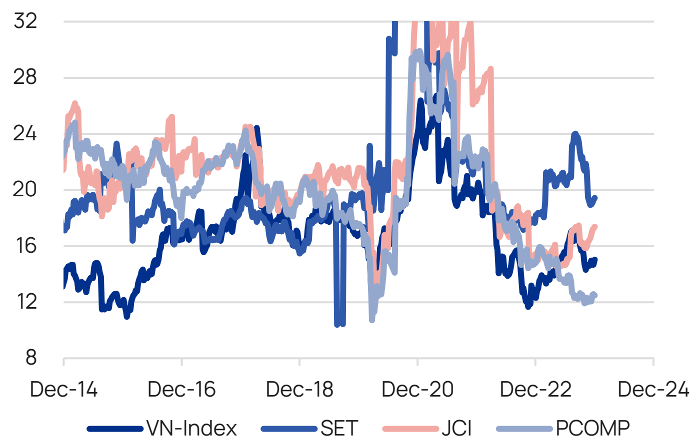
Source: Bloomberg, Vietcap (* Bloomberg consensus forecasts)

Figure 141: VN-Index & MSCI global indices, TTM P/E



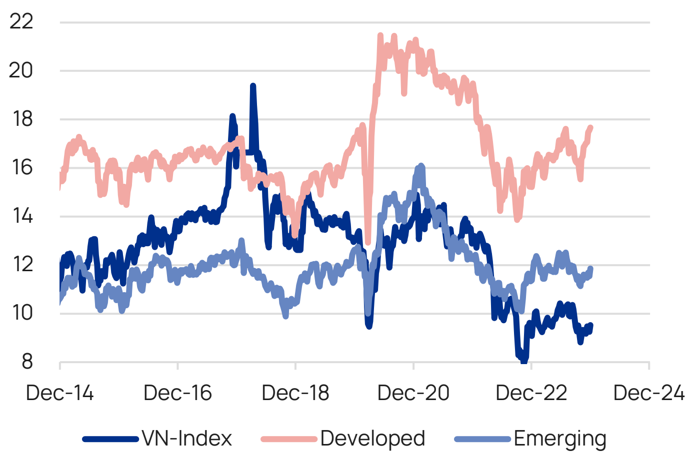
Source: Bloomberg, Vietcap

Figure 142: VN-Index & TIPs markets, TTM P/E



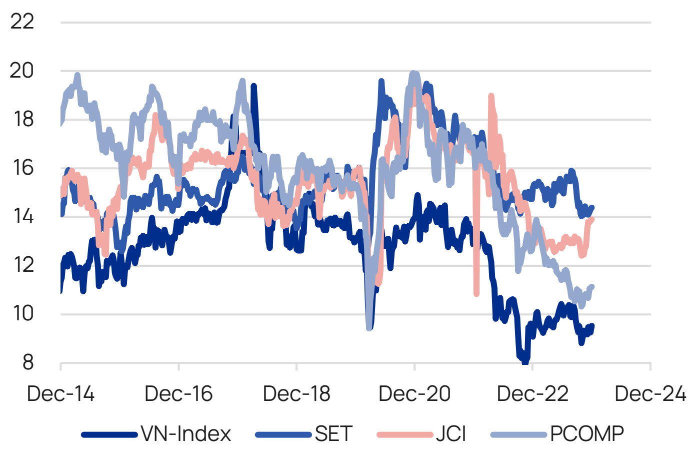
Source: Bloomberg, Vietcap

Figure 143: VN-Index & MSCI global indices, 12M forward P/E*



Source: Bloomberg, Vietcap (* Bloomberg consensus forecasts)

Figure 144: VN-Index & TIPs markets, 12M forward P/E*

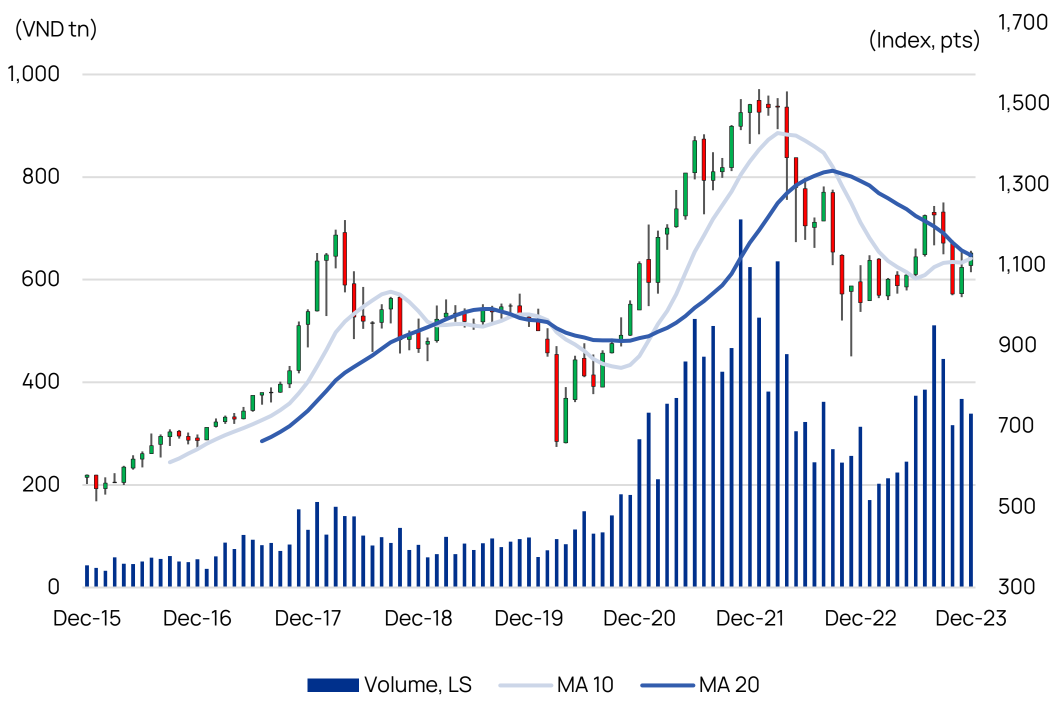


Source: Bloomberg, Vietcap (* Bloomberg consensus forecasts)

Technical outlook

The VN-Index fluctuated in a range from 1,060 - 1,130 in Q4 2023, generating mixed signals for the trend in the beginning of 2024. However, we see a slow recovery trend in the VN-Index after it dropped to a 2023 low of around 1,020 in early November. We expect the VN-Index to break up through its recent sideways range and advance towards a strong resistance at 1,150 - 1,170 in Q1 2024. From this threshold, the index would then have equal probabilities of continuing to increase towards 1,200 or correcting towards 1,080.

Figure 145: VN-Index & moving averages



Source: Bloomberg, Vietcap

Vietnam's Market Classification

Vietnam remains on FTSE Russell's watchlist for reclassification

According to the latest FTSE equity country classification annual review that was published in September 2023, Vietnam remains on the watchlist for possible upgrade from frontier to secondary emerging market status. Vietnam has been on this FTSE watchlist since September 2018. Vietnam currently meets most of the criteria required to be upgraded to a secondary emerging market. However, Vietnam has not satisfied the 'Settlement Cycle DvP' criterion, which FTSE currently evaluates as 'restricted' due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution (or 'prefunding' requirement).

In its September 2023 review, FTSE also reiterated its comment that "improvements to the process for the registration of new accounts are required, as is the introduction of an efficient mechanism to facilitate trading between non-domestic investors in securities that have reached, or are approaching, their foreign ownership limit."

Figure 146: FTSE annual review, September 2023

FTSE QUALITY OF MARKETS CRITERIA (Watch List) as of September 2023	SECONDARY EM WATCH	VIETNAM
World Bank GNI Per Capita Rating (Atlas Method)		Lower Middle
Credit Worthiness		Speculative
Market and Regulation Environment		
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	Pass
Fair and non-prejudicial treatment of minority shareholders		Restricted
No or selective incidence of foreign ownership restrictions		Restricted
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	Pass
No or simple registration process for foreign investors		Restricted
Foreign Exchange Market		
Developed foreign exchange market		Restricted
Equity Market		
Brokerage - Sufficient competition to ensure high quality broker services	X	Pass
Transaction costs - Implicit and explicit costs to be reasonable and competitive	X	Pass
*Tax = imposition of taxes to be reasonable and comparable between domestic and non-domestic investors		Pass
Stock lending is permitted		Restricted
Short sales permitted		Not Met
Developed derivatives market		Restricted
Off-exchange transactions permitted		Not Met
Efficient trading mechanism		Restricted
Transparency: Market depth information / visibility & timely trade reporting process	X	Pass
Clearing, Settlement and Custody		
Settlement - Rare incidence of failed trades	X	Restricted
Settlement cycle (DvP)	X	T+2
Central securities depositary		Pass
Central counterparty clearinghouse (Equities)		Not Met
Settlement - Free delivery available		Not Met
Custody-Sufficient competition to ensure high quality custodian services	X	Pass
Account structure operating at the Custodian level (securities and cash)		Not Met

Source: FTSE Russell

Vietnam remains in the MSCI Frontier Markets Index

Morgan Stanley Capital International's (MSCI) assessment of the Vietnamese market remained unchanged in its annual market accessibility review published in June 2023, as illustrated below.

Figure 147: MSCI market accessibility review of Vietnam, June 2023

MSCI Criteria	Evaluation	2023
Openness to foreign ownership		
Investor qualification requirement		++
Foreign ownership limit (FOL) level	Companies in certain conditional and sensitive sectors are subject to foreign ownership limits ranging from 0% to 51%. These limitations still affect more than 10% of the Vietnamese equity market.	-
Foreign room level	The equity market is significantly impacted by foreign room issues. More than 1% of the MSCI Vietnam IMI is impacted by low foreign room.	-
Equal rights to foreign investors	Some company related information is not always readily available in English. In addition, the rights of foreign investors are limited as a result of the stringent foreign ownership limits imposed on both total as well as individual foreign investors.	-
Ease of capital inflows/outflows		
Capital flow restriction level		++
Foreign exchange market liberalization level	There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).	-
Efficiency of the operational framework		
Market entry		
Investor registration & account set-up	Registration is mandatory and account setup requires the approval of the VSD.	+
Market organization		
Market regulations	Not all regulations can be found in English.	+
Information flow	Stock market information is not always disclosed in English and occasionally is not detailed enough.	-
Market infrastructure		
Clearing and Settlement	There are no overdraft facilities and the prefunding of trades is required.	-
Custody		++
Registry/Depository		++
Trading		++
Transferability	Certain off-exchange transactions and in-kind transfers require prior approval from the State Securities Commission of Vietnam.	-
Stock lending		-
Short selling		-
Availability of Investment Instruments		++
Stability of institutional framework		+

++: no issues; +: no major issues, improvements possible; -: improvements needed

Source: MSCI

Potential positive developments on market classification

Vietnamese authorities have expressed a goal to see the market upgraded from frontier market (FM) to emerging market (EM) status by 2025, which implies an intention to solve some of the remaining issues within this timeframe.

In terms of meeting the clearing and settlement criteria, Vietnam has been working with South Korean partners to implement a new securities trading system (the KRX system) that was originally expected to be completed in 2021 but has since been delayed. Vietnam also plans to establish a clearing house according to the central counterparty model (CCP), which could help to solve the problem of the current requirement to pre-fund equity purchases, thereby removing an important barrier to an upgrade to emerging market classification by MSCI and FTSE Russell.

More recently, Vietnamese authorities and market participants have discussed potential interim solutions to remove pre-funding requirements for foreign institutional investors and FTSE Russell has indicated that this might be sufficient to upgrade the market to secondary emerging market status. FTSE made the following comments on Vietnam in its September 2023 Country Classification Update.

"Although progress on the planned market reforms has remained slow, a recommitment to the work required has been made by senior levels of government. In addition, the State Securities Commission (SSC) has demonstrated renewed energy in seeking a workable solution that would remove the need for pre-funding.

FTSE Russell continues to maintain a constructive relationship with the SSC, the World Bank Group, and Ernst & Young who are supporting the wider market reform program, and other key market authorities.

Finalization of the required roles and responsibilities, within the settlement model, that are aligned to the new legislation remains a critical next step. FTSE Russell continues to encourage the Vietnam market authorities to provide clearer guidance on the steps and timeframe for implementation.

Vietnam will remain on the Watch List as a Frontier market and reviewed for possible reclassification as a Secondary Emerging market within the FTSE Equity Country Classification scheme at the Interim Review in March 2024."

The KRX trading system is also expected to contribute to the successful implementation of increased trading flexibility and new products such as day trading, sale of pending securities (short selling) and new derivative products, all of which could attract increases in activity from domestic and foreign investors in the future.

We believe that removal of the prefunding requirement for foreign institutional investors in the coming months could lead FTSE to signal that the Vietnamese market will be upgraded to secondary emerging market status in their market review in March or September, with implementation to follow in 2025. However, we believe it is unlikely that Vietnam will be able to meet enough of the outstanding criteria to qualify for upgrade to emerging market status in MSCI's market accessibility review in June 2024. In theory, if foreign access to the market were to be improved in 2024 in addition to removing the prefunding requirement, MSCI could signal an upgrade in 2024 for implementation 12 months later, implying that Vietnam could become an active constituent of the MSCI Emerging Markets Index in 2025. However, this is unlikely, in our view, given the outstanding issues over foreign access.

The general assumption is that an upgrade in the market's status from FM to EM could result in substantial additional foreign inflows. This follows from a comparison of the relative market caps of EM and FM indices and the universe of funds which either track these indices or use them as benchmarks. For example, MSCI's EM and FM indices had total market caps of USD6,761bn and USD106bn as of end-November 2023, respectively.

Futures: A contrasting trend vs 2022

Vietnam's derivatives market in 2023 presented a contrasting trend vs 2022. In contrast to strong growth of 45% YoY in 2022, average VN30F1M volume in 2023 decreased by 14% YoY to around 230,300 contracts. Daily VN30F1M volume peaked at nearly 448,300 contracts in the March 7 trading session and fluctuated around an average of 217,500 contracts towards the year-end. Open interest (OI, the total number of outstanding futures contracts) continued trending upwards in 2023, but at a slower rate compared to that in 2022. As of year-end 2023, OI was nearly 58,500 contracts, up 22% YoY (vs an increase of 56% YoY in 2022).

We attribute the decline in turnover in the futures market in 2023 primarily to increased margin requirements and weaker investor sentiment. Starting from December 15, 2022, the Vietnam Securities Depository Centre (VSDC) raised the minimum initial margin for VN30 futures contracts from 13% to 17%. This was the second increase following a previous increase in 2018 (from 10% to 13%). In our view, although increasing the minimum margin requirement helped to stabilize the market and reduce potential risks due to market volatility, it may have reduced the positions of smaller retail investors due to higher upfront costs. Meanwhile, global economic uncertainty and volatile stock markets in 2023 likely led to more cautious sentiment among investors in general, thus reducing their appetite for risk in the derivatives market.

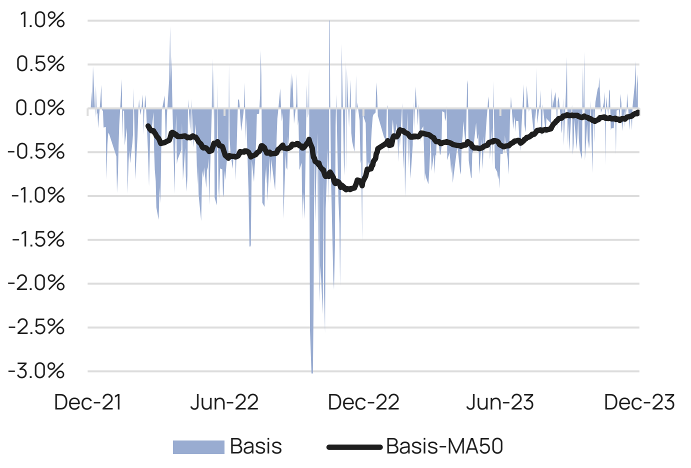
Spread between VN30 and VN30F1M pricing narrowed vs 2022. The spread between VN30 Index futures and the underlying equity index pricing (or 'basis') ranged between zero and 1% for most of 2023. The basis in 2023 was smaller than that in 2022 (which ranged between zero and 3%), suggesting leaner profit opportunities from arbitrage trading in the futures market.

2023 saw the second-highest average trading value over the last six years. Average daily trading turnover in the futures market was USD1.0bn, down 21% YoY. Despite the drop in turnover, the average trading value in 2023 was the second highest since 2017, indicating resilient interest in the market. The number of derivatives accounts also continued to grow, reaching 1.5 million as of end-November 2023 and nearly 86 times that at the end of 2017. In our view, initiatives like the planned introduction of new derivative products and increased regulatory focus should offer promising opportunities for future market growth.

Figure 148: VN30 Index and VN30F1M

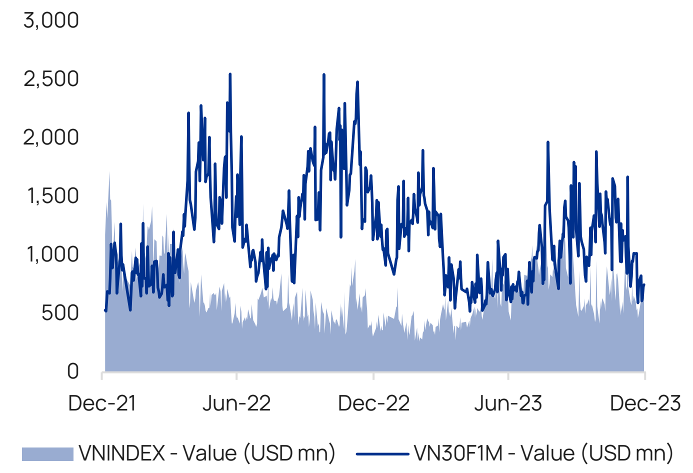
Source: FiinPro, Vietcap

Figure 149: Spread between VN30 Index and VN30F1M



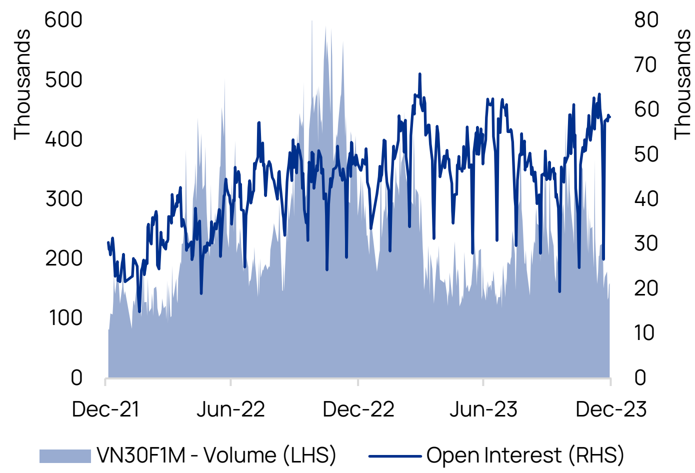
Source: FiinPro, Vietcap

Figure 150: Daily value of turnover in VN-Index & VN30F1M



Source: FiinPro, Vietcap

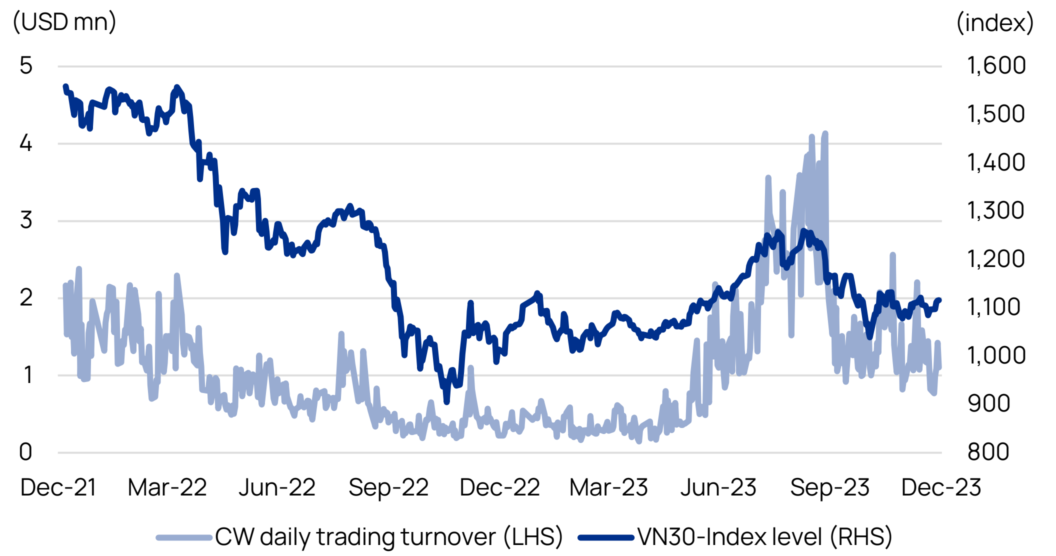
Figure 151: VN30F1M daily trading volume and open interest



Source: FiinPro, Vietcap

Covered warrants: Recovery from 2022's low base

Figure 152: Covered warrants – daily value of trading in 2022/23



Source: FiinPro, Vietcap

Trading activity in the covered warrant market recovered vs a low base in 2022. The total value of trading in the covered warrant (CW) market reached USD293mn in 2023 (+34% YoY) as the VN-Index recovered from its recent lows in Q4 2022. The average daily trading turnover also climbed from an average of USD0.9mn in 2022 to USD1.2mn in 2023. However, CW daily trading turnover decreased from a peak of USD4.1mn in September 2023 to an average of USD1.3mn in Q4 2023 as the VN-Index and VN30-Index began to decline in early September 2023.

411 CW issues in 2023. Of the nine securities firms that have issued CWs since 2019, KIS Vietnam Securities (KIS) has continued to be the most active. 2023 saw KIS issue 166 CWs in total across 18 stocks, SSI Securities (SSI) 73 CWs in total across 14 stocks, and Ho Chi Minh Securities (HSC) 60 CWs in total across 14 underlying stocks. HPG was still the most popular underlying stock with 51 CWs issued by the nine active securities firms. STB took over second position from VRE with 46 CWs issued in 2023.

Figure 153: Covered warrants issued in 2022

	KIS	SSI	HCM	VCI	VND	MBS	ACBS	BSI	Total
HPG	13	4	3	3	4	2	2	1	32
VRE	10	5	4	2	1	2	3		27
STB	11	3	4	3	2	2		1	26
VHM	9	5	3	2	3	2	2		26
MWG	2	4	4	4	3	2	3	1	23
FPT		5	4	3	4	3	1	1	21
MSN	8	1	3	3	1	1	3	1	21
TCB		5	4	2	4	2	3	1	21
VNM	8	1	3	2		3	2		19
VPB	3	4	4	2	3	2		1	19
MBB	4	5	4	2	3		1		19
KDH	7	2	1	2	2	2			16
VIC	6	1	2	1		2	1		13
NVL	9	1		1				1	12
PNJ	3	1	2	4	1			1	12
HDB	8			1		2			11
ACB		3	2	1	1	3			10
POW	7			1		1	1		10
VJC	7	1							8
TPB	2	1	1		2	1			7
PDR	7								7
Total	**124**	**52**	**48**	**39**	**34**	**32**	**22**	**9**	**360**

Source: FiinPro, Vietcap

Figure 154: Covered warrants issued in 2023

	KIS	SSI	HCM	ACBS	VND	VCI	MBS	BSI	PHS	Total
HPG	19	10	6	4	5	1	2	2	2	51
STB	19	7	6	3	5	1	2	2	1	46
VRE	14	5	6	2	1	2	2			32
VHM	14	5	5	2			1			27
VPB	6	7	5		4	2	2	1		27
MSN	12	3	4	2		2		1		24
FPT		6	6	3	4	2	2	1		24
MWG	4	5	5	4	1	1	2	2		24
MBB	4	7	5	3	2	1		2		24
VNM	12	3	3	1		1	1			21
POW	13		1	1	3	2				20
TCB		5	6	3		1	2	1		18
VIC	11	3								14
ACB		4	1		2	1		1		9
VIB		3	1	2	1	1				8
NVL	7							1		8
HDB	8									8
PDR	7									7
TPB	6					1				7
SHB	6									6
KDH	2									2
VJC	2									2
PNJ						1		1		2
Total	**166**	**73**	**60**	**30**	**28**	**20**	**16**	**15**	**3**	**411**

Source: FiinPro, Vietcap

IPOs & State divestments

2023 recap

The initial public offering (IPO) market experienced a substantial slowdown in 2023. According to FiinPro, only three companies successfully completed IPOs in 2023, raising a total of VND173bn (USD7mn) – equivalent to a decline of 90% YoY. In our view, the slow IPO market may be attributed to a tightened listing approval process and lower trading liquidity in Vietnam's stock market in 2023 vs 2022.

Slower-than-expected State divestment. According to Decision No. 1479/QĐ-TTg dated November 29, 2022, the State Capital Investment Corporation (SCIC) targets to divest a total of 141 companies during 2022-2025. However, as of end-2023, only 12 companies were divested. This was equivalent to only 9% of the target and was also lower than in 2022 (34 companies). Six out of 12 companies divested in 2023 were included in the SCIC's 2023 divestment list.

Certain major companies were removed from the divestment list. Under Decision No. 1479/QĐ-TTg, some notable names which were previously planned to be divested will remain as State-owned companies. These include Vietnam Posts and Telecommunications Group (VNPT) – one of the leading Vietnamese telecommunications providers - and Vietnam National Cement Corporation (VICEM) – one of the largest cement manufacturers in Vietnam. We attribute these decisions to the strategic importance of these companies as VNPT and VICEM are vital players in their industries, in which the Government may prioritize maintaining control in the short term.

2024 outlook

State divestment and equitizations to accelerate in 2024. From our expectation of improving macroeconomic conditions and equity market prospects, we expect State divestment and equitization to pick up in 2024. Additionally, as the pace of divestment activity is currently slower than the initial plan, the SCIC may seek to accelerate divestment activity in 2024, in our view.

Figure 155: Equitizations in 2023

Code	Company names	Exchange	Market Cap at IPO price (VND bn)	Value sold (VND bn)	Date
RYG	Royal Manufacture And Investment Joint Stock Company	HOSE	675	135	16/10/2023
DDB	Dong Duong Construction and Trading	HOSE	120	20	23/3/2023
THM	Tu Hai Ha Nam Joint Stock Company	UPCoM	92	18	24/04/2023

Source: FiinPro, Vietcap

Figure 156: Selected State divestments in 2023

Code	Company names	Shareholder	Pre-divestment ownership	Stake sold	Value sold (VND bn)	Date
N/A	Dien Bien Tourism Trade And General Services Joint Stock Company	SCIC	47%	47%	22.1	4/27/2023
N/A	CONSTRUCTION AND WATER RESOURCE TECHNOLOGY TRANSFER JOINT STOCK COMPANY	SCIC	36%	36%	5.1	5/8/2023
TSB	Tia Sang Battery Joint Stock Company (HNX: TSB)	VINACHEM	51%	51%	134.9	1/3/2023
PGB	Petrolimex Group Commercial Joint Stock Bank (UPCOM: PGB)	Petrolimex	40%	40%	2,568.0	4/7/2023
N/A	QUANG NGAI ROAD MANAGEMENT AND CONSTRUCTION JOINT STOCK COMPANY	SCIC	29%	29%	7.0	2/9/2023
N/A	Road Maintenance And Complex Contruction Joint- Stock Company Of Quang Binh	SCIC	65%	65%	11.3	3/9/2023
N/A	Inland Waterways Management And Maintenance Joint Stock Company N09	SCIC	51%	51%	20.6	2/6/2023

Source: FiinPro, Vietcap

Figure 157: Selected planned equitizations in 2024

Company	% State ownership post equitization	2022 Equity (USD mn)	2022 Revenue Growth	2022 NPAT Growth	2022 ROE	2022 ROA	Business Description
Agribank	65% and above	3,477.4	17.0%	51.4%	20.9%	0.9%	One of the largest banks in Vietnam in terms of charter capital, with the widest network in Vietnam thanks to its role in the agriculture sector.
HUD	50% and below	151	6.9%	81.1%	5.7%	1.6%	A construction and real estate company, specialized in urban area and residential housing development. HUD has been implementing 25 projects nationwide. Some of the company notable projects include HUD Tower Le Van Luong, Viet Hung new urban area, and Phap Van new urban area
Agrexport Hanoi	50% and below	NA	NA	NA	NA	NA	Under Ministry of Agriculture's control, Agrexport Hanoi specializes in processing and trading agricultural products and machinery.
NEAD	50% and below	NA	NA	NA	NA	NA	NEAD, under Ministry of Science and Technology's control, specializes in research and application of nuclear and radiation techniques in multiple fields, including health, food, environment, and manufacturing.
Halong Fiscorp	65% and above	0.9	-9.4%	N.M.	-43.6%	-11.7%	Halong Fiscorp's main business includes processing and trading aquatic products. Under the brand "Mien Ha Long", the company's products are easy to find in domestic supermarket systems and exported to many markets over the World.
Vung Ro port	65%-50%	NA	NA	NA	NA	NA	Vung Ro port is located in Phu Yen Province. This port has a handling capacity of 500,000 tonnes/year and can accommodate ships of up to 10,000 DWT.

Source: Decision No.1479/QĐ-TTg (State divestment plans from 2022-2025), FiinPro, Vietcap.

Figure 158: Selected planned divestment of listed companies in 2024

Code	Govt Stake Sale	Mkt Cap (USD mn)	TTM Rev Growth	TTM EPS Growth	PB	TTM PE	TTM ROA	TTM ROE	Foreign Room
VGC	38.58% by MOC	1,006	8.1%	16.1%	2.9	17.4	5.9%	17.5%	219,691,500
TCK	98.76% by MOC	4	-47.9%	0.0%	NA	-13.5	-0.8%	0.0%	11,686,500
LLM	46.88% by MOC	31	169.7%	0.0%	0.7	-18.2	-0.6%	-3.8%	39,065,790
CAB	47.55% by Vietnam Television	23	-18.4%	-68.3%	1.1	42.5	0.7%	2.3%	-
QTC	54% by SCIC	1	111.4%	101.9%	0.8	12.5	4.3%	6.4%	-
FIC	40% by SCIC	73	-21.4%	-18.3%	1.2	27.7	2.5%	4.1%	62,230,000
TTL	25% by SCIC	15	-3.6%	55.2%	0.6	27.0	0.5%	2.4%	20,534,920
QTP	11% by SCIC	273	-20.2%	-24.0%	1.2	15.2	5.4%	7.4%	220,500,000
LIC	41% by SCIC	57	-9.0%	0.0%	4.1	-66.0	-0.5%	-5.8%	-
HND	9% by SCIC	289	-6.0%	40.3%	1.1	13.2	6.4%	8.3%	245,000,000
AGF	8% by SCIC	3	-42.3%	0.0%	NA	-5.6	-4.5%	0.0%	14,054,871
VNP	66% by SCIC	10	-10.4%	0.0%	0.8	-12.5	-4.7%	-6.7%	9,520,167
SEA	63% by SCIC	190	-3.3%	6.0%	1.9	18.8	8.2%	10.7%	-

Source: Decision No.1479/QĐ-TTg, SCIC, FiinPro, Vietcap (MOC = Ministry of Construction)

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Banks: Credit demand and asset quality to improve in 2024

- We forecast 2024F system-wide credit growth of 13.7% as the Vietnamese economy recovers from a relatively slow year in 2023. We expect credit growth to be driven by the corporate sector in the first half of 2024 and retail credit demand to pick up in the second half of the year.
- We expect asset quality to improve in 2024 and forecast our aggregate composite asset quality metric (NPL ratio grossed up for write-offs plus group 2 loans ratio) to decline by 33-bps YoY to 4.65% in 2024F. We anticipate that most banks under our coverage will start to rebuild provisioning buffers in 2024F.
- We expect stronger earnings growth in 2024F. We forecast 2024F aggregate NPAT to grow by 21.3% YoY which is mainly driven by (1) a 17.7% YoY increase in aggregate NII on higher NIMs and credit growth and (2) a 21.7% YoY increase in aggregate NOII.
- Our coverage universe is trading at 0.5 standard deviation below its seven-year average trailing P/B, and we believe valuations are attractive. We have BUY ratings for nine of the 12 banks under our coverage.
- Our top picks for 2024 are **MBB and STB**. These stocks offer some of the highest projected returns based on our end-2024 target prices as of December 29. We believe these banks offer robust core performance and strong growth outlooks at attractive valuations.
- We recommend **VCB and ACB** for investors seeking relatively defensive exposure to the sector.

Figure 159: Key data for banks under our coverage

Code	Rating	Market Cap USD mn	State O'ship %	For. Limit %	For. Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target price updated	Upside %	Div. Yield %	TSR %
VCB	BUY	18,546	74.8%	30.0%	1,227	6	80,300	108,500	11/21/23	35.1%	0.0%	35.1%
CTG	BUY	6,014	64.5%	30.0%	175	5	27,100	35,300	11/27/23	30.3%	0.0%	30.3%
BID	O-PF	10,223	81.0%	30.0%	1,304	2	43,400	46,400	11/29/23	6.9%	0.0%	6.9%
MBB	BUY	4,018	9.4%	23.2%	0	8	18,650	26,000	11/16/23	39.4%	2.7%	42.1%
STB	BUY	2,177	0.0%	30.0%	162	18	27,950	38,100	12/05/23	36.3%	0.0%	36.3%
ACB	BUY	3,836	0.0%	30.0%	0	6	23,900	31,400	11/14/23	31.4%	4.2%	35.6%
TCB	BUY	4,629	0.0%	22.5%	0	16	31,800	42,200	11/13/23	32.7%	0.0%	32.7%
VPB	BUY	6,295	0.0%	30.0%	134	13	19,200	24,000	11/09/23	25.0%	2.6%	27.6%
VIB	BUY	2,055	0.0%	20.5%	0	3	19,600	24,000	09/29/23	22.5%	5.1%	27.6%
HDB	BUY	2,426	0.0%	20.0%	8	10	20,300	22,500	11/27/23	10.8%	2.5%	13.3%
TPB	O-PF	1,583	0.0%	30.0%	1	5	17,400	19,600	11/07/23	12.6%	0.0%	12.6%
LPB*	U-PF	1,665	0.0%	5.0%	36	2	15,750	13,700	01/03/24	-13.0%	0.0%	-13.0%

Figure 160: Summary valuations

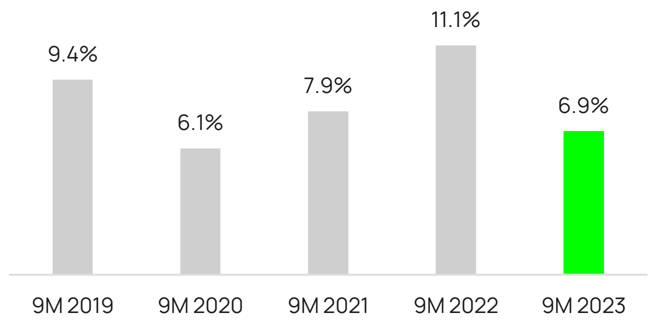
Code	Share Price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/B 2023F x	P/B 2024F x	P/B 2025F x	P/E 2023F x	P/E 2024F x	P/E 2025F x	ROE 2024F %	Assets/ equity LQ x
VCB	80,300	15.2%	15.8%	20.0%	2.70	2.05	1.75	14.6	12.6	10.5	20.6%	10.9
CTG	27,100	8.7%	20.0%	35.3%	1.18	1.06	0.92	9.4	7.8	5.8	16.8%	15.5
BID	43,400	10.4%	24.2%	9.3%	2.12	1.69	1.49	14.6	11.7	10.7	18.2%	17.9
MBB	18,650	16.6%	15.0%	12.7%	1.04	0.85	0.70	4.8	4.1	3.7	22.5%	8.9
STB	27,950	58.3%	28.8%	37.6%	1.16	0.97	0.79	7.6	5.9	4.3	20.8%	14.9
ACB	23,900	15.4%	16.2%	12.5%	1.31	1.09	0.91	5.9	5.1	4.5	23.6%	9.7
TCB	31,800	-8.9%	9.8%	17.5%	0.86	0.74	0.64	6.1	5.6	4.7	14.6%	6.1
VPB	19,200	-40.2%	17.8%	31.8%	1.00	1.01	0.92	11.8	10.0	7.6	10.1%	7.1
VIB	19,600	13.2%	9.6%	12.7%	1.30	1.08	0.90	5.2	4.8	4.2	24.9%	10.7
HDB	20,300	18.3%	53.1%	-21.1%	1.32	1.03	0.88	6.4	4.2	5.3	27.7%	11.8
TPB	17,400	-14.7%	11.6%	27.6%	1.16	0.98	0.82	7.2	6.4	5.0	16.6%	10.6
LPB*	15,750	-18.6%	9.2%	4.5%	1.23	1.11	0.99	10.8	9.9	9.5	12.2%	13.8

Source: Vietcap (share prices as of December 29, 2023). * LPB updated on January 3, 2024.

Sector recap and outlook

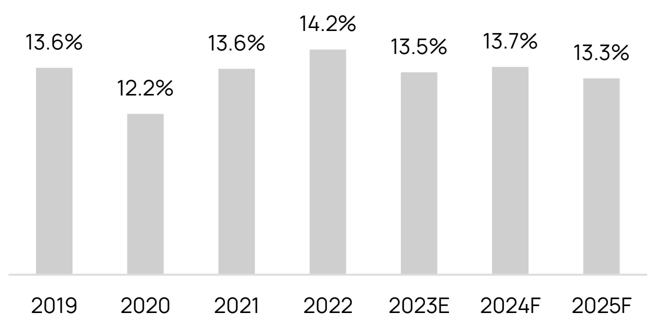
Credit growth

Figure 161: System credit growth (cumulative YTD)



Source: State Bank of Vietnam (SBV), General Statistics Office of Vietnam (GSO), Vietcap

Figure 162: Annual system credit growth

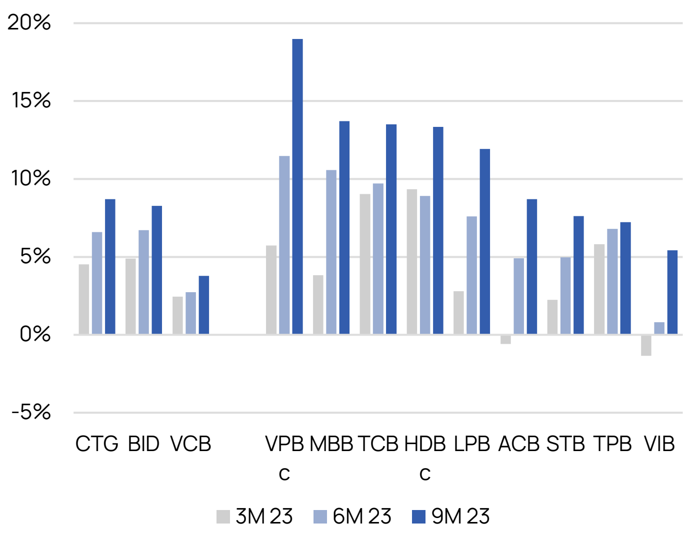


Source: SBV, Vietcap estimates. * 2024F and 2025F represent implied systemwide credit growth, which is calculated based on our forecast for credit growth of banks in our coverage universe less 1.4 ppts (the average difference in the four years to 2022).

9M 2023 system-wide credit growth was slow due to a weaker-than-expected economy. In 9M 2023, system-wide credit growth was 6.9%, which was significantly lower than the average credit growth of 8.6% in the first nine months of the year from 2019 to 2022. According to the SBV, system-wide credit growth was about 11.1% as of December 21, 2023. The slow credit growth is explained by relatively slow GDP growth of 5.0% in 2023, which was primarily due to a slowdown in the export sector and continued weakness in real estate and demand for mortgages.

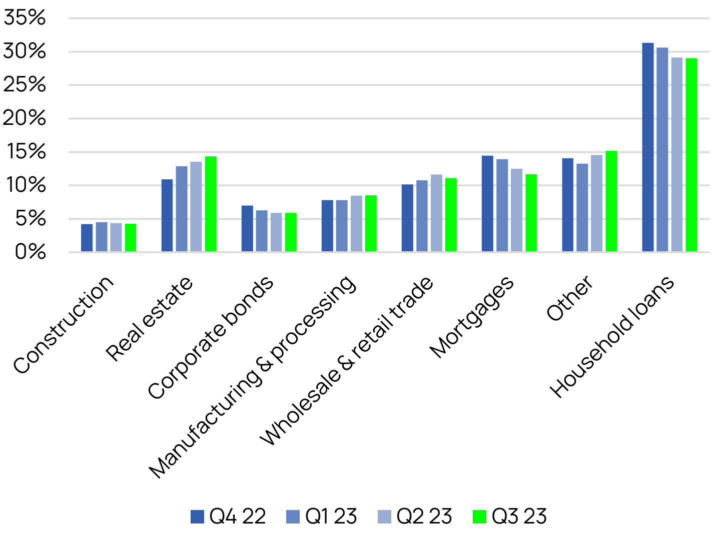
However, we observed a significant improvement in the system-wide credit balance in the last ten days of 2023. Following the State Bank of Vietnam (SBV), as of December 28, 2023, credit growth was reported at 13% and is expected to reach 13.5% for the full year 2023. We attribute this improvement to (1) the seasonal factor, (2) the continual improvement in the economic activities supported by the lower interest rate environment, (3) the lending for public projects, and (4) the effort of authorities in implementing various measures to stimulate the credit growth.

Figure 163: YTD credit growth of banks under our coverage



Source: Company data, Vietcap; (c denotes consolidated)

Figure 164: Breakdown of credit balance of private banks that provide quarterly disclosures (HDB, VPB, MBB, TCB, TPB, VIB)

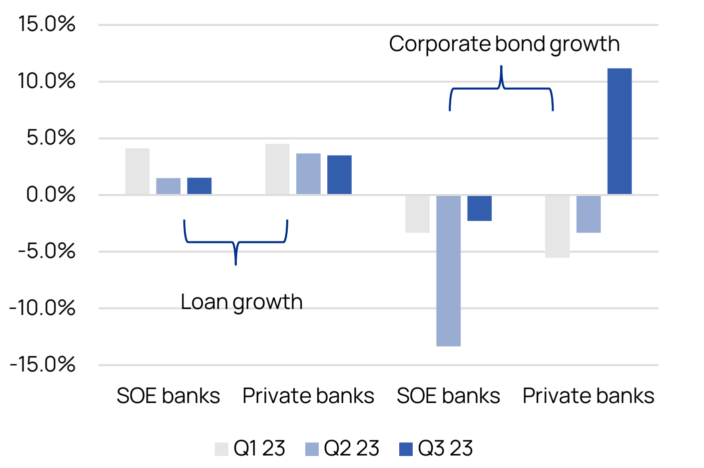


Source: Company data, Vietcap

High divergence in credit growth between banks. In general, the banks under our coverage reported higher credit growth compared to the overall industry, with outstanding numbers reported at VPB (+19.0%), MBB (+13.7%), and TCB (+13.5%). High credit growth at these banks was partly contributed by strong demand for credit from real estate developers. Conversely, VIB and VCB reported weaker figures, which we attribute mainly to low credit demand from retail customers and VCB's conservative approach to credit disbursement.

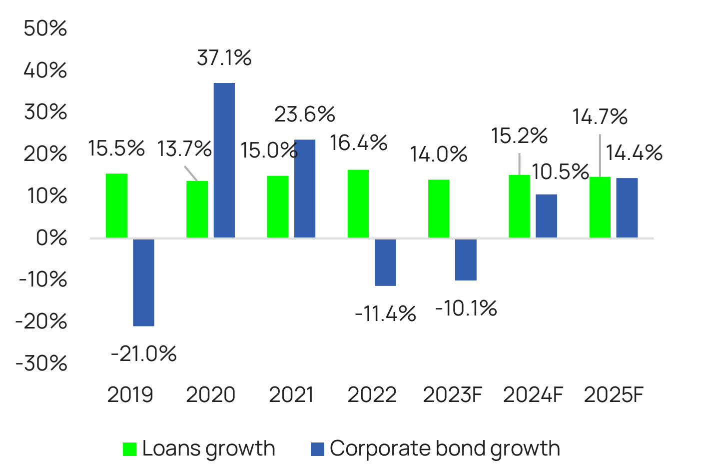
9M 2023 credit growth was mainly driven by loans while corporate bond balances dropped. For banks under our coverage, 9M 2023 credit growth was 9.2%, in which loans to customers increased by 9.4% whereas the balance of corporate bonds decreased 7.4%. We attribute the decline in corporate bonds to (1) corporations opting to repurchase their bonds before maturity and (2) a limited volume of new bond issuances. However, the corporate bond balance at private banks increased 11.2% in Q3 2023 QoQ, driven mainly by growth at TCB and HDB.

Figure 165: QoQ credit growth breakdown by segment



Source: Company data, Vietcap;

Figure 166: Annual credit growth by segment



Source: Company data, Vietcap estimates

Credit growth shifted towards the corporate segment in the last three quarters. The retail contribution to total loans at banks under our coverage which provide quarterly breakdowns (VPB, HDB, MBB, TCB, VIB, and TPB), decreased in 9M 2023. In Q3 2023, the proportion of household loans and mortgages decreased by 2.29 ppts and 2.79 ppts, respectively, compared to Q4 2022. We attribute this to (1) high interest rates during Q4 2022 to Q2 2023, (2) weak consumer confidence and spending due to the slower economy, and (3) weak demand for mortgages in a sluggish residential real estate market. Data from these private banks showed that 9M 2023 credit growth was driven by increases in credit to (1) real estate business of 48.4%, (2) manufacturing & processing of 22.5%, (3) wholesale & retail trade of 22.3%, and (4) other segments of 21.2%.

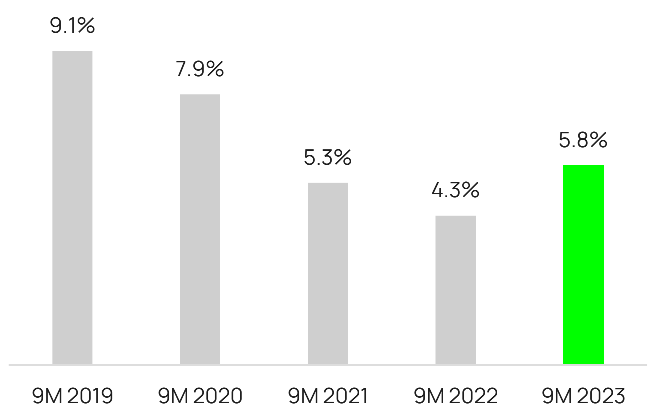
We forecast 2024F system-wide credit growth of 13.7% as GDP growth accelerates vs 2023. We expect aggregate credit growth to pick up in 2024F due to (1) a lower interest rate environment, which we expect to have a positive impact on credit demand starting from Q4 2023, (2) recovery in export and import activity, and (3) supportive measures from the Government to stimulate domestic demand and investment, with the aim of achieving targeted GDP growth of 6-6.5% in 2024, as recently approved by National Assembly. Additionally, the SBV has allocated full credit quotas for 2024 to credit institutions, based on a system credit growth target of 15%. We expect this allocation to provide more flexibility for credit institutions to plan their lending activities, resulting in evenly distributed lending growth throughout the year.

We expect credit growth will be driven by the corporate sector in the first half of 2024, while improvement in the retail segment is expected in the second half of the year. We observed that banks shifted their lending strategy towards the corporate segment in 2023 as consumer spending and demand for credit were weak. We expect this trend to continue in the near term and the corporate segment, especially real estate developers, manufacturing firms, and businesses that benefit directly from public investment projects, will remain the main driver of credit growth in H1 2024. However, we expect to see a clearer improvement in the retail segment starting in the second half of 2024. We believe a recovery in the economy, especially in the export-oriented manufacturing sector, will lead to a firmer labor market and boost consumer confidence and spending, supporting credit growth in this segment. We forecast retail-heavy lenders ACB, TPB, and VIB to have stronger credit growth in 2024 vs 2023.

We expect the corporate bond market to improve in 2024, with a gradual increase in both transaction volume and outstanding value driven by: (1) increased demand for bonds due to low deposit rates, (2) improving investor sentiment from an expected recovery of the real estate market and clearing of legal bottlenecks for real estate projects, and (3) the launch of a new trading platform at HNX, which should improve market liquidity. In addition, we believe market participants have had sufficient time to comply with Decree 65. Recently, the MoF has granted more licenses to firms for providing credit ratings for corporate bonds, bringing the total number of firms authorized to provide credit ratings on corporate bonds in Vietnam to three. We note that some of the regulations in Decree 08, including (1) suspending the requirement for a credit rating for bond issuers, and (2) suspending the requirement to be a professional investor to invest in corporate bonds, expired on December 31, 2023. We maintain our view that corporate bonds will remain an important funding channel for Vietnam's economy and forecast 10.5% YoY growth in the total corporate bond balance of banks under our coverage in 2024.

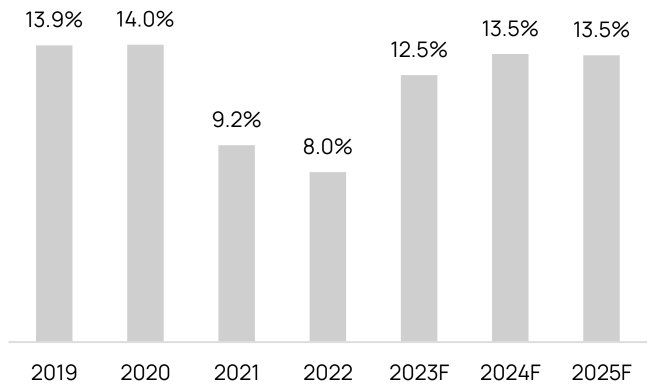
Deposit growth

Figure 167: System deposit growth (cumulative YTD)



Source: SBV, Vietcap

Figure 168: Annual system deposit growth



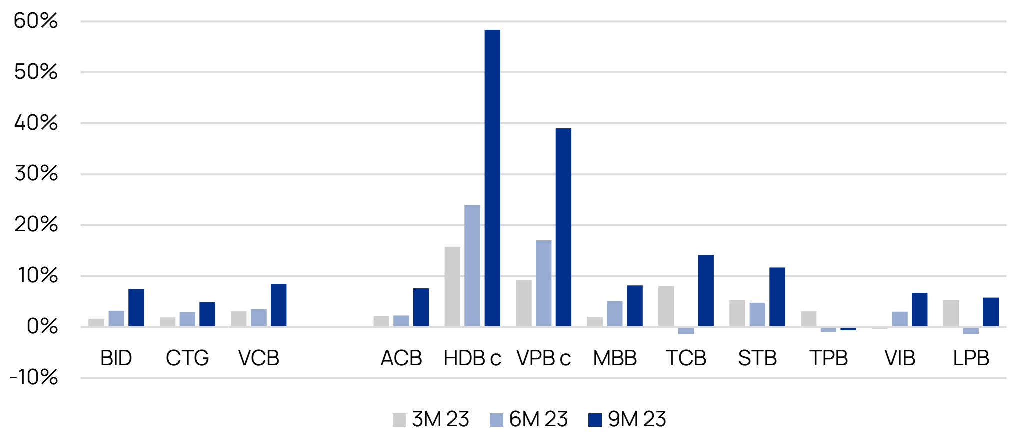
Source: SBV, Vietcap estimates. * 2023F and 2024F represent implied systemwide deposit growth, which is calculated based on our forecast for deposit growth of banks in our coverage universe less 1.3 ppts (the average difference in the last three years).

System deposit growth in 9M 2023 was broadly in line with credit growth at 5.8% and mainly driven by retail customers. The breakdown of deposits provided by the SBV indicates that deposits from institutions increased by only 4.65% in 9M 2023, while deposits from individuals increased by 10.0%. Among the banks under our coverage, HDB and VPB showed abnormally high deposit growth, mainly from retail customers. 9M 2023 consolidated deposit growth at VPB and HDB was 39.0% and 58.3%, respectively. The management of these banks stated that they are preparing their funding to accommodate anticipated higher credit growth in the coming months.

They expect that credit demand will increase for the period at the end of the year and improve in tandem with economic recovery in 2024.

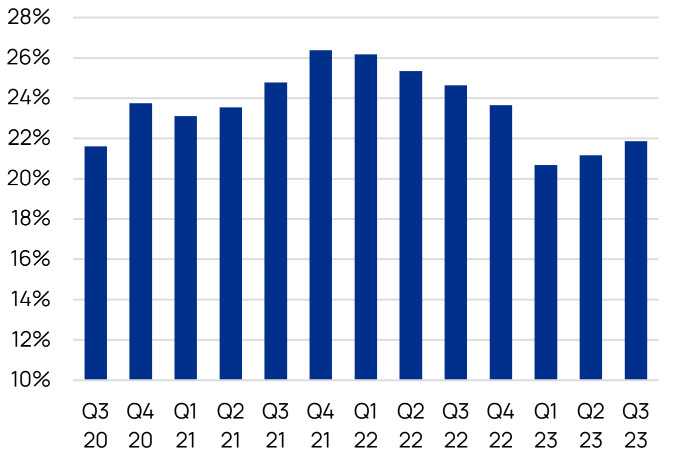
We expect stronger deposit growth in 2024 as the economy recovers. We forecast 2024F system-wide deposit growth of 13.5%, broadly in line with 2024F credit growth. While deposit growth YTD in 2023 was mostly driven by retail depositors, we expect more balanced growth between institutional and retail depositors in 2024.

Figure 169: Deposit growth of banks under our coverage



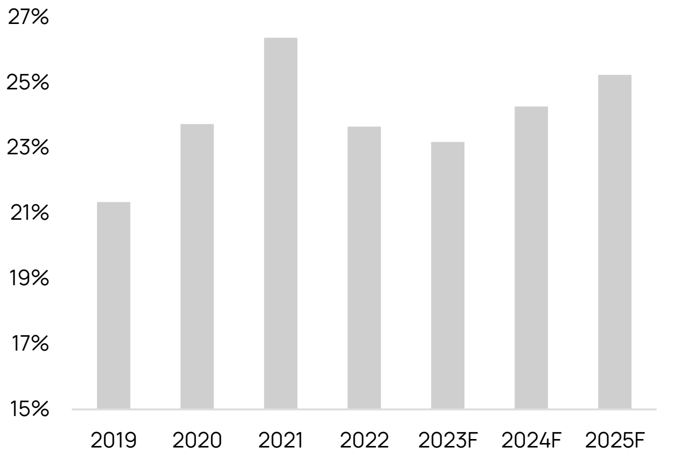
Source: Company data, Vietcap; (c denotes consolidated)

Figure 170: Aggregate CASA ratio of banks under our coverage, quarterly



Source: Company data, Vietcap

Figure 171: Aggregate CASA ratio of banks under our coverage, yearly

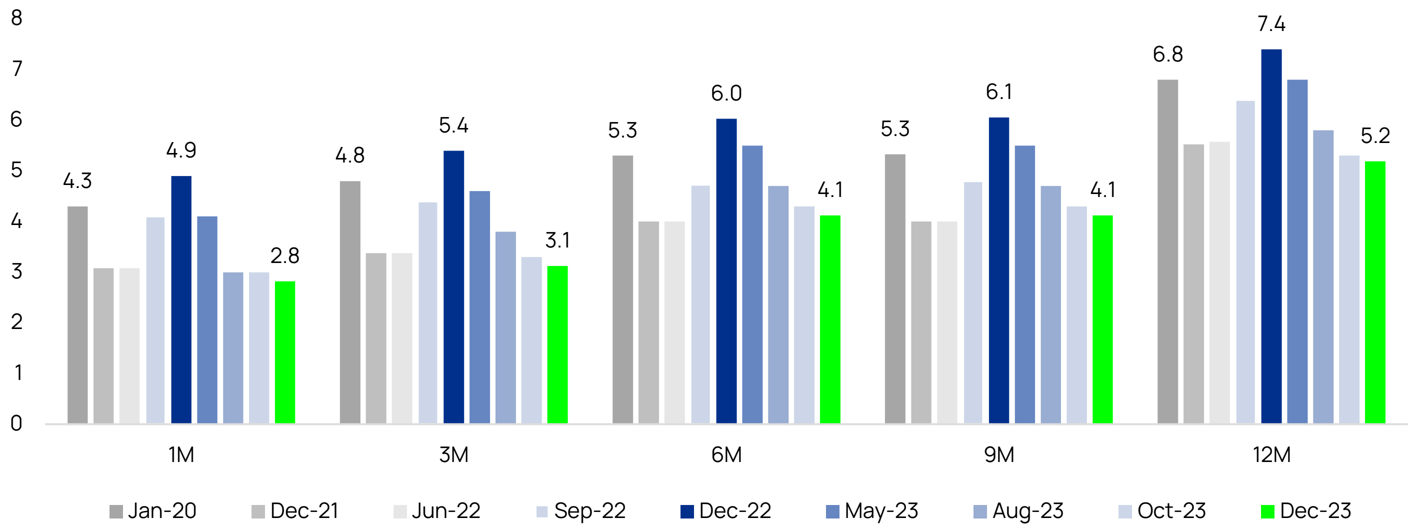


Source: Company data, Vietcap

Despite slow improvement in CASA ratios in Q3 2023 QoQ, we expect stronger improvement in 2024F. Previously, we expected that CASA ratios would continue to improve in the second half of 2023. However, the increase in CASA ratios in Q3 2023 QoQ was not as significant as we initially expected. We attribute this slow improvement to (1) the slow recovery of the economy and (2) continued weak demand for investment in real estate and the corporate bond market. As a result, we believe people have been keeping their money in term deposits while risk aversion towards other investment channels remained high, even though interest rates have already declined substantially. However, we expect these above-mentioned factors to gradually improve, leading to a stronger increase in CASA ratios in 2024.

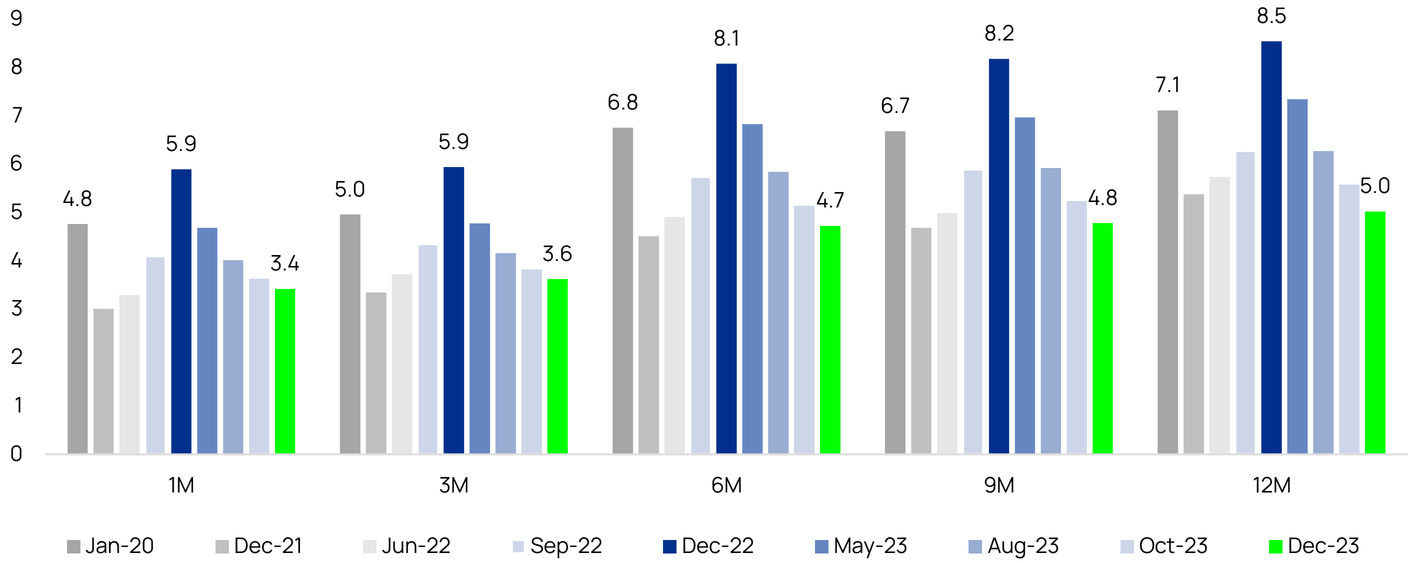
Interest rates

Figure 172: Weighted average deposit rates of SOE banks (%)



Source: Company data, Vietcap. Weighted average rates of covered SOE banks and Agribank.

Figure 173: Weighted average deposit rates of private banks (%)



Source: Company data, Vietcap. Weighted average rates of private banks under Vietcap coverage.

To support economic growth, the SBV implemented a series of policy rate cuts in 2023, with total cuts of (1) 50 bps in the deposit rate cap for terms less than one month, (2) 125 bps in the deposit rate cap for terms from one month to less than six months (1mo - <6mo), (3) 150 bps for the refinancing rate and discount rate, and (4) 200 bps for the overnight (O/N) rate for interbank payments and interest rate for loans provided by the SBV for the credit institution to cover a shortage in liquidity in the Clearing and Payment System.

Policy rate cuts have been supported by the fact that (1) domestic inflation declined sharply in H1 2023 and has since remained under control and (2) liquidity in the banking system has improved since Q1 2023. Lower VND rates in contrast to further tightening by the US Federal Reserve in 2023 led to negative spreads on VND rates vs USD rates and put significant pressure on the VND/USD exchange rate resulting in depreciation of the VND against the USD in H2 2023. However, robust foreign direct investment inflows, a strong trade surplus, and inflows from remittances provided some support for the VND, and expectations that the Fed will start to cut rates in 2024 should lead to broad stability in the VND/USD exchange rate.

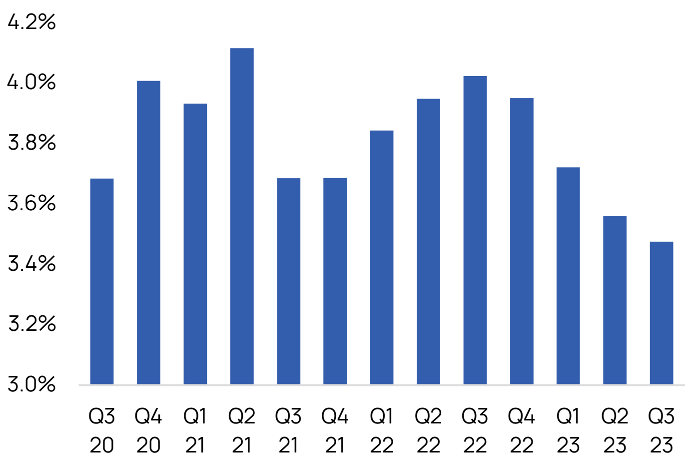
We expect the SBV to maintain a loose monetary policy stance to support growth in 2024 and forecast that the SBV will keep the deposit cap (1mo - ‹6mo) at the current level of 4.75% through H1 2024. While Vietnam's Prime Minister has called for the SBV to adopt a more accommodative monetary policy stance to support the GDP growth target for 2024 of 6-6.5% approved by the National Assembly, we do not expect further cuts in policy rates from current levels.

In our view, credit growth has remained low at around 9.2% as of November 2023 due to weak demand, despite the fact that commercial banks lowered their deposit and lending rates since the second quarter of 2023. Average 12-month deposit rates are currently around 5%, which is even lower than the lowest rates offered during the COVID-19 pandemic. In addition, liquidity in the banking system is high, with O/N and 1W interbank rates around 0.1% and 0.23% at the end of November, respectively.

With inflation expected to remain stable and the Fed expected to start cutting rates in 2024, we expect the SBV to maintain a low-interest environment for most of 2024 to support economic growth. However, as the economy accelerates, we would expect interest rates to increase gradually and we forecast that the SBV will raise the deposit rate cap (1mo - ‹6mo) by 25 basis points to 5.0% by the end of H2 2024.

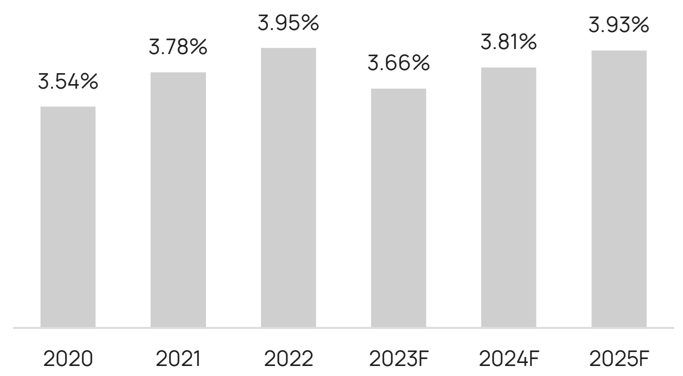
Net interest margins (NIM)

Figure 174: Aggregate NIM, quarterly



Source: Company data, Vietcap

Figure 175: Aggregate NIM, yearly

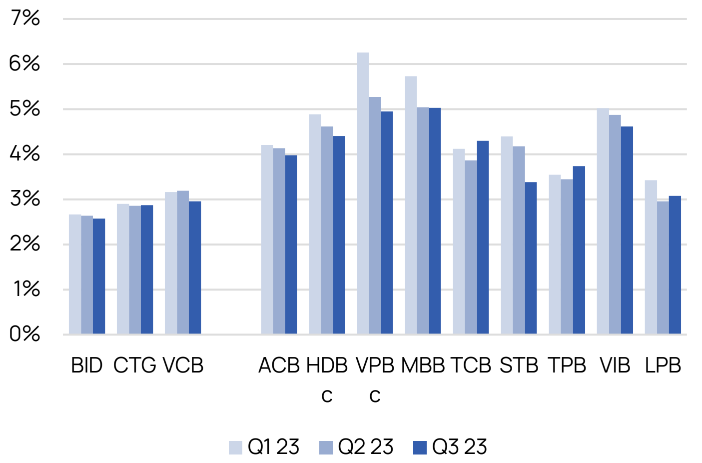


Source: Company data, Vietcap

NIM declined in 9M 2023 but we expect a moderate recovery from Q4 2023 onwards. Aggregate NIM of banks under our coverage declined in 9M 2023 as interest earning asset (IEA) yields decreased at a faster pace relative to the cost of funds (COF). We attribute the slower decrease in COF to (1) time lags in repricing of the deposit base as interest rates declined and (2) slow improvement in CASA ratios. Meanwhile, IEA yields decreased at a faster pace driven by (1) more intense competition in lending, (2) a lower share of retail to total loans, (3) concessionary reductions in lending rates to support customers, especially at SOE banks, and (4) higher formation of non-performing loans (NPLs) since Q4 2022.

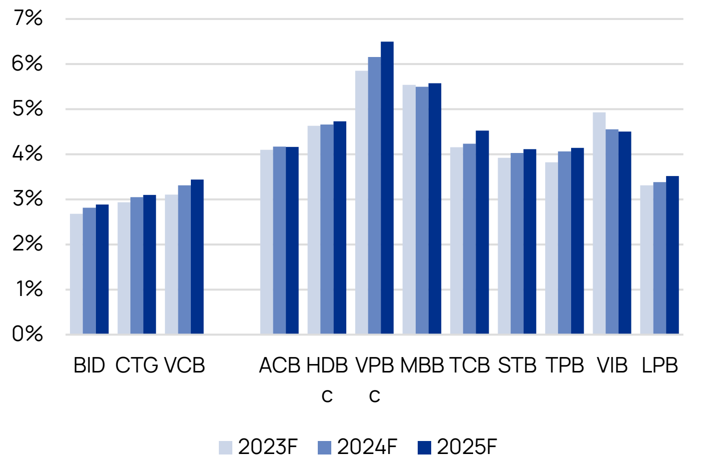
We expect NIM to improve in Q4 2023 as (1) deposits reprice at lower interest rates, (2) credit demand should be seasonally stronger, and (3) NPL formation starts to moderate. For 2024F, we forecast a 15-bp YoY increase in aggregate NIM due to (1) a stronger credit demand from retail borrowers, (2) lower support packages for customers as the economy recovers, and (3) an improvement in asset quality. We project aggregate NIM for SOE banks to increase by 16-bps YoY in 2024 and aggregate NIM for private banks to increase by 10-bps YoY.

Figure 176: NIM by banks, quarterly



Source: Company data, Vietcap; (c denotes consolidated)

Figure 177: NIM by banks, yearly



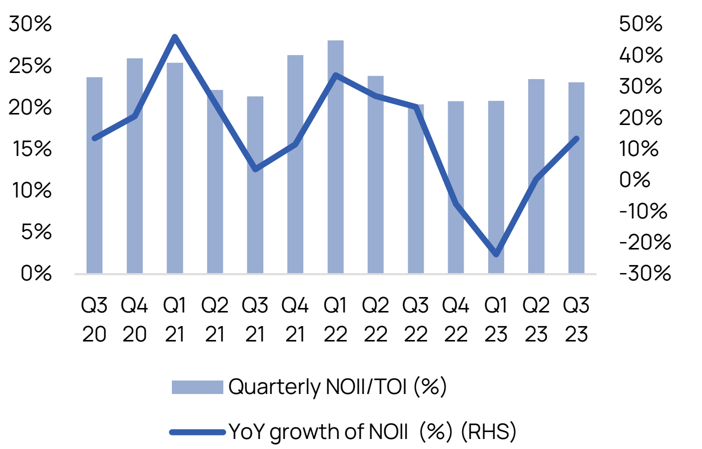
Source: Company data, Vietcap; (c denotes consolidated)

Non-interest income (NOII)

NOII decreased in 9M 2023 YoY; however, NOII picked up in Q2 and Q3 2023. If we exclude one-off bancassurance income at VPB in Q1 2022, 9M 2023 aggregate NOII inched up 1.6% YoY, which was mainly driven by (1) a 4.3 % YoY increase in other NOII that outweighed (2) a 1.1% YoY decrease in pure NFI that was mainly due to weak bancassurance sales since the investigation of mis-selling bancassurance cases in late 2022. While pure NFI improved slightly QoQ over the first three quarters of 2023 from a low base in Q4 2022, other NOII increased significantly in Q2 2023 and Q3 2023.

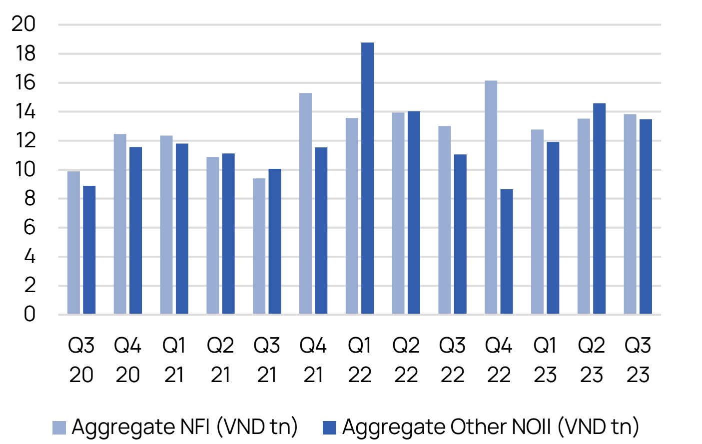
NOII performance diverged amongst banks under our coverage. We observe strong settlement services fees at BID, CTG, VPB, TPB, and VIB. Meanwhile, other NOII at CTG, VCB, TPB, HDB, and VIB was supported by robust gains from FX trading (especially at the SOE banks) and gains from trading and investment securities. We currently forecast 2023F NOII to increase slightly by 4.0% YoY, which is driven by our expectation for a stronger increase in Q4 2023 QoQ due to (1) seasonality of retail consumption and (2) our assumption for VCB and STB to record allocated bancassurance upfront fees.

Figure 178: Quarterly aggregate NOII/TOI and NOII growth



Source: Company data, Vietcap

Figure 179: Quarterly NOII breakdown



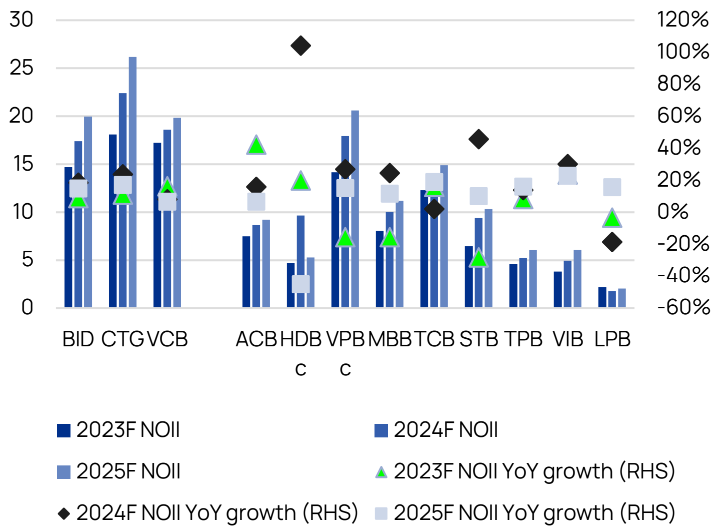
Source: Company data, Vietcap

We forecast NOII to increase 21.7% YoY in 2024 from a low base in 2023. Among banks under our coverage, we assume HDB will record one-off income of VND5tn from finalizing an exclusive bancassurance partnership in H2 2024. Excluding HDB's one-off income, we forecast NOII to increase 17.6% YoY in 2024F, driven by our expectation for (1) growth in settlement services fees, (2) a modest pickup in bancassurance fee income from a low base in 2023, and (3) improvement in recoveries from written-off bad debts across all banks (especially at STB due to recoveries from selling debt related to the Phong Phu industrial park).

Figure 180: Aggregate NOII/TOI and NOII growth, yearly

Source: Company data, Vietcap

Figure 181: NOII by banks (VND tn)



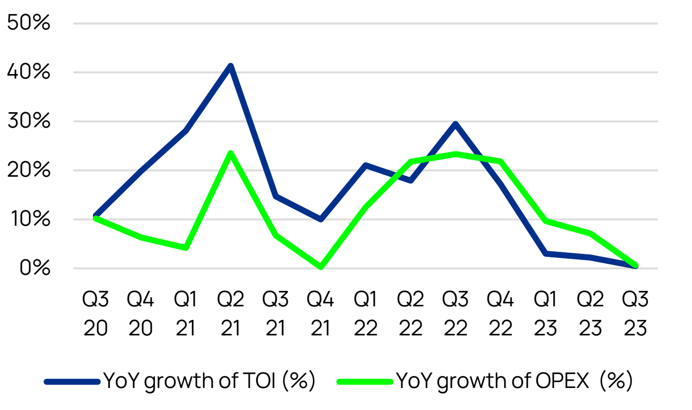
Source: Company data, Vietcap; (c denotes consolidated)

Operating costs

Cost to income ratios (CIR) effectively managed to support earnings. The aggregate CIR of banks under our coverage was broadly stable in 2021-2023 following strong improvement in 2020-2021. We believe that efficiency and productivity improvements from ongoing digital transformation at tech-savvy banks over 2021-2023 helped to contain growth in operating costs at lower or equivalent rates vs growth in total operating income (TOI). In addition, in 9M 2023, some banks under our coverage slowed down hiring of new employees, especially VPB and LPB, which are restructuring their operational systems. As a result, the total number of employees at banks under our coverage decreased by 2.0% compared to the end of 2022. However, due to (1) lower NIMs and (2) weak performance of NOII compared to 2022, aggregate CIR in 9M 2023 of banks under our coverage slightly increased by 1.2 ppts YoY to 32.6%.

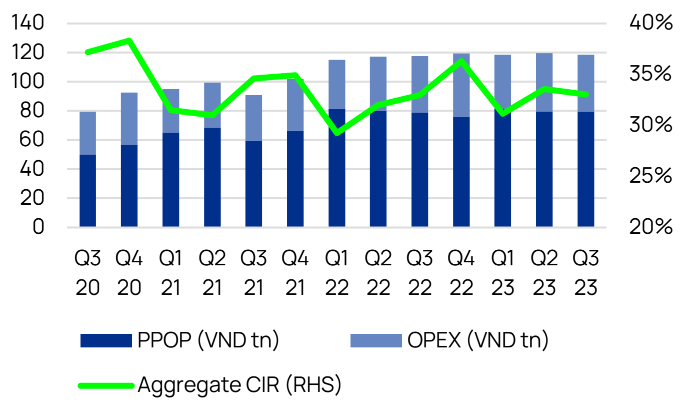
We forecast that CIR will be lower in 2024 vs 2023 due to strong growth in TOI. We forecast improvement in NIM and NOII in 2024 to drive an 18.7% YoY increase in aggregate TOI that outweighs a 16.7% YoY forecast increase in OPEX. As a result, we forecast CIR to drop by 67-bp YoY to 32.3% in 2024. If we exclude forecast one-off gains from STB and HDB, our 2024F CIR would adjust to 32.7% (-24 bps YoY).

Figure 182: Aggregate TOI and OPEX growth, quarterly



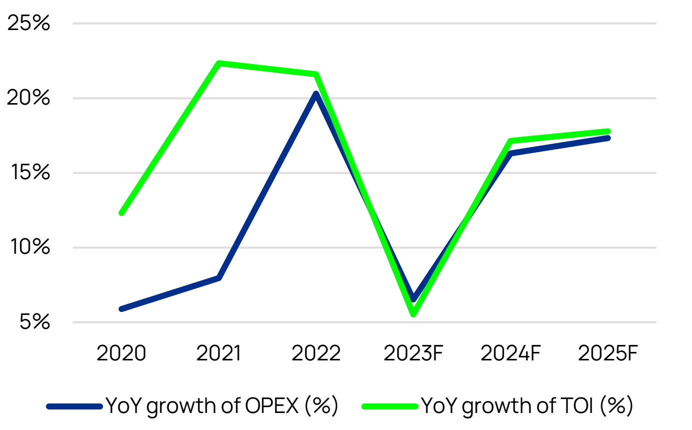
Source: Company data, Vietcap

Figure 183: Aggregate CIR, PPOP & OPEX, quarterly



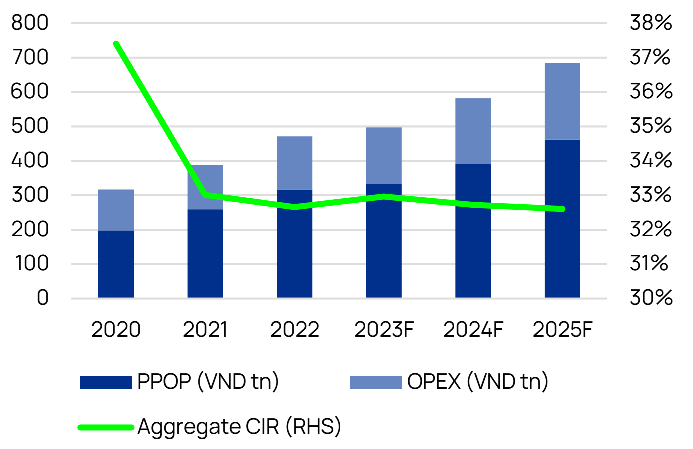
Source: Company data, Vietcap

Figure 184: Aggregate TOI and OPEX growth, yearly



Source: Company data, Vietcap

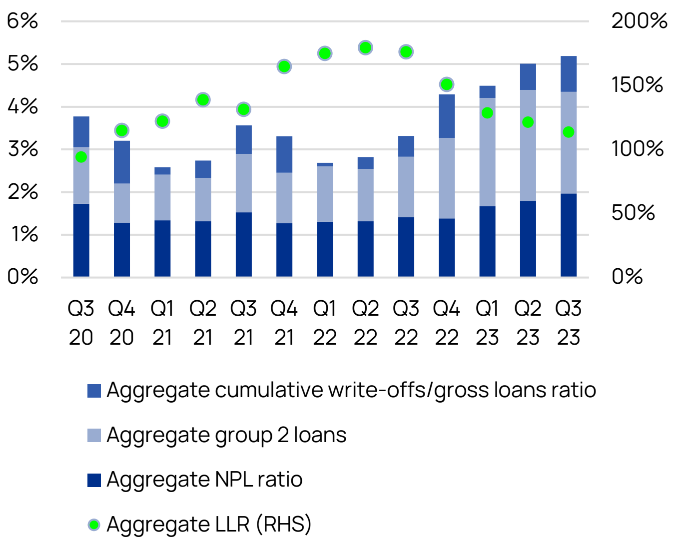
Figure 185: Aggregate CIR, PPOP & OPEX, yearly



Source: Company data, Vietcap. Note: 2024F CIR is normalized by excluding forecast one-off income at HDB and STB.

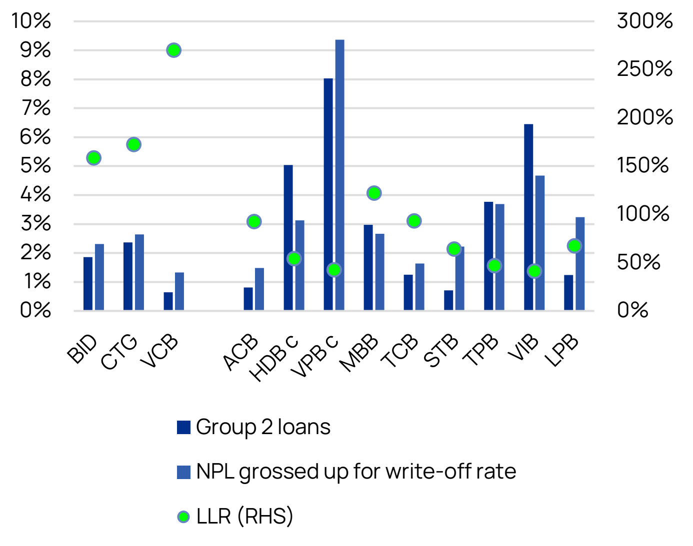
Asset quality and credit costs

Figure 186: Asset quality of Vietcap's banking coverage



Source: Company data, Vietcap

Figure 187: Asset quality of banks in Q3 2023



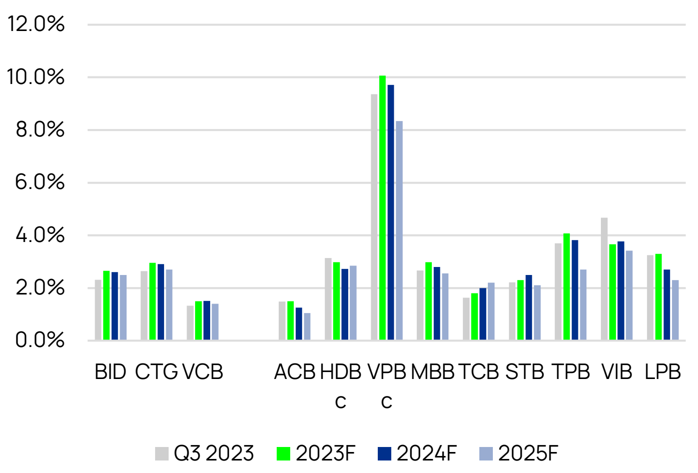
Source: Company data, Vietcap; (c denotes consolidated)

Retail-focused banks had the highest asset quality deterioration 9M 2023. VPB, VIB, HDB, and TPB had the highest (worst) bad debt metrics amongst banks under our coverage as of Q3 2023. These banks have high exposure to retail loans such as mortgages, auto loans, and credit cards. In addition, we attribute the high bad debt levels at VPB and HDB partly to the deterioration of asset quality at their consumer finance subsidiaries as the economic slowdown particularly affected low and middle-income individuals.

We believe Circular 02/2023/TT-NHNN regarding supporting borrowers via restructuring loans might not be extended in 2024F. As of Q3 2023, the amount of restructured loans at most banks under our coverage was limited. Restructured loans over gross loans at ACB, VIB, and TPB as of Q3 2023 ranged from 0.4% to 0.9%. Meanwhile, restructured loans over gross loans at VPB was higher at 2.8%.

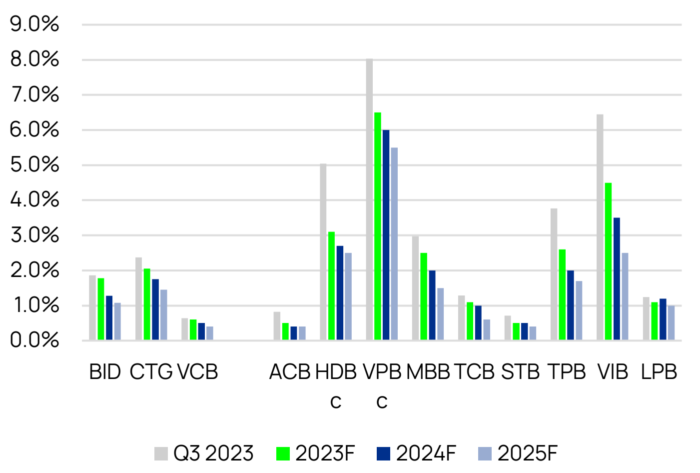
Banks generally expect restructured loans will increase over the next few quarters, but the peak will be much lower than the peak level of restructured loans during the COVID-19 pandemic. We believe this could imply (1) relatively low demand from customers to restructure loans and (2) a smaller number of customers meeting the requirements for having loans restructured. Circular 02 will expire by the end of June 2024, which means that banks can only restructure loans to support customers before this deadline. We believe that it may not be necessary to extend Circular 02 beyond mid-2024 given: (1) the current low level of restructured loans of most banks under our coverage, (2) lower loan rates, and (3) expected improvement in customers' ability to service loans as the economy improves in 2024. Nevertheless, we think the Government might consider extending Circular 02 if the economy recovers more slowly than expected and/or to support market sentiment.

Figure 188: NPL ratio grossed up for write-offs



Source: Company data, Vietcap; (c denotes consolidated)

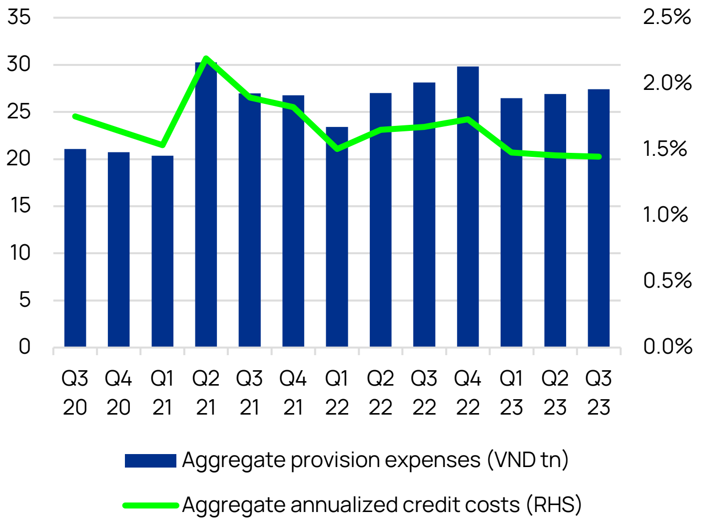
Figure 189: Group 2 loans



Source: Company data, Vietcap; (c denotes consolidated)

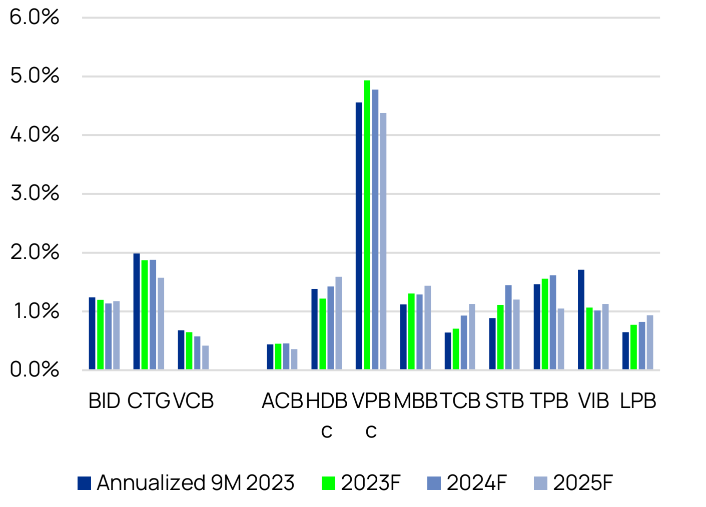
We expect improvement in bad debt metrics in 2024F. We forecast NPL ratios grossed up for write-offs for most of the banks under our coverage will continue to increase in Q4 2023 due to slow recovery of the real estate market and the lagged impact of the slowdown in the economy in Q4 2022/Q1 2023 that continues to dampen credit demand and customers' payment capacity. However, we expect improvement in 2024F with a more favorable economic backdrop and stronger credit demand. The aggregate SML ratio of our banking coverage dropped for the first time in the last 12 months by 21-bps QoQ in Q3 2023, which signals a slowdown in NPL formation. We forecast a 2024F aggregate NPL ratio grossed up for write-offs plus group 2 loans at 4.65% (-33 bps YoY). In addition, we expect banks will increase bad debt write-offs over the coming quarters to control NPL ratios.

Figure 190: Aggregate provision expenses (VND tn) and credit costs (%) quarterly



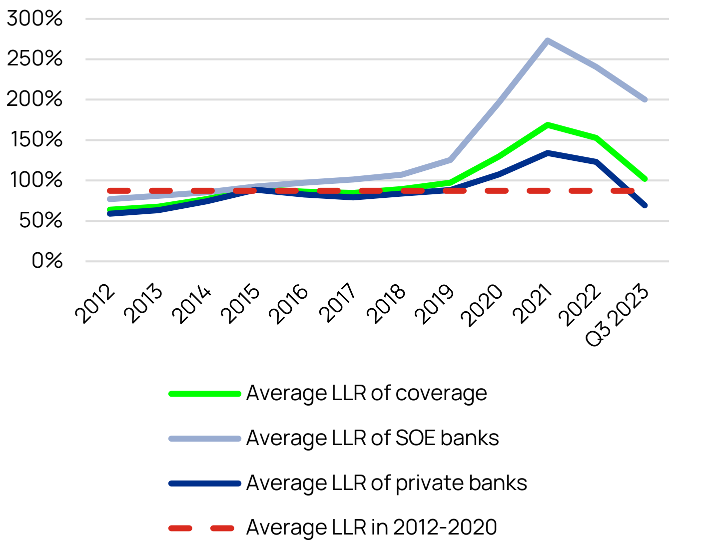
Source: Company data, Vietcap

Figure 191: Credit costs of banks under coverage



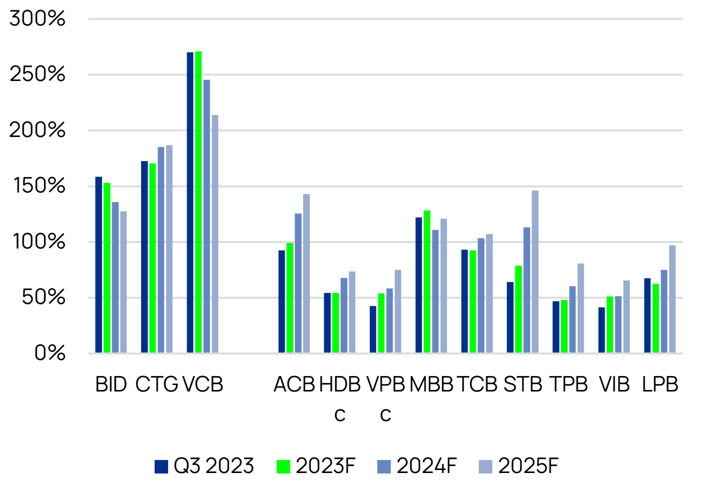
Source: Company data, Vietcap; (c denotes consolidated)

Figure 192: Average LLR



Source: Company data, Vietcap

Figure 193: LLR by bank

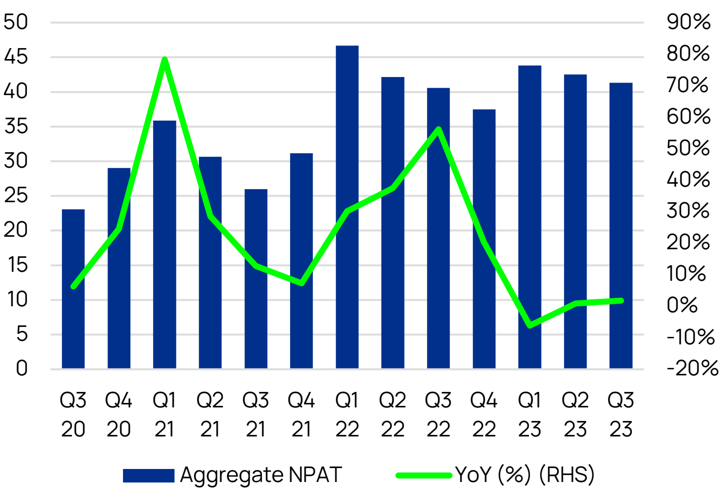


Source: Company data, Vietcap; (c denotes consolidated)

We expect most banks under coverage to start rebuilding provisioning buffers in 2024F. Despite higher NPL formation in 9M 2023, aggregate credit costs of banks under our coverage were relatively stable in this period as aggregate LLR declined by 37.0 ppts vs Q4 2022 to 113.6% in Q3 2023. From our observation, the LLR across the sector had been inflated during the COVID-19 period due to the supporting scheme which allowed banks to restructure loans but maintain loan group classifications without reducing required provisioning levels. Therefore, despite a sharp drop in 2023, the LLR of the banking sector has reverted to the average level in 2012-2020. We forecast aggregate credit costs to be relatively flat in 2024 YoY at 1.44% and forecast nine of the 12 banks under our coverage will strengthen their provisioning buffers in 2024.

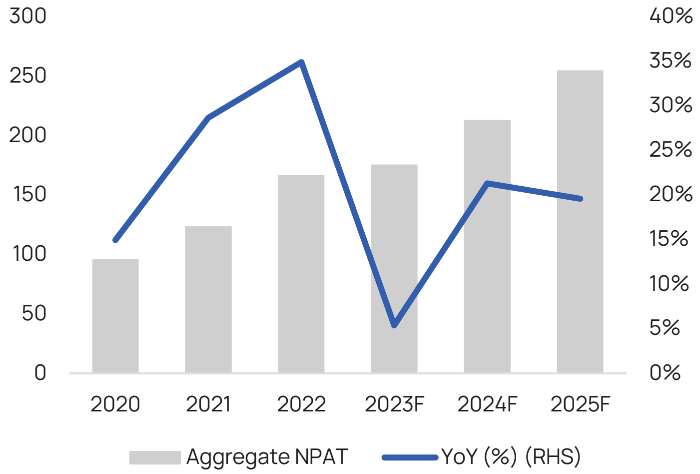
NPAT

Figure 194: NPAT quarterly (VND tn)



Source: Company data, Vietcap

Figure 195: NPAT, yearly (VND tn)



Source: Company data, Vietcap estimates

NPAT dropped slightly in 9M 2023 YoY but we expect earnings growth in Q4 2023 and 2024F. 9M 2023 aggregate NPAT decreased 1.4% YoY mainly due to (1) a 5.1% YoY decrease in aggregate NOII that was partly due to weak fees from bancassurance business and recovery income from written off bad debts, (2) a 5.6% YoY increase in aggregate OPEX, and (3) a 2.8% increase in aggregate provision expenses resulting from higher NPL formation. These factors were partly offset by a 4.1% YoY increase in aggregate NII that was driven by a 14.4% YoY aggregate increase in average IEAs despite a drop in NIM. We forecast 2023F aggregate NPAT growth at 5.4% YoY, implying Q4 2023 aggregate NPAT growth at 17.0% QoQ and 28.6% YoY, supported by improvement in credit growth and NIM and slower NPL formation in Q4 2023.

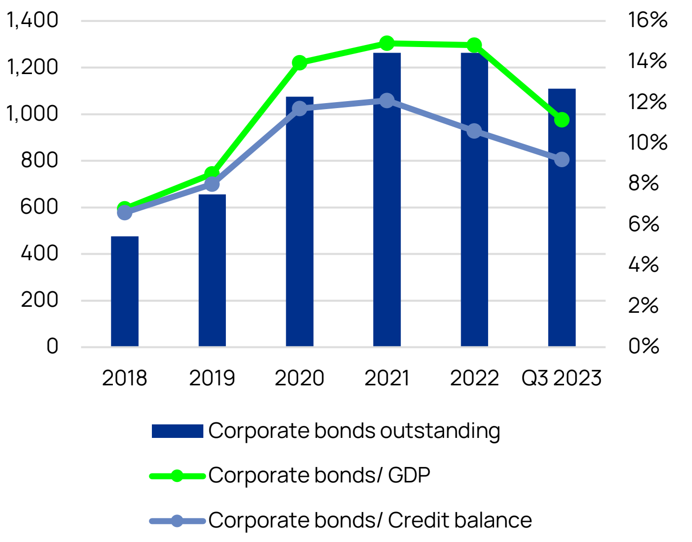
We forecast 2024F aggregate NPAT to grow by 21.3% YoY, which is mainly driven by (1) a 17.7% YoY increase in aggregate NII on higher NIM and credit growth and (2) a 21.7% YoY increase in aggregate NOII led by a gradual improvement in bancassurance fees from a low base in 2023F and higher recovery income from written off bad debts as the real estate market recovers. These factors are partly offset by our projection for credit costs to remain high as loan defaults and downgrades in loan classification of impaired credits lag the economic cycle.

Sector themes for 2024

Corporate bond issuance to recover

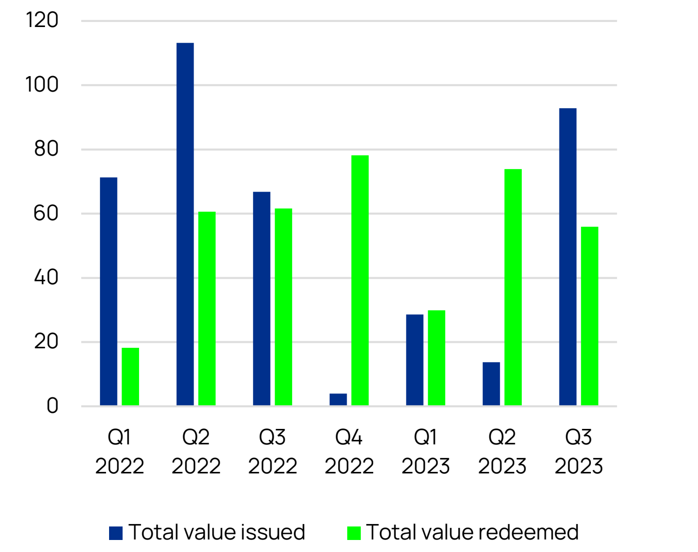
The Vietnamese corporate bond market contracted in 9M 2023. Data from the Vietnam Bond Market Association (VBMA) suggests that the outstanding balance of corporate bonds dropped ~12% in 9M 2023 to USD45bn, bringing the balance of corporate bonds vs GDP down to 11.2% in Q3 2023 from 14.8% at end-2022. We attribute the decrease to (1) a high level of bonds redeemed prior to maturity and (2) a lower value of newly issued bonds in 9M 2023.

Figure 196: Corporate bonds outstanding (VND tn)



Source: VBMA, GSO, SBV, Vietcap estimate

Figure 197: Bonds issued and redeemed, quarterly (VND tn)

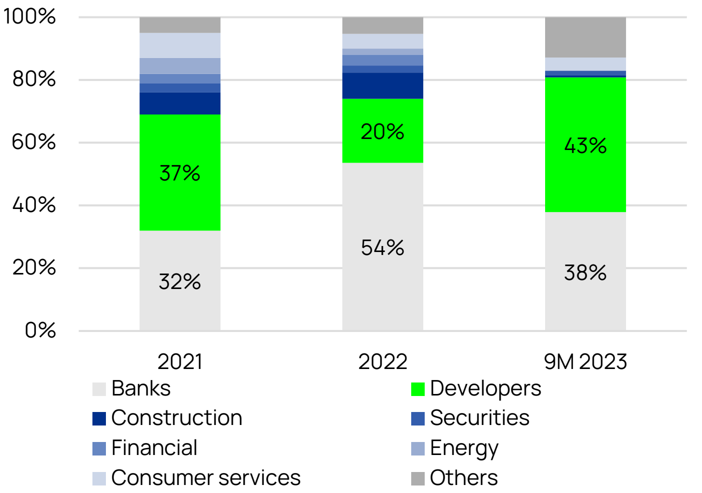


Source: VBMA, Vietcap compilation

Corporate bonds issued by real estate developers increased 12.1% YoY in 9M 2023, reaching VND57.9tn. These bonds accounted for 43% of the total corporate bonds issued during the period. In addition, we observe that a significant portion of corporate bonds redeemed before maturity were bank bonds. In 2022 and 9M 2023, the value of corporate bonds bought back before maturity represented 85.7% and 118.1% of the respective value of corporate bonds issued during those periods. The total value of bank bonds redeemed before maturity was VND175.7tn, while real estate developers' bonds redeemed amounted to VND55.5tn between 2022 and 9M 2023.

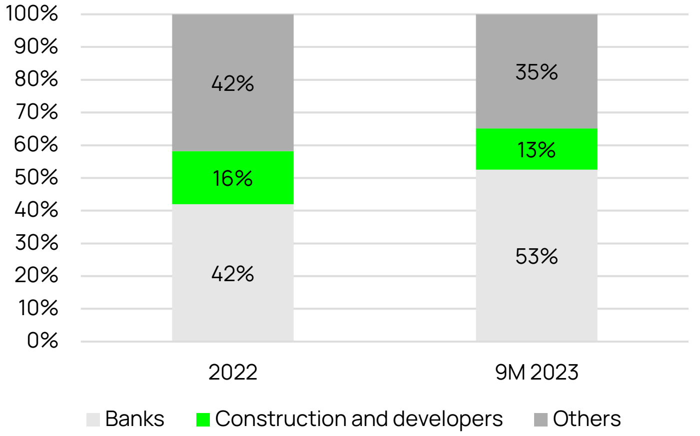
The high redemption rate of bank bonds can be attributed to (1) excess liquidity at some banks due to weak credit demand and (2) restructuring of bond portfolios in the context of high interest rate volatility. In addition, the tightening of the ratio of short-term funding to medium and long-term lending ratios from 34% to 30% on October 1, 2023, as mandated by Circular 08/2020/TT-NHNN, may have encouraged banks to redeem certain outstanding bonds to restructure the duration of funding to longer terms (above 5 years).

Figure 198: Bonds issued by sector



Source: VBMA, Vietcap compilation

Figure 199: Bonds redeemed before maturity by sector

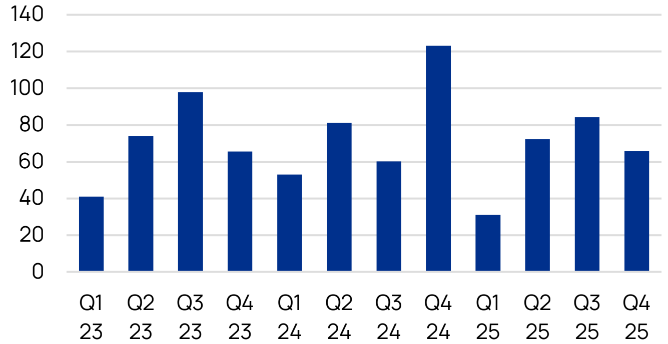


Source: VBMA, Vietcap compilation

Pressure from bonds coming to maturity remains high - we expect more bonds to be negotiated for restructuring under Decree 08 in 2024. Our data compilation suggests that the corporate bond balance coming due in 2024 is more than ~VND300tn, roughly the same as in 2023, nearly half of which are from the real estate sector. We believe it is hard to expect immediate strong cashflow for all companies to fully resolve their bond obligations in 2024F. Instead, we expect bond issuers are likely to continue to negotiate with bondholders to extend the maturities and/or pay obligations with other assets, as allowed under Decree 08, which was seen in 2023. According to the MoF, since the implementation of Decree 08, the negotiation rate, which represents the total value of bonds with re-negotiated payment terms divided by the total value of corporate bonds subject to late payment of interest or principal, has significantly increased from 16% in February 2023 to 59% in September 2023, in which, 81% of issuers extended the maturity date, 15% will repay principal by installments, and the rest will exchange bond obligations for assets or dispose of collateral and repay creditors from the proceeds.

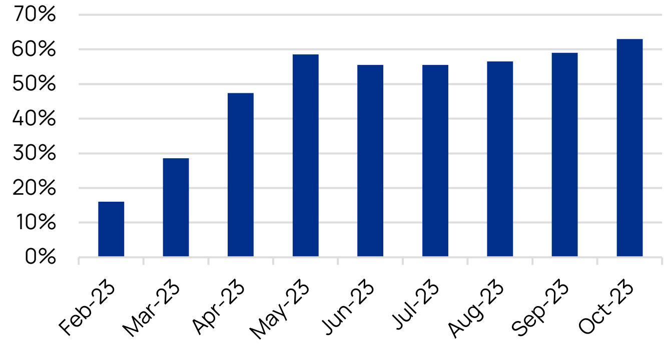
we believe the flexibility afforded by Decree 08 implies that systemic risks that could impact the whole economy and/or the banking system in 2024 are reduced, despite the high value of corporate bonds coming due in 2024. That said, the underlying problems in the corporate bond market will not be resolved immediately and solutions/losses will be spread out over the next two to three years, during which growth in the economy will help more companies to generate sufficient cashflow to fulfill their financial obligations.

Figure 200: Corporate bonds balance coming to maturity to 2025F (VND tn)



Source: VBMA, HNX, Vietcap compilation

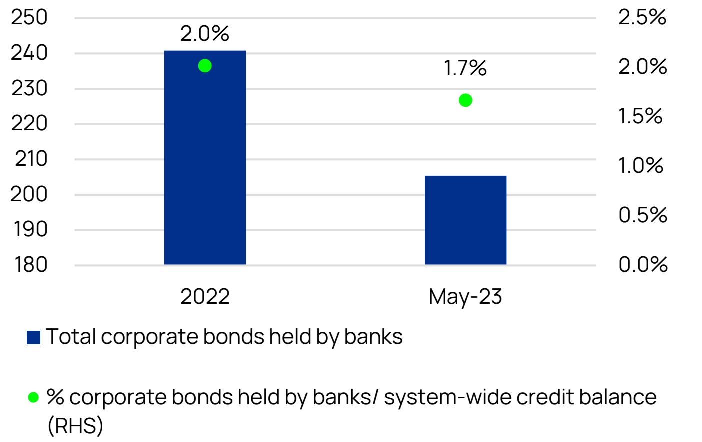
Figure 201: Negotiation rate of bonds subject to late payments of interest and/or principal



Source: VIS Rating, Vietcap

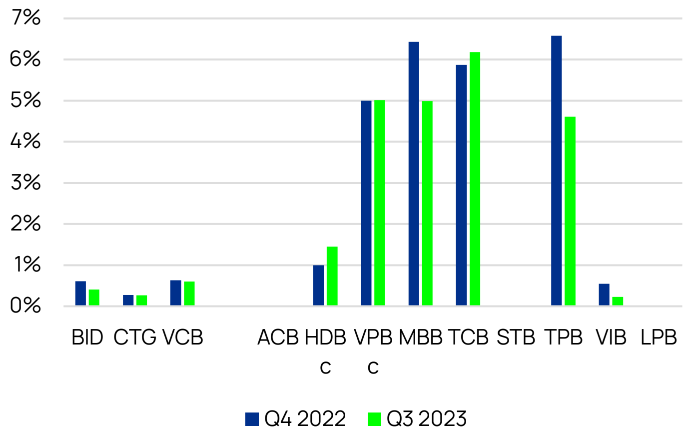
Banks' exposure to corporate bonds reduced in 2023. According to the latest data announced by the SBV, the system-wide balance of corporate bonds held by banks decreased 14.7% in 5M 2023, which resulted in a drop in corporate bonds balance held by banks as a percentage of system-wide credit from 2.0% in 2022 to 1.7% in 5M 2023. Most banks under our coverage also reported a drop in both their absolute corporate bonds balance and corporate bonds over total assets as of Q3 2023 relative to Q4 2022. The potential risk from corporate bonds to banks' balance sheets has therefore reduced compared to 2022. In addition, banks under our coverage assess corporate bonds as loans and require high-quality collateral, which should make the banks' exposure to corporate bonds relatively safer than for the market overall.

Figure 202: Banks' exposure to corporate bonds system-wide (VND tn)



Source: SBV, Vietcap

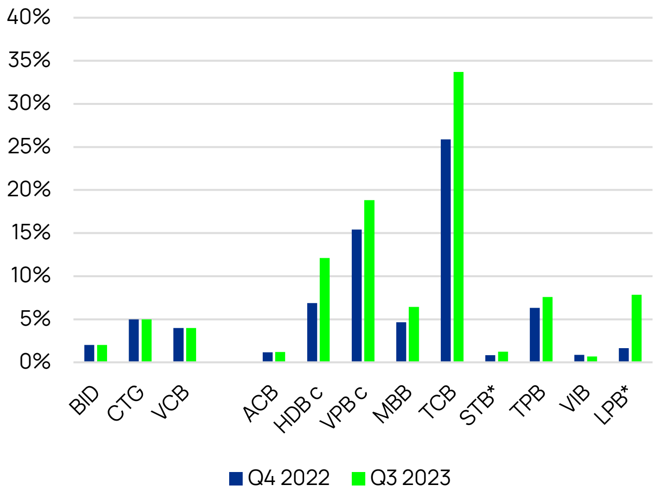
Figure 203: Corporate bonds over total assets of banks under our coverage



Source: company data, Vietcap; c denotes consolidated

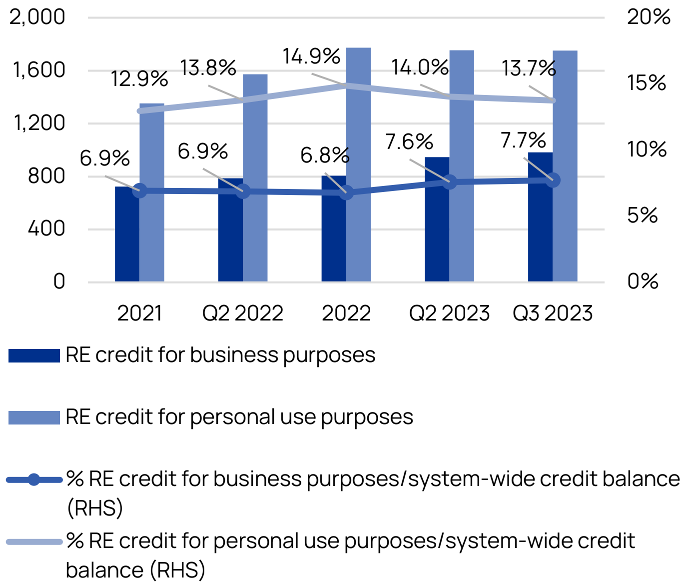
While corporate bond exposure dropped, banks increased lending to real estate developers in 2023. According to the SBV, credit to the real estate sector rose 6.0% in 9M 2023, in which credit for business purposes (i.e., to real estate developers) increased 21.9% while credit for personal use purposes (mainly mortgages) decreased 1.2%. Most of the banks under our coverage that have higher-than-peers exposure to corporate bonds were also those that witnessed a high increase in the portion of loans to real estate developers in 9M 2023. While this could imply that real estate bonds could have been partly refinanced through bank loans, we believe the pickup in credit disbursement in 9M 2023 for real estate developers also partly resulted from (1) the Government's actions and efforts to resolve legal issues for developers since the beginning of the year and (2) banks' assessment that some real estate developers with eligible projects are viable credits. Although loans to developers have the highest risk weighting, we note that banks under our coverage that have relatively high exposure to real estate developers have relatively high capital adequacy ratios (CAR). Meanwhile, we believe the long-term growth outlook for the real estate sector remains positive.

Figure 204: Loans to real estate developers over gross loans by bank (%)



Source: Company data, Vietcap; c denotes consolidated; (*) latest data as of Q2 2023

Figure 205: Credit to real estate sector (VND tn) and % credit to real estate sector over system-wide balance



Source: SBV, Vietcap

Figure 206: Select credit exposures for banks under our coverage

Q3 2023	BID	CTG*	VCB	MBB	TCB	VPB c	ACB	HDB c	VIB	TPB	STB*	LPB*
Mortgages/gross loans	14.1%	11.0%	21.8%	21.3%	32.7%	17.0%	21.0%	11.1%	46.4%	19.0%	N/A	N/A
Loans to developers/gross loans	2.0%	5.0%	4.0%	6.4%	33.7%	18.8%	1.1%	12.1%	0.7%	7.6%	1.2%	7.9%
Corporate bonds/total credit balance	0.5%	0.4%	0.9%	7.1%	9.2%	7.0%	0.0%	2.5%	0.4%	8.1%	0.0%	0.0%
Exposure to real estate as % corporate bonds	N/A	50%	N/A	35%	70%	60%	0%	70%	N/A	48%	0%	0%
LLR	158%	172%	270%	122%	93%	43%	93%	54%	41%	47%	64%	67%
CAR	9.1%	8.9%	11.6%	11.3%	15.0%	13.8%	13.0%	12.3%	11.8%	11.3%	9.4%	11.2%

Source: company data, Vietcap; (*) data for STB and LPB are Q2 2023 data except for LLR and corporate bonds/ total credit balance, CAR for CTG as of Q2 2023.

New regulations to improve efficiency and transparency in Vietnam's banking sector

The new Law on Credit Institutions, expected to be approved in 2024, aims to enhance safety in the activities of credit institutions and strengthen the role of the State Bank of Vietnam (SBV) in ensuring financial stability. The National Assembly recently adjusted the approval timeline for the law to the next session in 2024. Some of the potential changes in the regulations include (i) ownership limits; (ii) credit exposure to related parties; (iii) mechanism for the handling and resolution of non-performing loans and collateral assets; (iv) the mechanism of early intervention, which provides the SBV the authority and tools to proactively manage credit institutions that display early signs of weakness, with the aim of preventing their condition from deteriorating further. Please refer to **Figure 207 & 208** for more detailed highlights of the draft law.

Figure 207: Summary of key changes in the draft of the new Credit Institutions Law

	Current regulations	Version at the 5^{th} NA meeting	Version at the 6^{th} NA meeting	Comments
Expanding the definition of related parities				
Related organization	All subsidiaries of credit institution and corporate	Adding subsidiaries of the subsidiary of credit institutions and corporate	Same as previous draft. Adding on specific conditions for People's Credit Fund.	The objective is to enhance transparency in ownership and to ensure that all relevant individuals or entities related to major shareholders are properly identified and disclosed.
Related person	Direct family members in 3 generations	Including more indirect family members in 3 generations such as uncles and aunts. It also includes spouse's family, adoptive parents, and children		While the objective is clear, identifying related persons could be challenging for the authorities. However, the recent implementations of National e-identification applications could support authorities in monitoring compliance with this regulation.
Disclosures for shareholders own over	5% of charter capital	5% of charter capital.	1% of charter capital	We believe that these additional measures will partly reduce the issue of cross-ownership in the banking system.
Ownership limits				
Individual shareholder	5%	3%	5%	These changes can have a significant impact on private banks with large domestic shareholders such as TCB, HDB, TPB, and STB. We believe that transition clauses should be included to enable smoother transitions and allow affected shareholders to plan and implement necessary changes without sudden disruptions (i.e. non-retrospective application or proposing an adequate timeline).
Institutional shareholder	15%	10%	10%	
Shareholder and related parties	20%	15%	15%	This regulation aims to prevent any potential unfair practices relating to lending that may arise from concentrated power. However, when major shareholders are restricted from participating in capital raising, it may limit the pool of potential investors, leading to a slower and more challenging capital raising process.

Note: Table continues on the next page.

Figure 208: Summary of key changes in the draft of the new Credit Institutions Law (continued)

	Current regulations	Version at the 5th NA meeting	Version at the 6th NA meeting	Comments
Credit exposure limit as % of total capital (including Tier 1 and Tier 2 capital)				
Single customer	15%	10%	10%	The objective is to reduce the risk of credit concentration. However, the broadened definition of the related parties can increase the risk of violation at banks and therefore banks will tighten the credit limit to some of their current major customers to meet the requirements, which might increase the costs of acquiring new loans. However, banks and corporates will have 5 years to reduce exposure gradually. During this period, banks and corporates can adjust their lending strategies, diversify their portfolios, and seek alternative sources of funding.
A customer and related parties	25%	15%	15%	
Handling bad debts and collateral assets				
Legalized Resolution 42/2017/QH14 that will expire at November 31, 2023 into Credit Institutions Law	N/A	Mainly regulations on: (1) Selling bad debts and collateral assets. (2) Buying/selling collateral assets that are land use rights, assets attached to land, and assets attached to land formed in the future.		We believe that clearer regulations on the seizure and handling of collateral assets will not only facilitate easier access to loans for customers but also provide credit institutions with a framework to effectively manage and liquidate collateral assets.
Supplementing several regulations on:	N/A	(1) Bad debt trading/handling organizations that are allowed to buy bad debts of credit institutions. (2) Conditions for seizing collateral assets. (3) The priority of payments to be made when liquidating collateral.		
Apply early intervention in credit institutions, if				
Accumulated loss	N/A	20% of equity	15% of equity	Proactive measures to prevent a particular bank's issues from escalating into a systemic risk. While these measures are necessary to ensure the stability of the financial system, the practical implementation can be challenging and requires a delicate approach. When a bank is in a situation that requires early intervention from authorities, the market reaction can be very negative. This can lead to a loss of confidence in the bank, potentially triggering a bank run.
Violation on solvency ratio	3 months	3 months	30 days	
Violation on CAR ratio	6 months	6 months	remove	
Apply special control on credit institutions, if:				
Insolvency	Face insolvency and/or irrecoverable debts that likely result in insolvency			Under the newest draft, the SBV specifically regulates different levels of intervention in a bank's operation depending on the level of accumulated loss varying from 15% to 100% of charter capital and reserves. The SBV also includes bank runs as a criterion to apply special control on a credit institution.
Accumulated losses as % of charter capital and reserves	50%	50%	Consider applying special control: 50% Required to be under special control: 100%	
CAR ratio	Unable to maintain minimum requirement (8%) in consecutive 1 year or CAR ratio falls below 4% in consecutive 6 months			
Bank run	N/A	N/A	Yes	

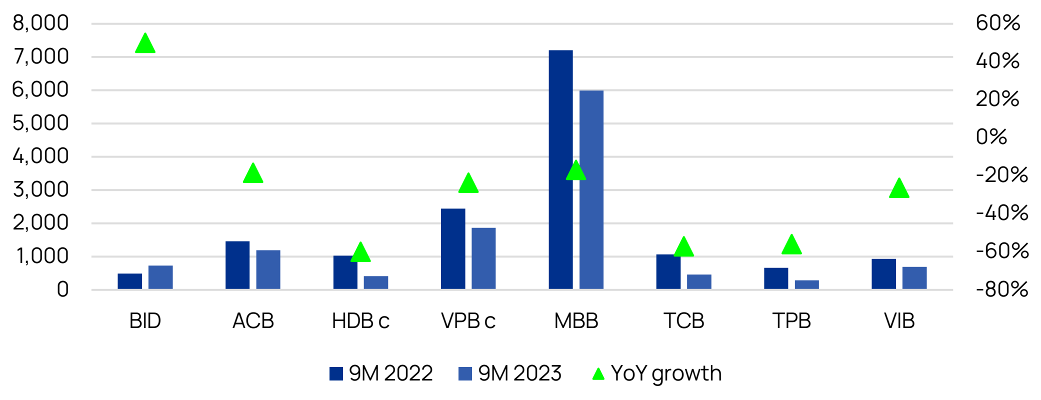
Source: SBV, local news, Vietcap

Bancassurance fees to recover in 2024 despite tightening regulatory framework

Sluggish bancassurance sales in 2023. According to the Insurance Association of Vietnam (IAV), total life premiums and new business premiums sold through bancassurance channels decreased 22.9% YoY and 41.3% YoY in H1 2023, respectively. We believe tightening personal spending as the economy slowed, slow deposit growth and credit growth, and the negative impact on customer sentiment from cases of mis-selling of bancassurance products at several banks dampened bancassurance business.

Bancassurance fee income decreased YoY at most banks. Our compilation of bancassurance fee income across banks under our coverage shows that HDB, TPB, and TCB saw the highest YoY drops of more than 50% in 9M 2023. We note that 2022 was a high base for HDB when the bank resumed bancassurance activities due to a new partnership with FWD (not yet exclusive) after several years of slowing down. Meanwhile, BID had the highest YoY growth in bancassurance fee income from a low base in 2022 as BID has a large customer base to exploit and current bancassurance penetration of its customers is still low.

Figure 209: Bancassurance fee income (VND bn) and YoY growth (RHS)



Source: Company data, Vietcap. MBB's bancassurance fee income incorporates the insurance premium due to consolidating its insurance subsidiaries. Data for VCB, CTG, STB, and LPB are not available.

New regulations on bancassurance activities to protect policyholders

Circular No.67/2023/TT-BTC and Decree No.46/2023/NĐ-CP issued by the Ministry of Finance (effective from November 2, 2023) set out guidelines for the implementation of the law on insurance business. Below are some key highlights.

1. Credit institutions are not allowed to advise, introduce, offer, or arrange investment-linked insurance contracts for their customers within 60 days before and after the disbursement date of the entire loan.

2. Records of the consulting process for investment-linked products are required. There must be evidence of customer acknowledgment of documents for long-term life insurance products.

3. More detailed requirements for bancassurance agents regarding human resources, technology capabilities, and organization structure.

4. Insurers are responsible for periodically supervising and inspecting insurance product consulting activities carried out by agents. They must promptly address complaints related to insurance product consultations and handle any violations that arise.

5. Changes in the caps for commissions on some life insurance products.

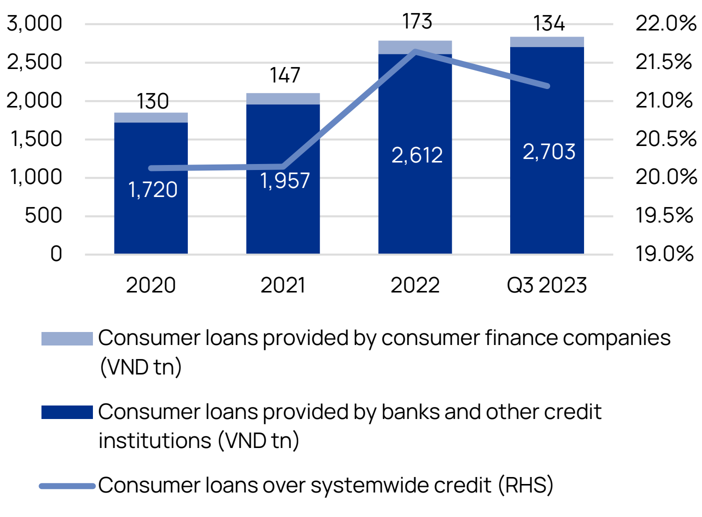
Overall, these regulations are in line with the MoF's guidance to enhance the legal framework for bancassurance activities starting from Q4 2023. We think there could be a negative impact on the insurance premium growth rates in the short term and operating expenses for both banks and insurers due to the more stringent regulatory requirements for bancassurance activities.

However, we believe the banks have prepared and actively supervised these activities to avoid mis-selling insurance products since the investigation by authorities in late 2022. In addition, we observe that (1) current insurance penetration in Vietnam is still low and (2) banks can still promote bancassurance via preferential lending or deposit rates for their customers who buy insurance products. Therefore, we believe bancassurance can still grow in the future but at a slower pace compared to the last ten years, while requiring higher standards of regulatory compliance.

Consumer finance loan growth and asset quality to improve

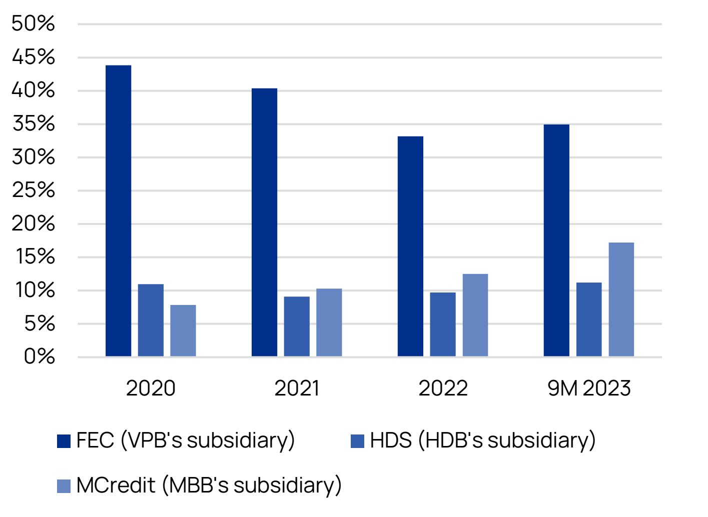
Consumer loan growth was weak in 2023. According to the SBV, as of September 30, 2023, outstanding consumer loans amounted to VND2,703tn (+3.5% vs 2022), accounting for nearly 21.2% of the systemwide credit balance of the economy with 84 credit institutions participating in lending activities (including banks and consumer finance companies). Meanwhile, we estimate that outstanding consumer loans of consumer finance companies amounted to VND134tn (-23% vs 2022), accounting for nearly 5% of the systemwide consumer loan balance and 1.3% of the systemwide credit balance as of Q3 2023. We believe such weak consumer credit growth was primarily driven by weak retail consumption that resulted from the high interest rate environment in H1 2023 and the slowdown in the economy. In addition, we believe consumer finance companies became more selective in loan disbursements due to (1) increasing credit risk amongst low and middle-income individuals and (2) an increasing number of customers intentionally taking advantage of a lack of clarity in the current legal framework for debt collection activities to avoid servicing their loans.

Figure 210: Consumer loans in Vietnam (2020 – Q3 2023)



Source: SBV, Vietcap compilation

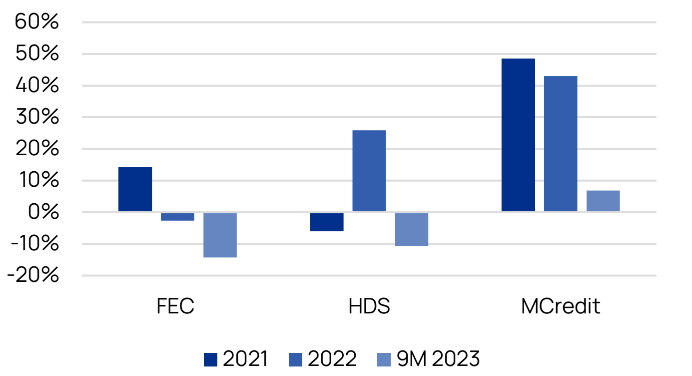
Figure 211: Estimated market share (consumer finance Cos)



Source: Company data, Vietcap estimates

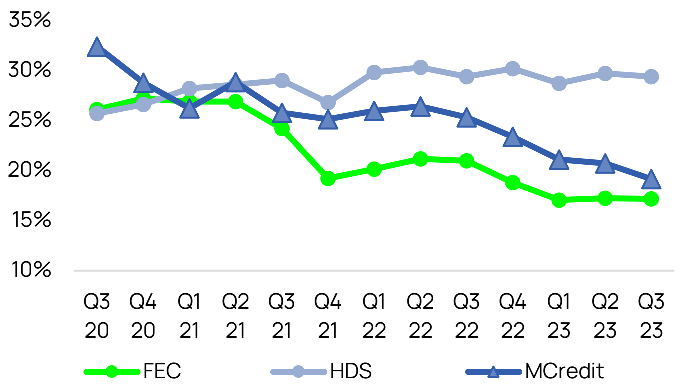
Loan books at FEC and HDS contracted in 9M 2023 while MCredit kept expanding. According to our estimation, as of Q3 2023, FEC remained the biggest player in Vietnam's consumer finance sector in terms of loans with market share of around 35% (vs around 44% in 2020). FEC's loans started to decrease in 2021 through 9M 2023, partly due to restructuring its business model through reviewing and enhancing product design, credit appraisal processes, sales channels, credit policies, and debt collection. We believe FEC will lean toward a more conservative business model in the future after growing aggressively to gain market share in the past. Meanwhile, MCredit was the only top player that was able to grow its loan book consistently from a low base since 2021, which we believe could be due to (1) utilizing the nationwide networks of the MB Group and Viettel Group and (2) its strategy to focus on the card segment and partnerships with e-commerce platforms to promote consumer loans.

Figure 212: Loan growth



Source: Company data, Vietcap estimates

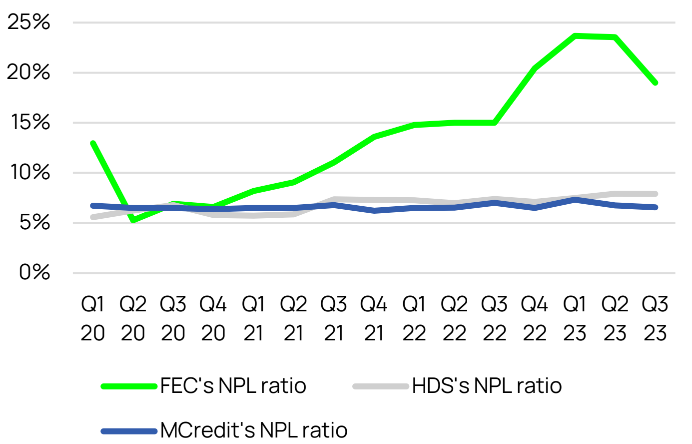
Figure 213: NIMs



Source: Company data. HDS's NIM is reported number by HDB. FEC and MCredit's NIMs are our estimation from consolidated and parent bank financial statements.

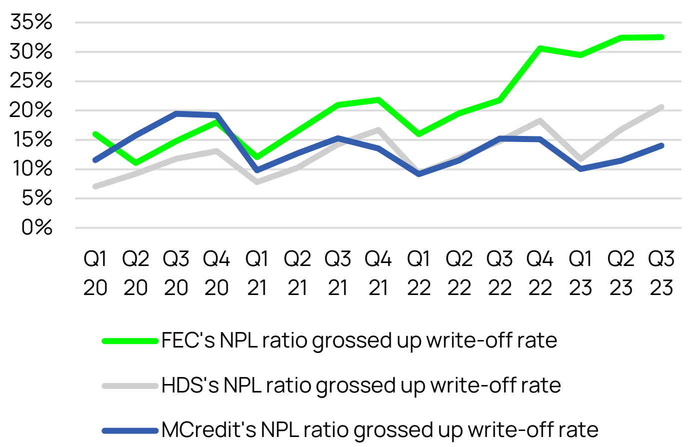
Consumer finance NIMs to recover in 2024F. Both FEC and MCredit experienced a downtrend in NIMs in 2022-23. Meanwhile, HDS's NIM was relatively flat over the same period, which could be due to HDS being more conservative in lending vs MCredit. We believe that (1) limitations in diversifying funding sources in the high-rate environment in H1 2023, (2) high NPL formation, and (3) weak credit growth dragged on NIMs of consumer finance companies in 2023. We believe that (1) lower interest rates and (2) recovery in the economy should help to improve customer demand and ability to service loans and therefore support NIM to increase in 2024F. We forecast HDS and FEC to grow their loan books by 8% YoY in 2024F, as we expect (1) a moderate recovery in retail consumption that mainly focuses on H2 2024 and (2) write-off rates could remain high.

Figure 214: NPL ratios



Source: Company data, Vietcap estimates

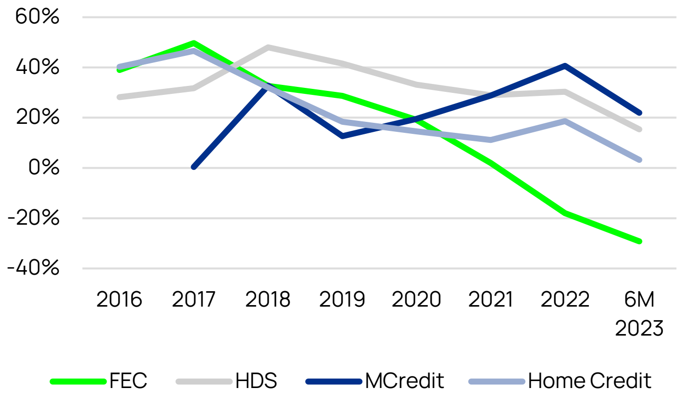
Figure 215: NPL ratios grossed up for write-offs



Source: Company data, Vietcap estimates

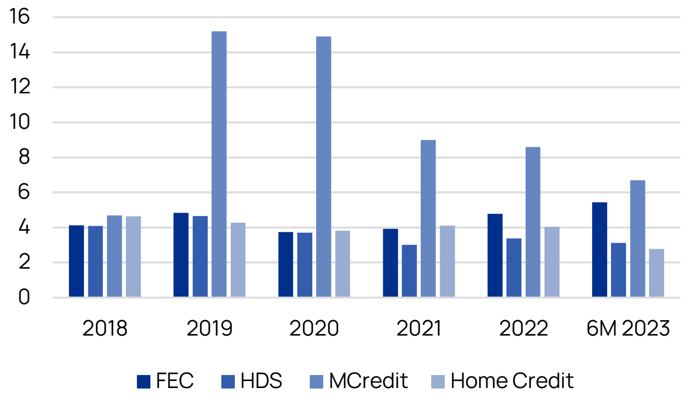
We expect moderate improvement in NPL formation in 2024F. NPL ratios grossed up for write-offs at FEC, HDS, and MCredit increased in 9M 2023, which indicates increasing NPL formation across the sector. However, those companies have made aggressive write-offs to improve their NPL ratios, which could be a commitment to funding providers (e.g., HDS commits with their funding providers to control its NPL ratio below 8%). We expect only a moderate improvement in NPL formation at consumer finance companies in 2024 despite our expectation for a more favorable economic backdrop, due to prolonged difficulties in debt collection activities resulting from an inadequate legal framework to protect lenders' rights.

Figure 216: ROEs



Source: Company data, Hanoi Stock Exchange (HNX), Vietcap estimates

Figure 217: Total debt/Equity (x)

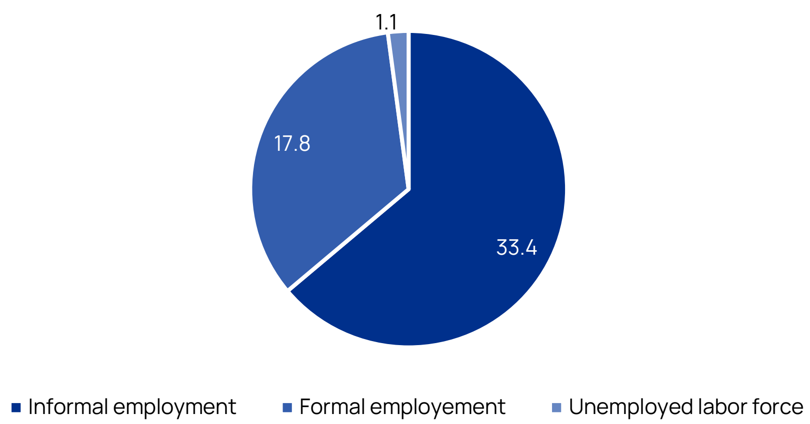


Source: Company data, HNX, Vietcap estimates

FEC's profitability decreased the most compared to other top consumer finance companies. MCredit was the only company amongst the larger consumer fincos that was able to improve its ROE in 2018-2022, which was driven by dynamic growth to gain market share while containing asset quality. Meanwhile, FEC's profitability deteriorated sharply since the COVID-19 pandemic as credit costs increased following its high growth in the past and disbursements slowed due to its restructuring process. In Q3 2023, FEC started to breakeven after many quarters of losses, which was much better than our previous expectation for FEC to break even in 2024F. However, bad debt metrics in Q3 2023 remained high. Therefore, we anticipate a moderate improvement in FEC's performance over the next 12 months. In general, we expect only a modest improvement in the ROE of the consumer finance sector due to our concerns regarding (1) slow loan growth and (2) prolonged pressure on asset quality.

Despite short-term volatility, we believe consumer finance offers potential for high growth in the long term. According to the SBV, the CAGR of consumer loans was nearly double the credit growth of the banking system in 2010-2020. We believe that consumer finance remains an attractive business in the long term based on Vietnam's demographic characteristics. According to the General Statistics Office of Vietnam, 33.4 million people (accounting for nearly 64% of Vietnam's labor force) were informally employed as of Q3 2023 and Vietnam's banking penetration in 2023 was still lower than in many other Asian countries (according to Statista), which implies there is a large potential market of underbanked customers for consumer finance companies to exploit.

Figure 218: Vietnam's labor force, Q3 2023 (mn people)



Source: General Statistics Office of Vietnam, Vietcap

Figure 219: 2023 banking penetration rate forecasts

	Malaysia	Thailand	China	Indonesia	Philippines	Vietnam
Online banking penetration	64.09%	55.71%	53.43%	31.23%	21.09%	21.82%
Credit card penetration	8.87%	25.08%	25.06%	1.51%	9.42%	6.62%
Bank account penetration	98.83%	98.56%	95.67%	61.78%	51.47%	45.52%

Source: Statista Market Insights, World Bank, Vietcap compilation

Capital raising to resume

Among banks that announced or reiterated their intentions to raise new equity through private placements in 2022 for execution in 2023 (including BID, VCB, VPB, MBB, and LPB), only VPB completed raising VND35.9tn (USD1.5bn) of new capital (equivalent to a 15% stake post private placement) from Sumitomo Mitsui Banking Corporation in October 2023. We attribute the slow progress in capital raising to increased uncertainty over the domestic and global economy hindering capital raising activities. Based on our expectation for faster economic growth in Vietnam in 2024, we expect that capital-raising activities will start to resume from H2 2024 and currently model for VCB, BID, and LPB to raise new capital through private placements with an estimated total value of VND64.9tn (USD2.7bn) in 2024F. We note that HDB plans to issue VND12.2tn (USD500mn) of international convertible bonds in 2024F; however, we believe the timeline could be extended due to our expectation for domestic funding costs to remain favorable for most of 2024.

Capital raising plan in 2023-2024F	Yes/No	% of shares in issue, post money	Target investors	Transaction method	CAR Basel II as of September 30, 2023	Issuing value (VND bn)
BID	Yes	8.30%	- Under public offerings: individuals and domestic & international institutions. - Under private placement: domestic & international institutions.	Public offering or private placement	9.1%	24,626
CTG*	No				8.9%	
VCB	Yes	6.10%	Institutional investors	Private placement	9.5%	36,329
ACB	No				12.8%	
HDB	Yes	N/A	Institutional investors	International convertible bonds	12.3%	- Not yet modeled 12,150 (USD500mn)
VPB	No				13.8%	
MBB	Yes	2.89%	Viettel Group and other professional investors	Private placement	11.3%	- Not yet modeled
TCB	No				15.0%	
STB*	No				9.4%	
TPB	No				12.7%	
VIB	No				11.8%	
LPB*	Yes	10.5%	Foreign investors	Private placement	11.2%	3,900

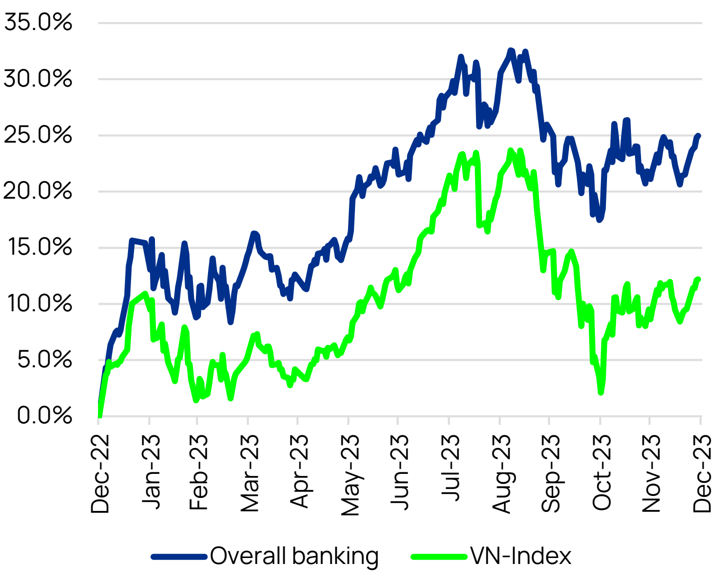
Source: Company data, Vietcap compilation and estimation. *CAR as of June 30,2023.

Share price performance and valuations

Both SOE and private banks have outperformed the broader market on a 12-month basis, with 2023 outperformance running at 7.1 ppts and 17.5 ppts respectively. We note that private banks underperformed both SOE banks and the VN-Index in 2022 due to lingering concerns about their relatively higher exposures to real estate and corporate bonds. However, there was a robust recovery in share prices of private banks from the beginning of 2023 as these concerns eased following a series of new policies promulgated by the Government and the State Bank of Vietnam (SBV) to support the corporate bond and real estate markets as well as the broader economy.

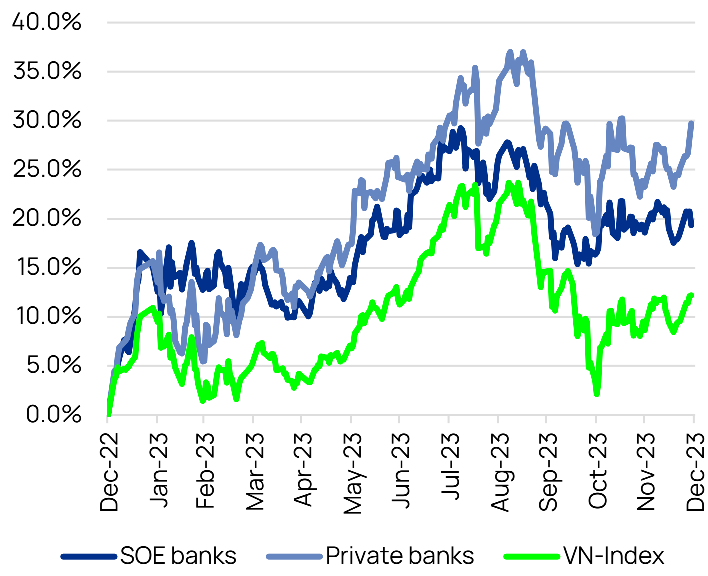
The fear that problems in the real estate sector might create systemic risks for the banking sector has diminished but concerns about asset quality deterioration persist. These concerns are amplified by weaker-than-expected economic growth, slower recovery of the real estate sector, and weak sentiment in the bond market in 2023. However, we expect stronger economic growth in 2024, which should create more favorable conditions for banks and potentially alleviate some of the concerns surrounding asset quality. Our coverage universe is currently trading at 0.5 standard deviation below its seven-year average trailing P/B, representing attractive value, in our view.

Figure 220: Share price performance, YTD (1)



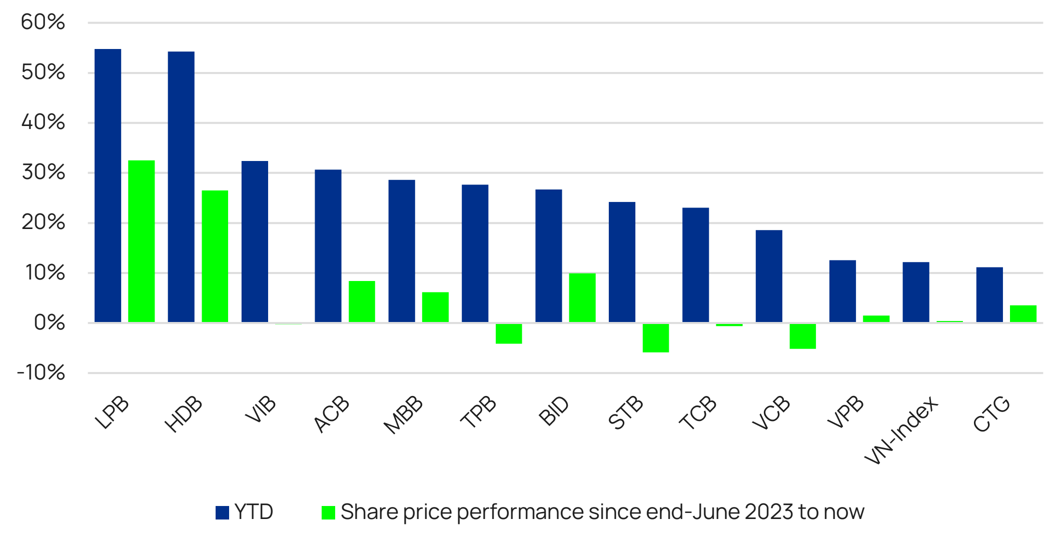
Source: Vietcap, Fiinpro as of December 29, 2023 (Note: Overall banking represents all banking stocks under Vietcap's coverage and is weighted by market capitalization).

Figure 221: Share price performance, YTD (2)



Source: Vietcap, Fiinpro as of December 29, 2023 (Note: Overall banking represents all banking stocks under Vietcap's coverage and is weighted by market capitalization).

Figure 222: Banks' share price performance in 2023



Source: Vietcap, Fiinpro as of December 29, 2023

Figure 223: Average trailing P/B of banks under our coverage (December 2016 – December 2023)

Source: Vietcap, Fiinpro as of December 29, 2023

Top picks

Based on a one-year investment horizon, our top picks are **MBB,** and **STB**. These stocks offer some of the highest projected returns based on our end-2024 target prices as of December 29, 2023.

MBB offers a high NIM adjusted for credit costs, strong credit growth backed by a diversified ecosystem, a top-tier CASA ratio with sticky CASA from military-related parties and subsidiaries, and a strong provisioning buffer. Meanwhile, **STB** has one of the strongest private bank franchises and we expect a boost in earnings (forecast NPAT CAGR of 41.6% over the next 3 years) as the pressure from clearing legacy assets diminishes.

For investors who prefer defensive exposure to the sector amid the current uncertainties, we recommend **VCB** and **ACB** due to their conservative lending strategy and top-tier asset quality. For VCB, in addition to its defensive characteristics, we also see growth drivers at VCB from potentially higher credit growth than peers from rehabilitating a distressed credit institution (DCI) and bancassurance. Meanwhile, ACB has delivered impressive ROEs supported by a conservative lending strategy, competitive funding costs and a well-established banking franchise in the southern region.

Military Commercial Joint Stock Bank (MB Bank; HSX: MBB – BUY rating with TP of VND25,000/share)

MBB has the most diversified ecosystem among our coverage, including life and non-life insurers, consumer finance, a securities company, and fund and asset management companies, which creates enhanced cross-selling opportunities, in our view. In addition, MBB has demonstrated success in innovating its banking apps and attracting new customers. MBB's Q3 2023 NIM after annualized credit costs at 3.93% was the highest amongst banks in our coverage. We believe that MBB has a solid competitive advantage in terms of (1) funding costs, with a top-tier CASA ratio, and (2) a dynamic growth outlook from its network of subsidiaries and strategic partners. In addition, we assume MBB will receive a higher-than-average credit quota in our explicit forecast period due to its participation in the scheme to support a weak credit institution. Despite having relatively high exposure to real estate and corporate bonds vs its peers, MBB's adjusted NPL ratio was stable in the last three quarters at around 5.7%, which was around the average level of private banks under our coverage. As of Q3 2023, MBB's LLR at 122% was the highest among the private banks in our coverage, which indicates a decent provisioning buffer.

MBB is currently trading at a 2024F P/B of 0.9x compared to the sector median at 1.1x.

Saigon Thuong Tin Commercial Joint Stock Bank (Sacombank, HSX: STB – BUY rating with TP of VND38,100/share)

STB owns one of the strongest private bank franchises in Vietnam. In the last seven years, its main objective has been to clear legacy assets related to its merger with Phuong Nam Southern Bank in 2015 via collateral sales and/or provisioning. We have observed positive progress in resolving legacy debts, which supports our conviction in the bank's restructuring story. We expect STB to finish clearing its VAMC balance by end-2023, which will unlock further growth potential and shift its focus to enhancing its core business. We believe STB's earnings will soar after its restructuring period. We forecast STB's NPAT to increase at a CAGR of 41.6% in the next three years supported by our forecasts for improvement in NIM and CIR as well as high recovery income from written-off legacy assets.

STB is currently trading at a 2024F P/B of 1.0x compared to the sector median at 1.1x.

Asia Commercial Joint Stock Bank (HSX: ACB – BUY rating with TP of VND31,400/share)

ACB is the most conservative bank among Vietnamese private banks with a diversified loan book in the retail and SME segments. As of Q3 2023, more than 90% of ACB's loans were to retail and SME customers, 98% were secured loans, and only 1.1% of ACB's loan book was to real estate developers. In addition, (1) loyal customers and (2) a large coverage footprint of physical transaction offices in the southern region have supported ACB in mobilizing relatively low-cost funding from retail customers. As of December 2023, ACB's 6-month and 12-month deposit rates were the lowest in comparison to other Vietnamese banks. We believe ACB can use its low funding costs to offer competitive lending rates and acquire good-quality customers. Additionally, ACB has outperformed in bancassurance with a robust sales process that has helped to maintain a top-four ranking in terms of new annual premium equivalent (APE) over the past two years. We forecast ACB to deliver strong growth in operating income, relatively low credit costs of 0.45%, and one of the highest rates of NPAT growth amongst banks under our coverage in 2024.

ACB is currently trading at a 2024F P/B of 1.1x compared to the sector median at 1.0x

Joint Stock Commercial Bank For Foreign Trade Of Vietnam (HSX: VCB – BUY rating with TP of VND108,500/share)

VCB is well-positioned to weather risks due to its strong provisioning buffer and a healthy balance sheet backed by a high-quality customer base and conservative loan disbursement approach. It also has low exposure to corporate bonds and loans to real estate developers. In addition to its defensive characteristics, we also see growth drivers at VCB from potentially higher credit growth than peers from rehabilitating a distressed credit institution (DCI) and bancassurance.

VCB is currently trading at a 2024F P/B of 2.0x vs its five-year average trailing P/B of 3.4x.

Appendix: Company names and tickers

Code	Company name
ACB	Asia Commercial Bank
BID	BIDV
CTG	Vietinbank
HDB	HD Bank
MBB	Military Bank
STB	Sacombank
TCB	Techcombank
TPB	TP Bank
VCB	Vietcombank
VPB	VP Bank
VIB	Vietnam International Bank
LPB	LPBank

Source: Vietcap

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Other financials: ADTV to increase in 2024; weak premium growth for insurers

- **Life insurance** new business premiums declined YoY for the first time in 2023 due to (1) tight personal spending and (2) lower customer trust following publicity of policy mis-selling. We expect that (1) tightening regulation of bancassurance could hurt growth in premiums and insurers' operating expenses in the short-term and (2) demand for insurance will recover slowly in 2024F as it will take time for customer sentiment to improve. We therefore forecast total life premium growth of 8.2% in 2024F from a low base in 2023F.
- We forecast **non-life** premium growth of 7.0% YoY in 2024F, assuming a relatively flat non-life penetration ratio at 0.7% and GDP growth of 6.5%. Our forecast reflects our expectation for non-life premium growth to remain slow in H1 2024 as we expect only a gradual recovery in consumer confidence. In addition, the median combined ratio of the top nine listed non-life insurers in 9M 2023 has approached the peak historical level in 2019. However, the loss ratio of the top five insurers was stable in 9M 2023 primarily due to improvement in loss ratios in fire & explosion and property & casualty insurance. We expect improving premium growth in 2024F could help to outweigh the negative impact of continuing high claim expenses in the top two product lines (healthcare and vehicles) and support a stable loss ratio in 2024F.
- We estimate that investment returns for the insurance sector picked up in 6M 2023 due to the 200-bp increase in policy interest rates and increases in bank deposit rates in late 2022. However, as (1) commercial banks have been cutting deposit rates to new lows since mid-2023 and (2) insurance premium growth was weak in 2023, we expect **lower investment returns for insurers in 2024F**. In addition, Government bond yields remained low during H2 2023. If we assume that Government bond yields remain at current low levels, we suspect that the technical discount rate could start to decrease in mid-2024, which might put pressure on life insurers' profits in 2024F. Overall, we think **both life and non-life insurers will face headwinds to earnings growth in 2024** as a moderate recovery in premium growth will not outweigh the negative impact of a low-rate environment on investment income.
- The insurance sector underperformed the VN-Index in 2023. While we expect the near-term outlook for earnings to remain challenging, we believe the long-term outlook for the sector is bright due to our positive outlook for growth in Vietnam's economy over the long term and current low insurance penetration. We prefer non-life over life insurance for 2024 and we have a BUY rating on **BMI** and an O-PF rating on **BVH**.
- **Securities stocks** significantly outperformed the VN-Index in 2023. We attribute this partly to improving market liquidity and sentiment following (1) a series of cuts in deposit rates, (2) actions by the Government to support the economy, and (3) progress on implementation of the KRX system and developments to remove prefunding for foreign institutional investors.
- Based on our expectation for stronger economic growth and for the KRX system to go live in 2024, we forecast 2024F average daily trading value (ADTV) on Vietnam's three trading venues to grow by ~20% YoY to USD910mn, which should support growth in earnings for securities companies. We believe interest rates will remain low to support growth, thereby encouraging margin lending in 2024F.
- We have seen a large net outflow from foreign investors in 2023, which could have been driven partly by relatively higher interest rates in developed markets, a strong US Dollar, and outflows from developing markets in general. However, we expect to see net foreign inflows in 2024 as we believe Vietnam's long-term growth outlook remains attractive and the VN-Index is trading at undemanding valuations (12-month trailing headline P/E of 13.9x, which is one standard deviation below the eight-year average trailing headline P/E).
- We currently have a MARKET PERFORM rating on **SSI** (the only securities stock under our coverage), and we view it close to fully valued at a 2024F P/B of 1.9x and 2024F ROE of 10.3%.

Figure 224: Insurance sector key data

Code	Rating	Market Cap USD mn	State O'ship %	For. Limit %	For. Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target price updated	Upside %	Div. Yield %	12M TSR %
BVH	O-PF	1,212	68.0%	49%	273	0.5	39,500	43,200	11/29/2023	9.4%	2.3%	11.7%
BMI*	BUY	106	51.0%	49%	19	0.1	21,350	26,800	1/3/2024	25.5%	4.7%	30.2%

Figure 225: Insurance sector summary valuations

Code	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/B trailing x	P/B 2023F x	P/B 2024F x	P/B 2025F x	P/E 2023F x	P/E 2024F x	P/E 2025F x	ROE TTM %	ROA TTM %	Assets/ Equity x
BVH	12.9%	7.0%	8.4%	1.4	1.4	1.3	1.2	17.2	17.0	15.9	8.1%	0.9%	9.9x
BMI*	2.4%	5.5%	15.7%	1.0	1.0	0.9	0.9	8.0	7.6	6.5x	13.0%	4.6%	2.7x

Source: Vietcap (share prices as of December 29, 2023). *BMI updated on January 3, 2024.

Figure 226: Securities sector key data

Code	Rating	Market Cap USD mn	State O'ship %	For. Limit %	For. Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target price updated	Upside %	Div. Yield %	12M TSR %
SSI*	M-PF	2,032	0.00%	100%	1,155	26	32,800	33,300	1/3/2024	1.5%	3.0%	4.6%
HCM	N/A	646	0.00%	49%	50	7	34,200	N/A	N/A	N/A	N/A	N/A
VCI	N/A	773	0.00%	100%	607	10	42,750	N/A	N/A	N/A	N/A	N/A
VND	N/A	1,120	0.00%	100%	868	24	22,250	N/A	N/A	N/A	N/A	N/A
MBS	N/A	411	0.00%	49%	199	4	22,700	N/A	N/A	N/A	N/A	N/A

Source: Vietcap (share prices as of December 29, 2023)

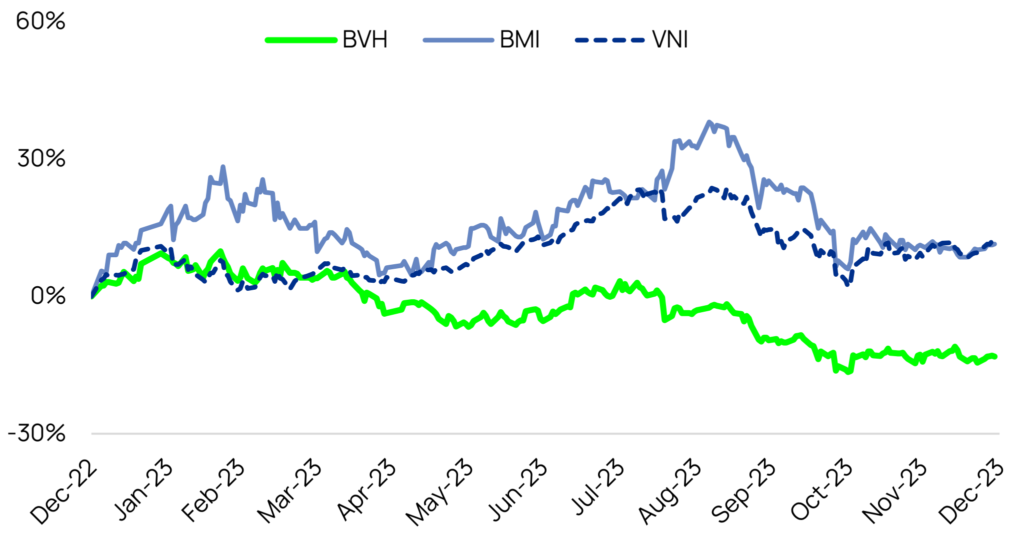
Figure 227: Securities sector summary valuations

Code	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/B LQ x	P/B 2023F x	P/B 2024F x	P/B 2025F x	P/E TTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	ROE TTM %	ROA TTM %	Net debt / Equity %
SSI*	14.9%	10.5%	13.4%	2.2x	2.1x	1.9x	1.8x	25.2x	22.3x	20.2x	17.8x	9.0%	4.0%	132%
HCM	N/A	N/A	N/A	1.9x	N/A	N/A	N/A	25.2x	N/A	N/A	N/A	7.8%	4.1%	67%
VCI	N/A	N/A	N/A	2.6x	N/A	N/A	N/A	46.9x	N/A	N/A	N/A	2.6%	5.7%	95%
VND	N/A	N/A	N/A	1.7x	N/A	N/A	N/A	23.3x	N/A	N/A	N/A	7.8%	2.9%	129%
MBS	N/A	N/A	N/A	2.0x	N/A	N/A	N/A	20.5x	N/A	N/A	N/A	10.4%	4.5%	149%

Source: Vietcap (share prices as of December 29, 2023). * SSI updated on January 3, 2024

Insurance recap and outlook

Figure 228: BVH and BMI's share prices vs VN-Index



Tickers	Absolute change	Relative to VNI
BVH	-13.2%	-25.4%
BMI	+11.5%	-0.7%

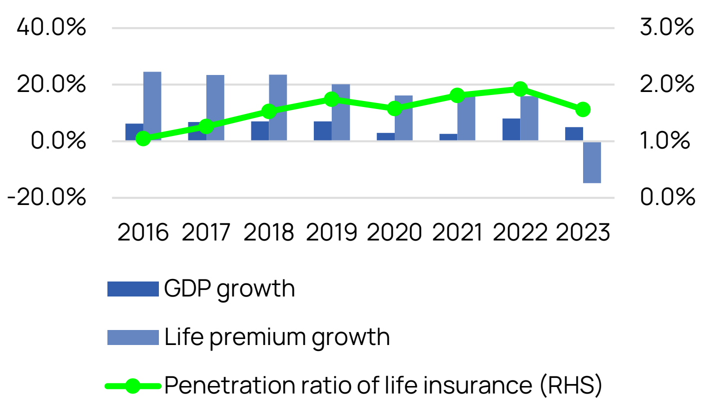
Source: Fiinpro, Vietcap (share prices as of December 29, 2023)

Life insurance

New business premiums declined YoY for the first time in 2023. Annualized new business premiums decreased 39.8% YoY in 9M 2023 and were weaker than we expected. We attribute this mainly to (1) tight personal spending due to slower economic growth and a high-interest rate environment in H1 2023, (2) lower customer trust due to publicity of cases of mis-selling of bancassurance policies, and (3) potential premium reversals as mis-sold policies were canceled. In Q4 2023, the Ministry of Finance issued Circular No.67/2023/TT-BTC and Decree No.46/2023/NĐ-CP (effective from November 2, 2023) to set out guidelines for the implementation of the new law on insurance business (effective from January 1, 2023). These incorporate more requirements for the operation of insurance businesses, including tighter regulation of bancassurance activities. We think there will be a negative impact on growth in insurance premiums and operating expenses for insurers in the short term. In addition, we expect that demand for insurance will only recover slowly in 2024F as it will take time for customer sentiment to improve. Overall, we forecast 2024F total premium growth of 8.2% from a low base in 2023F.

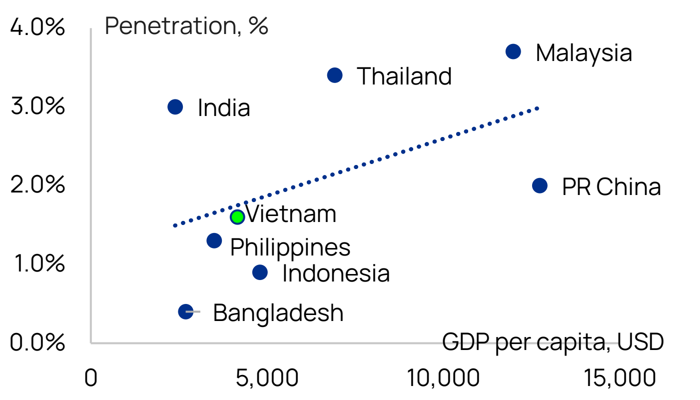
Prudential achieved the top new business premium market share in H1 2023. Apart from a plunge in the new business premium market share of Manulife, the new business premium market shares of the other top four life insurers were relatively resilient in H1 2023. The top five life insurers' total direct premium market share in 6M 2023 was 77%, and BVH continued to have the highest market share (21%).

Figure 229: Penetration ratio of life insurance in Vietnam (%) (2017 – 2023)



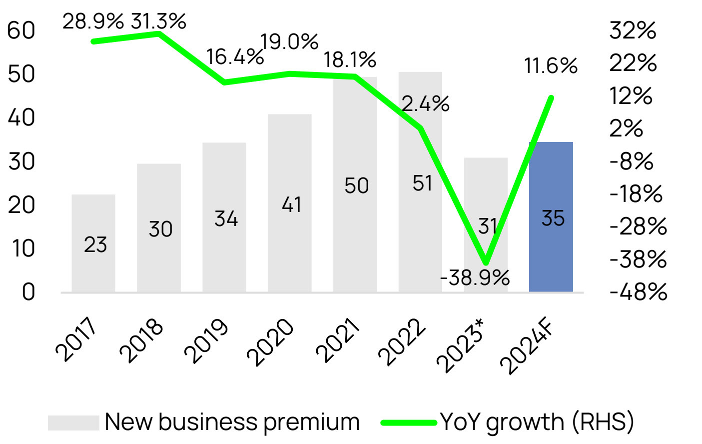
Source: General Statistics Office of Vietnam (GSO), IAV, Vietcap estimation

Figure 230: Life insurance penetration relative to GDP per capita of selected developing countries (2022)



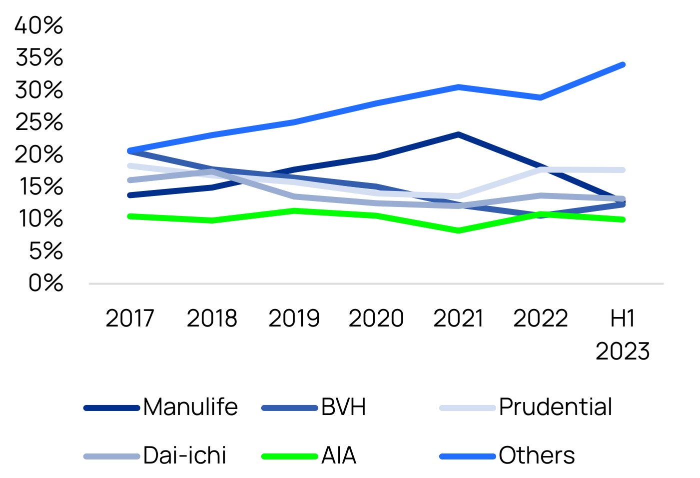
Source: Swiss Re, World Bank, Ministry of Finance (MoF), company data, Vietcap (PR China stands for People's Republic of China).

Figure 231: New business premiums (VND tn) and growth (%) (2017 – 2024F)



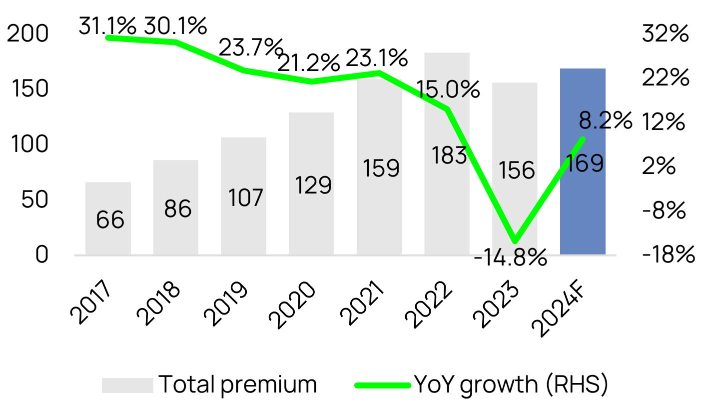
Source: MoF, IAV, Vietcap. *Annualized 9M 2023 new business premium

Figure 232: Market share of life insurers in terms of new business premiums (2017 – H1 2023)



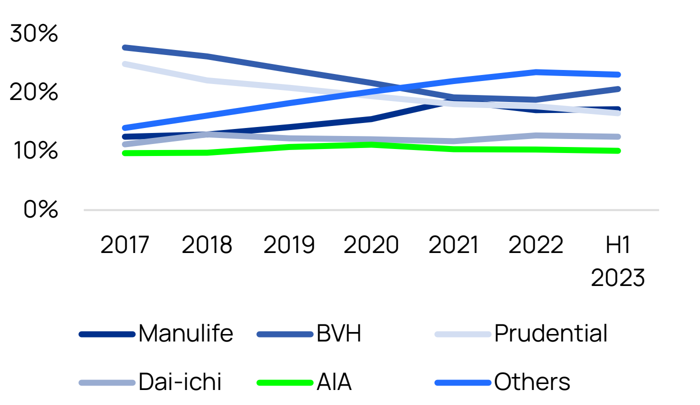
Source: MoF, IAV, Vietcap

Figure 233: Total direct premiums (VND tn) and growth (%) (2017 – 2024F)



Source: MoF, IAV, Vietcap.

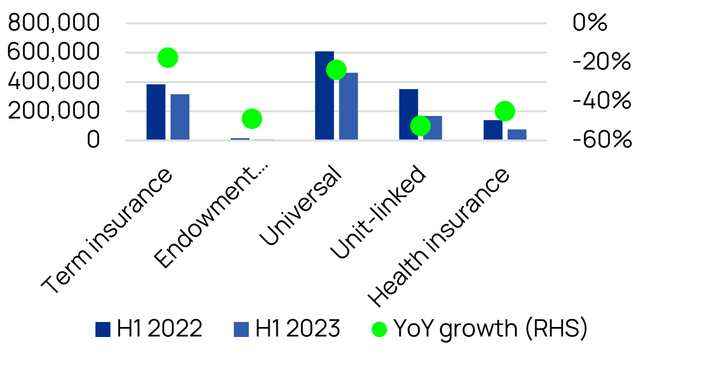
Figure 234: Market share of life insurers in terms of total direct premiums (2017 – H1 2023)



Source: MoF, IAV, Vietcap

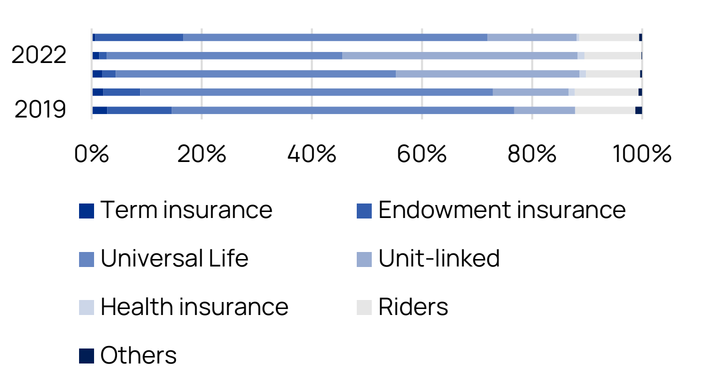
The decrease in new business premiums in H1 2023 was led by a plunge in investment-linked products. New business premiums decreased 38.2% YoY in H1 2023, which was driven by (1) a 23.9% YoY decrease in universal life premiums and (2) a 52.5% YoY decrease in unit-linked premiums. Most of the mis-selling cases in bancassurance were related to investment-linked products, especially unit-linked products, which require extensive consultation due to their complicated characteristics. Despite offering a tailored financial solution to individuals, flaws in the consultation process and the subpar performance of the equity market over the past two years have dampened unit-linked sales. We expect the recent tightening in regulations to gradually help to enhance sales quality in the future. We believe investment-linked products will remain key products in the long term due to (1) the potential of Vietnam's equity market and (2) heightened awareness of individual financial management amongst the middle-class population.

Figure 235: New insurance policies by product lines



Source: MoF, IAV, Vietcap

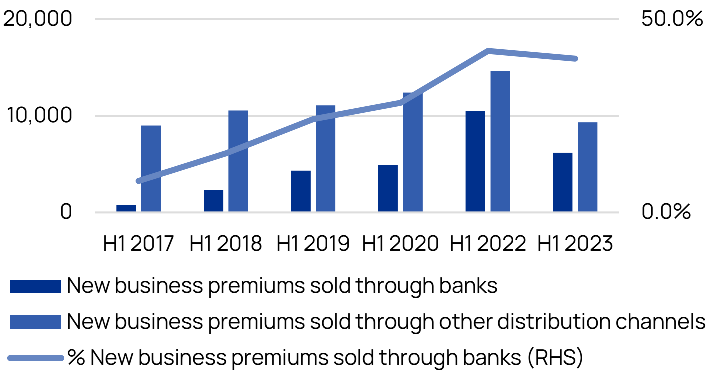
Figure 236: New business premiums by product lines



Source: MoF, IAV, Vietcap

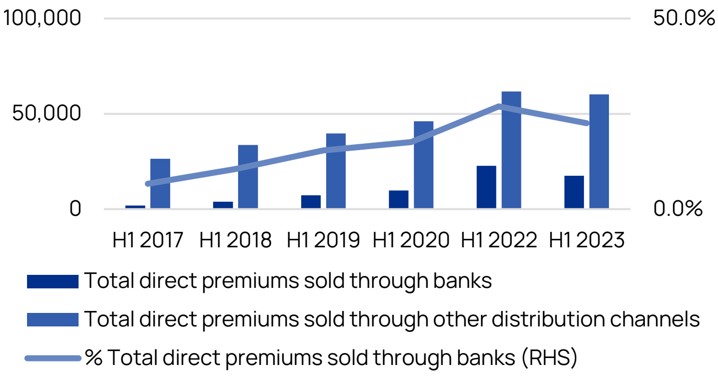
New business premiums plunged across all channels, but total premiums received through distribution channels (excluding bancassurance) were relatively flat YoY in H1 2023. We believe strong renewal premiums via traditional distribution channels indicate higher sales quality vs the bancassurance channels. The new regulations from the MoF aim to enhance sales quality via requirements such as keeping records of the consulting process for investment-linked products, improved product documents, and evidence of customer acknowledgment and restructuring of bancassurance operations. Despite the potential pressure on operating costs, we believe sales quality enhancement should reduce the incidence of surrendered policies in the first two years and reduce losses for insurers.

Figure 237: New business premiums received through banks and other distribution channels (VND bn)



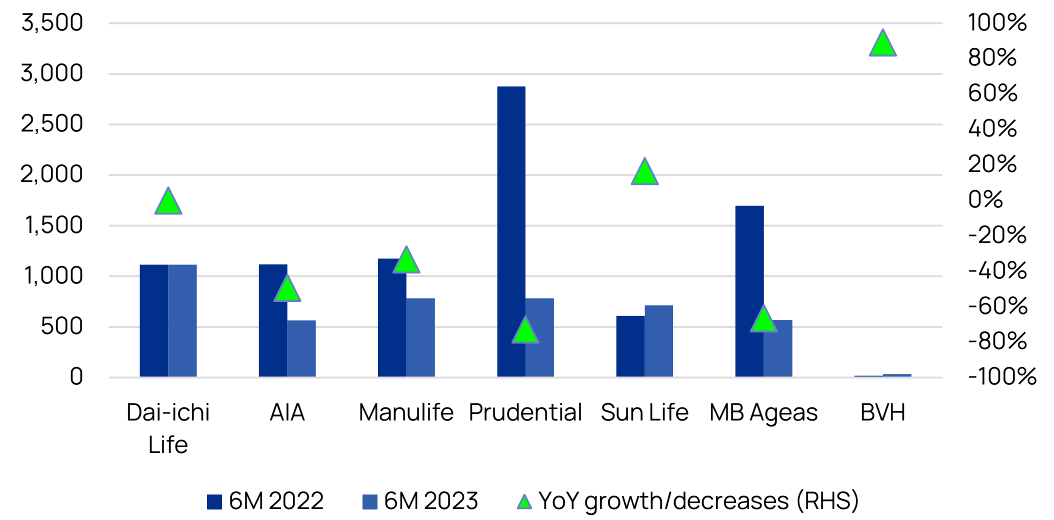
Source: MoF, IAV, Vietcap

Figure 238: Total premiums received through banks and other distribution channels (VND bn)



Source: MoF, IAV, Vietcap

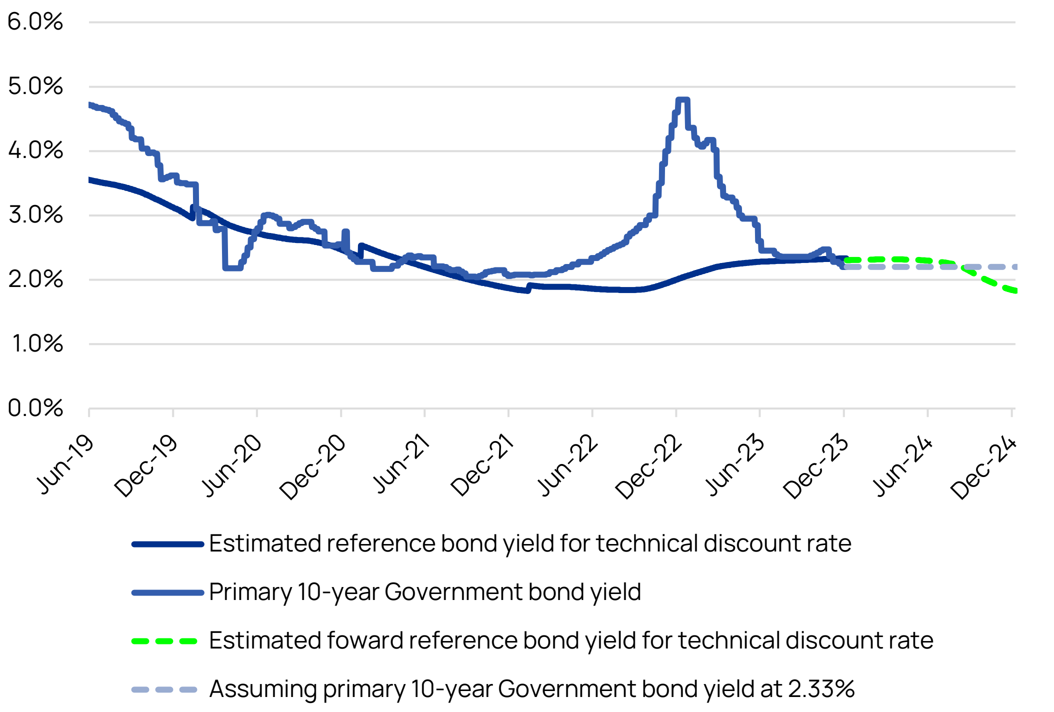
Figure 239: New business premiums received through banks at top life insurers (VND bn)



Source: MoF, IAV, Vietcap

Downward pressure on the technical discount rate in 2024F. Starting from 2022, the discount rate for the calculation of reserves is based on a maximum of 80% of the average interest rate of Government bonds with a term of more than 10 years that were issued within **24 months** before the reserve is set aside. After increases in late 2022, Government bond yields have plummeted since March 2023 and have been approaching the lows seen in 2021. Our estimates suggest that the reference bond yield for the technical discount rate by the end of 2023F was still increasing YoY, thus supporting lower math reserve expenses for life insurers. However, if we assume that Government bond yields remain at current low levels, the technical discount rate could start to decrease in mid-2024, which would pressure life insurers' profits in 2024F.

Figure 240: Vietnam's 10-year Gov't bond yield and estimated reference bond yield for technical discount rate



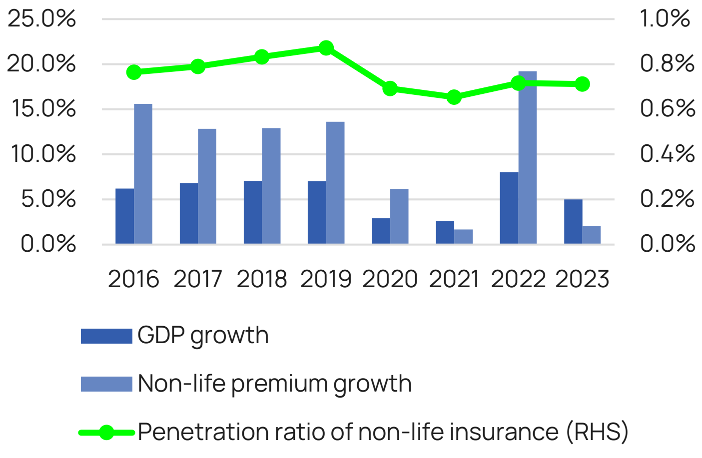
Source: Bloomberg, Vietcap estimates

Non-life insurance

Premium growth to increase in 2024F. 2023 non-life premium growth was 4.3% YoY, slightly higher than premium growth in 2021 when social mobility and business activities were disrupted due to the pandemic. We believe the low premium growth in 2023F resulted from the slowdown in the economy and weak personal consumption following sharp hikes in interest rates in H2 2022. We believe premium growth will improve to 7.0% YoY in 2024F, assuming a flat non-life penetration ratio at 0.7% and GDP growth of 6.5%.

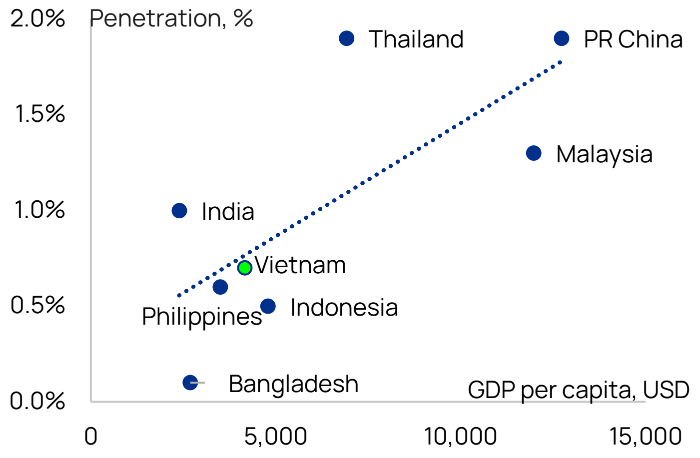
PVI maintained the top premium market share. In 2021, PVI took over the top position from BVH, and it has been a challenge for BVH to regain market share since then. Meanwhile, we estimate that BMI successfully expanded its market share in 9M 2023 and achieved the third position with a market share at 8.7%. BIC (BIDV's subsidiary) achieved the top premium growth in 9M 2023. According to BIC, its strong premium growth was supported by robust retail sales due to (1) increasing leverage of the parent bank's network and mobile banking app and (2) offering new products including cancer healthcare insurance.

Figure 241: Penetration ratio of non-life insurance in Vietnam (%) (2017 – 2023)



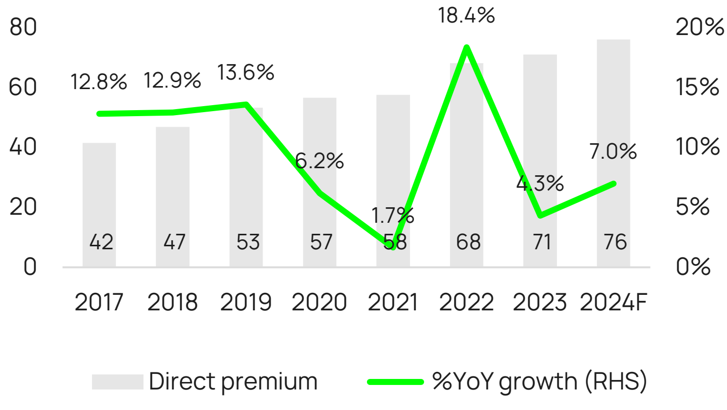
Source: General Statistics Office of Vietnam (GSO), IAV, Vietcap estimation

Figure 242: Non-life insurance penetration relative to GDP per capita of selected developing countries (2022)



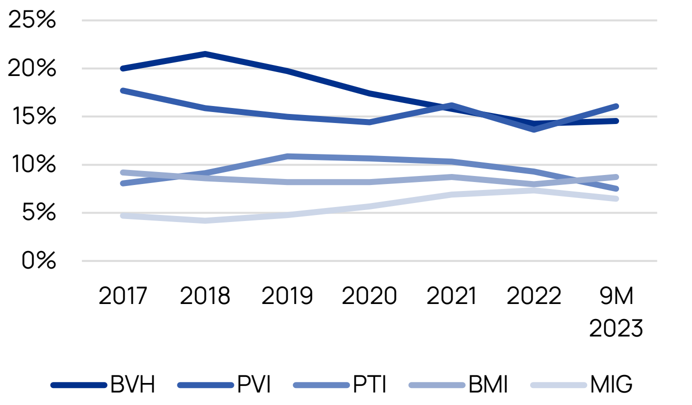
Source: Swiss Re, World Bank, Ministry of Finance (MoF), company data, Vietcap (PR China stands for People's Republic of China).

Figure 243: Total direct premiums (VND tn) and growth (%) (2017 – 2024F)



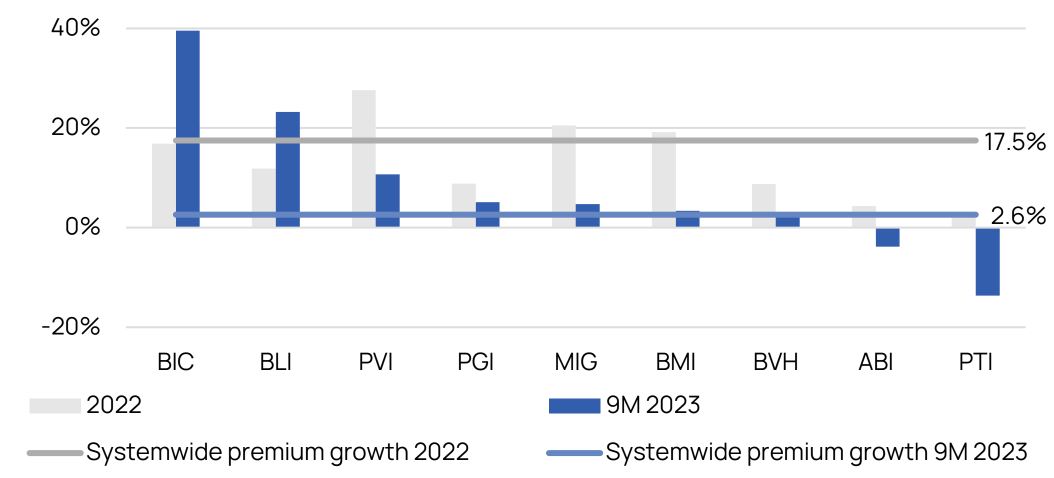
Source: MoF, IAV, Vietcap

Figure 244: Market share of life insurers in terms of new business premiums (2017 – 9M 2023)



Source: Company data, Vietcap

Figure 245: 2022 and 9M 2023 GWP growth of listed insurance companies (% YoY)

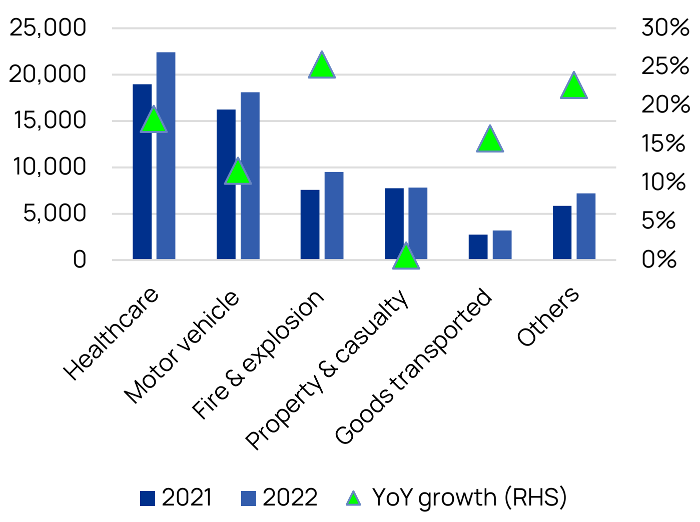


Source: MoF, IAV, Vietcap.

Healthcare insurance remained the largest product line in H1 2023 with premiums of VND10.9tn (-1.7% YoY), which accounted for 34.6% of total premiums. The second largest product line was motor vehicle insurance with premiums of VND8.8tn (-5.8% YoY), which accounted for 25.3% of total premiums.

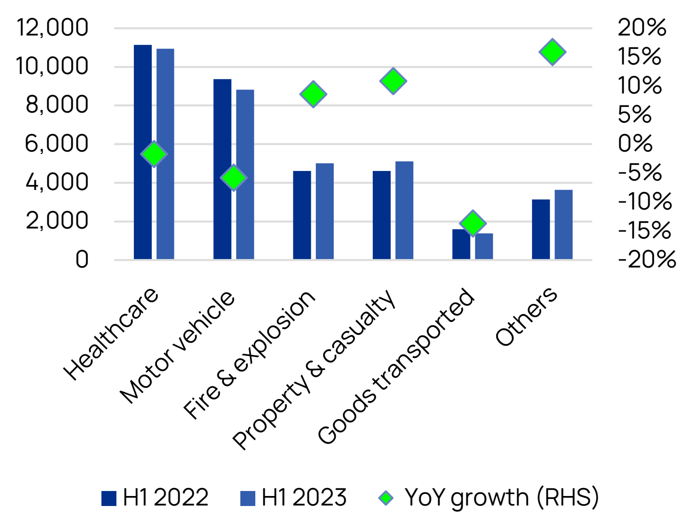
Fire & explosion insurance and property & casualty insurance were key growth drivers in H1 2023. Premiums from compulsory fire & explosion insurance increased 11.9% YoY in H1 2023, which we attribute partly to the increase in authorities' supervision of firefighting and prevention systems in office buildings, F&B businesses, and entertainment places since mid-2022. Other smaller product lines that showed strong YoY premium growth include liability insurance, aviation insurance, and credit insurance.

Figure 246: Total direct premiums by line of business in 2021 - 2022 (VND bn)



Source: MoF, IAV, Vietcap

Figure 247: Total direct premiums by line of business in H1 2022 – H1 2023 (VND bn)

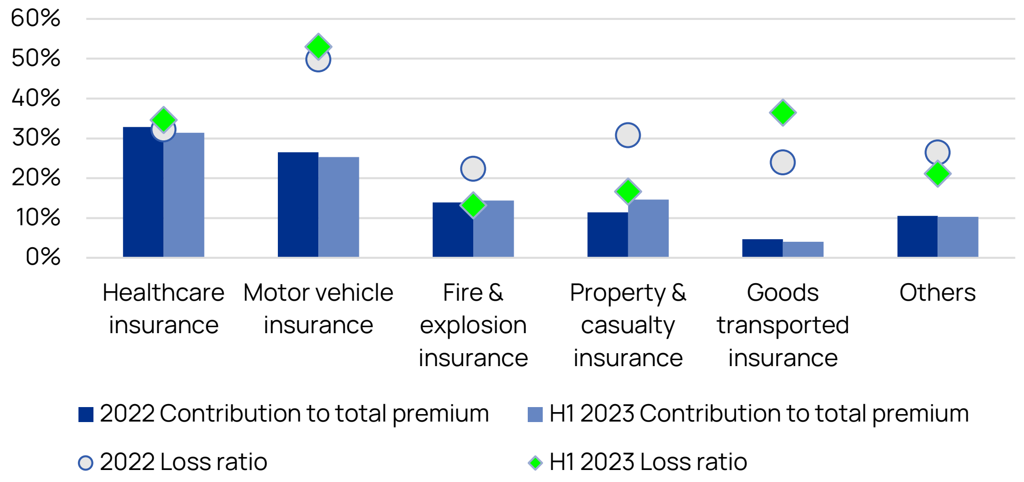


Source: MoF, IAV, Vietcap

The median combined ratio in 9M 2023 approached the previous peak level in 2019, which we attribute to (1) normalization of loss ratios after the COVID-19 pandemic, (2) upward pressure on claim costs from inflation and supply chain disruptions, and (3) stiffer competition weighing on insurers' premiums as well as their selling & operating expenses.

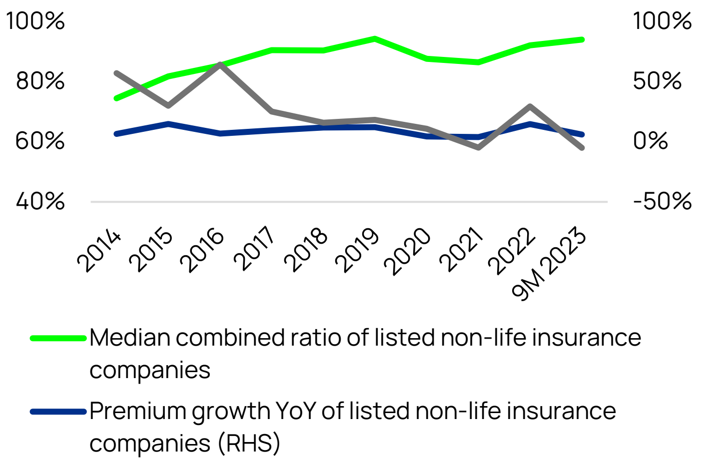
Stable loss ratios at the top five insurers in 9M 2023; meanwhile, the systemwide claim data in H1 2023 implies that improvement in loss ratios of fire & explosion insurance and property & casualty insurance offset increases in loss ratios of healthcare and motor vehicle insurance.

Figure 248: Premium share and loss ratio by business line



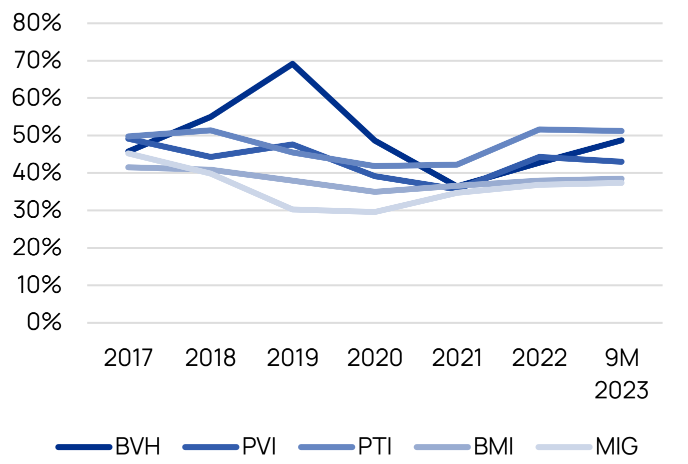
Source: MoF, IAV, Vietcap

Figure 249: Median combined ratio of listed insurers and premium growth (%) (2014 – 9M 2023)



Source: MoF, IAV, company data, Fiinpro, GSO, Vietcap; constituents are BVH (non-life segment with expense ratio estimated by Vietcap), PVI, PTI, BMI, PGI, BLI, MGI, ABI, and BIC

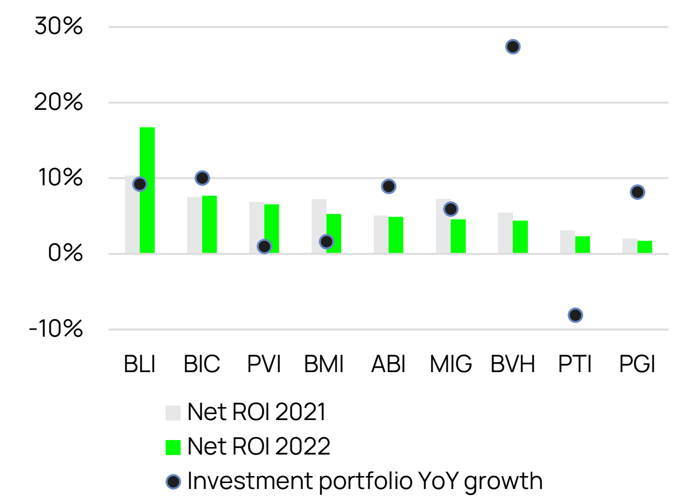
Figure 250: Loss ratios of top five insurers (2017 – 9M 2023)



Source: Company data, Vietcap

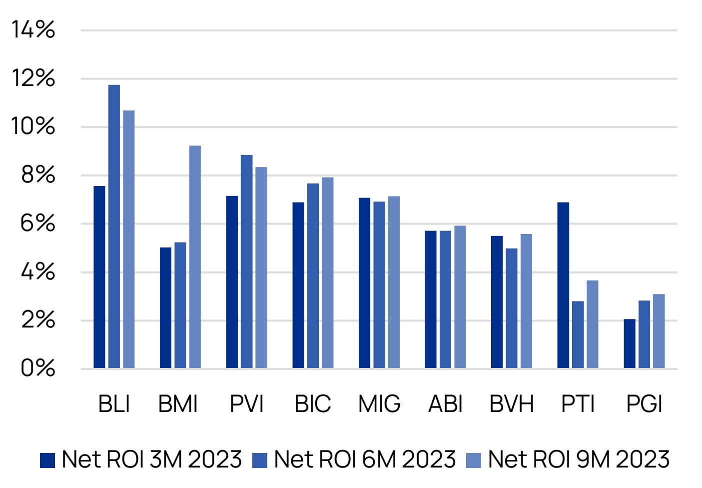
ROI at non-life insurers improved in 2023. In 9M 2023, net ROI improved at listed non-life insurers by 1.7ppts on average, which we attribute to the lagged positive impact of the 200-bp increase in policy rates and higher deposit rates in late 2022. BLI had the highest net ROI among listed insurers in 2021-2022 due to strong gains from investment securities. From our observation, Q1 2022 was a high base for BLI as it recorded one-off gains from investment securities that increased more than 14x YoY. Concurrently, in 9M 2023, BLI recorded a significant increase in interest from term deposits starting from Q2 2023, which we attribute to higher allocations to term deposits at private commercial banks vs other non-life insurers. Meanwhile, a QoQ surge in BMI's Q3 2023 ROI was driven by a one-off gain from its investment in United Insurance Company of Vietnam (UIC).

Figure 251: Net ROI (%) (2021 – 2022)



Source: Company data, Vietcap

Figure 252: Net ROI (%) (3M 2023 – 9M 2023)



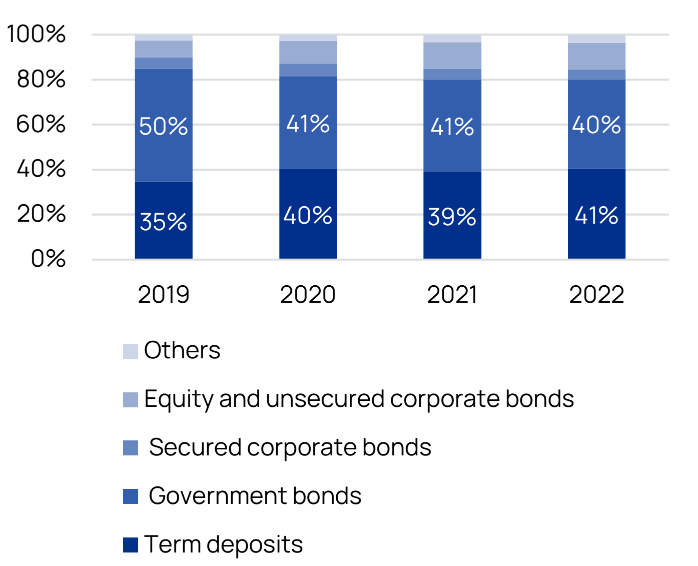
Source: Company data, Vietcap

Deposit rates and returns on investment

Returns on investments for insurers fell in the decreasing interest rate environment in 2011-2021. However, investment returns picked up in 2020 as deposit rates reached new lows, which we believe could have been due to the decision to sell Government bonds and realize one-off gains (like what we observed at BVH in Q2 2020).

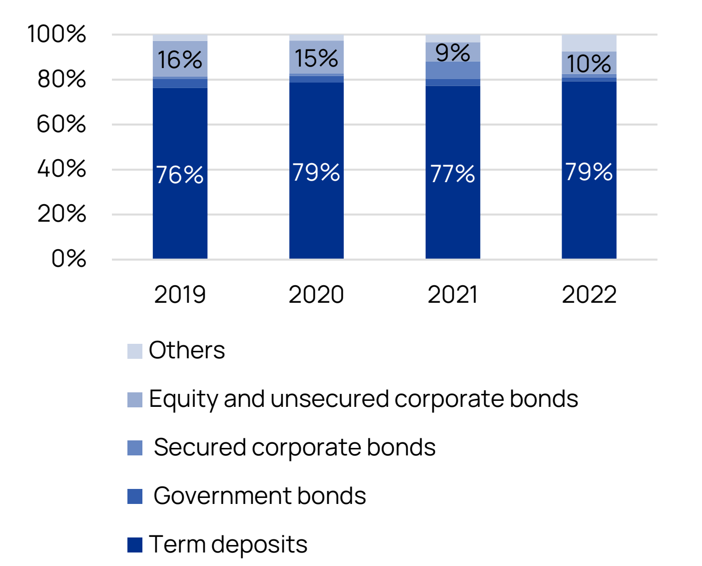
Investment returns reached a new low in 2022, which we attribute to (1) the low interest rate environment from 2021 to September 2022 and (2) high financial expenses due to provisioning for stock impairments as the equity market fell sharply in 2022. We estimate that investment returns for the sector picked up in 6M 2023 following the 200-bp hike in policy rates in late 2022. However, given that (1) commercial banks have been cutting deposit rates to new lows since mid-2023 and (2) insurance premium growth was weak in 2023, we expect downward pressure on investment returns for insurers in 2024F.

Figure 253: Investment portfolio of life insurers



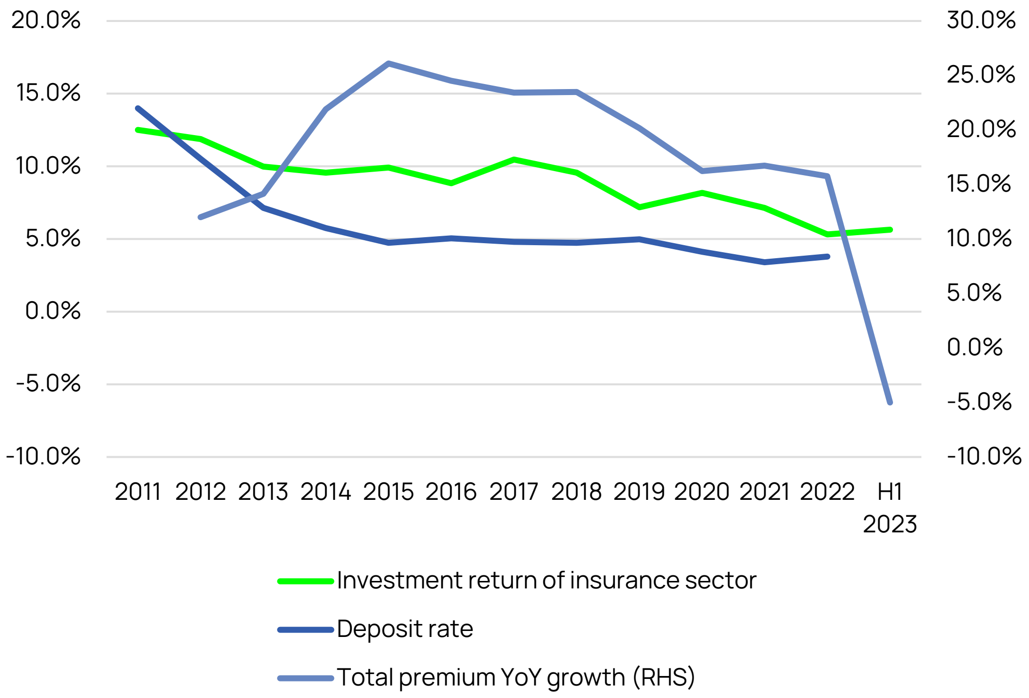
Source: MoF, IAV, Vietcap

Figure 254: Investment portfolio of non-life insurers



Source: MoF, IAV, Vietcap

Figure 255: Deposit rate* paid by commercial banks and investment return of insurers in Vietnam



Source: World Bank, MoF, Vietcap. * We source the deposit rate indicator from the World Bank. This rate is collected by the International Monetary Fund (IMF) as representative of interest rates offered by commercial banks to resident customers. H1 2023 investment return of insurers is our estimation based on investment return of the top 14 life and non-life insurers.

Government's targets for the insurance sector

Figure 256: Government's targets

	2022	2021-2025	2026-2030
Premium growth	15.1%	15%/year	10% /year
Premium growth via online channels	N/A	10%/year	10%/year
CAGR of assets, total investments	- Total asset growth: 14.5% YoY - Total investment growth: 12.6% YoY	15%/year	10%/year
Premium/GDP	2.3%*	3.0% - 3.3%	3.0% - 3.5%
Life insurance penetration, as % of population	11%	15%	18%
Premium per capita	VND2.6mn/capita*	VND3mn/capita	VND3mn/capita

Source: Decision No.07/QD-TTg by the Prime Minister of Vietnam in January 2023 (* Vietcap estimation)

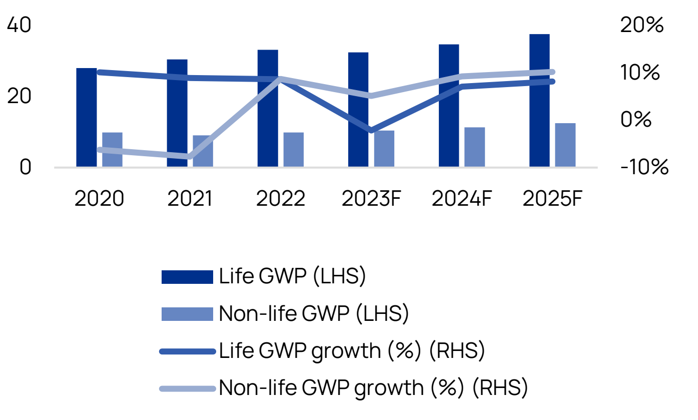
Insurance stocks under coverage

Bao Viet Holdings (HSX: BVH – OUTPERFORM rating with TP of VND43,200/share)

BVH is a major player in Vietnam's insurance market and has one of the largest agency networks in terms of headcount. We believe that the agency channel provides better quality of customer consultations vs other distribution channels, which helped BVH to mitigate the negative impact from cases of policy mis-selling. However, life insurance is its largest business, and its life premium growth has been hampered for many years by the company's inability to sign large bancassurance deals like its foreign competitors as well as its weakness in diversifying its product offerings.

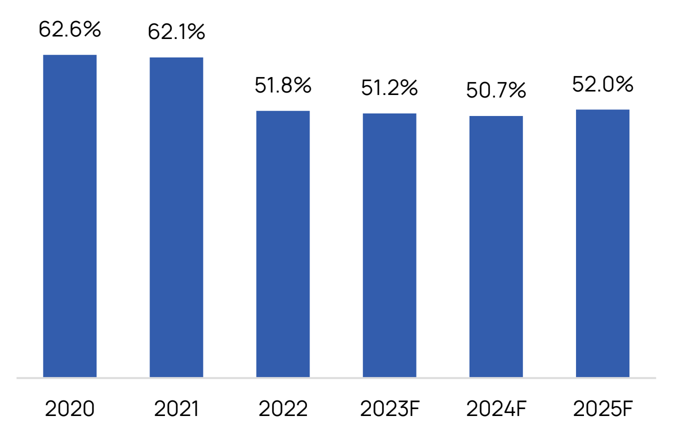
We expect (1) a moderate recovery in premium growth in 2024F, as consumer confidence in insurance products remains weak and we believe it will take time for the industry's reputation to recover, and (2) lower claims, especially surrender cases, to support the bottom line in 2024F. Although there have been short-term challenges for the insurance sector and competition is becoming stiffer, we believe that BVH can continue to grow its business over the long term due to (1) having Vietnam's largest agency network and potential SOE customer base and (2) our positive outlook for the long-term growth of Vietnam's insurance market given current low penetration.

Figure 257: Gross written premium (GWP, VND tn)



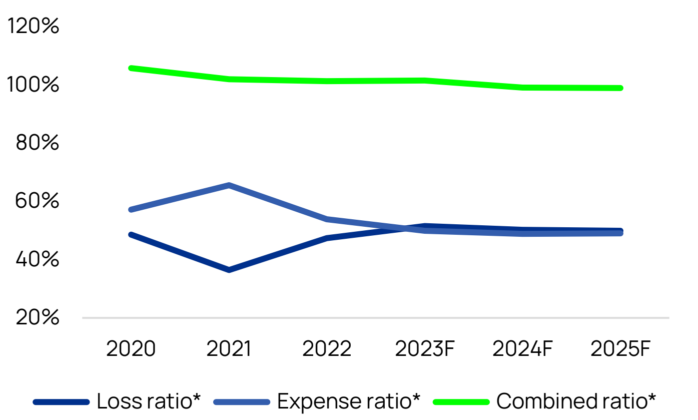
Source: BVH, Vietcap

Figure 258: Mathematical reserve expense as % of life GWP



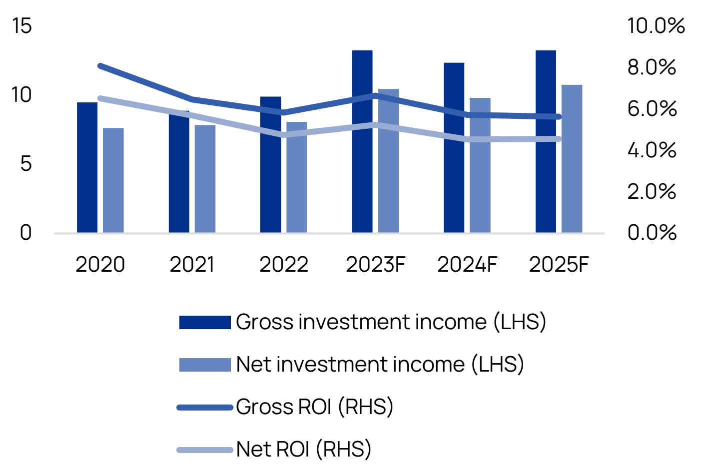
Source: BVH, Vietcap

Figure 259: Loss, expense, & combined ratio (non-life only)



Source: BVH, Vietcap (* non-life only)

Figure 260: Gross and net investment income (VND tn)



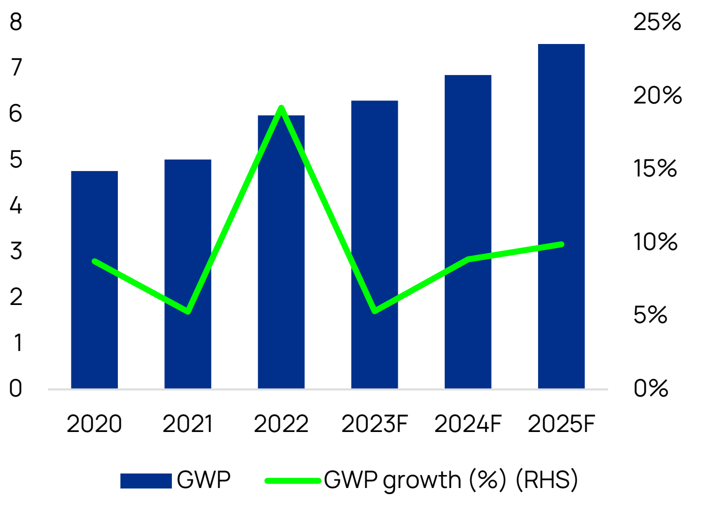
Source: BVH, Vietcap

Bao Minh Insurance (HSX: BMI – BUY rating with TP of VND26,800/share):

BMI has successfully strived for the top three premium market share in 2023 with the second lowest loss ratio among the top five non-life insurers, thus supporting the company's profit margin. BMI is also investing in its distribution network via (1) opening more branches across the country and (2) promoting online sales. We observe that BMI has upgraded its website in the last few months with a more user-friendly interface that offers online underwriting for some simple products in healthcare & personal accident insurance and vehicle insurance. Although BMI's earnings growth could be pressured by economic challenges in 2023, we expect the company will still be able to maintain its top three position and control its combined ratio among the low end in the market. We forecast BMI's 2024F premium growth to accelerate to 9.0% YoY and Vietnam's GDP growth to continue recovering after a relatively slow year in 2023.

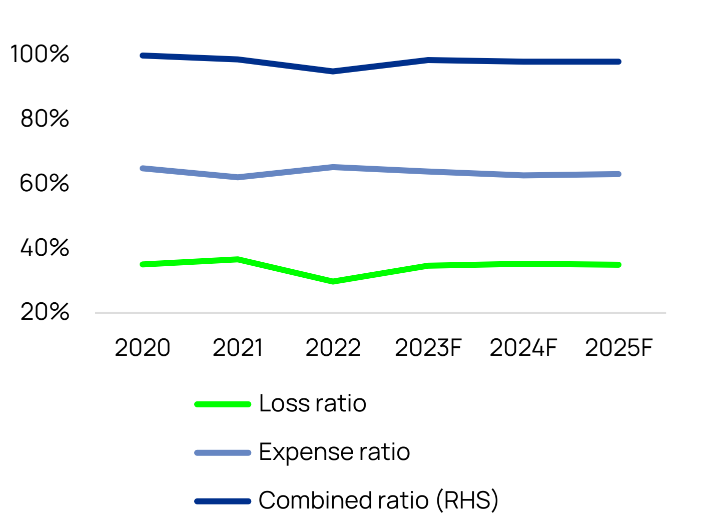
BMI is currently trading at a trailing P/B of 1.0x compared to a peer median of 1.4x.

Figure 261: Gross written premiums (GWP - VND tn)



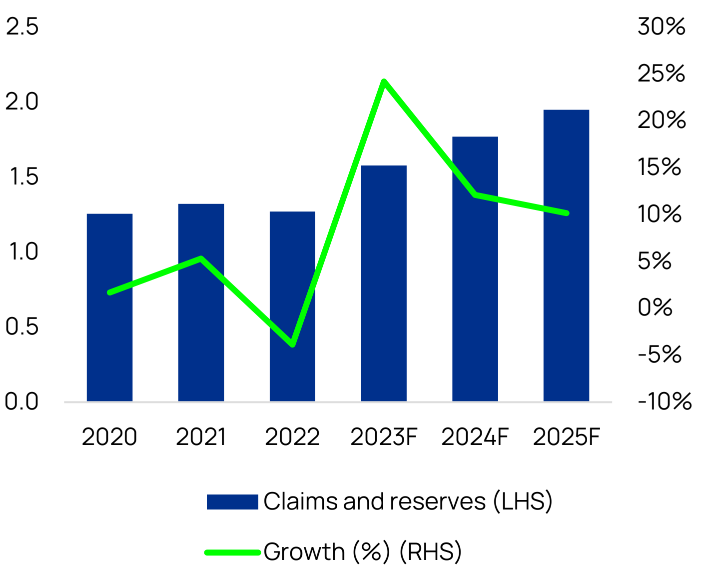
Source: BMI, Vietcap

Figure 262: Loss, expense, and combined ratio



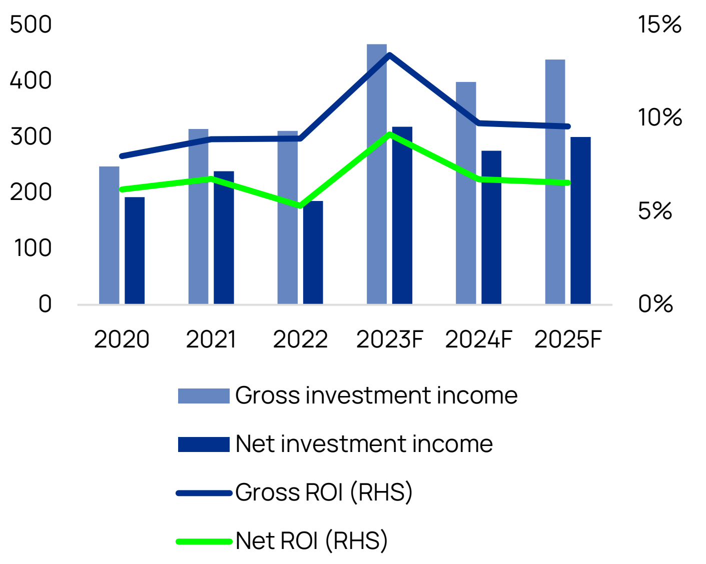
Source: BMI, Vietcap

Figure 263: Total claims and reserves (VND tn)



Source: BMI, Vietcap

Figure 264: Gross and net investment income (VND bn)

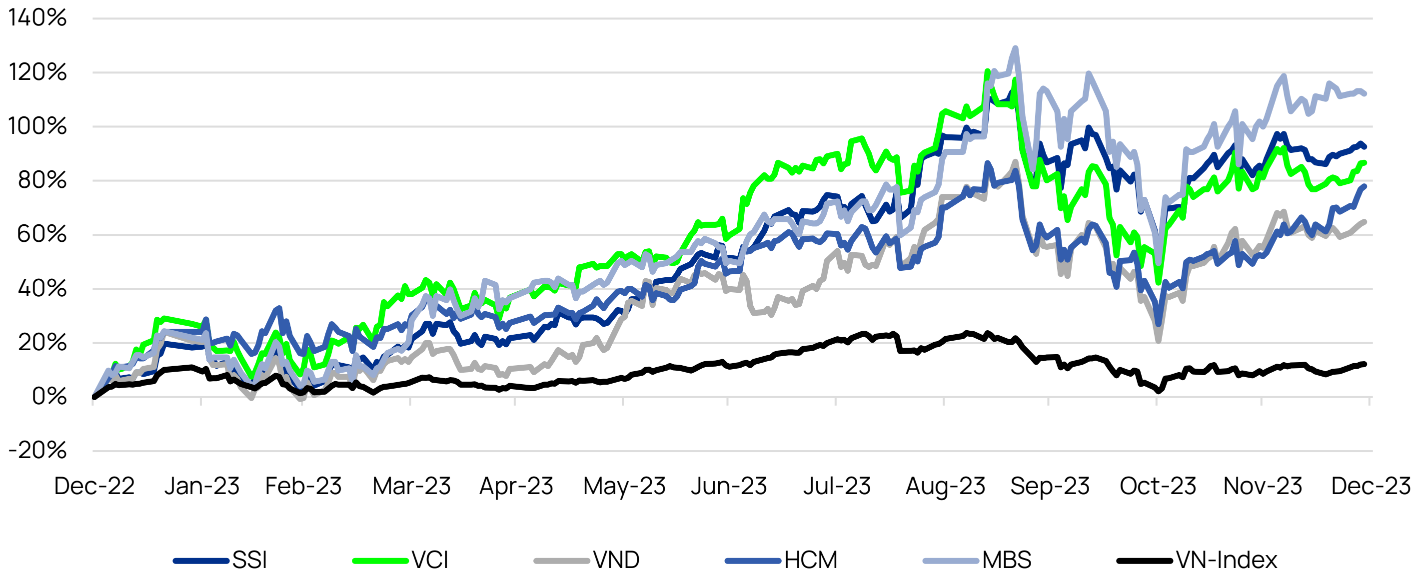


Source: BMI, Vietcap

Securities recap and outlook

Leading listed securities companies outperformed the VN-Index in 2023.

Figure 265: Share price performance of the VN-Index and the top five listed players in the securities sector



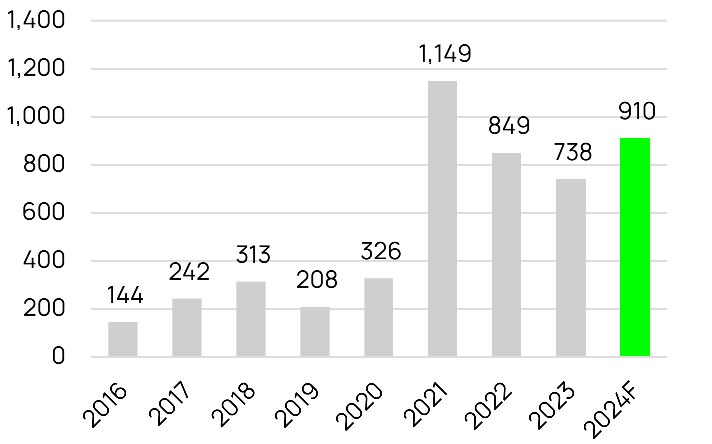
Tickers	Absolute change	Relative to VNI
SSI	92.6%	80.4%
VND	64.8%	52.6%
VCI	86.7%	74.5%
HCM	77.9%	65.7%
MBS	112.2%	100.0%

Source: Fiinpro, Vietcap (as of December 29, 2023)

ADTV recovered after interest rates started to decline in March 2023. The average daily value of trading (ADTV) on Vietnam's three trading venues combined was USD484mn in Q1 2023 but subsequently increased significantly to USD818mn in the last three quarters of 2023. We attribute stronger market turnover to (1) policy rate cuts from the SBV and cuts in banks' deposit rates that could have encouraged domestic investors to reallocate cash to the stock market, (2) expectations that the Fed's tightening cycle was approaching its peak, and (3) improved market sentiment following Government measures to support the economy (e.g., Circular 02/2023/TT-NHNN, Circular 10/2023/TT-NHNN and Decree 08/2023/NĐ-CP).

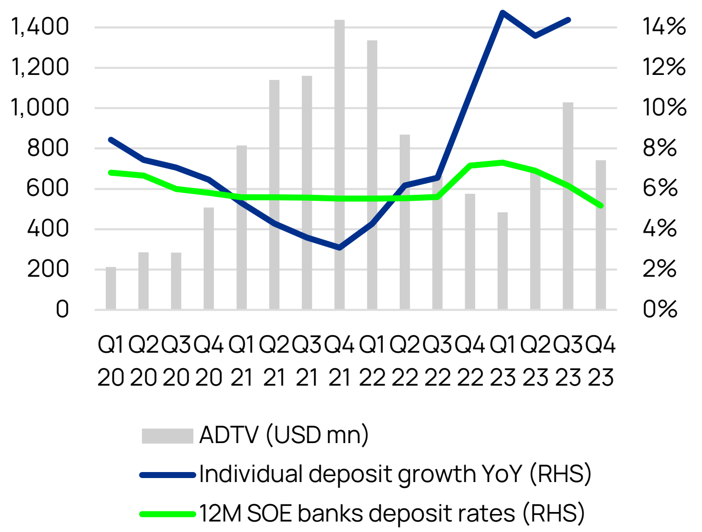
We forecast a 23% YoY increase in 2024F ADTV to USD910mn. While deposit rates offered by banks under our coverage decreased by 250-300 bps in 2023 and dipped below the lows during the COVID pandemic, growth in deposits from individuals has remained strong in Q2 and Q3 2023. We believe this was partly due to fears of prolonged weakness in the global and domestic economies, coupled with still sluggish conditions in the real estate and corporate bond markets. With 12-month deposit rates at around 5.0% as of December 2023, slightly higher than CPI inflation of 3.3%, real deposit rates are only around 1.7%. Given our 2024F GDP growth forecast of ~6.5%, and our expectation that the KRX system will go live next year, we forecast 2024F ADTV to increase ~23% YoY to USD910mn, based on our assumptions for the VN-Index to increase by ~20% YoY in 2024 and velocity of market turnover at ~80%.

Figure 266: ADTV of three trading venues combined (USD mn)



Source: Fiinpro as of December 29, 2023, Vietcap

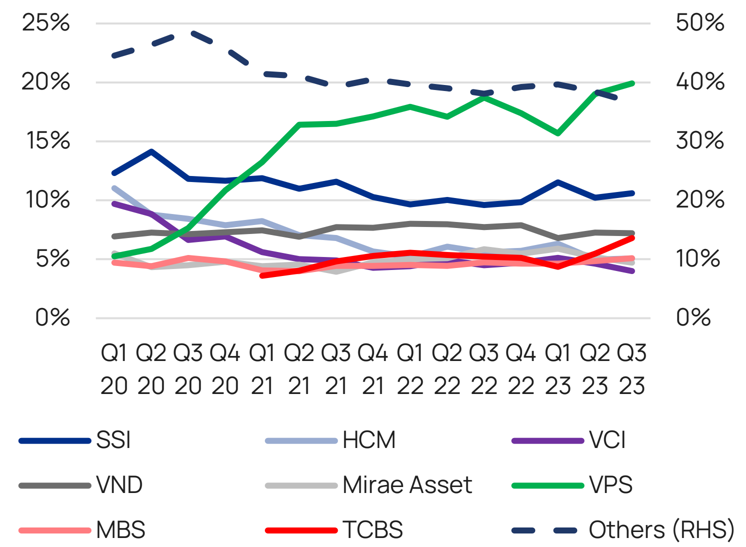
Figure 267: ADTV of three trading venues combined by quarter (USD mn)



Source: Fiinpro as of December 29, 2023, Vietcap

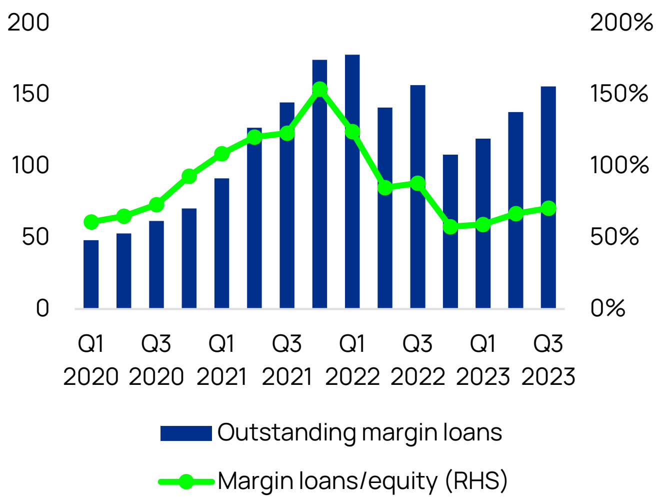
VPS continued to increase its market share lead over other competitors; stiff competition to continue. As of Q3 2023, VPS recorded 11 consecutive quarters ranking first in terms of market share on HOSE with an increasing lead vs peers. SSI and VND remained firmly in second and third place, respectively, maintaining relatively stable market shares. However, TCBS and MBS have made significant strides, overtaking HCM and Mirae Asset to secure the fourth and fifth positions, respectively. We believe competition in the securities sector will continue to intensify, especially with strong interest from major banks. VPB and TCB injected ~VND15tn and ~VND10tn into their subsidiaries, VPBankS and TCBS in 2022 and June 2023, respectively. HDB also announced plans to acquire up to a 30% stake in HD Securities Joint Stock Company (HDBS) in October 2023.

Figure 268: Market share on HOSE of top brokerage companies (%)



Source: HOSE, Vietcap

Figure 269: Quarterly total outstanding margin loans (est., VND tn)



Source: Fiinpro, Vietcap

Capital raising is needed to maintain a competitive edge. We believe increasing competition in the sector will result in a need to raise more capital to accelerate innovation and enhance services at securities companies. Indeed, we observe that almost all leading listed securities companies have plans for capital raising in the 2023-2024 period, as shown in **Figure 270.**

Figure 270: 2023-2024 capital raising plans of select large securities companies

Securities companies	Yes/no	% post-money shares	Method	Share issue (mn shares)	Price	Note
SSI	Yes	9.2%	Rights issue	151.1	VND15,000/share	In 2023-2024 or other period after getting approval from the BOD.
		0.7%	ESOP	10	VND10,000/share	Q4 2023- Q1 2024 and after getting the State Securities Commission (SSC)'s approval.
		6.5%	Private placement	104	The price of the private placement shall not be lower than 90% of the average closing price in 10 consecutive sessions before the date of receiving approval from the BOD, according to SSI's AGM documents. Vietcap's assumption is VND32,000/share.	To be implemented after completing the rights issuance plan.
HCM	Yes	30.3%	Rights issue	228.6	VND10,000/share	Implementing
		3.4%	ESOP	16	VND10,000/share	Implementing
VND	Yes	16.7%	Public or private placement to professional securities investors	243.6	The offering price is not lower than the average closing price for 10 consecutive sessions before the date of the Board's approval of the resolution on the implementation of the private placement of shares.	Expected in 2023-2024 after getting SSC's approval.
		16.7%	Rights issue	243.6	VND10,000/share	Implementing
		2.0%	ESOP	24	VND10,000/share	Implementing
VCI	Yes	0.5%	ESOP	2	VND12,000/share	Done in June 2023
MBS	No					
TCBS	Yes	51.2%	Private placement	105	VND97,542/share	Done in June 2023

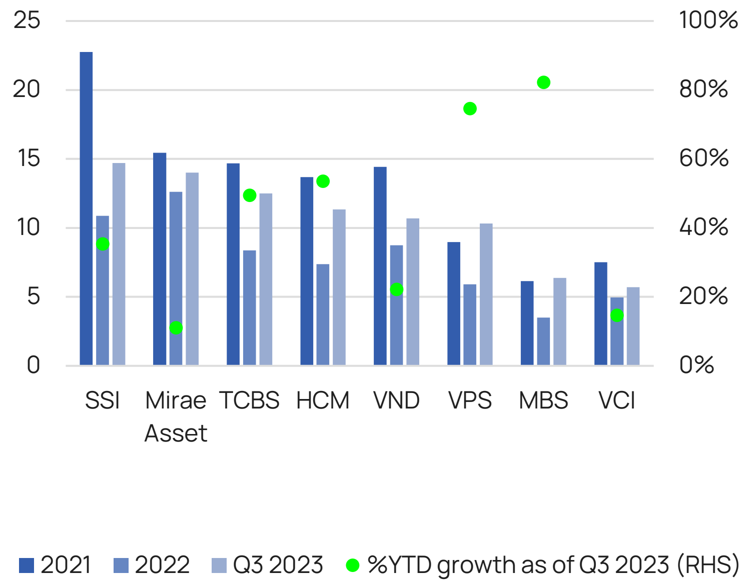
Source: company data, Vietcap compilation and estimates

Margin lending gradually increased in 9M 2023; margin loans/equity remained at low levels. According to Fiinpro, total outstanding margin loans increased 44.2% in 9M 2023 with margin loans/equity at 71% well below the regulatory cap of 200% (see **Figure 269**). We attribute the increase in margin loans in 9M 2023 mainly to lower interest rates and improving investor sentiment following a series of new policies enacted by the Government to support the economy since March 2023. This trend is broadly in line with our expectation as stated in our Vietnam Mid-year Strategy 2023 on page 188.

As of Q3 2023, SSI remained the largest margin lending provider in the sector with a margin loan balance of VND14.7tn, followed by Mirae Asset and TCBS at VND14.0tn and VND12.5tn, respectively. Despite having the largest margin loan balance, SSI's margin loans/equity was the lowest among the securities companies we surveyed.

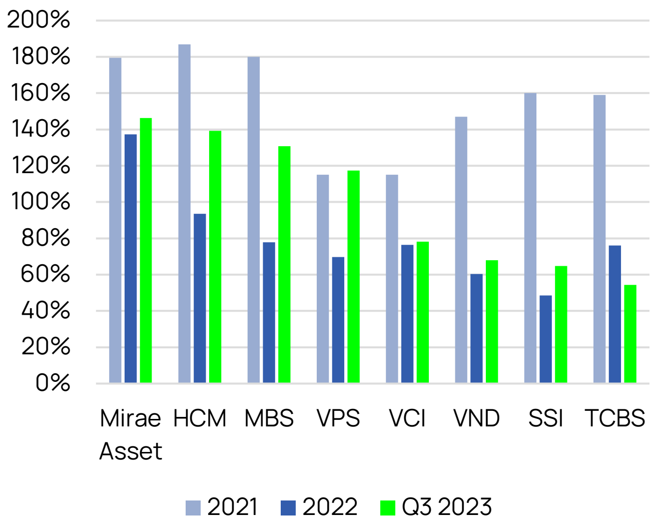
We expect margin loans to increase in 2024, based on our view that the SBV will keep interest rates low to support economic growth. We do not forecast the total margin loan balance for the overall market as we currently cover only one securities company (SSI), but we expect it to increase. We forecast SSI's margin loans to increase 22% YoY to VND19.5tn in 2024F.

Figure 271: Outstanding margin loans of large balance sheet brokers (VND tn)



Source: Fiinpro, Vietcap

Figure 272: Margin loans/equity of large balance sheet brokers (%)

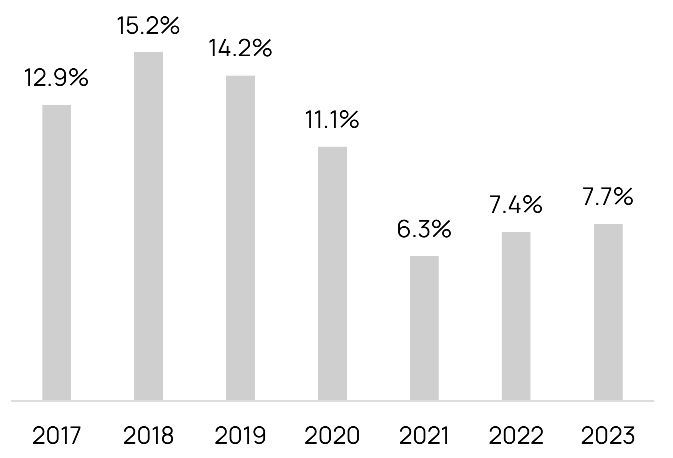


Source: FiinPro, company data, Vietcap

Foreign investors net sold in 2023; we expect foreign inflows to return in 2024. After net foreign buying in the first three months of 2023, foreign investors were net sellers from May 2023. We believe this shift was partly driven by relatively high interest rates in developed markets, a strong US Dollar, and outflows from developing markets in general. As of December 11, 2023, foreign investors net sold VND17.3tn (USD794mn) on Vietnam's three trading venues combined. However, their overall participation in trading by value remained stable at ~7.7% in 2023 (vs 7.4% in 2022).

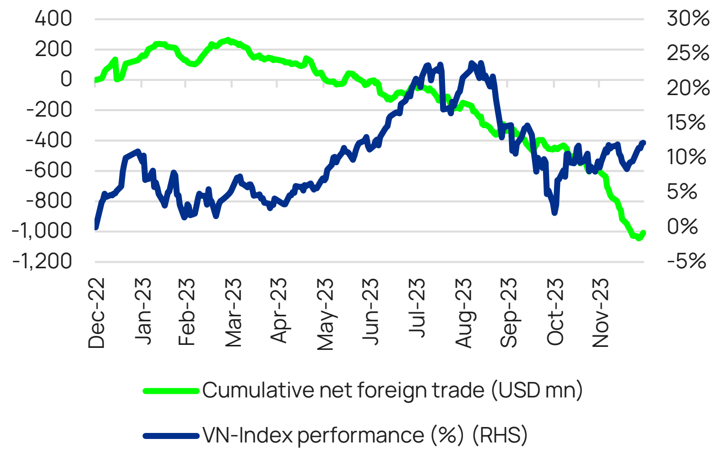
While interest rates may remain high in developed markets to control inflation, dovish undertones have begun to emerge. During the Federal Reserve Meeting in December 2023, the Fed's 'dot plot' signaled three potential rate cuts in 2024. Combined with our 2024F GDP growth forecast of 6.5% and current undemanding valuations for the VN-Index (12-month trailing headline P/E of 13.9x, one standard deviation below the eight-year average trailing headline P/E – see **Figure 275**), we expect that foreign inflows will rebound in 2024.

Figure 273: Foreign participation as % of market turnover



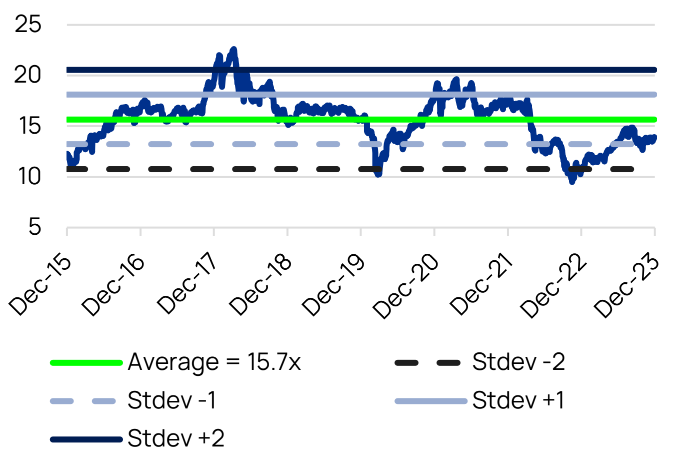
Source: Fiinpro, Vietcap; * 2023 foreign participation calculated to December 29, 2023.

Figure 274: VN-Index performance (%) and cumulative net foreign trading (USD mn)



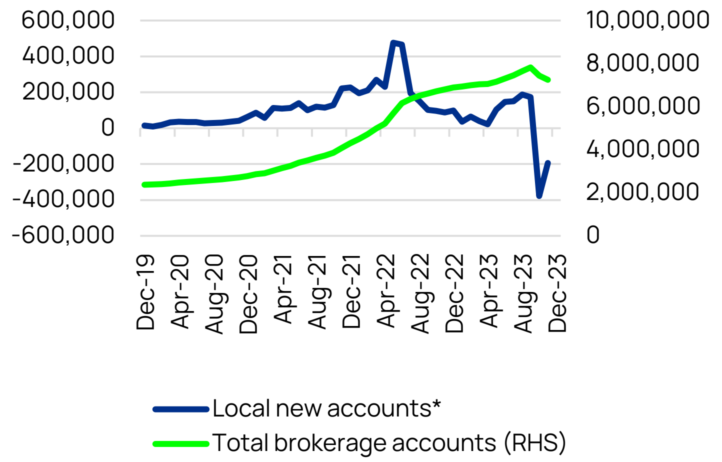
Source: Fiinpro as of December 29, 2023, Vietcap

Figure 275: VN-Index 12M trailing headline P/E



Source: Fiinpro as of December 29, 2023, Vietcap

Figure 276: Brokerage accounts, monthly



Source: Vietnam Securities Depository (VSD), Vietcap; (* We calculate implied number of new accounts open by using the difference in total accounts).

A temporary dip in total brokerage accounts in October and November 2023 is a necessary step towards long-term sustainable growth, in our view. The total number of brokerage accounts decreased MoM for the first time in October and again November 2023, which we attribute to the Government Office's directive requiring connection to national databases for enhanced identity verification. This move seeks to improve data integrity as well as transparency in the Vietnamese stock market. We believe this paves the way for a sustainable market environment as this should partly alleviate speculation accounts, thereby attracting new investors and fostering long-term growth.

KRX system to be launched in 2024F. Expectations have risen for the imminent implementation of a new trading system - the KRX system developed by the Korean Stock Exchange. This project was agreed between the HOSE and the Korean Stock Exchange in 2012 and offers the potential to bring about several key improvements, including but not limited to: (1) reducing latency and enhancing overall system capacity, (2) offering more diverse products (e.g., day trading, delivery vs payment settlement), and (3) implementing a Central Counterparty Clearing (CCP) mechanism. The latter might take more time to implement as it requires the introduction of related regulations. We expect the impact on market turnover ultimately to be positive but do not expect a sudden increase in the near term. Having said that, the KRX system lays the groundwork for substantial long-term future growth as it should empower securities companies to develop more innovative products and services to better serve customers' needs, in our view. Securities companies ran factory acceptance testing (FAT) in December 2023. We expect the KRX system to go live in H1 2024, marking a milestone for the market.

The recent approval of the securities sector development strategy to 2030 reaffirms our view on the market's long-term potential growth. On December 29, 2023, the Prime Minister's Decision 1726/QD-TTg officially endorsed the strategy, outlining ambitious quantifiable objectives as stated in the table below, including the target to achieve an upgrade in the status of the stock market from frontier to emerging market status by 2025. This underscores the Government's determination to propel the Vietnamese capital market to new heights.

Figure 277: Government targets for the securities sector

Targets	By 2025	**By 2030**	**Current ratio**
Market capitalization / GDP	100%	120%	56.7% as end-2023
Bonds outstanding / GDP	47%	58%	35.8% as of Q3 2023
Corporate bonds outstanding / GDP	20%	25%	12.6% as of Q3 2023
Derivatives market growth	20-30% p.a. from 2021-2030		
Number of brokerage accounts	9 million	11 million	7.3 million as of end-2023
Market status	Upgrade to emerging status		

Source: Decision 1726/QD-TTg, HNX, VSD, Vietcap

Vietnam is making progress towards emerging market status despite ongoing challenges. The Vietnamese Government targets for an upgrade in the stock market from frontier to emerging market status by 2025. While there are numerous obstacles to be addressed, we are seeing a proactive approach from the authorities recently to push for an upgrade.

At a conference held in August 2023 to address solutions for Vietnam to be upgraded to emerging market status, the authorities highlighted two primary obstacles preventing this upgrade (we believe the Government was referring to market classification criteria published by **MSCI**). These obstacles are (1) the requirement for prefunding of trades and (2) foreign ownership limits (FOL). Several solutions were proposed.

For removal of prefunding:

- *A short-term solution* is to allow securities companies to offer trading to foreign institutional investors without the requirement for prefunding, subject to the following:

- Investors are not required to fully prefund when placing buy orders (need to amend Circular 120/2020/TT-BTC).
- Securities companies will decide the margin rate they provide to each investor based on their assessment.
- If the investor does not have sufficient money to settle after the transaction takes place, securities companies will be responsible for settling the investor's trade.

- *A long-term solution* is to implement the CCP mechanism. Custodian banks will be clearing members with the following functions.

- Accessing clearing-settlement system to receive netting results and settlement obligations for investors.
- Carrying out settlement for investors' trades or refusing to settle if the investor does not have sufficient money and/or securities.

- If an investor does not have sufficient money and/or securities, the settlement obligation will be transferred to the securities company where the investor placed the orders.

For the FOL obstacle:

- Investigating non-voting depository receipts (NVDRs).
- Removing more sectors that are not sensitive to national security from the conditional sector list (sector in which foreigners cannot own majority stakes in a company).
- More transparency on the list of conditional sectors and requiring all companies to review, decide, and publish their FOLs on their websites.

Numerous meetings between securities companies, custodian banks, and the authorities (i.e., the State Securities Commission of Vietnam) have been organized to come up with a procedure that could be applied across the board for securities companies to offer non-prefunding trading to foreign institutional investors. If this proactive collaboration results in the removal of prefunding for foreign institutional investors, we believe Vietnam could be upgraded to emerging market status by FTSE Russel by late 2025. Meanwhile, the major obstacles to an upgrade by MSCI (i.e., implementation of a CCP system and effective easing in FOL restrictions) might take more time to address in our view (see **Figure 146 and 147** for more information on the criteria for emerging market status from FTSE Russell and MSCI).

Securities stocks under coverage

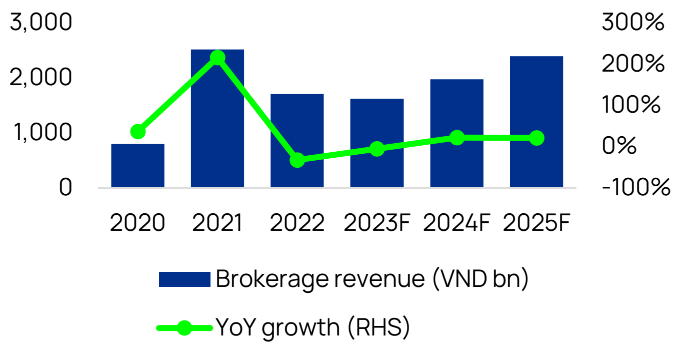
SSI Securities Corporation (HSX: SSI – MARKET PERFORM rating with TP of VND33,300/share)

SSI is one of the top brokerage companies in Vietnam. It had the second largest market share on HOSE with the largest margin lending book and the lowest margin loans/equity ratio among large balance sheet securities companies as of Q3 2023. We expect the company to maintain its market share at ~ 10% in the next three years despite stiff competition in the sector. We believe SSI will benefit from growth in Vietnam's stock market over the long-term due to its strong capital position, solid reputation, large network, and ability to tap offshore funding sources.

We project 19.3% YoY growth in 2024F NPAT-MI driven by (1) a 22.2% YoY increase in brokerage revenue based on our expectation that SSI could maintain its trading market share on the three trading venues combined at ~ 10% and a 23% YoY increase in 2024F ADTV, (2) a 27.3% YoY increase in margin lending revenue that results from our assumption for growth in margin loans, partly offset by our forecast for a lower effective margin lending rate YoY, and (3) a 14.9% YoY increase in gains from HTM securities. Meanwhile, we expect relatively flat net gains from FVTPL (fair value through profit and loss) securities in 2024F from a high base in 2023F.

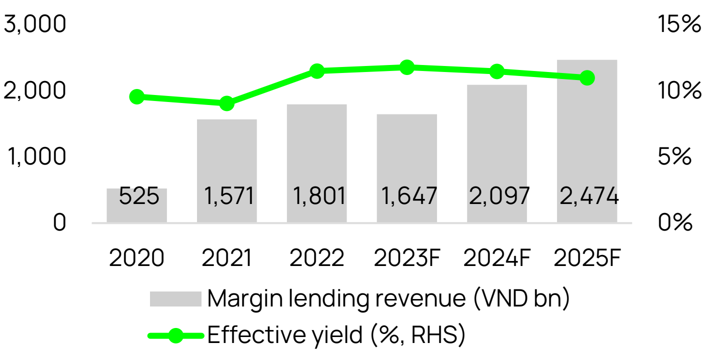
SSI is currently trading at a projected 2024F P/B of 1.9x vs its five-year average trailing P/B of 1.8x.

Figure 278: Brokerage revenue and growth



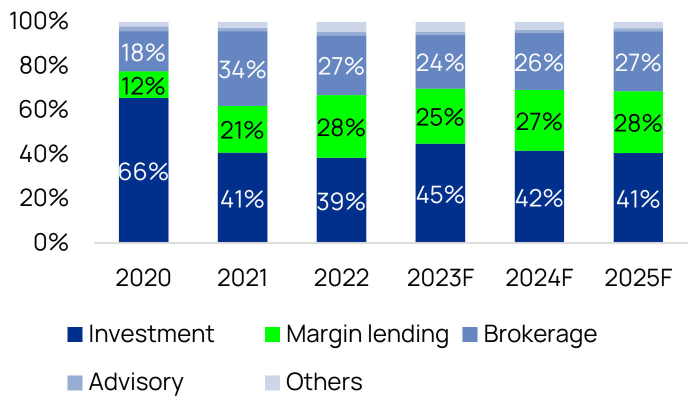
Source: SSI, Vietcap

Figure 279: Margin lending revenue and effective margin lending yield



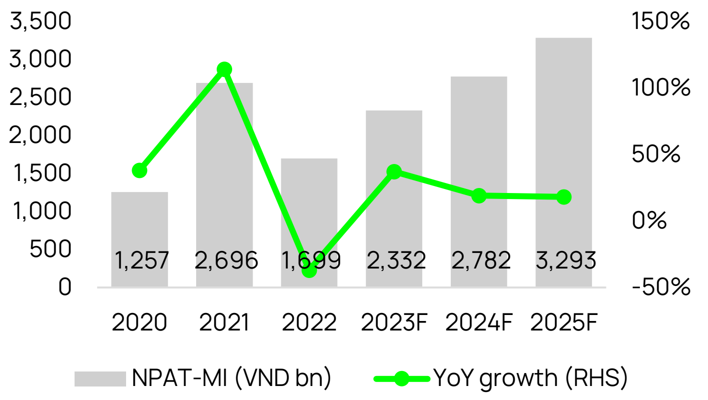
Source: SSI, Vietcap

Figure 280: Revenue mix



Source: SSI, Vietcap

Figure 281: NPAT-MI and growth



Source: SSI, Vietcap

Appendix: Company names and tickers

Code	Company name
SSI	SSI Securities Corporation
HCM	HCMC Securities Corporation
VCI	Vietcap Securities JSC
VND	VNDIRECT Securities Corporation
Mirae Asset	Mirae Asset Securities (Vietnam) JSC
TCBS	Techcom Securities JSC
VPS	VPS Securities JSC
MBS	MB Securities JSC
VPBankS	VPBank Securities JSC
BVH	Baoviet Holdings
PVI	PetroVietnam Insurance Corporation
PTI	Post and Telecommunication Joint Stock Insurance Corporation
BMI	BaoMinh Insurance Corporation
MIG	Military Insurance Corporation

Source: Vietcap

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Consumer: Leaders to spearhead recovery, new growth sectors emerging

We expect a gradual recovery in consumption in 2024, driven by more robust economic growth. We project FMCG, Information and communication technology (ICT), & consumer electronics (CE) sales to improve from the low base in 2023. We believe industry leaders are poised to spearhead this recovery, leveraging market positions that expanded during the challenging period for consumer businesses from H2 2022 through 2023.

We expect the structural trend of rising middle and affluent classes to strengthen growth in demand for jewelry and education and the shift from traditional trade to modern trade to drive growth for pharmacy and modern grocery retailers. Meanwhile, accelerating digital adoption is another secular trend that we expect to drive growth for telecom infrastructure providers.

Our top picks are strategically aligned with these secular trends and offer attractive long-term growth prospects, in our view. These are: PNJ (jewelry), MWG & MSN (minimarts), and FPT (IT services and telecom infrastructure). For relatively defensive consumer exposure, we also like SAB (beer), which has a resilient market position, solid balance sheet, and strong cash flow, VEA (automobiles) which offers attractive dividend yields, and CTR (telecom infrastructure) with solid financial position & attractive FCF yield.

Figure 282: Key data – Consumer stocks

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail. USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
VEA	BUY	1,862.4	88.5%	49.0%	848.7	0.5	34,100	42,600	09/11/2023	24.9%	12.3%	37.2%
TLG	O-PF	159.6	0.0%	100.0%	122.5	0.1	49,150	63,800	30/06/2023	29.8%	7.1%	36.9%
FPT	BUY	5,053.6	5.8%	49.0%	0.5	13.3	96,300	125,500	31/10/2023	30.3%	2.1%	32.4%
SAB	BUY	3,365.4	36.0%	100.0%	1,287.3	2.2	63,500	78,000	13/11/2023	22.8%	5.5%	28.3%
QNS	O-PF	604.9	0.0%	49.0%	199.1	1.2	45,500	51,500	29/12/2023	13.2%	4.4%	17.6%
MSN	BUY	4,073.8	0.0%	49.0%	835.1	12.8	68,900	80,400	22/11/2023	16.7%	0.0%	16.7%
MWG	BUY	2,610.6	0.0%	49.0%	125.0	18.1	43,200	50,000	17/11/2023	15.7%	0.0%	15.7%
VNM	O-PF	5,959.0	36.0%	100.0%	2,717.9	8.3	69,000	76,100	24/11/2023	10.3%	4.9%	15.2%
CTR	BUY	432	65.7%	49.0%	167.9	1.5	91,500	101,700	21/11/2023	11.1%	1.2%	12.3%
PNJ	BUY	1,165.6	0.0%	49.0%	-	5.7	86,000	92,200	02/11/2023	7.2%	2.3%	9.5%
VHC	BUY	583.5	0.0%	100.0%	397.9	3.3	62,000	65,700	28/11/2023	5.9%	3.2%	9.1%
FRT	O-PF	591	0.0%	49.0%	74.6	1.7	105,000	112,700	09/11/2023	7.3%	0.0%	7.3%
DGW	M-PF	386	0.0%	49.0%	98.1	2.8	55,900	52,600	13/11/2023	-5.9%	0.0%	-5.9%

Figure 283: Summary valuations – Consumer stocks

Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E TTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/ EBITDA 2024F x	ROE 2024F %	P/B LQ x	Net D/E LQ %
VEA	34,100	-16%	13%	4%	6.0	7.1	6.3	6.0	4.3	28%	1.8	-60%
TLG	49,150	9%	22%	17%	11.8	10.2	8.4	7.2	4.8	24%	1.8	-13%
FPT	96,300	18%	22%	25%	19.9	21.3	17.5	14.0	8.9	30%	5.2	-27%
SAB	63,500	-19%	2%	9%	19.8	19.7	19.4	17.8	9.6	18%	3.2	-82%
QNS	45,500	59%	-9%	-6%	10.8	6.8	7.4	7.9	5.9	20%	1.8	-50%
MSN	68,900	-82%	128%	97%	120.0	202.1	88.7	45.0	12.2	4%	2.6	203%
MWG	43,200	-89%	395%	72%	90.9	140.7	28.4	16.6	7.0	9%	2.7	-1%
VNM	69,000	4%	11%	5%	19.2	18.2	16.4	15.5	9.0	32%	4.7	-55%
CTR	91,500	15%	18%	27%	21.1	24.4	20.7	16.3	9.2	28%	5.7	-6%
PNJ	86,000	-1%	9%	15%	16.1	16.7	15.3	13.2	10.8	20%	3.0	3%
VHC	62,000	-42%	56%	23%	10.1	9.9	7.1	5.8	5.1	20%	1.7	8%
FRT	105,000	-152%	-170%	262%	N.M.	-72.5	103.4	28.5	23.3	8%	8.0	237%
DGW	55,900	-46%	15%	25%	21.7	24.3	21.2	16.9	17.7	15%	3.5	18%

Source: Vietcap. Data as of December 29, 2023

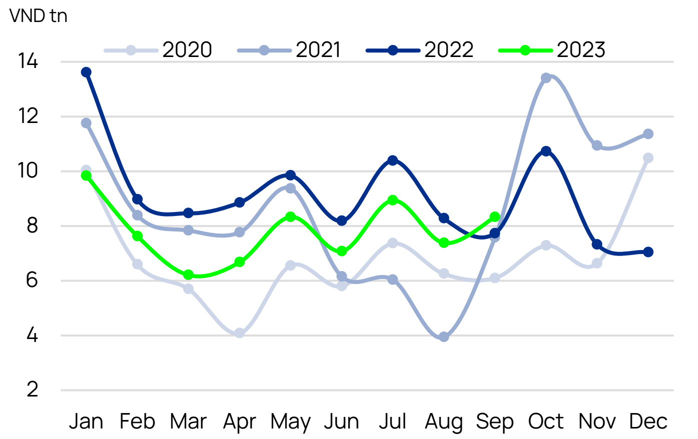
Vietcap

Key sector trends and outlook

Consumption downturn bottoms out; early signals suggest gradual recovery

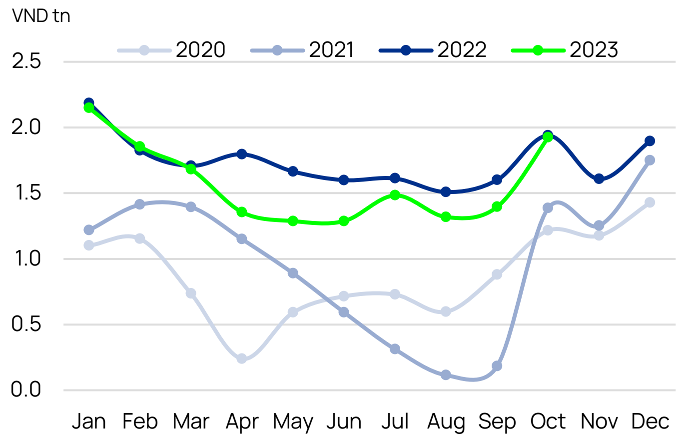
A slowdown in manufacturing and tighter financing conditions dampened consumption. Lower export demand from the US and EU, coupled with tighter financing conditions from rising interest rates and stricter credit appraisal standards for unsecured loans in Vietnam during late 2022 and early 2023, dampened household income and consumption in Vietnam, especially in the low to middle-income segments. In general, Vietnamese consumers became more discerning and value conscious as a result, leading to declines in sales of most discretionary products. For example, in 9M 2023, Vietnam's smartphone sales declined 17% YoY, the volume of new passenger cars sold dropped 19% YoY, and SAB's beer revenue declined 12% YoY. Growth of some consumer staples was also dampened, e.g., VNM's liquid milk sales declined ~6% YoY in 9M 2023. On the other hand, PNJ's retail sales of jewelry declined by only 11% YoY in 9M 2023 after surging 80% YoY in 2022, which we partly attribute to (1) relatively resilient demand for gifts to celebrate important moments and achievements and (2) distinctly lower reliance on consumer finance for jewelry purchases than for ICT & CE purchases. Meanwhile, pharmaceutical sales have weathered the economic slowdown well as demand for medicine is relatively inelastic.

Figure 284: Vietnam's monthly smartphone sales



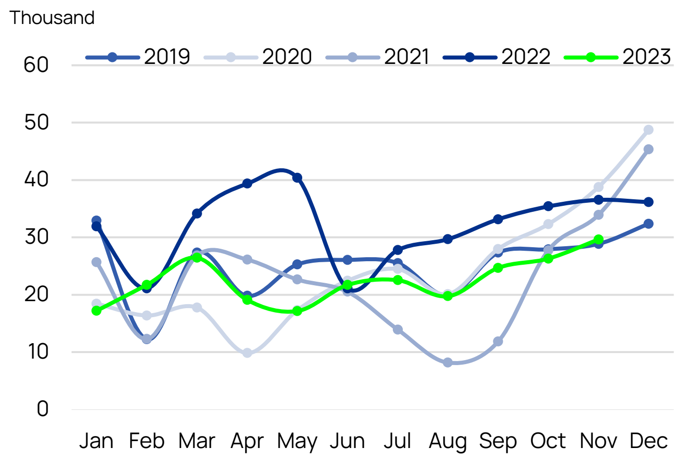
Source: Gfk, Vietcap

Figure 285: PNJ's monthly revenue from retail sales



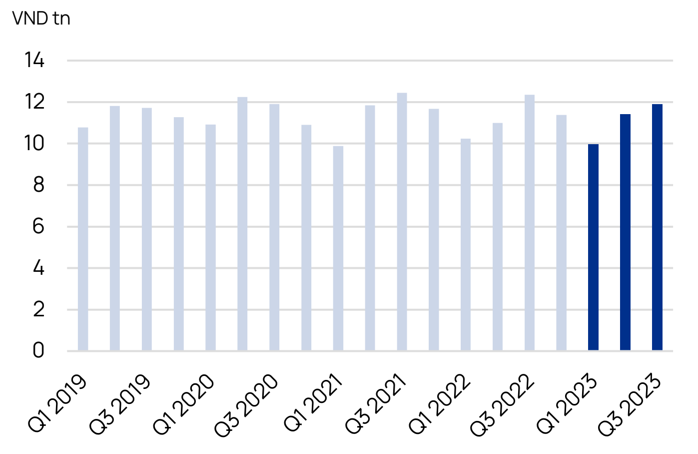
Source: PNJ, Vietcap

Figure 286: Vietnam's monthly sales volume of passenger cars



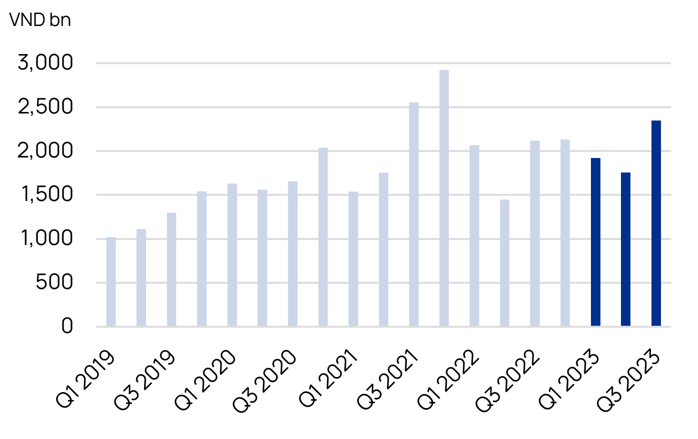
Source: Vietnam Automobile Manufacturers' Association (VAMA) and Hyundai Thanh Cong, Vietcap

Figure 287: VNM's quarterly parent domestic revenue [1]



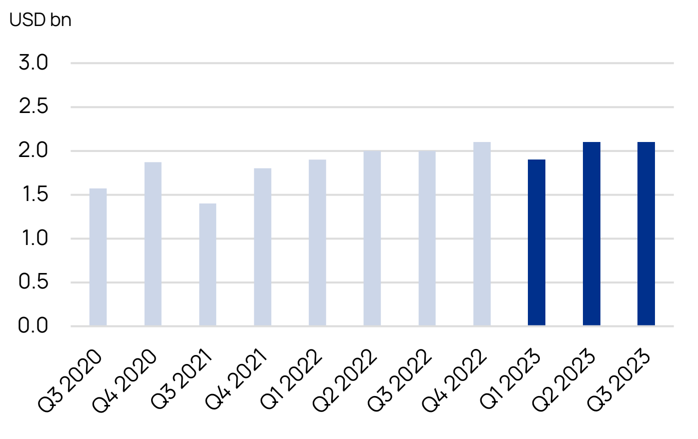
Source: VNM, Vietcap, [1]Combined sales of condensed milk, liquid milk, infant formula milk, yogurt, beverages, & others.

Figure 288: MSN's quarterly revenue from instant noodles



Source: MSN, Vietcap

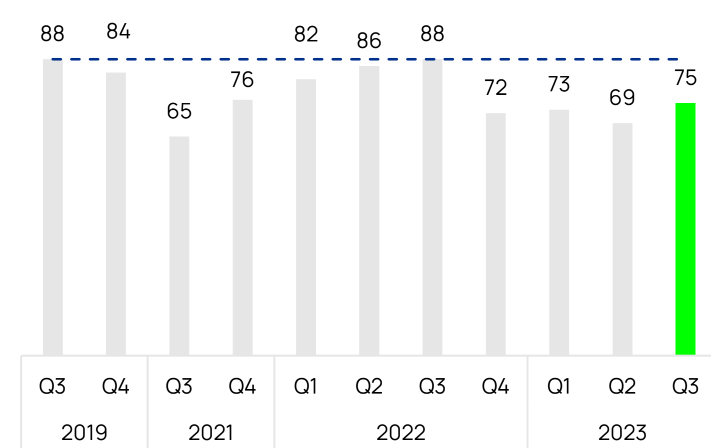
Figure 289: Vietnam's quarterly pharmaceutical sales



Source: IQVIA, Vietcap

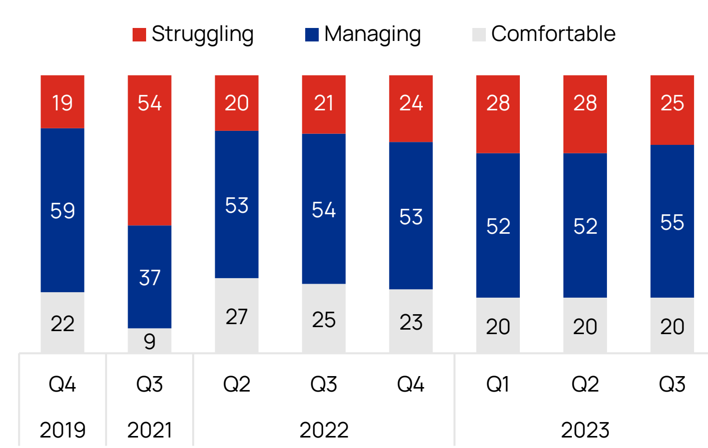
Early signals suggest a gradual recovery in 2024. Most consumer products witnessed troughs in sales in Q2 – Q3 2023 and began to see improving momentum from September 2023. A consumer sentiment survey by Kantar Worldpanel showed improvement in Q3 2023 compared to H1 2023, albeit trailing behind 2022 levels (**Figures 290, 291**). In addition, the IIP for the manufacturing sector continued to improve, increasing 6.3% YoY in November, and lifting 11M 2023 growth to 1.1% YoY. Furthermore, the textile and wooden products companies under our coverage have recently begun to see a gradual recovery in orders. However, S&P Global's Vietnam Manufacturing PMI dropped to a five-month low of 47.3 in November 2023 from 49.6 in October, signaling a monthly deterioration of business conditions in the manufacturing sector. With diverging signals from these different data sets, we expect a modest recovery in the labor market and a gradual improvement in household incomes and consumer spending in 2024.

Figure 290: Consumers' outlook for the next 12 months



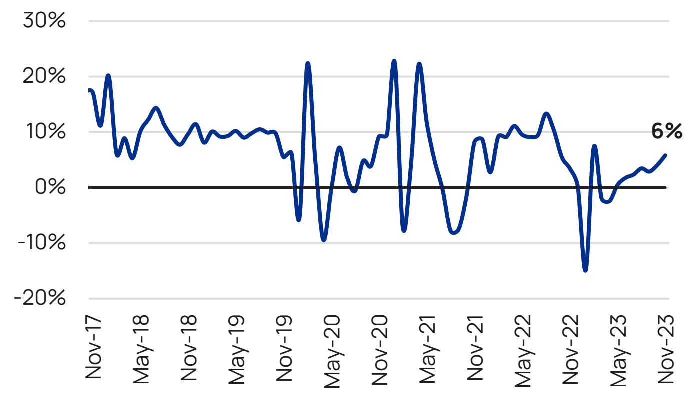
Source: Kantar Worldpanel Division, Consumer confidence survey in Vietnam in four key cities. Survey query: "The economic situation will be better or the same as today in the next 12 months"

Figure 291: Consumers' financial situation



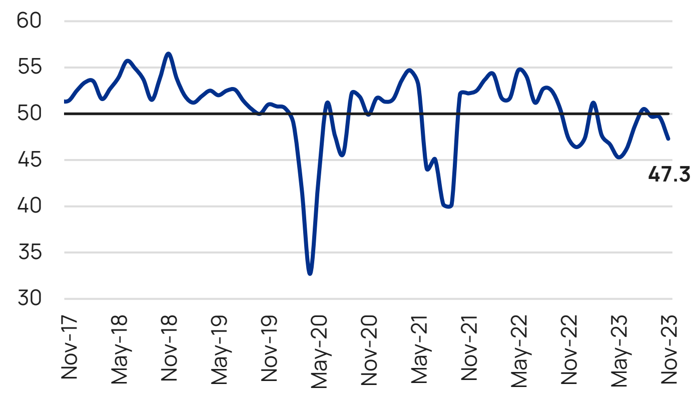
Source: Kantar Worldpanel Division, Consumer confidence survey in Vietnam in four key cities. Survey query: "How do you evaluate the current financial situation of your household?"

Figure 292: YoY growth in Index of Industrial Production (IIP) in November reached the highest level since February



Source: GSO, Vietcap

Figure 293: S&P Global's Vietnam Manufacturing (PMI) in November dropped to a five-month-low



Source: GSO, Vietcap

Government support measures lay foundation for recovery in 2024

A modest recovery in 2024 from a low base in 2023, supported by fiscal measures. We expect consumption to be further encouraged by the Government's support measures in 2024. First, an extension of a reduced rate of VAT has been approved by the National Assembly and will be effective throughout H1 2024. Second, public sector salary reform will be effective starting from end-June 2024. We believe that these measures will help to stimulate demand, especially amongst mass consumers, by (1) stabilizing prices of goods & services and (2) improving consumer income in aggregate. We expect that retailers and manufacturers under our coverage will benefit directly, including MWG (Bach Hoa Xanh), MSN (excluding MHT), VNM, and QNS.

Figure 294: Supportive measures for consumption in 2023-2024

2023	2024	
Policy rate cut by ~150 bps	**Extension of VAT deduction** *Effective from Jan 1 - Jun 30, 2024*	**Public sector salary reform[1]** *Effective from Jul 1, 2024*
VAT cut by 2% *From Jul – Dec, 2023*	The VAT cut could directly **benefit Bach Hoa Xanh (MWG), MSN (excluding MHT), VNM, QNS, and PNJ.**	To enhance civil servants' income and quality of life, boost labor productivity, and support economic growth.
Car registration cut by 50% *From Jul – Dec, 2023*		

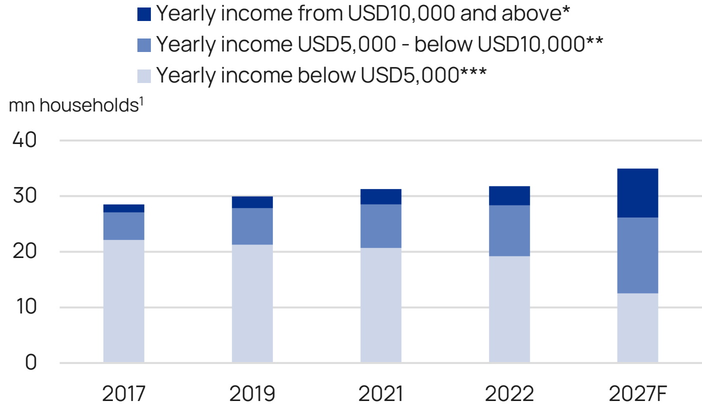
Source: Vietcap compilation, [1]Please refer to our Macro Flash Note "Salary reform to boost GDP growth"

Structural trends to support recovery and long-term growth of modern trade, discretionary spending, and technology players

Long-term growth in middle-income and affluent classes remains intact

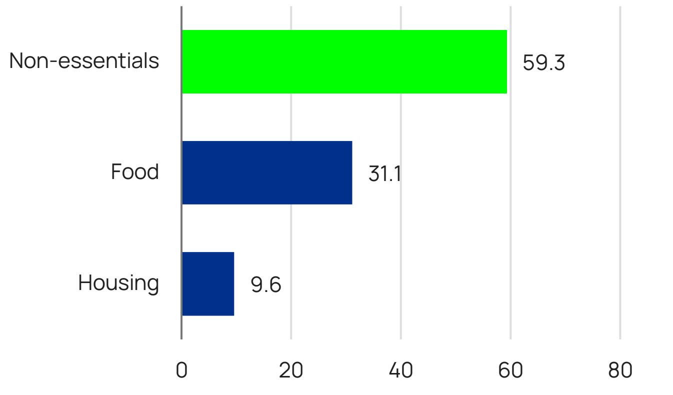
Rise of the middle-income and affluent classes to foster growth in discretionary consumption. Fitch Solutions forecasts that the number of middle-income households in Vietnam (i.e., those with a yearly income of USD10,000 and above) will increase at a 2022-2027 CAGR of 20% and account for 26% of total households by 2027 vs 11% in 2022. As incomes increase, we expect Vietnamese consumers to increasingly prefer higher-quality products/services. For exposure to this theme, we like (1) technology leader FPT, which has exposure to private education from K-12 to vocational and university training, and (2) jewelry leader PNJ, which owns a full value chain of fashion jewelry manufacturing and retailing.

Figure 295: Vietnam's consuming class has doubled over the past five years



Source: FitchSolutions, Vietcap ([1] A Vietnamese household has two working adults on average; * established consuming class; ** consuming class, *** below consuming class)

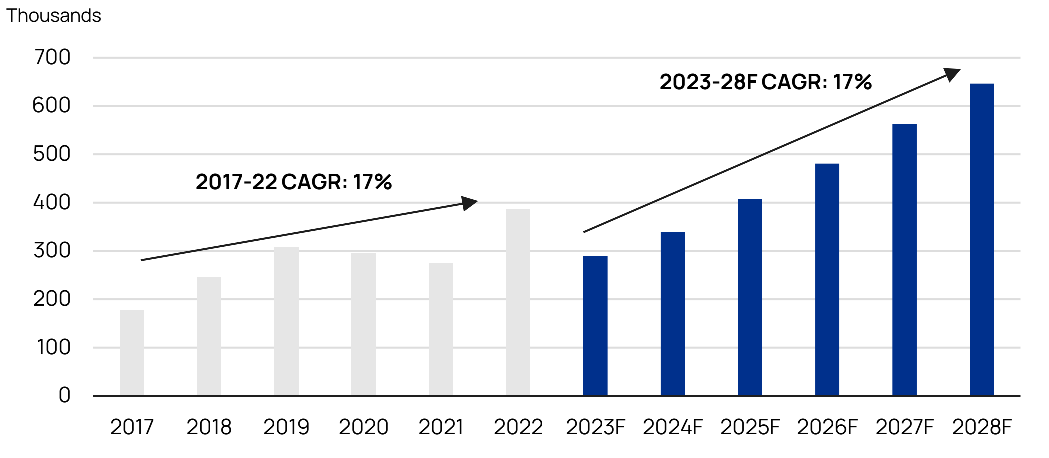
Figure 296: Spending per household as % of total consumer expenditure in 2022



Source: Euromonitor, Vietcap

Passenger car sales volume is poised for double-digit annual growth in 2023-28F. Passenger cars' popularity has risen as an emerging transportation means for the Vietnamese middle class backed by rising disposable incomes. However, as of 2022, there were only 5.3 cars per 100 people in Vietnam, per data from Vietnam Register, which we believe indicates broad growth headroom over the long term for car sales fueled by growing incomes and public infrastructure development. We project car sales volume to grow 17% YoY in 2024 and return to the 2022 level in 2025, as a result of stronger confidence amongst affluent consumers supported by recovery in the housing and equity markets. We project 17% CAGR in car sales volume over 2023-28, implying sales of 647k units in 2028.

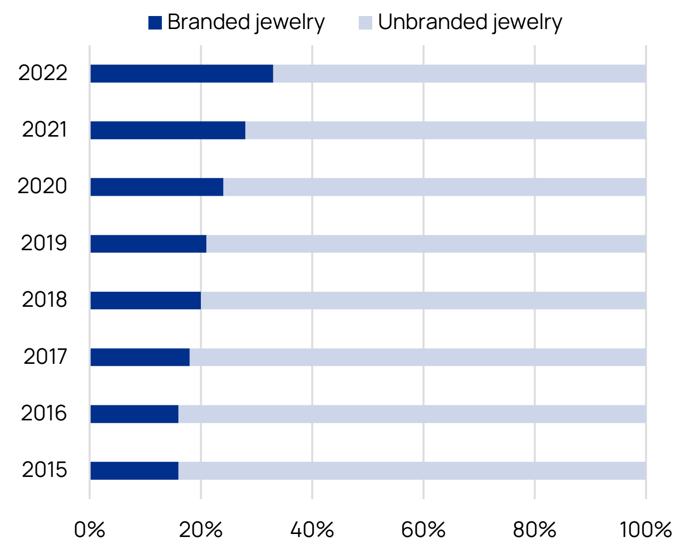
Figure 297: Passenger car industry[1] retail sales volume forecast



Source: VAMA, Hyundai Thanh Cong, Vietcap. [1]Excluding Mercedes and Vinfast

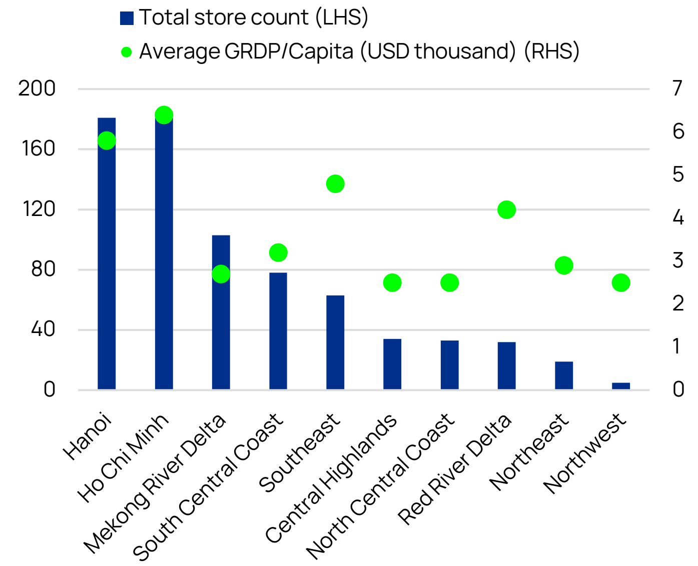
Vietnam's growing middle-income class to increasingly favor buying jewelry from reputable brands vs unbranded 'mom-and-pop' stores. Despite significant growth in the market share of branded jewelry, unbranded mom-and-pop stores still accounted for 67% of Vietnam's jewelry market in 2022 (vs 82% in 2017), according to Euromonitor. We project a retail revenue CAGR of 16% for PNJ in 2023-28F given ample headroom for the expansion of branded jewelry and PNJ's superior capabilities vs its competitors in terms of design, production, and execution.

Figure 298: Growth in branded jewelry's market share



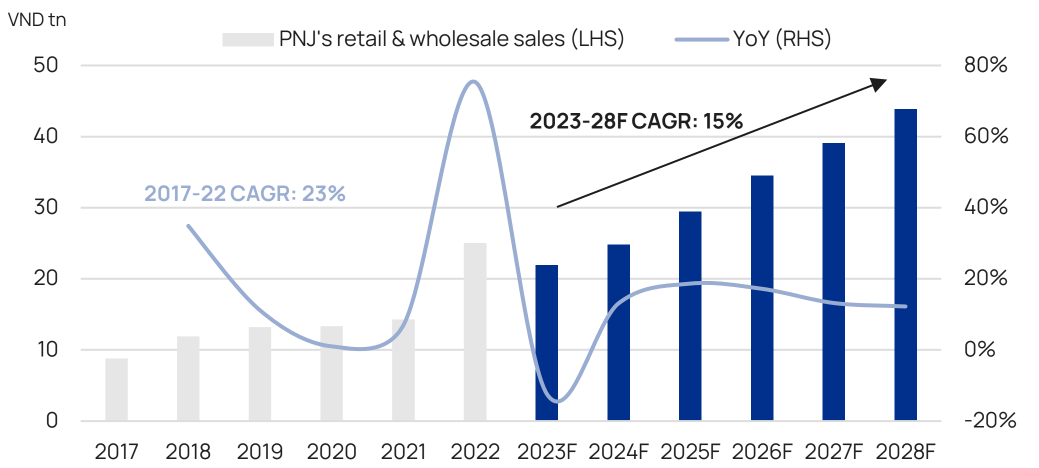
Source: Euromonitor, Vietcap

Figure 299: Modern jewelry store[1] presence by region



Source: GSO, Company disclosure, Vietcap ([1]Total store number of PNJ, DOJI, SJC, and other modern players)

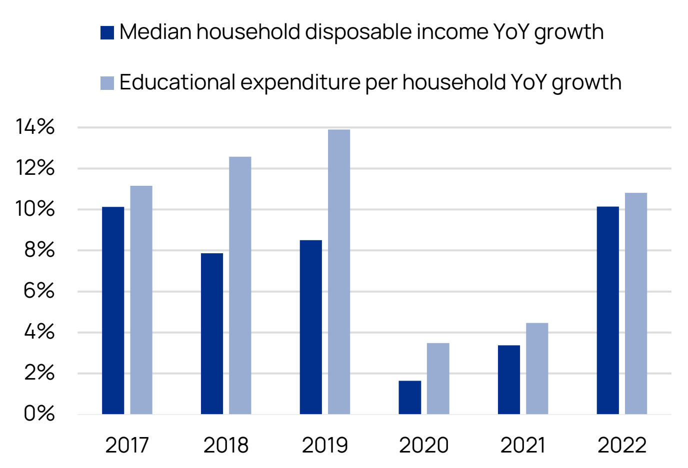
Figure 300: PNJ's jewelry retail and wholesale revenue



Source: PNJ, Vietcap forecasts

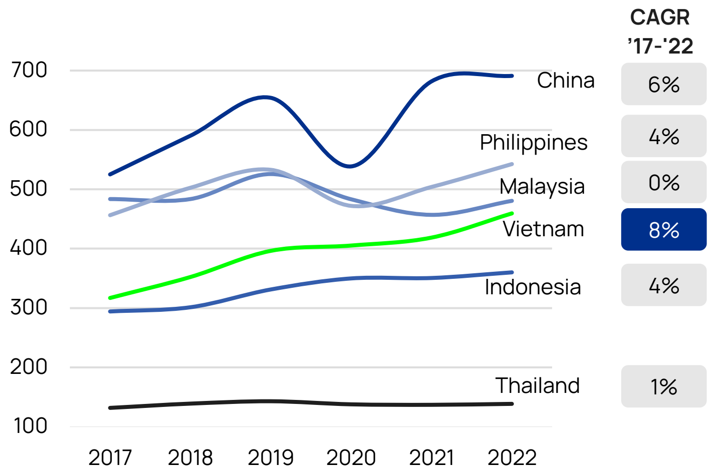
Vietnamese households' educational spending growth outperforms other Asian countries. Vietnamese households' median disposable income enjoyed a 2017-22 CAGR of 6%, according to Euromonitor. Growth in accumulated savings per household allowed Vietnamese people to spend more on education, which grew at an 8% CAGR in 2017-22, stronger than the growth of median household disposable income in the same period (**Figure 301**) and that of other countries in Southeast Asia (**Figure 302**). This indicates that Vietnamese parents are increasingly concerned about and willing to invest in education and suggests demand for education in Vietnam may be relatively inelastic.

Figure 301: Vietnamese households' expenditure on education grew faster than disposable income



Source: Euromonitor, Vietcap estimates

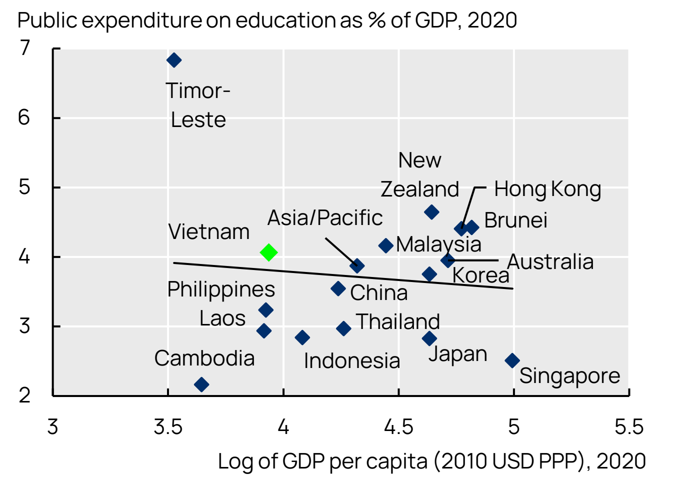
Figure 302: Consumer expenditure on education per household (USD)



Source: Euromonitor, Vietcap estimates

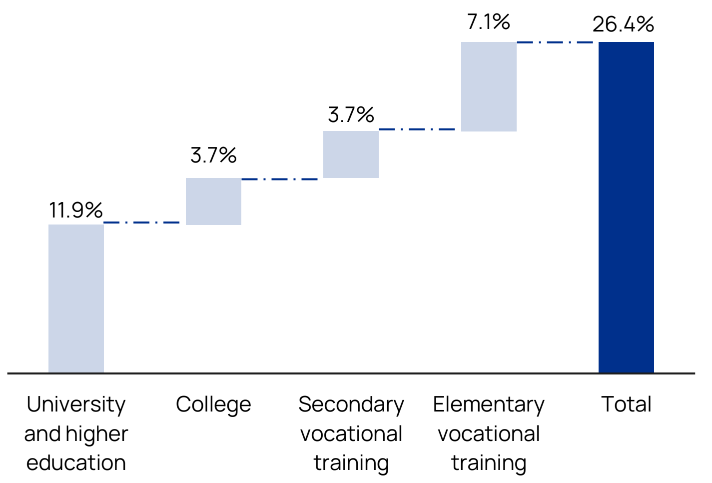
The Government has actively supported the education sector to improve the quality of labor in the workforce. Vietnam's state budget for education is relatively high compared to the country's GDP per capita and to that of other countries in the region. We believe this is driven by the Government's intention to support a shift from unskilled labor towards a labor force with advanced skillsets. However, the number of trained workers in Vietnam remains low at 26.4% of total labor. There is anecdotal evidence of labor shortfalls across industries in Vietnam, for example, local press reports suggest that the ICT industry lacks 150,000 workers annually and the logistics industry lacks 200,000 workers annually.

Figure 303: Government expenditure on education as a % of GDP in select countries



Source: OECD, World Bank, Vietcap

Figure 304: 2022 trained workers[1] by education level, as % of total workers

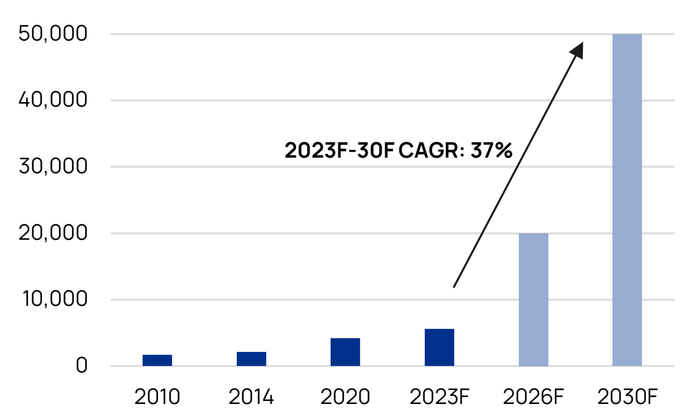


Source: GSO, Vietcap. [1] workers at 15 years old and above

We believe there is ample growth headroom for private education. Vietnam's Ministry of Education and Training (MOET) has endorsed a strategy since 2017 that encourages training institutions to offer courses according to business and societal needs and work closely with enterprises to improve practical skills. However, in Vietnam, national curricula are mandatorily required to be revised once every five years, which implies that learning outcomes in public schools may not be able to keep pace with changes in the labor market. Therefore, we believe private schools and institutions, which have more flexibility in providing customized curricula and allocating capital resources, can capture the rising need for high-quality and up-to-date training from the current competitive skilled labor market.

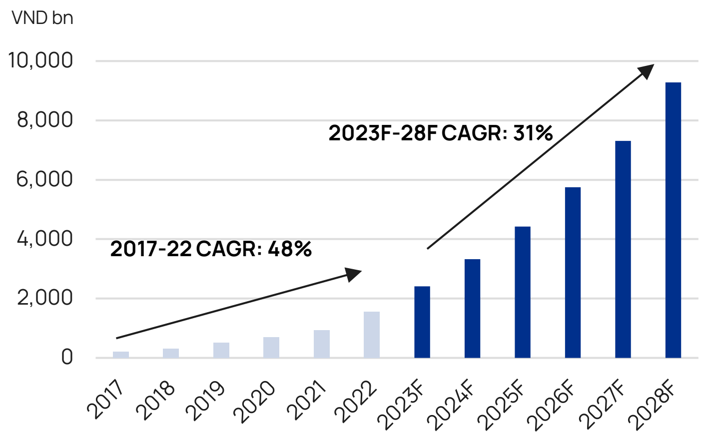
Vietnam's large corporations, including listed technology conglomerate FPT, have increasingly invested in educational business. Due to skilled labor shortages, large companies such as FPT have invested in training its own human resources. Apart from being the key labor source for FPT's Global IT business, its education division is a fast-growing business with 44% CAGR in new enrolments in 2017-22 and is among the top schools in Vietnam that can deliver quality IT training to students. We project FPT's new enrolments will grow at a CAGR of 31% in 2023F-28F, with a corresponding PBT CAGR of 31% in the same period.

Figure 305: Number of semiconductor engineers in Vietnam (Government guidance for 2023-2030)



Source: VNIC, Vietcap

Figure 306: FPT Education's PBT growth

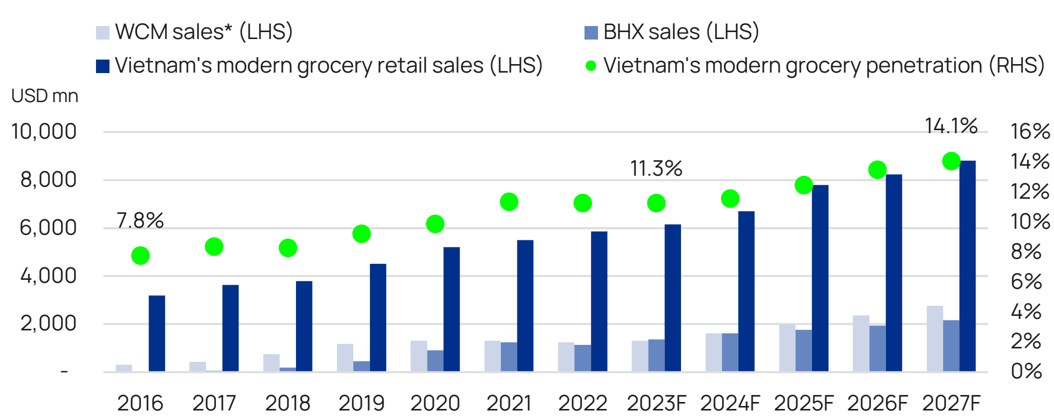


Source: Vietcap's estimates and forecasts

Growth headroom remains ample for grocery from the shift from traditional to modern trade

More prudent expansion by minimart players with focus on fine-tuning operational efficiency. The minimart channel remains the key driver of the resilience of modern grocery retailing in 2023. Bach Hoa Xanh (BHX) and WinCommerce (WCM) maintained their leading positions despite headwinds for the sector in 2023. While BHX closed roughly 20 stores in the first half of 2023, WCM has decelerated its store expansion to reinvest in store renovations.

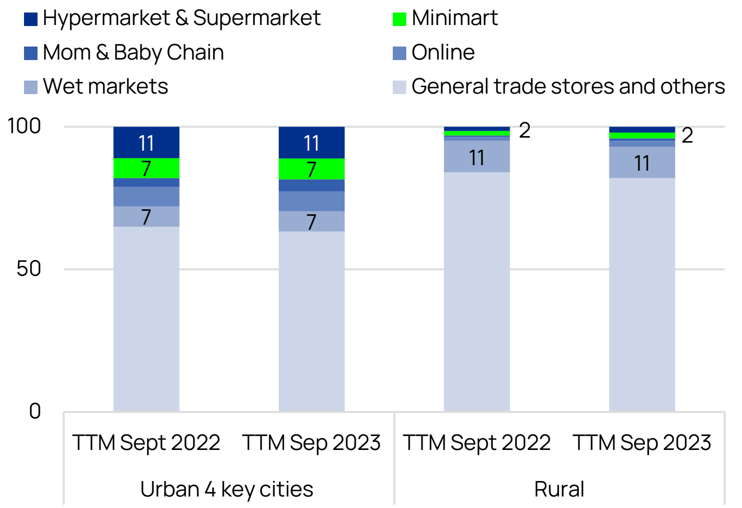
Figure 307: Growth and penetration of modern grocery retailing in Vietnam



Source: Euromonitor, Vietcap (* WinMart+'s sales contributed 67-68% to 2021-2022 WCM's sales)

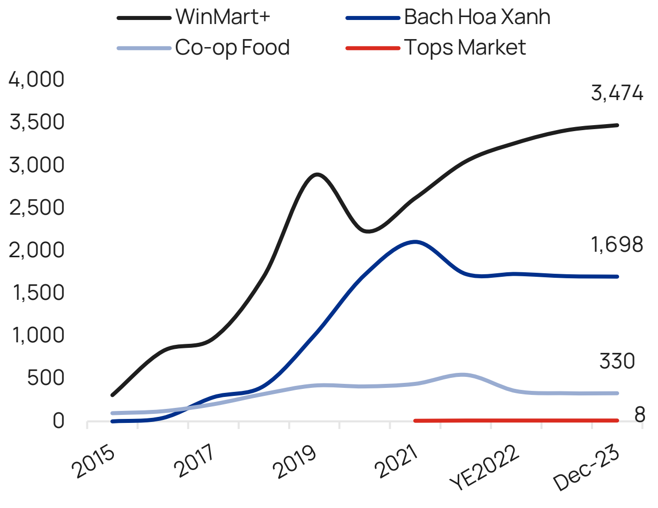
Vietcap

Figure 308: Steady growth in minimarts' share in consumer spending (% value contribution)



Source: Kantar World Pannel - Urban 4 key cities and Rural in Vietnam, Vietcap

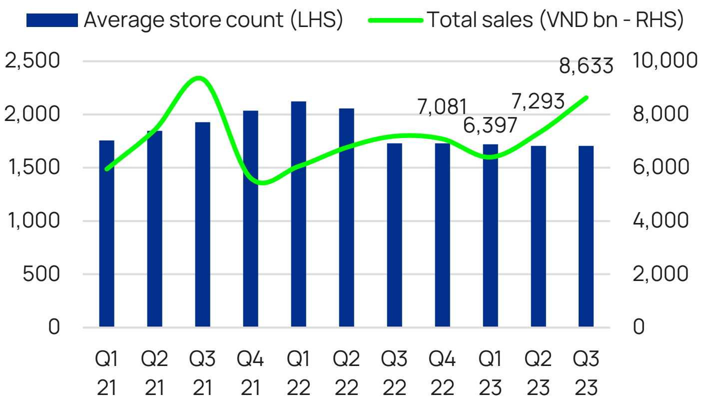
Figure 309: WCM & BHX have sustained their leadership in terms of number of stores



Source: GSO, Company disclosure, Vietcap

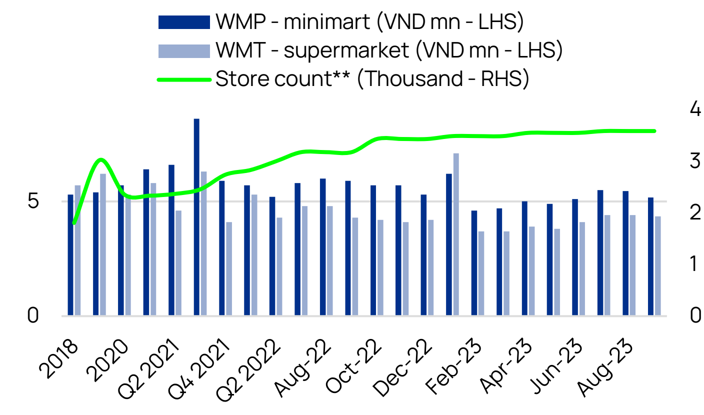
Leading minimart players are getting nearer to bottom-line profitability after a period of restructuring. BHX has managed to regain traffic growth after undergoing aggressive restructuring since H2 2022, while WCM has implemented a store renovation process to cater to customer preferences since early 2023. Both leading players have been enhancing the presence and/or quality of fresh produce in their product offerings, which we believe is key to driving sales and retaining customers. BHX has widened the variety and enhanced the localization of fresh products thanks to its increased scale, which allows it to buy substantial volumes from its agricultural suppliers. This has led to more vibrant store traffic that drives regular restocking of products, hence improving freshness. Meanwhile, WCM has upgraded a significant number of its WinMart+ urban stores to Win stores due to the superior performance of the latter, including (1) 7% higher sales/sqm with a relatively similar store EBITDA margin to the former and (2) a stronger revenue contribution from its membership program. We believe the key reason for better performance of Win stores in comparison with Winmart+ alternatives has been the former's higher proportion of fresh produce in the sales mix. In addition, both BHX and WCM have introduced attractive promotions and membership discounts on fresh produce throughout the year. Better same store sales growth coupled with cost-saving measures have led to improved profitability for both players.

Figure 310: BHX's total sales improving



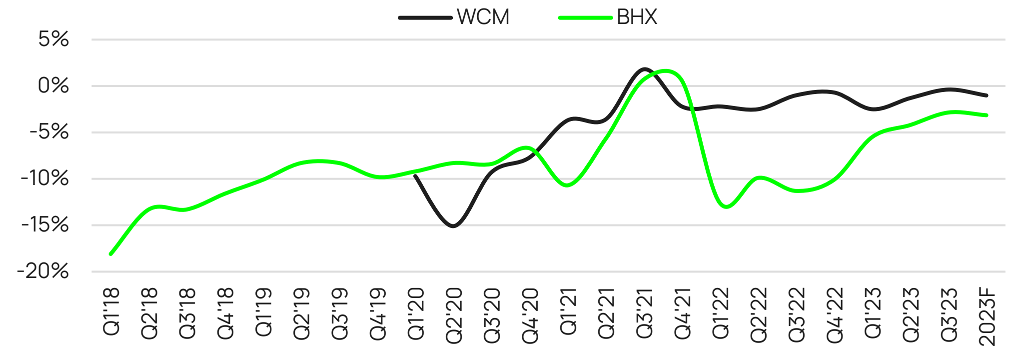
Source: Company disclosure, Vietcap

Figure 311: WCM's average monthly LFL[1] sales/sqm



Source: Company disclosure, Vietcap ([1] LFL stores in year X are stores that opened before year X-1 and fully operated in year X and year X-1; **end-of-quarter store count)

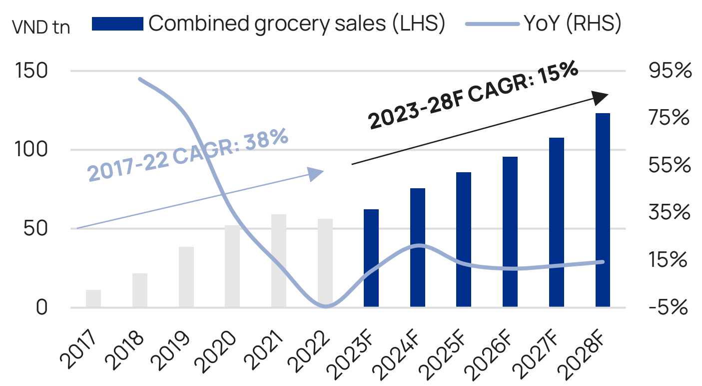
Figure 312: EBIT margins of WCM and BHX



Source: Company disclosure, Vietcap

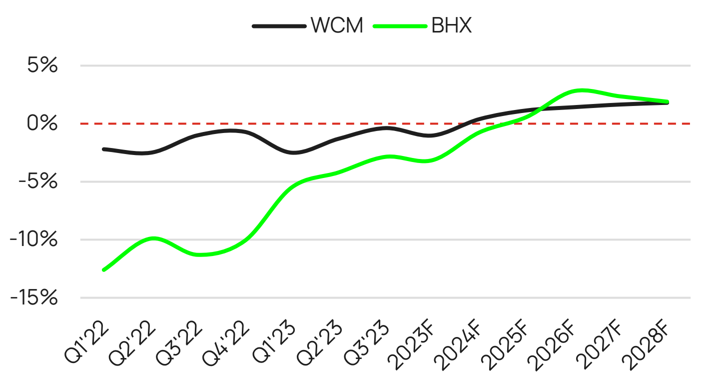
Medium-term growth to be supported by rising urbanization, growing middle-income class, and increasingly discerning consumers. As the share of modern trade grows, we expect more rapid expansion from minimart formats than super/hypermarkets. As Vietnamese shoppers have a higher rate of motorbike ownership than their counterparts in Southeast Asia, Vietnamese shoppers tend to favor stores near their homes that offer a wide and value-for-money product assortment for daily needs, and they also make more frequent store visits for smaller individual purchases. As such, we believe minimarts will cater more effectively to Vietnamese consumers' needs in the medium term. Following both WCM's and BHX's improvements in operational efficiency in H2 2023, we expect WCM and BHX to deliver full-year net profits in 2024F and 2025F, respectively. We forecast BHX's net loss to narrow by 71% YoY in 2024 to VND284bn (with a net margin of -0.8%) and to contribute VND234bn of net profit to MWG in 2025. We expect store renovation, expansion, and gross margin progress will drive WCM's performance in 2024F-26F. From its current network of 3,474 minimarts, we expect WCM to add 500 new minimarts p.a. (including 100 new Win stores) in 2024F/25F and 600 new minimarts (including 200 new Win stores) in 2026F. We forecast low-to-high teens SSSG in 2024F-25F, and a 70-100 bps YoY increase in GPM p.a. due to larger scale. These factors underpin our forecast for EBIT margin to improve from -1.0% in 2023 to 0.4% in 2024 and 1.2% in 2025. We assume a terminal EBITDA margin of 7% for both chains (vs. the median 3Y average for Asian peers of 8%).

Figure 313: Combined grocery sales [1]



Source: Company disclosure, Vietcap forecasts, [1] Total sales of BHX and WCM

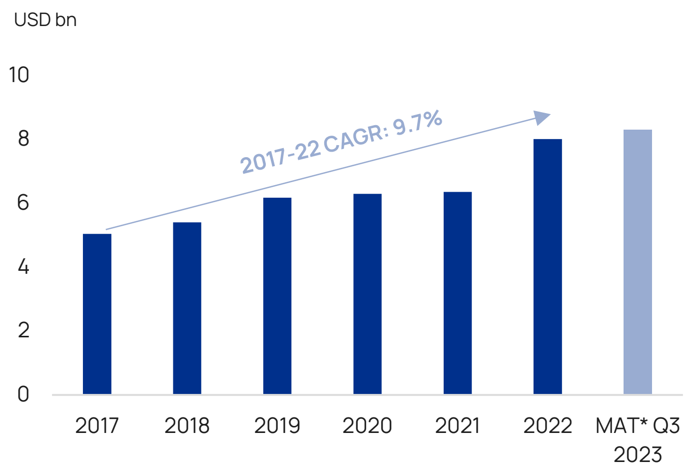
Figure 314: EBIT margins of WCM and BHX



Source: Company disclosure, Vietcap forecasts

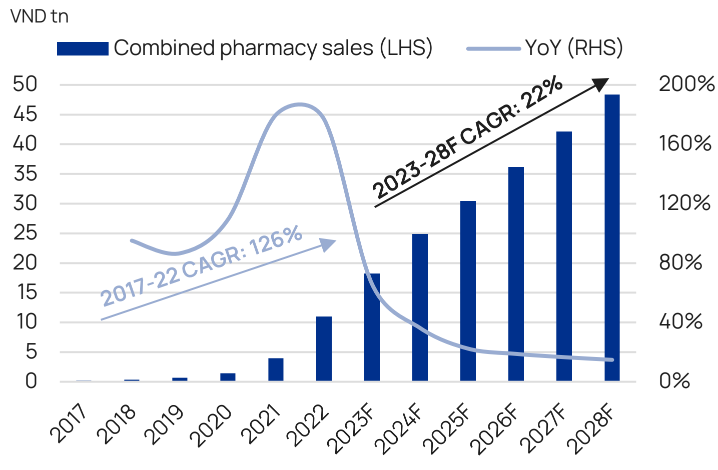
Vietnam's pharmaceutical sector is set for sustained growth, fueled by rising non-communicable diseases, a gradually growing aging population and rising incomes. IQVIA estimates pharmaceutical sales reached USD8bn in 2022, growing at a 9.7% CAGR from 2017-2022. Despite lower per capita spending at USD81 compared to China's USD116 and the regional average of USD97, we expect rising incomes in Vietnam to boost pharmaceutical expenditure in the medium term. Cimigo projects that the 50-and-older demographic will increase from 26% in 2022 to 36% of the population in 2036, driving gradual demand for healthcare.

Figure 315: Vietnam's pharmaceutical sales



Source: IQVIA, Vietcap compilation (* Moving annual total)

Figure 316: Combined pharmacy sales [1] under coverage

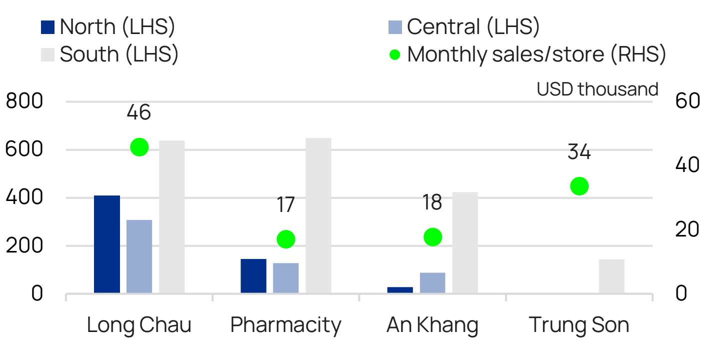


Source: Company disclosure ([1] Combined sales of Long Chau and An Khang – historical data and Vietcap's forecasts)

Sales growth of modern pharmacy chains to outperform the overall sector due to escalating market consolidation. Vietnam only has one modern pharmacy for every 38,300 people, in contrast to China where one modern pharmacy serves approximately 4,000 people. We believe modern pharmacies will drive market consolidation and grow their market share from 11% as of the end of Q3 2023 and will play a leading role in standardizing drug quality in line with the Government's 'Good Pharmacy Practices' requirements. We forecast total revenue of modern pharmacy chains in Vietnam to grow at a CAGR of 25% during 2023F-2027F.

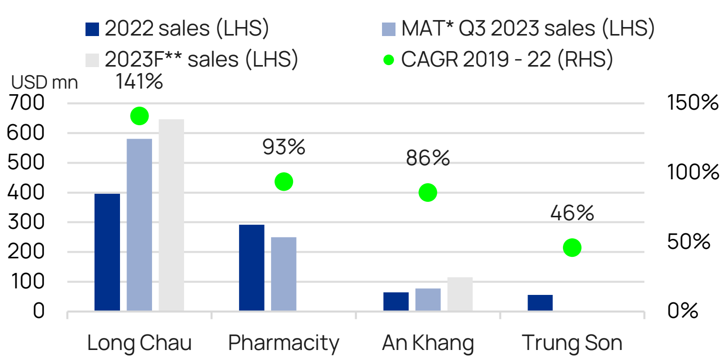
Long Chau (LC) is well-positioned to be the long-term champion in modern pharmacy retailing in Vietnam. Currently outperforming key competitors Pharmacity, MWG's An Khang, and Trung Son, LC boasts the largest store count, extensive geographic coverage, superior sales per store, and highest profitability. As the pioneer in drug-focused modern pharmacy retailing, LC has capitalized on customer acquisition opportunities, particularly during the COVID pandemic. As a result, we believe that LC can sustain its leading position while other competitors face challenges in strategy and/or higher customer acquisition costs.

Figure 317: Top players' store count and sales/store[1]



Source: Company disclosure, Vietcap compilation and estimates ([1] Data as of December 2023)

Figure 318: Top players' sales and growth comparison

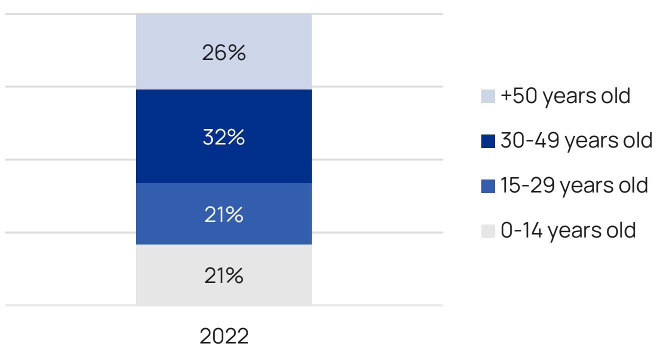


Source: Company disclosure, Vietcap compilation and estimates (* Moving annual total — data unavailable for Trung Son, ** Vietcap forecasts — data unavailable for Pharmacity and Trung Son)

Rapid growth in digital adoption to continue in the medium term

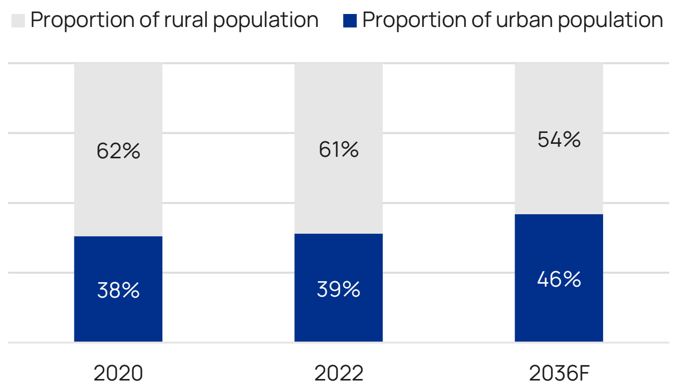
Growth in young, urbanized, and tech-savvy consumers is driving digital consumption, which implies substantial demand for data center provider FPT and towerco operator CTR. We believe rising digital consumption is a key secular trend for the Vietnamese consumer sector in the long term. This trend is bolstered by (1) growth in non-essential spending from a wealthier population, (2) strong internet and smartphone penetration rates supported by Vietnam's current young and tech-savvy demographics, and (3) rapid urbanization that allows improving infrastructure and nationwide access to digital products/services. As of YE2022, Vietnam's internet users amounted to 78mn people, accounting for 79% of the total Vietnamese population, in which 70mn are active social media users, per market research companies 'We Are Social' and 'Hootsuite.' According to projections from Google, Temasek, and Bain & Company, Vietnam's gross merchandise value (GMV) of the digital economy and e-commerce will grow at 2023-2025 CAGRs of 20% and 22%, respectively. We believe this high level of online engagement and spending in Vietnam will continue and put data center and IT service provider FPT, and towerco lessor CTR in solid positions to tap increasing demand from consumers and corporates for higher Internet speeds and lower latency.

Figure 319: Vietnam's current young population structure drives rapid digital adoption



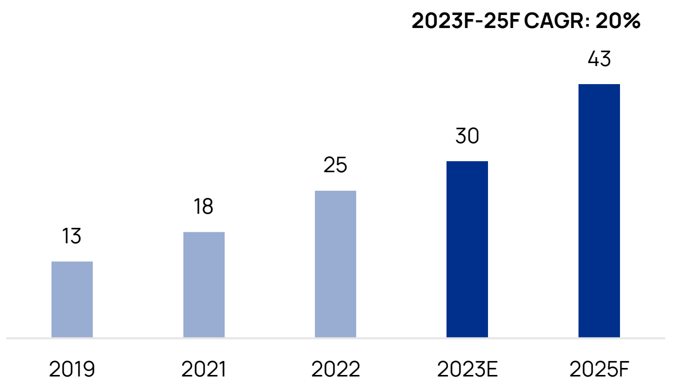
Source: Cimigo, GSO, Vietcap

Figure 320: Rapid urbanization drives modernization



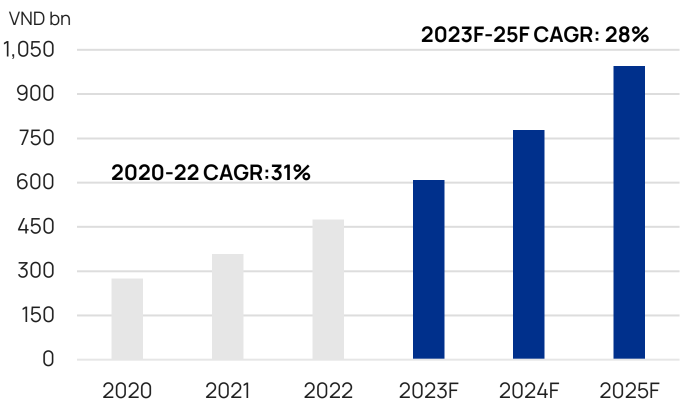
Source: Cimigo, GSO, Vietcap

Figure 321: Vietnam's digital economy, gross merchandise value (GMV) (USD bn)



Source: Google, Temasek, Bain & Company, Vietcap

Figure 322: FPT's data center revenue growth to benefit from robust cloud computing demand in Vietnam

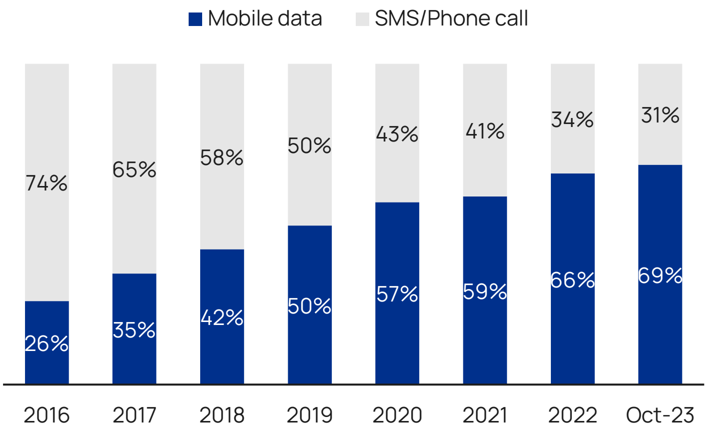


Source: FPT, Vietcap's forecasts

The 2G shutdown, in-line with the 'National Digital Transformation master plan with vision to 2025,' should benefit companies in the technology value chain. According to Vietnam's Digital Transformation Masterplan 2025, the Government targets the digital economy's share of GDP to increase from 5% in 2019 to 20% in 2025, which requires stronger 4G/5G penetration in

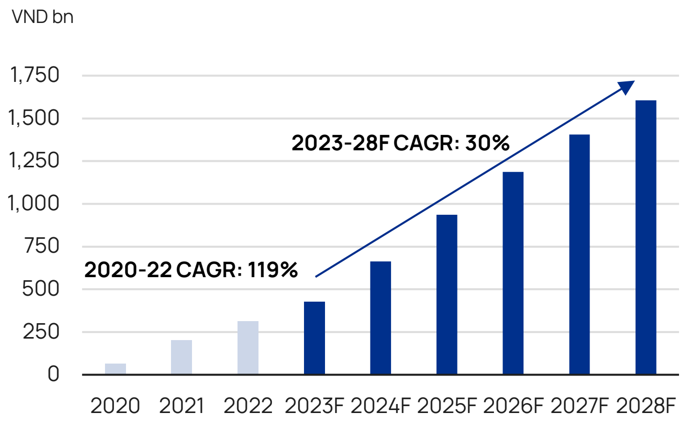
Vietnam (**Figure 323**). As part of that program, the Ministry of Information and Communications (MIC) announced that it will switch off 2G signal stations in September 2024 to facilitate faster and more energy-efficient 4G/5G services. Accordingly, we believe this will drive the current 15 million 2G-only mobile users in Vietnam (according to Telecommunication Authority data) to upgrade their hardware devices to 4G and 5G internet services. This implies that leading towerco lessor CTR will enjoy robust tower station demand from its telco parent company Viettel, as Viettel needs to increasingly invest in 4G coverage in rural areas to replace 2G stations. In addition, we believe CTR's revenue outlook will also be boosted by Viettel and other players gradually inactivating their 3G stations in inefficient areas to develop 4G and 5G. We also expect ICT distributors and retailers such as DGW, MWG, and FRT to enjoy a structural shift in demand from 'feature phones' (which retail at around VND1mn per unit and comprise 18% of total phone sales in Vietnam per GFK) to low-price smartphones (which retail at VND2mn-3mn per unit and comprised 10% of Vietnam's total phone sales volume in 2022 per GFK).

Figure 323: Mobile data subscriber penetration implies headroom for further growth after 2G shutdown



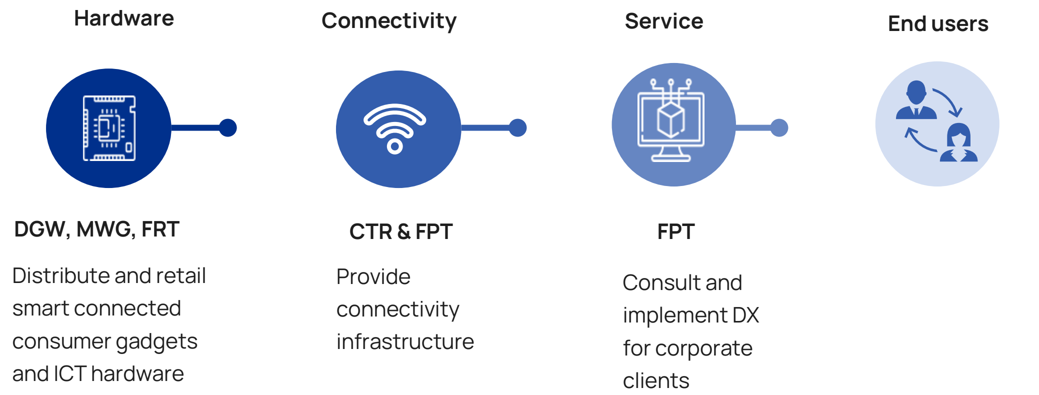
Source: Ministry of Information and Communication

Figure 324: CTR's towerco revenue to grow strongly in 2023F-28F



Source: Vietcap forecast

Figure 325: Select listed companies involved in the value chain of new technologies

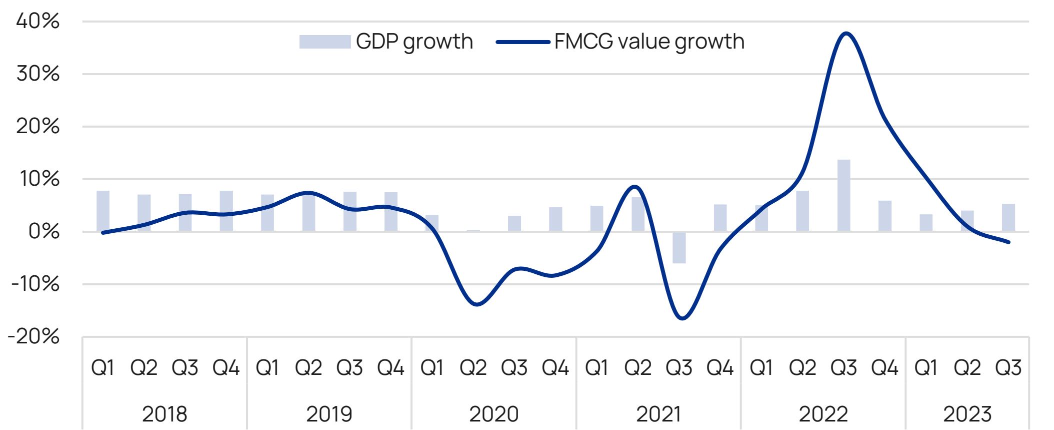


Source: Vietcap

Stronger economic growth in 2024 to stimulate gradual recovery in mature FMCG, ICT & CE retailing

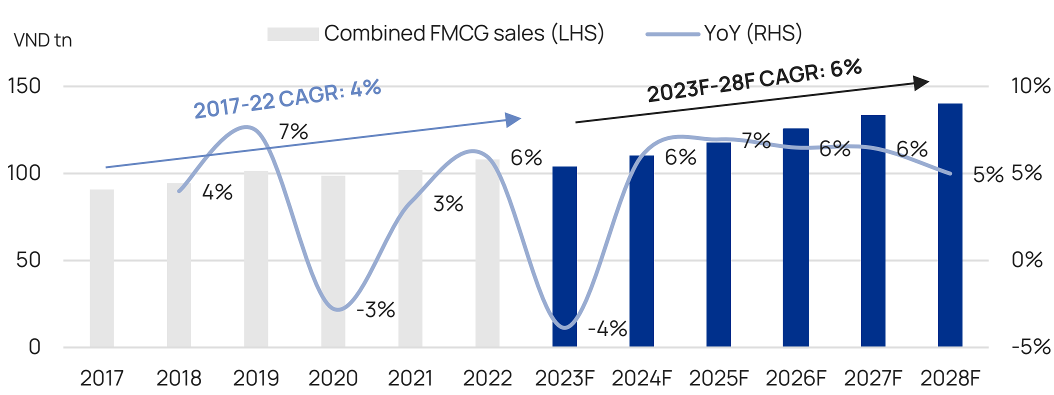
We expect FMCG sales of companies under our coverage to deliver a combined sales CAGR of 6% in 2023-28F. In Vietnam, FMCG & GDP trends have been aligned most of the time over the past five years (**Figure 327**). In 2024F/25F, we expect FMCG sales of companies under our coverage to recover at a CAGR of 6%, following a decline of 4% YoY in 2023F, broadly in line with our expectations for real GDP growth in 2024/25F. Over the medium term, we expect FMCG sales to grow 5-6% YoY in 2026F-28F due to (1) rising urbanization and increasing disposable income, and (2) improving accessibility to FMCG products with growing coverage of modern retail channels in Vietnam. Among FMCG producers under coverage, we expect the highest sales growth from MCH at a 2023F-28F CAGR of 8% after a flat year in 2023, mainly driven by outperforming growth in convenience foods and energy drinks, as we believe Vietnam's consumers will increasingly prioritize convenience and 'on-the-go' consumption. Meanwhile, we forecast relatively slower sales growth from VNM and SAB of 5% CAGR in 2023F-28F. A high percentage of VNM's sales are from reconstituted milk, which faces dual challenges of competition from plant-based alternatives and lower birth rates. Meanwhile, we expect stricter drunk driving law enforcement will remain a headwind to SAB's beer revenue growth in the short term.

Figure 326: Historical FMCG & GDP growth in Vietnam



Source: Nielsen, Vietcap compilation

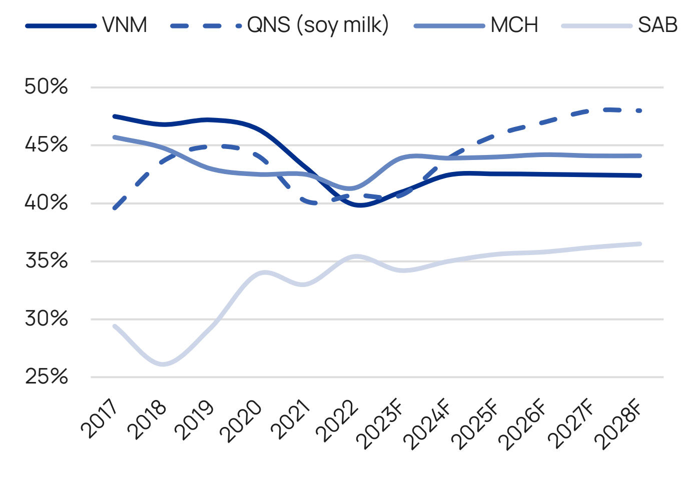
Figure 327: Combined FMCG sales for stocks under coverage[1]



Sources: Company disclosures, Vietcap ([1] Domestic sales of VNM, MCH, SAB and QNS's soy milk)

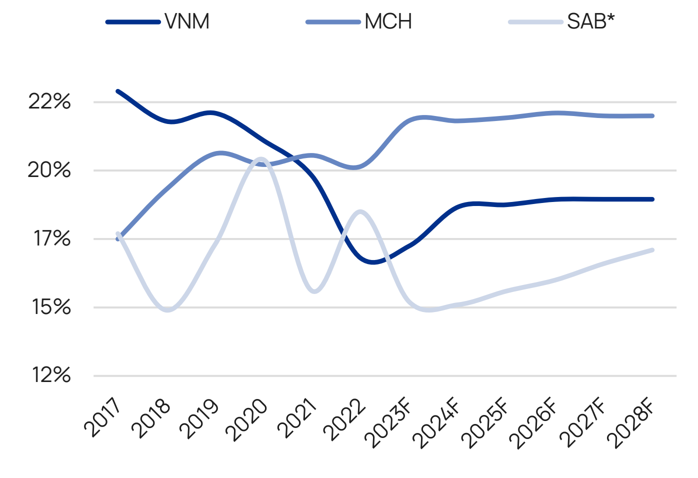
We project FMCG manufacturers' GPMs to improve gradually but SG&A expenses to weigh on EBIT margins in 2023F-28F. We forecast improvements in GPM across FMCG manufacturers under our coverage, including VNM, QNS, and SAB. This is driven by our expectation for lower commodity input costs in the short term and those players maintaining their leading market positions in the long term. However, we project that high SG&A expenses due to fiercer competition in the beer and milk industries will dampen improvement in EBIT margins at SAB and VNM. Meanwhile, we think QNS' dominant position in the niche branded soymilk/plant-based milk segment will allows QNS to maintain lucrative profit margins in the long term. In addition, we forecast that MCH, as an FMCG market leader, will enjoy a long-term uptrend in EBIT margins owing to its diversified product mix and proven product innovation and marketing capabilities.

Figure 328: Gross margins of FMCG manufacturers



Source: Company data, Vietcap forecasts

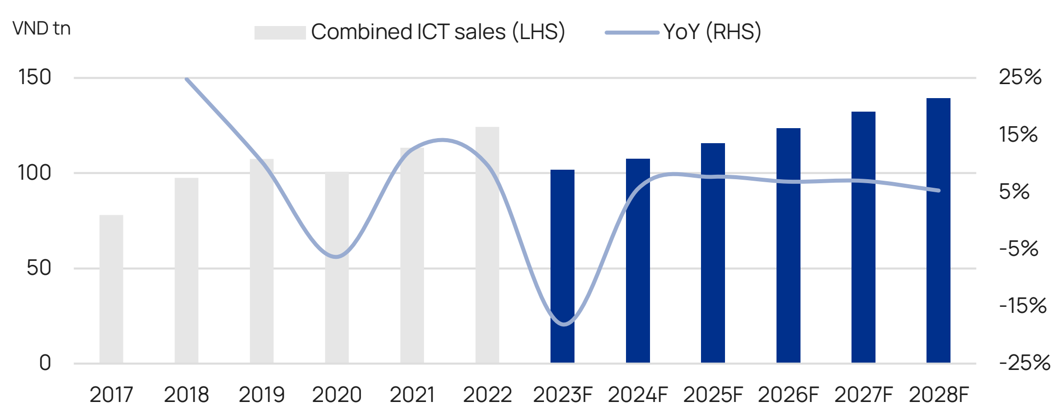
Figure 329: EBIT margins of FMCG manufacturers



Source: Company data, Vietcap forecasts. *Blended EBIT/beer revenue

We forecast a combined sales CAGR of 6% in 2023-28F for ICT retailers under our coverage, following a fall of 18% in 2023F. Vietnam's phone and consumer electronics markets have grown at respective 2019-22 sales CAGRs of 7% and 2%, mainly owing to higher selling prices derived from product innovations in the market. In 2024F-25, we expect a sales CAGR of 7% for ICT retailers under our coverage, supported by our expectations for improvement in consumer sentiment along with a brighter outlook for the economy. Given the relatively high penetration of smartphones at 74% as well as the dominant share of modern retail in the consumer electronics market at nearly 80%, we see limited volume growth headroom for ICT retailers under our coverage over the medium term.

Figure 330: Combined ICT sales for retailers under our coverage[1]



Sources: Company data, Vietcap. [1] Combined ICT sales includes sales of TGDD & DMX (MWG) and FPT Shop (FRT)

We expect a modest recovery in ICT margins over the next five years following fierce price cuts in H1 2023. We believe it will take time for ICT retailers to (1) diversify their product mix and (2) raise selling prices once customers have become accustomed to paying lower prices. We project operating margins for MWG's and FRT's ICT chains to expand by 100-180 bps per annum in 2024F-25F and by 30-40bps thereafter. Our projection implies that profitability for ICT retailers will remain below pre-COVID pandemic levels (i.e., 2018-19 levels) in the next five years.

Figure 331: ICT & CE GPMs

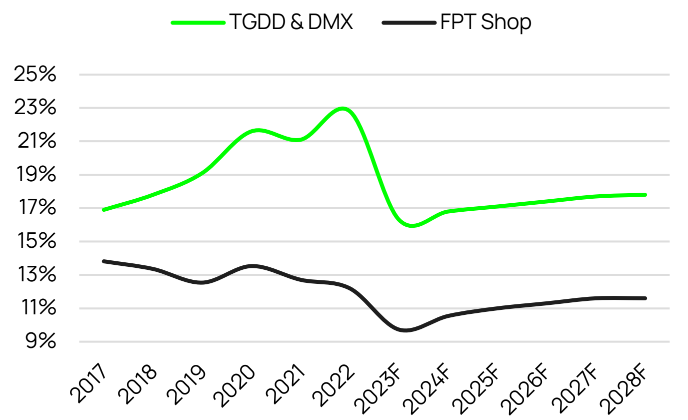
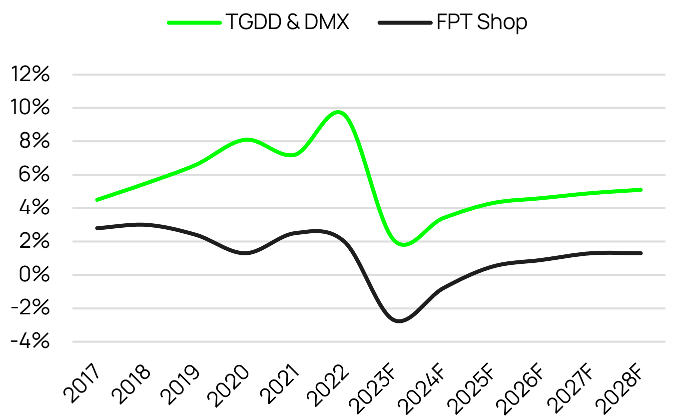


Figure 332: ICT & CE OPMs



Source: Company data, Vietcap forecasts

Stock Recommendations for 2024

Top picks

Rising middle class and discretionary spending

BUY – FPT Corp (FPT): We believe FPT boasts sustainable competitive advantages across its key businesses. FPT's Global IT services business benefits from Vietnam's significant labor cost advantages and the company's strengthening capabilities in carrying out end-to-end projects (i.e., from consulting to implementation) and digital transformation services. FPT Education is recording strong student enrolment growth as a result of its rising reputation and accelerating campus expansion to tier-2 and tier-3 cities. In addition, the education business serves as a vital source of labor for FPT's Software services business. We also see solid growth prospects for the Telecom Services business over the next few years, which will be bolstered by rising demand for online entertainment, cloud computing, and data localization. We forecast a 24% EPS CAGR for FPT in 2023F-2025F, which puts the company's three-year PEG at an attractive 0.9x. In addition, FPT boasts a strong financial position with net cash/equity of 27% as of end-Q3 2023, and we project its FCF/EV yield will step up from 3% in 2022 to 6% in 2025F.

BUY – Phu Nhuan Jewelry (PNJ): PNJ is Vietnam's leading fashion jewelry player and has outperformed competitors in terms of store expansion and customer base growth despite headwinds for retail sales in recent years. PNJ has opened 28 new gold stores, outperforming its competitors DOJI and SJC, who each closed six stores in 9M 2023, according to our research. In addition, PNJ has grown its customer base by a mid-teens percentage year-to-date as of September 2023, which is a remarkable feat, in our view. These developments should contribute significantly to PNJ's growth when middle-affluent consumption recovers. We expect a gradual recovery in Vietnam's export sector in 2024F, providing a brighter outlook for consumption, and we project a retail revenue CAGR for PNJ of 18% and EPS CAGR of 13% in 2023-26F. PNJ's projected 2024F/25F P/Es of 14x/13x are below its average historical P/E of 17x, which we believe undervalues its growth potential.

Ample headroom for growth in modern trade penetration

BUY – Masan Group (MSN): We believe MSN is a proxy play on consumption growth in Vietnam driven by rising incomes, urbanization, and ongoing modernization. MSN owns wide-ranging consumer businesses from food & beverage production to a nationwide retail network, each of which is fundamentally strong, but which also share meaningful synergies. MSN has sustained its leading market shares in some of the largest FMCG categories such as convenience foods, seasonings, and energy drinks over the past five years. It is also the market leader in modern grocery retailing with the grocery chain WCM. Over the past three years, management has positioned MSN more clearly as a consumer-led company, with increasing ownership and investments in consumer-related businesses and divestment of the non-core feed business. The company is now targeting to reduce its ownership in another non-core business, MHT, which we regard as a significant potential upside catalyst for MSN's equity value. We forecast EBIT CAGR of 23% In 2023F-26F driven by (1) 17% EBIT CAGR in consumer-retail (i.e., combined EBIT of MCH, WCM, PL, and MML) and (2) 20% EBIT CAGR at MHT as the global economy recovers. We forecast MCH to deliver a 16% revenue CAGR and 15% NPAT-MI CAGR in 2023-26. In addition, we expect grocery chain WCM to contribute VND150bn of operating profit to MSN in 2024F and 7-9% of MSN's total operating profit in 2025-26.

BUY – Mobile World (MWG): We believe MWG is well-positioned to benefit from the growing demand for modern grocery retail from increasingly discerning consumers, which provides a long-term growth opportunity for the company. Its grocery chain BHX has steadily built and solidified its customer base and supplier network thanks to its long-standing operation in the market. In 2023, we forecast BHX's net loss to narrow by 72% to VND1tn and sales to increase by 19% YoY, despite no store expansion. Underpinned by the long-term trends of rising urbanization and a growing middle-income class in Vietnam, we project BHX to deliver (1) SSSG of 6-7% in the medium term from 2025F-28F, coupled with (2) store expansion of 100 stores in 2025F-26F and 300 new stores p.a. in 2027F-28F, hence improving GPM by 80-100 bps p.a. due to larger scale. As we project only a modest recovery in the profitability of MWG's consumer electronics business over the next five years, we expect BHX to be MWG's new growth engine – contributing 6% to MWG's net profit in 2025 and ~20% in 2026-28 as well as driving a 2023-28F EPS CAGR of 68% for MWG. MWG is trading at 2025F/26F P/Es of 16x/11x, which we believe are undemanding vs our projections for strong recovery in earnings.

Growing digital consumption

BUY – Viettel Construction (CTR): CTR is Vietnam's No.1 towerco owner and a top contractor and operator of telecom infrastructure, boasting cost competitiveness while leveraging the business of its parent company Viettel — Vietnam's no. 1 telco. We believe CTR will capitalize on Vietnam's rising mobile data consumption — especially via its fast-growing infrastructure leasing (towerco) business. The towerco business, in which CTR builds telecom towers and leases them to mobile network operators (MNOs), boasts high margin recurring revenue (estimated mature EBITDA margin of 60%+) and offers high growth potential thanks to trends of infrastructure outsourcing and sharing among MNOs. We forecast a 19% EBITDA CAGR in 2023F-2028F — led by a 31% CAGR in towerco — as we project CTR will expand its tower count from a low base of 4,286 as of YE2022 to 20,786 by YE2028F. Based on our projections, towerco's EBITDA contribution will widen from 24% in 2022 to 48% in 2028F. CTR is trading at 2024F/25F EV/EBITDA multiples of 8.9x/7.1x, which we believe are attractive given its bright outlook.

Defensive picks

BUY – Sabeco (SAB): SAB, which is one of the top two players in the beer industry in Vietnam, offers a solid financial position and strong cash flow. As of Q3 2023, SAB boasted net cash/equity of 0.8x. With strong brands and an extensive distribution network, SAB is well positioned to benefit from growth in beer consumption in Vietnam in the near term as demand recovers from recent economic headwinds, and over the longer term due to favorable demographics. We believe that SAB still has headroom for margin expansion driven by (1) production cost optimization, (2) lower input costs vs a high base in 2023, and (3) more efficient marketing strategies. Going forward, we expect SAB's long-term earnings growth to be led by the mass premium market, which should benefit from robust growth of the middle and affluent classes in Vietnam. We forecast EPS growth of 7% CAGR in 2023-28F and stable cash dividends of VND3,500/share (dividend yield of 5.6%) throughout 2023-25F. In our view, SAB valuation is attractive on a 19.3x TTM PE vs its 5-year average of 27.8x. Our target price of VND78,000/share puts SAB's 2024F/25F P/Es at 24/22x vs a 5-year average peer median TTM P/E of 34x.

BUY – VEAM Corp (VEA): VEA provides exposure to Vietnam's fast-growing automobile (4W) and extensive motorbike (2W) markets. VEA holds 20%-30% stakes in Honda, Toyota, and Ford Vietnam, which had a combined 43% market share in the passenger car (PC) market and 82% in the 2W market in 9M 2023, per our estimates. Moreover, Vietnam's 4W ownership remains deeply underpenetrated at 53 vehicles per 1,000 people in 2022 compared to 136 in Southeast Asia, 211 in China, and 661 in Japan. We expect both 4W and 2W sales to bounce back in 2024 after a slight decline in 2W and PC sales volumes in 2023 due to weaker discretionary spending by consumers amid economic headwinds. We project VEA will post an EPS CAGR of 7% in 2023F-2028F supported by a PC industry sales CAGR of 17% and a 2W industry sales CAGR of 6%. Despite VEA's lack of control over its automobile associates, we find its valuation appealing with an attractive FY2023 forecast dividend yield of 18%, which is expected to be paid in 2024.

BUY – Viettel Construction (CTR): In addition to a robust 19% EBITDA CAGR in 2023F-2028F, CTR has a solid financial position with total cash/equity of 0.9x while offering an attractive TTM FCF yield of 10.9% as of Q3 2023.

Appendix

Code	Company name
CTR	Viettel Construction
DGW	Digiworld
FPT	FPT Corporation
FRT	FPT Retail
MSN	Masan Group
MWG	Mobile World
PNJ	Phu Nhuan Jewellery
QNS	Quang Ngai Sugar
SAB	Sabeco
TLG	Thien Long Group
VEA	VEAM
VNM	Vinamilk

Source: Vietcap

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Transportation & Logistics: We prefer cargo handlers

Our coverage includes airlines, airports, cargo handlers, and logistics companies. In this section, we discuss the outlook of air passengers, airlines, sea cargo, and air cargo throughput in Vietnam.

Air passengers: China continues recovering, new markets emerging

- We expect the number of international air passengers – including Vietnamese – to recover to 96%/110% of the 2019 level in 2024F/2025F, respectively.
- Winter-Spring flight schedules indicate further recovery in Chinese tourists.
- Vietnam's new visa policy improved its attractiveness amongst international travelers.
- India, Australia, and some EU countries are emerging sources of growth in tourists visiting Vietnam.
- We forecast a 6% growth in domestic passengers in 2024 after a flat 2023.
- High fuel cost remains the key challenge for airlines' profitability, but this is cushioned by improving pricing power for the two leading airlines in the domestic market (Vietnam Airlines and Vietjet).

Cargo: Restocking to drive gradual recovery, air cargo to outperform.

- Manufacturers see a gradual recovery in orders and leading indicators have improved.
- Air cargo throughput to outperform: we expect low-teen growth in electronics exports in H1 2024 and stronger growth in H2 2024.
- Sea cargo throughput to recover gradually - we expect mid-single-digit growth in textile and wooden furniture exports in H1 2024 and stronger growth in H2 2024.
- The new Long Thanh International Airport will have two cargo terminals. Hence, business can potentially be divided cleanly between the two existing groups of operators in Vietnam's airports.

Airports: Long Thanh International Airport (LTA)'s passenger terminal began construction after other major airport projects. During 2024-2026, we project ACV's aggregate capex/CFO to hit 2x as ACV invests USD4.2bn into LTA.

Seaports: The regulated tariff floor for international container handling fees is expected to be raised in early 2024.

Stock picks:

Although we expect the pace of recovery in passenger numbers to outperform that of cargo throughput, we believe the valuations and financial positions of cargo handlers are more attractive.

- GMD: We reiterate our view that port operator GMD will be a major beneficiary of increasing manufacturing activity in Vietnam over the long term. We currently forecast 2023F-2026F core NPAT-MI CAGR of 23%. GMD's 2024F P/E is at 15.9x vs its five-year-average TTM P/E of 15.2x. We believe GMD deserves a valuation that is higher than its historical average, given a 22% recovery in 2024F EPS.
- SCS is an air cargo handler in southern Vietnam's duopoly market, generating high returns on capital and cash dividends. We expect air cargo throughput to recover 18% YoY in 2024 as trade recovers, led by restocking. SCS looks attractive at a 2024F P/E of 11.3x, based on our forecast, vs a four-year average TTM P/E of 13.5x.

Vietcap

Figure 333: Transportation & Logistics: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
AST	BUY	93.9	0%	49%	4	0.0	50,500	64,500	12/6/2023	27.7%	3.0%	30.7%
ACV	O-PF	5,937.1	0%	49%	2,689	0.7	66,000	83,300	11/15/2023	26.2%	0.0%	26.2%
SCS	BUY	280.4	0%	49%	4	0.2	71,900	81,700	6/30/2023	13.6%	4.2%	17.8%
GMD	O-PF	891.2	0%	49%	0	3.0	70,500	79,700	11/20/2023	13.0%	1.7%	14.8%
HVN	M-PF	1,120.9	0%	49%	0.8	0.9	12,250	13,400	3/24/2023	9.4%	0.0%	9.4%
VJC	M-PF	2,417.1	0%	49%	8.3	6.0	108,000	104,100	11/22/2023	-3.6%	0.0%	-3.6%
VTP	M-PF	286.3	0%	49%	1.7	1.9	56,900	32,200	6/12/2023	-43.4%	2.6%	-40.8%

Figure 334: Transportation & Logistics: Summary valuations

Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E LTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/ EBITDA 2024F x(*)	ROE 2024F %	P/B LQ x	Net D/E LQ x
AST	50,500	427%	72%	26%	19.2	19.2	11.1	8.8	5.2	30%	4.8	-0.5
ACV	66,000	33%	8%	16%	18.6	18.6	17.3	14.9	9.7	18%	3.0	-0.4
SCS	71,900	-24%	34%	17%	15.2	15.2	11.3	9.7	6.6	40%	4.4	-0.7
GMD	70,500	11%	21%	22%	9.3	19.3	15.9	13.1	9.2	14%	2.5	0.1
HVN	12,250	nm	nm	nm	nm	nm	nm	nm	6.6	nm	nm	nm
VJC	108,000	nm	nm	nm	274.8	274.8	39.1	38.7	4.0	13%	3.7	1.5
VTP	56,900	44%	14%	14%	20.3	20.3	17.8	15.6	9.3	26%	3.9	0.7

Source: Company data, Vietcap forecasts. Note: Share prices as of December 29, 2023. * EV/EBITDAR for HVN & VJC.

Figure 335: Transportation: Company names and tickers

Code	Company name	Service
ACV	Airport Corporation of Vietnam	Airport operator
AST	Taseco Airs	Airport retailer
HVN	Vietnam Airlines	Airline
GMD	Gemadept	Seaport operator, container shipping, logistics
SCS	Saigon Cargo Services	Air cargo terminal operator
VJC	Vietjet Air	Airline
VTP	Viettel Post	Delivery services

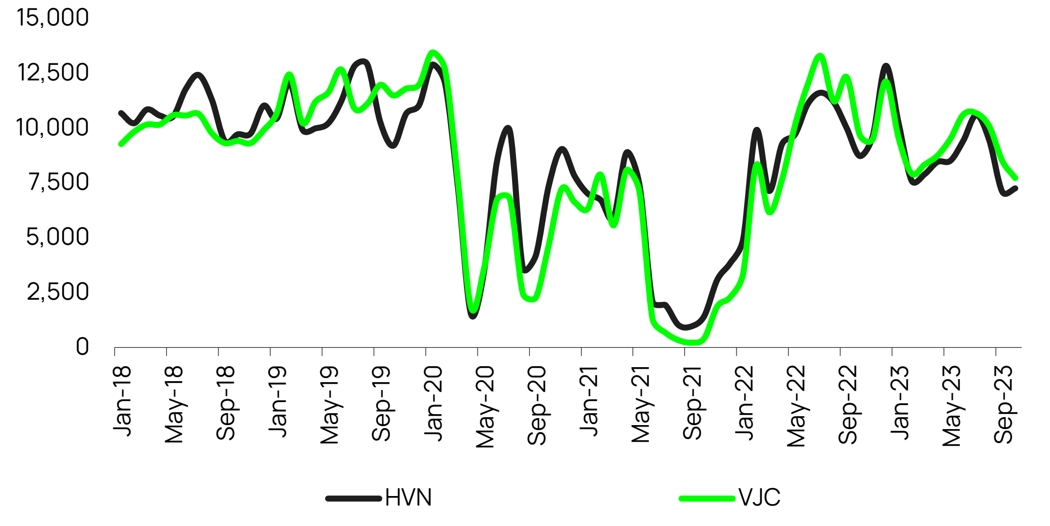
Source: Vietcap

Vietcap

Air passengers: International segment driving recovery

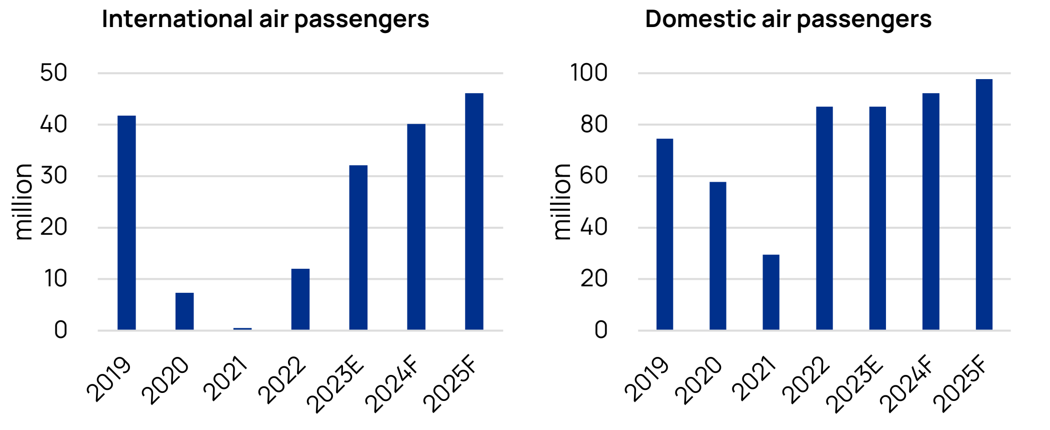
We expect international passengers (including Vietnamese) to grow 25% YoY in 2024 to hit 96% of 2019's level, despite a slow recovery in Chinese visitors. We forecast 6% YoY growth for the domestic market in 2024 in line with our expectation for a gradual recovery in consumer confidence and spending that should include demand for tourism and travel.

Figure 336: Number of monthly flights of Vietnam's two leading airlines during 2018-10M 2023



Source: CAAV, Vietcap

Figure 337: Vietcap's forecasts for domestic and international air passenger numbers



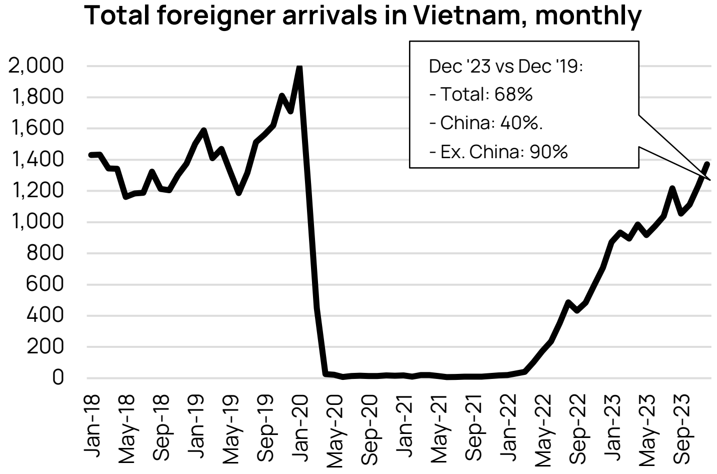
Source: ACV, Vietcap

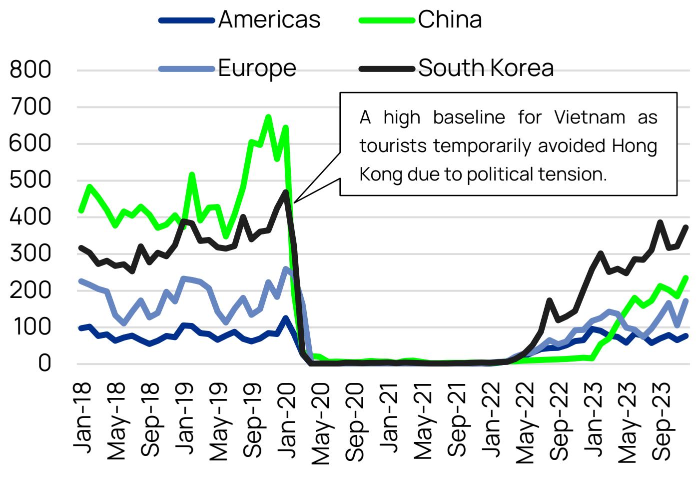
International passengers: China continues to recover, new markets emerging

Strong arrivals from South Korea and newly emerging markets led the recovery of international aviation. Before the COVID pandemic, China was the largest source of international arrivals for Vietnam, making up 32% of total arrivals in 2019. However, South Korea took over the leading position with 29% in 11M 2023. We believe the South Korean market will remain the main engine for further recovery in Vietnam's international arrivals in the short term. According to a survey conducted by Agoda in September 2023, Korean tourists have exhibited a strong fondness for Vietnam, ranking it as their top international travel destination alongside their pre-pandemic favorite, Thailand.

Vietcap

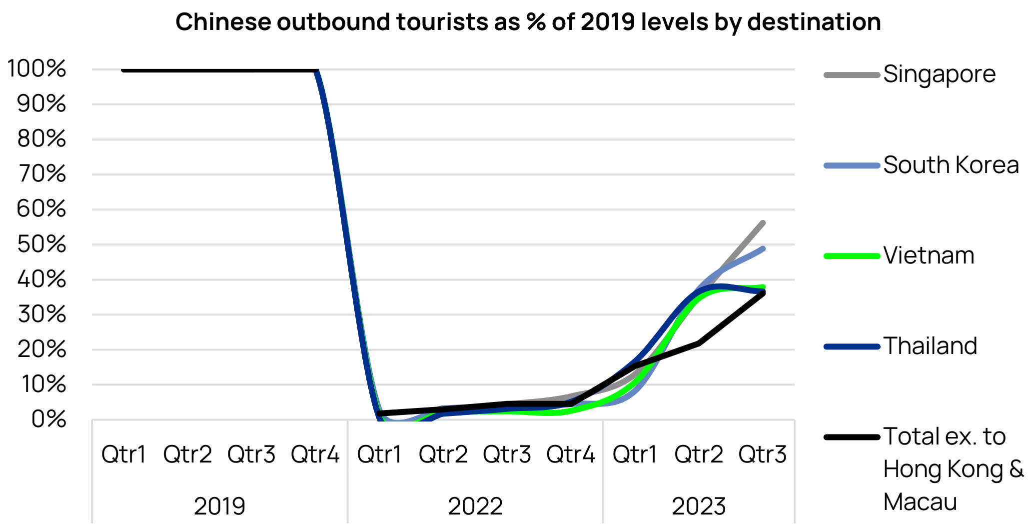
Figure 338: Monthly foreign arrivals in Vietnam rebounded strongly in 2023 ('000 passengers)





Source: General Statistics Office of Vietnam, Vietcap

Figure 339: Recovery in Chinese tourists visiting Vietnam and Thailand lagged compared to Singapore and South Korea in Q3 2023

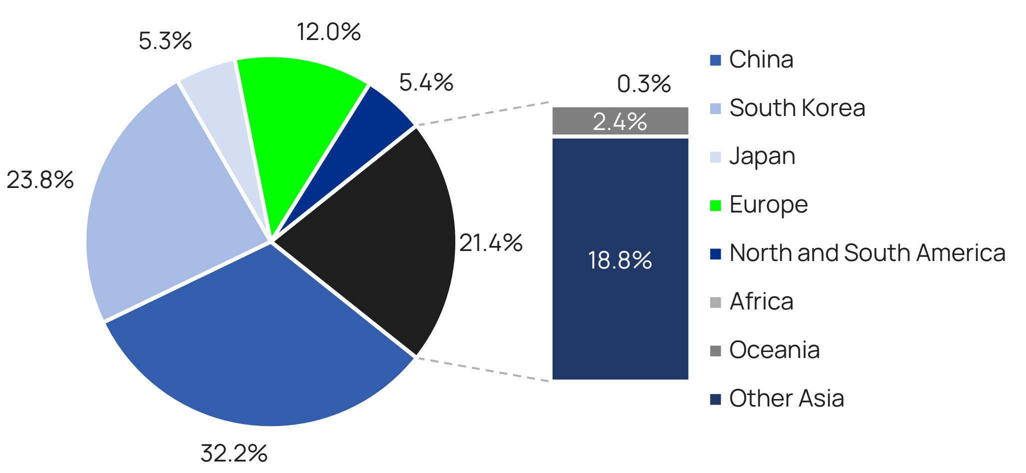


Source: China Bureau of Statistics, Vietcap. China-US flights remained sluggish in 2023 due to COVID-related restrictions.

The return of Chinese tourists to be an important growth driver for the medium and long term. Although the recovery of Chinese tourists trailed airlines' initial expectations in 2023, we believe that the recent affirmation of relations between Vietnam and China from President Xi Jinping's recent visit to Vietnam could lead to higher demand for travel between the two countries. An early sign of improvement is that Danang Airport in Vietnam has received the 'Chinese Welcome' certificate recognized by China's main governmental research and promotion institute under the management of the Chinese National Tourism Authority. In the common declaration by the two countries during the visit of China's president to Hanoi in December 2023, the two countries agreed to strengthen tourism activities and support airlines to launch new routes to connect destinations in China and Vietnam.

The Civil Aviation Authority of China's 2023-2024 winter-spring flight schedule indicates that international flights could reach 71% of 2019's levels. We expect the Lunar New Year to be the next catalyst for further recovery of Chinese tourist arrivals in Q1 2024.

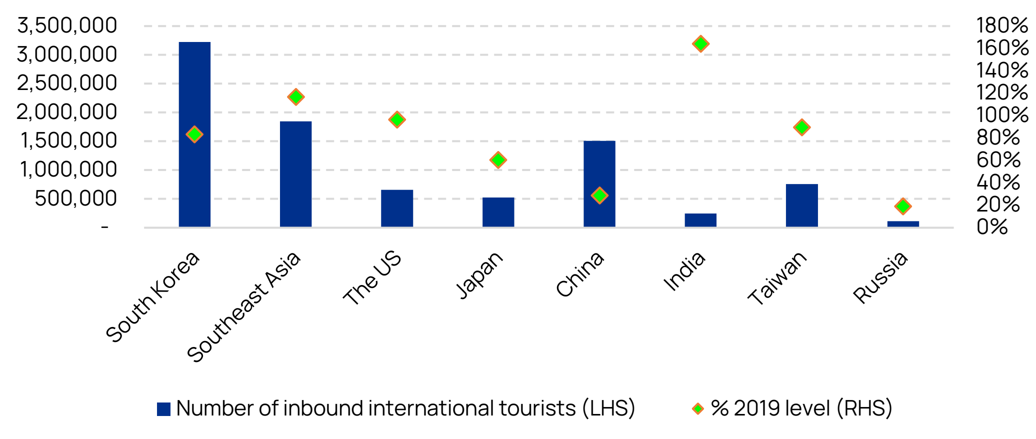
Figure 340: 2019 foreign arrivals by country



Source: Vietnam National Administration of Tourism, Ministry of Culture, Sport and Tourism, Vietcap

India and Southeast Asia have become newly emerging sources of arrivals. The number of arrivals from these two markets surpassed pre-COVID pandemic levels in 11M 2023, especially the Indian market which delivered 64% more tourists in 11M 2023 vs 11M 2019. We believe the Indian market has great potential to become an impactful source of arrivals due to its enormous size. Before 2019, there were no direct flights from India to Vietnam. However, VietJet now operates 12 routes from Hanoi, Ho Chi Minh City, Da Nang, and Phu Quoc to New Delhi, Mumbai, and Ahmedabad, with a frequency of 39 flights per week in 2023. Vietnam Airlines also launched new direct routes to destinations in India in 2023.

Figure 341: Number of international tourists (by all modes of transportation) to Vietnam from selected countries in 11M 2023

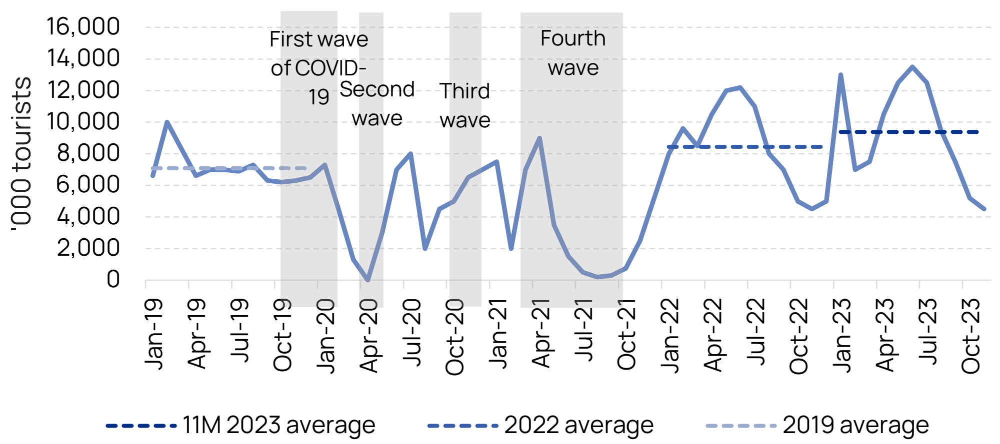


Source: GSO, Vietcap

Domestic tourism to contribute to long-term growth of the aviation sector

Structural change in spending of the growing middle class in Vietnam to boost demand for air transportation. According to the Vietnam National Administration of Tourism (VNAT), the number of domestic tourists in Vietnam during 11M 2023 exceeded the figures for the same period in 2019 and 2022 by 31% and 7%, respectively. The sustained growth during 2022-2023 indicates that the growth of domestic tourism extends beyond a mere 'revenge tourism' bounce. However, according to the latest research from the Tourism Development Institute in October 2023, the prominent trend among domestic travelers is a preference for small group tours, shorter durations, and reduced spending, focusing on nearby destinations. Economic headwinds in 2023 have caused many individuals to restrict long-distance or extended travel and opt for shorter trips to save money and prioritize road transportation over air travel. These factors explain the lower domestic air transportation activity in 10M 2023. Nevertheless, we believe that economic recovery from 2024 will provide a tailwind for spending on domestic tourism, including spending on airfare to reach more distant destinations.

Figure 342: Monthly number of domestic tourists in Vietnam

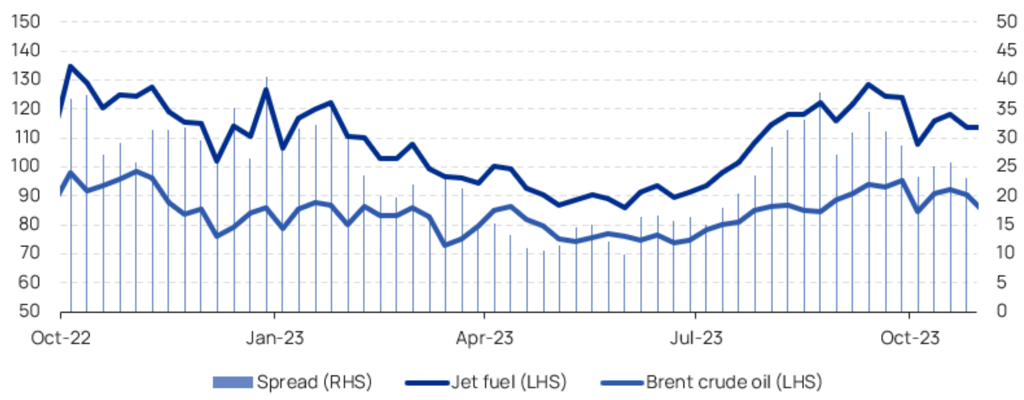


Source: Vietnam National Administration of Tourism, Vietcap

High fuel cost remains the key challenge for airlines' profitability but is cushioned by improving pricing power for the two leading domestic airlines

As of November 2023, jet fuel prices had softened from the 2023 peak of USD122/bbl. However, the average jet fuel price in 11M 2023 was still 30% higher than the 2019 average. Our updated in-house Brent crude oil price forecast is USD83/83/75/75/bbl for 2023/24/25/26F vs the 2019 average of USD64/bbl. As a result, we believe that sustained high oil prices and, in turn, high jet fuel costs will have a negative impact on airlines' gross margins over the medium term.

Figure 343: Jet fuel and OcJet fuel prices, October 2022 – October 2023 (USD/barrel)



Source: Bloomberg, Vietcap

However, we observe that the two leading airlines (HVN and VJC) have strengthened their market positions in H2 2023 as the third largest market share holder, Bamboo Airways, had to go through a restructuring process in which the airline returned all wide-body aircraft to lessors, reducing its number of aircraft from 30 to seven and temporarily stopping all international flights. We believe one impact of the restructuring of Bamboo Airways is that HVN and VJC can enjoy more pricing power, especially for domestic routes in the short term.

Higher domestic pricing power for the major airlines is also fostered by an increasing airfare cap. On 30 November 2023, the government issued circular 34/2023/TT-BGTVT that allows an increase in the domestic airfare cap effective from 1 March 2024. For flights covering distances of 1,000 to 1,280 kilometers, the highest economy class price is expected to reach VND3.4mn per trip, marking a 6% increase from the current pricing. The Hanoi-Ho Chi Minh City route falls into this bracket. Data from aviation intelligence firm OAG highlights that the Hanoi-Ho Chi Minh City air route ranked among the top four busiest domestic airline routes globally in 11M 2023.

Figure 344: Current domestic economy class airline ticket price ceilings and the new regulations in Circular 34

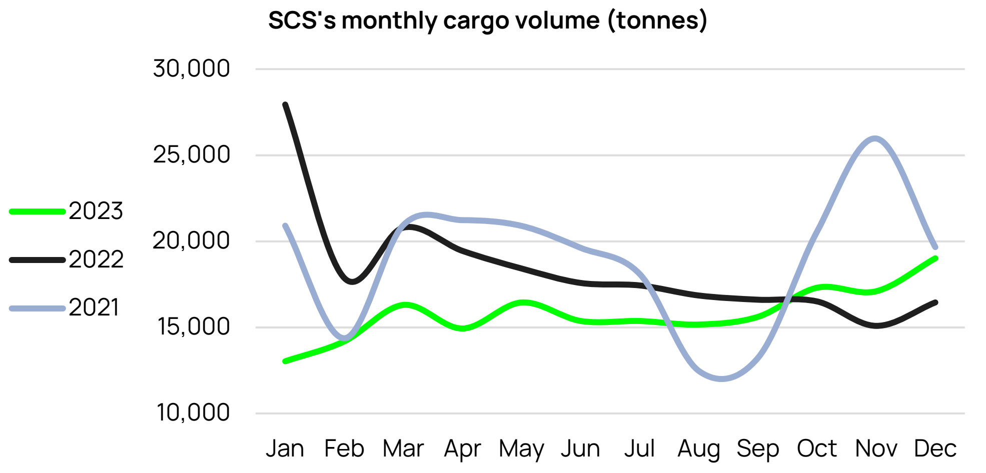
Group	Flight distance	Maximum fare (VND/one-way ticket) - Old	Maximum fare (VND/one-way ticket) - New	% Change
I	Under 500 km			
1.	Group of routes contributing to socio-economic development	1,600	1,600	0%
2.	Group of routes under 500 km	1,700	1,700	0%
II	From 500 km to under 850 km	2,200	2,250	2%
II	From 850 km to under 1,000 km	2,790	2,890	4%
IV	From 1,000 km to under 1,280 km	3,200	3,400	6%
V	Over 1,280 km	3,750	4,000	7%

Source: Circular 17/2019 TT-BGTVT, Circular 34/2023/TT-BGTVT, Vietcap

Cargo: Restocking to drive recovery, air cargo to outperform

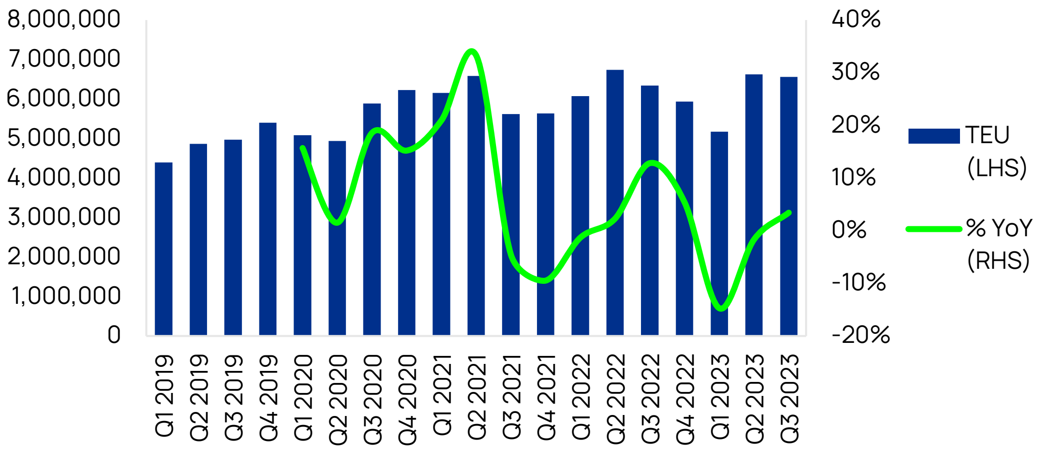
While US retail sales are beginning to weaken, we nevertheless expect importers to restock cautiously. First, we believe anticipation of a US recession has been partly reflected in destocking by importers from mid-2022 to late 2023. Second, manufacturers are seeing a gradual recovery in orders as customer inventories become healthy. Third, we observe leading indicators pointing to improving upstream trade. Please refer to the 'Industrial manufacturers' section of this report for our views on Vietnam's exports.

Figure 345: SCS's cargo volume improved 16% QoQ and 11% YoY in Q4 2023



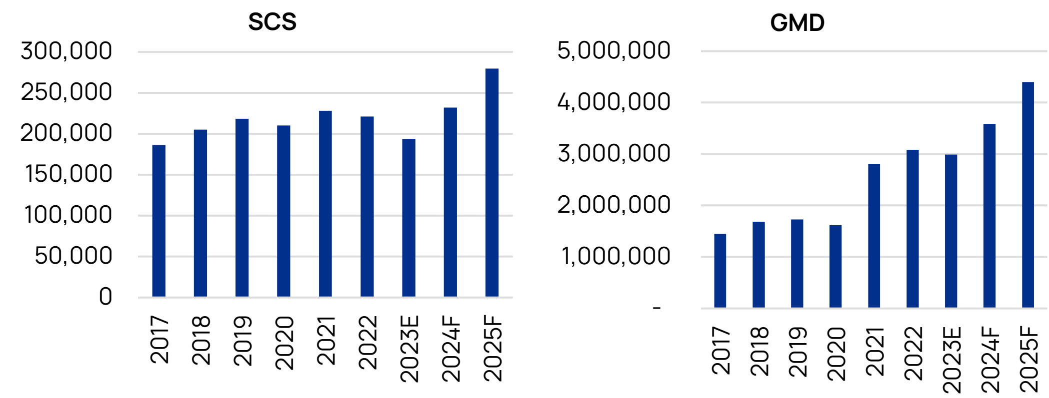
Source: SCS, Vietcap

Figure 346: Vietnam's total sea cargo volume



Source: Gemadept, Vietcap

Figure 347: GMD and SCS cargo throughput (tonnes)



Source: SCS, GMD, Vietcap forecasts

We expect air cargo to outperform sea cargo as Vietnam's electronics exports recover faster than textiles and wooden furniture. As discussed in our section on Industrial Manufacturers, we expect electronics exports to recover with growth in the low-teens YoY in H1 2024, while textiles and wooden furniture should grow at a mid-single-digit rate before accelerating later in 2024. As electronics are a major part of air cargo and are less widely transported by sea, we expect air cargo throughput to outperform in 2024, recovering at a mid-teen rate of growth while sea cargo will recover only at a high-single-digit to low-teen rate.

Figure 348: Planned cargo terminals at Long Thanh International Airport (LTA)

	Cargo terminal No.1	Cargo terminal No.2
Ownership	ACV can own part of the terminal and conduct bidding for the remaining stake. There can be multiple shareholders. Per SCS, ACV's subsidiaries (SCS, ACSV) focus on terminal No.1. SCS aims to become a shareholder.	Ministry of Transport to oversee bidding. Per SCS, HVN's subsidiaires (ACT, TCS) focus on terminal No.2.
Operator	SCS aims to become the sole operator.	N/A
Capacity (tonnes/year)	550,000	600,000
Required capex	USD125mn	N/A
Progress	Bidding has not started	Bidding has not started

Source: ACV, SCS, Vietcap compilation

Uncertainties remain for cargo terminal operators at LTA as bidding has not yet started. Vietnam currently has five air cargo terminal operators. There are two slots available for them and new players in LTA phase 1, offering an annual capacity of 1.2 million tonnes of cargo compared to the 1.4 million tonnes handled in Vietnam in 2022. SCS is actively preparing for bidding and is seeking to acquire stakes in competitors to reduce competition or to benefit indirectly from LTA in case it loses the bidding. We assume in our model that SCS will lose 25% of its cargo volume in 2027. Per ACV, after LTA comes online, 90% of international flights could be gradually relocated to LTA. This would hurt the sales volume and profitability of Tan Son Nhat Cargo Services (TCS) and SCS at Tan Son Nhat Airport (SGN).

Airports: Major projects seeing progress

Figure 349: LTA and existing domestic airports

Projects	Status	Expected completion	Additional designed capacity (per annum)	Estimated cost (USD mn)
LTA	**Construction**	**2050**	**100 million passengers 5 million tonnes of cargo**	**14,930**
LTA - phase 1	Construction	ACV: late 2026 Vietcap: 2027	25 million passengers 1.2 million tonnes of cargo	4,670
LTA - phase 2	N/A	2035	25 million passengers 0.3 million tonnes of cargo	N/A
LTA – phase 3	N/A	2050	50 million passengers 3.5 million tonnes of cargo	N/A
Vietnam's existing airports	**Operation**	**N/A**	**90 million passengers 1.6 million tonnes of cargo**	**N/A**
Tan Son Nhat International Airport (SGN)	Operation	N/A	28 million passengers 800,000 tonnes of cargo	N/A
SGN – Third passenger terminal	Construction	2025	20 million passengers	475
Noi Bai International Airport (HAN)	Operation	N/A	19 million passengers 800,000 tonnes of cargo	N/A
HAN – Second passenger terminal expansion	Initial construction	2025	5 million passengers	210
Other existing airports	Operation	N/A	43 million passengers	N/A

Source: ACV, Ministry of Transport, Vietcap compilation

Long Thanh International Airport (LTA)

LTA Phase 1, with one runway, will provide capacity for 25 million passengers and 1.2 million tonnes of cargo for HCMC and surrounding provinces. At ACV's 2023 AGM, management stated that LTA will serve ~90% of international flights for HCMC and surrounding provinces. ACV will be able to collect take-off and landing (T-O/L) fees at LTA because ACV is the developer of LTA's third sub-project (which includes runway and apron infrastructure).

Construction began in late 2020 and ACV expects it to be completed in late 2026 — sooner than our expectation of 2027 but delayed vs the initial target of 2025. On September 1, 2023, the construction of the passenger terminal began. This is the biggest package of the airport project.

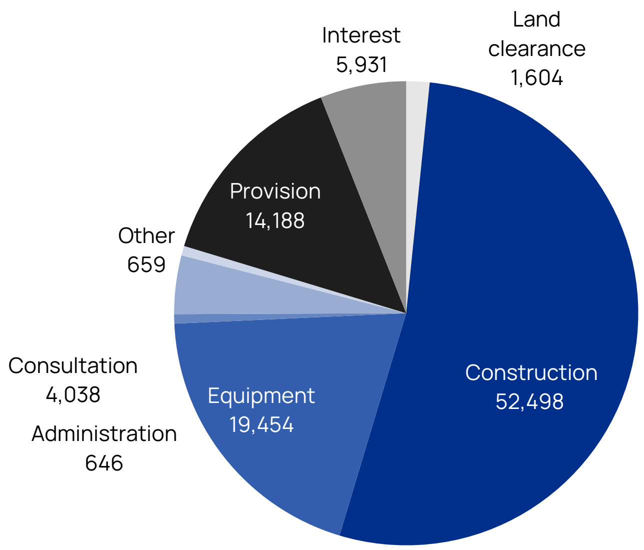
Please find more details regarding the potential impact of this package and Long Thanh International Airport in our Thought Piece, "Long Thanh International Airport (LTA) - Mega airport project to impact multiple sectors," dated July 17, 2023.

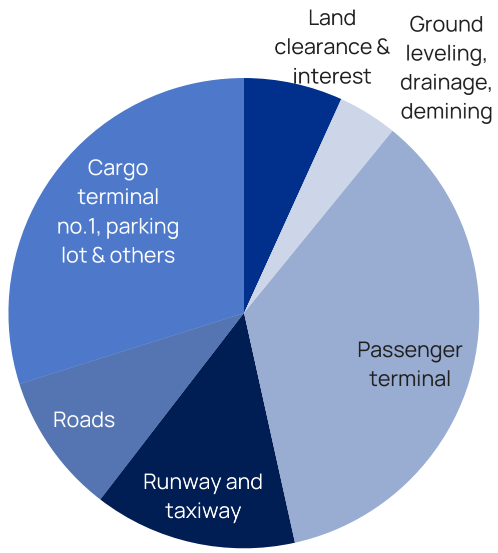
Figure 350: Summary of LTA's Phase 1 investors and total investment costs for sub-projects

	Sub-project No.1	Sub-project No.2	Sub-project No.3	Sub-project No.4	Total
Category	Government's buildings	Buildings for air traffic management	Essential airport construction, including general infrastructure and cargo terminal no. 1	Buildings for additional aviation services, including cargo terminal no. 2	
Investors	Government authorities and/or PPP investors if Government authorities cannot arrange capital.	Vietnam Air Traffic Management Corporation	ACV	Ministry of Transport will oversee the bidding for the fourth sub-project.	
Total investment cost (VND bn)	293	3,435	99,019	6,364	109,112
Total investment cost (USD mn) at VND/USD of 23,390)	13	147	4,233	272	4,665

Source: Decision No.1777/QD-TTg, ACV, Vietcap

Figure 351: Investment cost breakdown of LTA Phase 1 sub-project No.3 (VND bn)





Source: ACV (left), Vietcap estimate based on ACV's data (right)

Figure 352: Notable construction packages of LTA sub-project No.3

Category	Package	Value (VND bn)	Status	Winners/Bidders/ Potential listed beneficiaries
Ground leveling & drainage	3.4	4,412	Under construction	Winners Truong Son Construction & Consulting ACC Aviation Construction Phuc Loc Group Cienco 8 Vinaconex (HOSE: VCG)
Passenger terminal	5.10 - Passenger terminal body	35,234	Construction began on September 1, 2023	Winner: VIETUR consortium IC Istas Construction Industry and Trading (Turkey) Vinaconex (HOSE: VCG) HOSE: PHC, UPCOM: HAN Other potential listed beneficiaries: HOSE: DHA UPCOM: VLB
Cargo terminal	7.x	N/A	Evaluation of designing bid Construction not tendered yet	Potential listed beneficiaries: HOSE: SCS HOSE: NCT
Infrastructure	4.6 – Runway, other apron	8,136	Construction began on September 1, 2023	Winner (one consortium) Vinaconex (HOSE: VCG) Truong Son Construction & Consulting ACC Aviation Construction Cienco 4 (UPCoM: C4G) Viet Nam Investment Development Construction JSC Six Four Seven Aeronautics Project Construction JSC
	4.7 – Passenger terminal apron	6,507	Not yet tendered	N/A
	4.8 – Internal roads	7,819	Bid evaluation	N/A
	6.12 – External roads T1, T2	2,785	Under construction	Winners Deo Ca Group (HOSE: HHV) Thang Long JSC (HNX: TTL) Khang Nguyen Infrastructure Construction Hoang Long Trading, Construction & Consulting 368 Construction

Source: ACV, local media, Vietcap compilation

Seaports: New circular 39 raises cargo handling fees

Port service fees for all port operations in Vietnam, including container handling fees, are regulated by the Ministry of Transport (MoT). The MoT sets a floor and cap for these fees, which means the actual fee charged can be set anywhere in between.

According to the MoT, Vietnam's international container handling fees were materially lower than in other countries in the region such as Thailand, Cambodia, and China. Therefore, an increase in the floor for international container handling fees should not diminish the competitiveness of Vietnamese ports.

On December 25, the Ministry of Transport released Circular 39/2023/TT-BGTVT to replace Circular 54/2018/TT-BGTVT, regulating sea cargo handling fees. The new Circular will take effect from February 15, 2024. Our key takeaways are as follows.

- The floor and cap for cargo handling fees for import/export/transit/transshipment in all key regions will be raised by around 10%, similar to our expectation.

- The floor for handling fees for domestic barges in deep sea ports (Lach Huyen and Cai Mep Thi Vai ports) will be raised by USD2-3 per TEU, equivalent to a 30% increase. This is a new change and was not mentioned in the August 2023 Draft.

- In our view, the increase in container handling fees is a well-anticipated event, except for the higher domestic barge fees, because there have been two drafts preceding this Circular.

- Higher handling fees should benefit all seaport operators, especially deep-sea ports (such as GMD's Gemalink port). However, we expect the impact on seaport operators' earnings to be reflected gradually over the medium term rather than in an immediate surge in 2024F earnings when the proposed changes come into effect. This is due to 1) intense competition in the port network (especially in Region 1*) which prompts port operators to reduce other unregulated fees to maintain competitiveness when market conditions are not favorable, 2) we expect trade activity to recover gradually in H1 2024, and 3) current average revenues per container for major port operators are well within the current regulated range.

Figure 353:Range for container handling service fees for port clusters in Region 1*

	Circular 39/2023/TT-BGTVT		Circular 54/2018/TT-BGTVT		Change (%)	
	Floor	Cap	Floor	Cap	Floor	Cap
Domestic containers (VND/container)						
20-foot container	260,000	427,000	260,000	427,000	0%	0%
40-foot container	439,000	627,000	439,000	627,000	0%	0%
Container > 40 feet	658,000	940,000	658,000	940,000	0%	0%
Import, export, temporary import, and re-export (USD/container)						
20-foot container	36	53	33	53	+9%	0%
40-foot container	55	81	50	81	+10%	0%
Container > 40 feet	63	98	57	98	+11%	0%
Transshipment and transit (USD/container)						
20-foot container	28	40	25	40	+12%	0%
40-foot container	42	61	38	61	+11%	0%
Container > 40 feet	47	74	43	74	+9%	0%

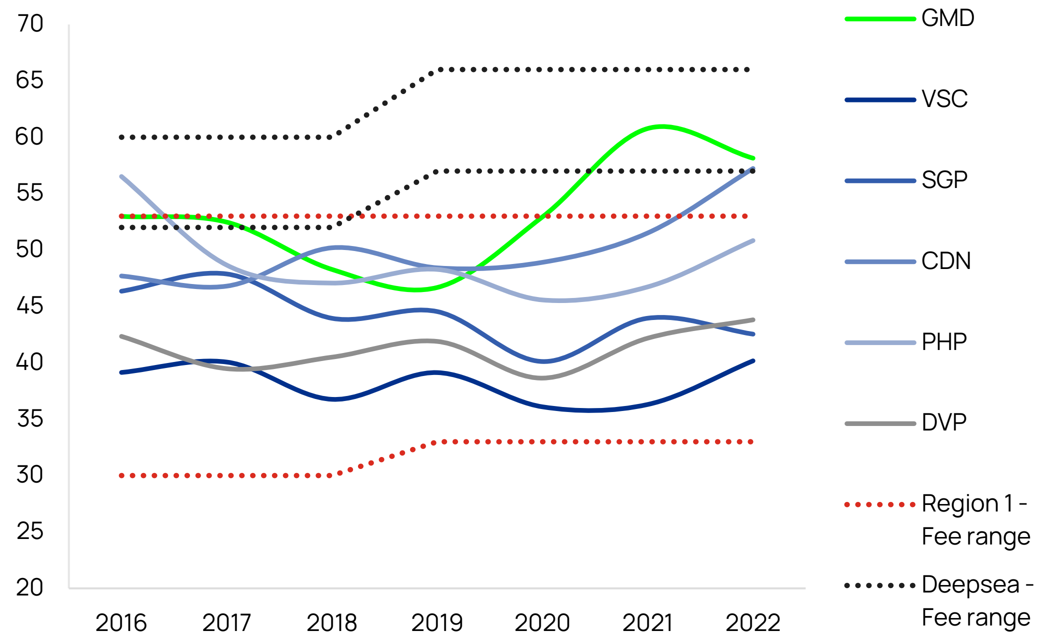
Source: MoT, Vietcap. Note (*): Region 1 includes seaports located north of the 20-degree north latitude line, including seaports in Quang Ninh, Hai Phong, Thai Binh, and Nam Dinh, excluding HICT deepsea port (Lach Huyen deepsea port).

Figure 354:Range for container handling service fees for deep sea ports (including HITC port in Hai Phong and Gemalink in CMTV)

	Circular 39/2023/TT-BGTVT		Circular 54/2018/TT-BGTVT		Change (%)	
	Floor	Cap	Floor	Cap	Floor	Cap
Import, export, temporary import, and re-export (USD/container)						
20-foot container	57	66	52	60	+10%	+10%
40-foot container	85	97	77	88	+10%	+10%
Container > 40 feet	94	108	85	98	+10%	+10%
Transshipment and transit (USD/container)						
20-foot container	35	40	31	36	+13%	+11%
40-foot container	51	58	46	53	+11%	+9%
Container > 40 feet	56	65	51	59	+10%	+10%
Connecting barge services (USD/container) — not included in August 2023 draft						
20-foot container	8	15	6	15	+33%	0%
40-foot container	13	23	10	23	+30%	0%
Container > 40 feet	13	23	10	23	+30%	0%

Source: MoT, Vietcap.

Figure 355: Vietcap's estimated port revenue per throughput container (USD/container*) vs current container handling fee ranges as regulated by Circular 54



- SGP stands for Saigon Port JSC, CDN stands for Da Nang Port JSC, PHP stands for Hai Phong Port JSC, DVP stands for Dinh Vu Port Investment and Development JSC.
- GMD's average fee surged above the deepsea floor fee since 2020 due to the commencement of Gemalink deepsea port.

Source: Companies' data, MoT, Vietcap. Note (*) assuming standard 20ft container (equivalent to 1 TEU).

Stock picks

OUTPERFORM – Gemadept (HSX: GMD)

GMD is one of Vietnam's largest port operators and domestic logistics service providers with integrated capabilities across the logistics value chain. We reiterate our view that GMD will be a major beneficiary of increasing manufacturing activity in Vietnam over the long term. We forecast 2023F-2026F core NPAT-MI CAGR of 23%. For 2024F, we forecast NPAT-MI of VND1.4tn (USD57.3mn; +23% YoY vs 2023F core NPAT-MI) as we expect 1) container throughput to recover across GMD's ports, and 2) higher ASPs from a recovery in demand and a potential increase in container handling fees, and 3) cost optimization. GMD's 2024F P/E is at 15.9x vs its five-year-average TTM P/E of 15.2x. We believe GMD deserves a valuation that is higher than its historical average given a 22% recovery in 2024F EPS.

Please find more details on GMD in our latest Update Report.

BUY – Saigon Cargo Services (HSX: SCS)

BUY- SCS is an air cargo handler in southern Vietnam's duopoly market and generates high returns on capital and cash dividends. We expect air cargo throughput to recover 18% YoY in 2024 thanks to improved trade activity led by restocking by western retailers. SCS looks attractive at a 2024F P/E of 11.3x, based on our forecast, vs a four-year average TTM P/E of 13.5x.

Please find more details on SCS in our latest Update Report.

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Industrial manufacturers: Gradual recovery led by cautious restocking

The potential for a recession has been partly reflected by destocking amongst US retailers.

- Export orders for Vietnamese manufacturers were hit long before US retail sales softened as importers destocked in anticipation of a potential recession.
- Orders to US manufacturers have weakened since mid-2022 but retail sales have been resilient.
- Consensus points to lower risk of US recession but slower recovery in Chinese demand.
- Manufacturers see a gradual recovery in orders; customers' inventory levels look healthy.
- We believe brand owners and retailers completed destocking in Q2 2023-Q3 2023 in anticipation of single-digit sales growth in 2024 and remain cautious on the demand outlook.
- Manufacturers see orders coming back, but slowly.

Other indicators suggest a gradual recovery in exports in 2024.

- A recent rebound in chip sales burned through the inventory glut and should bolster chip manufacturing in 2024, hence the demand for yellow phosphorus.
- Cooling, but still high mortgage rates, in the US suggest a gradual recovery in building permits going forward and, in turn, furniture imports.
- Cooling inflation is supporting US consumer confidence while weak consumer sentiment threatens deflation in China.
- We expect mid-single-digit growth in Vietnam's textile and wooden furniture exports and low-teen growth in electronics exports in H1 2024, followed by an acceleration in H2 2024.

Commodity prices that reached a low base where manufacturers make losses are now edging higher. We forecast change in ASPs YoY in 2024 as follows:

- DGC's industrial phosphorus chemicals: 7 %
- DHC's packaging paper: 13%
- DRC's heavy truck tires: 0%
- VHC's frozen filets: 8%

Downside risks:

- Higher-than-expected interest rates weighing on short-term demand and inventory costs.
- Weaker-than-expected global growth hurting medium-term demand and orders.
- Weak Chinese demand resulting in prolonged deflation and soft commodity prices.

Stock recommendations:

- DGC is a top-two global exporter of yellow phosphorus. Its resource and technological advantages support our average projected ROE for 2020-2025F of 38%. We expect a 40% rebound in 2024 NPAT due to (1) a rebound in global semiconductor sales, (2) new US customers, and (3) DGC's new factory. DGC's valuation looks undemanding at a projected 2024F P/E of 8.1x vs its five-year average of 9.0x.
- VHC is the leading global exporter of pangasius fish. We project an 8% YoY rise in frozen filet ASP in 2024, coupled with an increasing share in export volumes to the US and China markets, to drive a 20% YoY surge in VHC's export value in 2024 vs 2023. We forecast VHC's NPAT-MI to jump 56% YoY in 2024 and return to its 2022 level in 2025.
- DHC accounts for 10% of Vietnam's packaging paper capacity and possesses superior cost advantages. Packaging paper prices are recovering from a low base due to an expected recovery in exports from Vietnam and China led by restocking in developed economies and a seasonal upturn in consumption in both countries for the next Lunar New Year holiday. We forecast 2024F EPS growth of 27%. DHC's valuation looks undemanding at a 2024F P/E of 8.0x vs its 10-year average of 10.3x.

Vietcap

Figure 356: Industrial manufacturers: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
ACG	O-PF	234	0%	50%	27	0.0	37,600	47,700	4/20/2023	26.9%	2.7%	29.5%
DHC	O-PF	126	0%	50%	19	0.3	38,000	47,900	11/7/2023	26.1%	2.6%	28.7%
STK	BUY	101	0%	100%	84	0.1	25,950	31,800	12/29/2023	22.5%	0.0%	22.5%
DGC	BUY	1,481	0%	49%	458	7.7	94,400	108,000	10/30/2023	14.4%	3.2%	17.6%
PTB	M-PF	163	0%	25%	7	0.8	59,000	59,700	11/29/2023	1.2%	4.1%	5.3%
DRC	O-PF	130.1	0%	49%	7	0.7	26,500	23,100	3/30/2023	-12.8%	6.4%	-6.4%

Figure 357: Industrial manufacturers: Summary valuations

Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E LTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/ EBITDA 2024F x	ROE 2024F %	P/B LQ x	Net D/E LQ %
ACG	37,600	2%	14%	16%	9.9	8.5	7.5	6.5	4.1	16%	1.2	-0.2
DHC	38,000	-19%	27%	18%	9.9	10.1	8.0	6.8	6.0	18%	1.6	0.2
STK	25,950	-62%	105%	14%	20.5	23.0	11.2	9.8	6.2	13%	1.5	0.2
DGC	94,400	-40%	37%	9%	11.0	11.2	8.1	7.4	5.6	33%	2.9	-0.7
PTB	59,000	-24%	37%	24%	10.8	13.3	9.7	7.8	5.8	15%	1.4	0.5
DRC	26,500	18%	-8%	2%	9.7	9.7	10.5	10.3	6.6	16%	1.7	0.1

Source: Company data, Vietcap forecast. Note: Share prices as of December 29, 2023

Figure 358: Company names and tickers

Ticker	Company name	Products
ACG	An Cuong Wood-Working Materials	Decorated wood panels
DHC	Donghai of Bentre	Packaging paper, carton boxes for export goods, and domestic consumer goods
DGC	Duc Giang Chemicals	Chemicals for electronics and agrochemicals, fertilizers
DRC	Da Nang Rubber	Radial tires
PTB	Phu Tai JSC	Wooden furniture, paving stones, real estate
STK	Century Synthetic Fiber	Yarn for fabric makers
VHC	Vinh Hoan Corp	Pangasius fish filets, collagen, and gelatin for beauty products

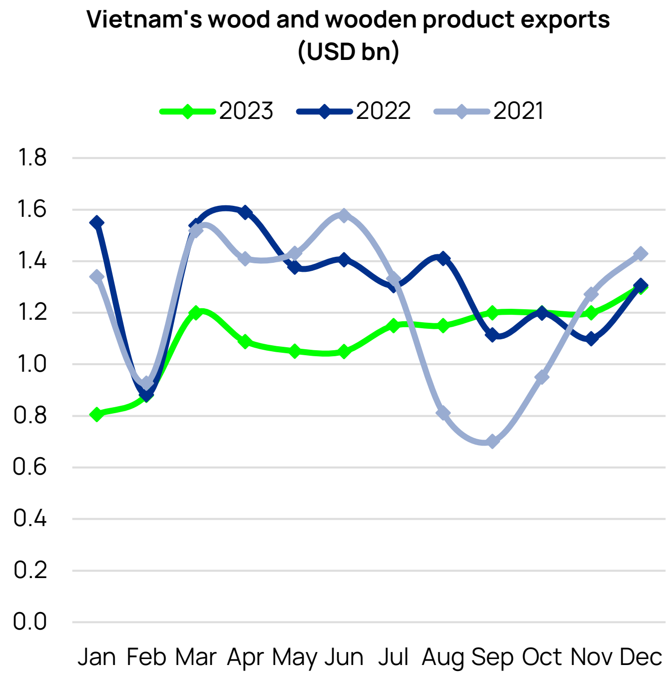
Source: Vietcap (Please see the Consumer section of this report for data on VHC, which is discussed in this section due to its high exports/total sales)

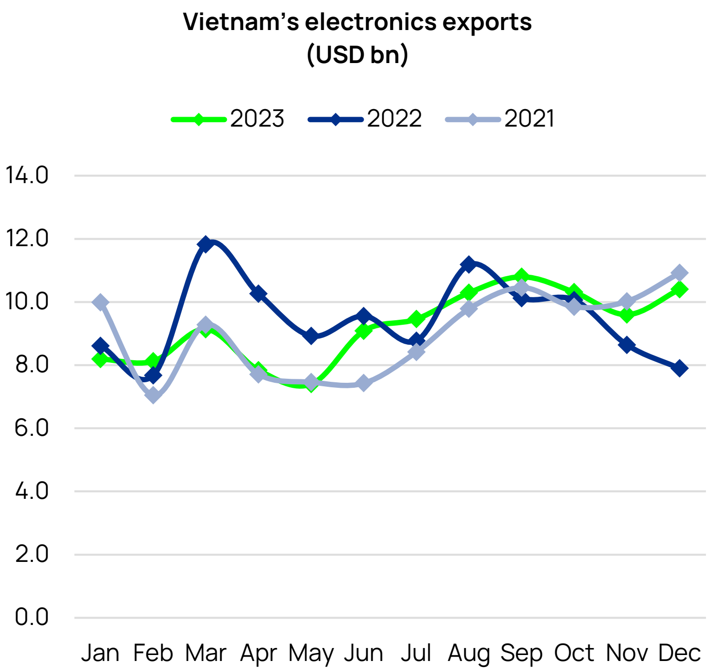
Key sector themes and 2024 outlook

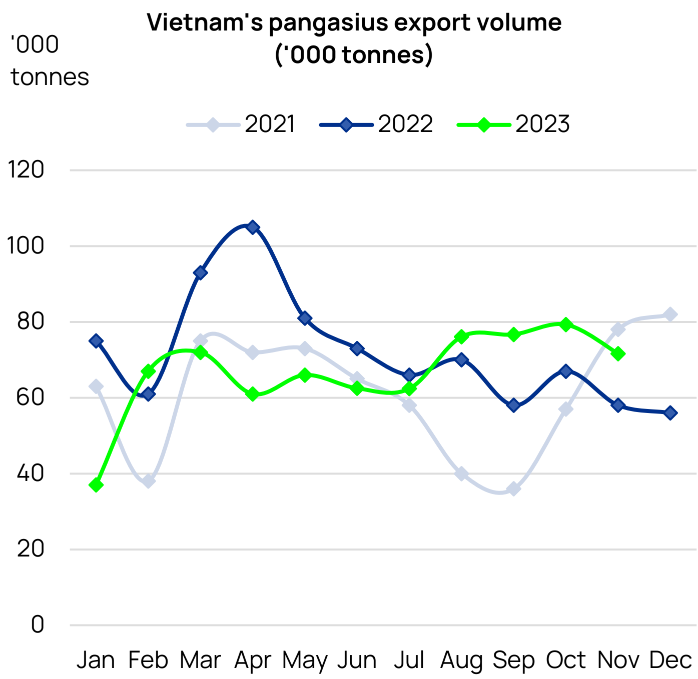
A potential US recession has been partly reflected in destocking

Orders to Vietnamese manufacturers were hit long before a slowdown in US retail sales as importers destocked in anticipation of a potential recession. Our industrial manufacturer coverage is export-oriented. Export volumes and prices began to feel the impact of the Fed's tightening cycle in mid-2022. We estimate that the combined revenues of industrial manufacturers under our coverage declined 15%-30% YoY in 2023. Similarly, new orders from the US to manufacturers of consumer goods began to slide in mid-2022. Meanwhile, US retail sales have remained resilient thus far (**Figure 360**). We argue that retail sales are less reliable as a leading indicator for Vietnamese exports during this cycle compared to previous cycles.

Figure 359: Select major Vietnamese export products

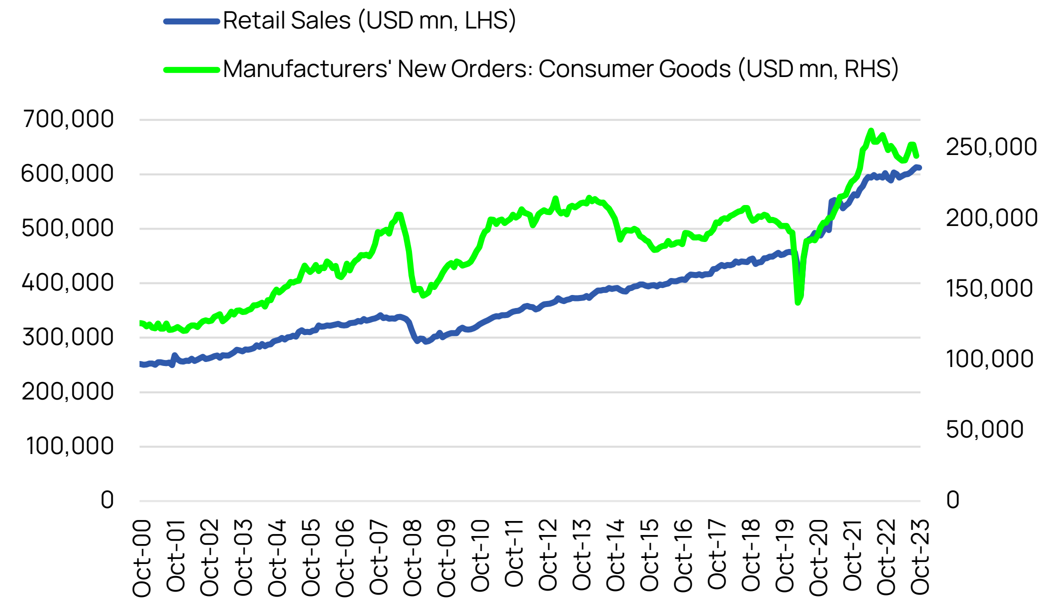






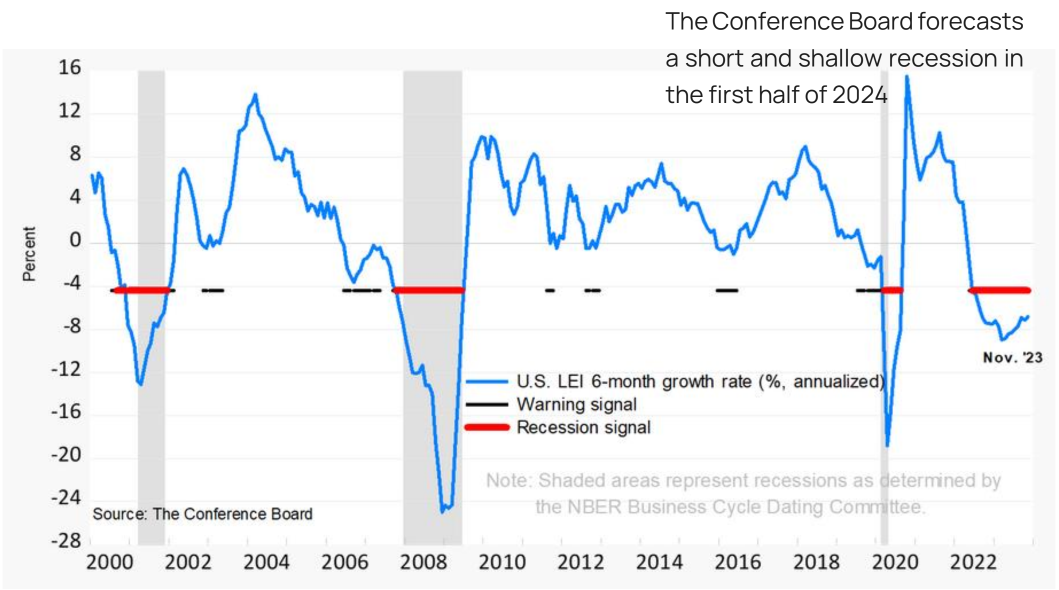
Source: Vietnam Customs, Agromonitor, Vietcap

Figure 360: US orders to manufacturers weakened in mid-2022 while US retail sales have remained resilient thus far



Source: US Census Bureau, Vietcap, retail sales data is seasonally adjusted

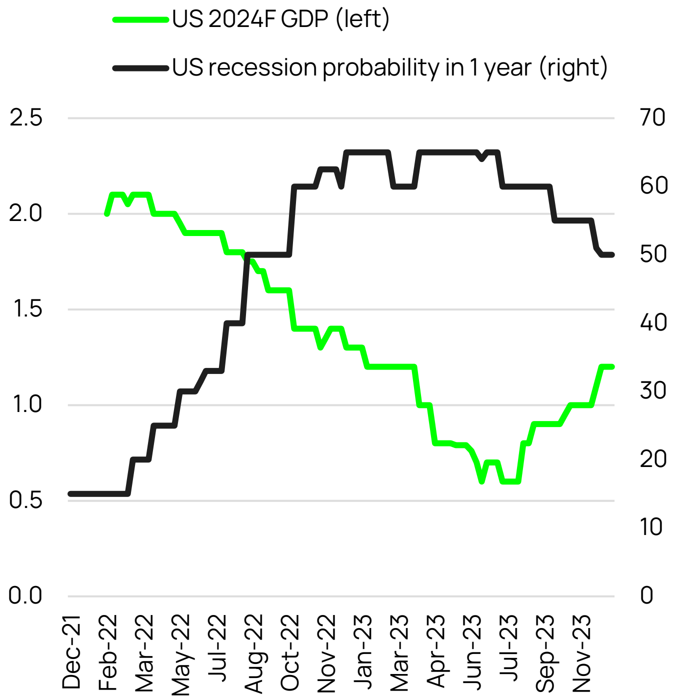
Figure 361: US leading economic indicators (LEI) have been predicting a recession for longer than in previous cycles



Source: The Conference Board, Vietcap

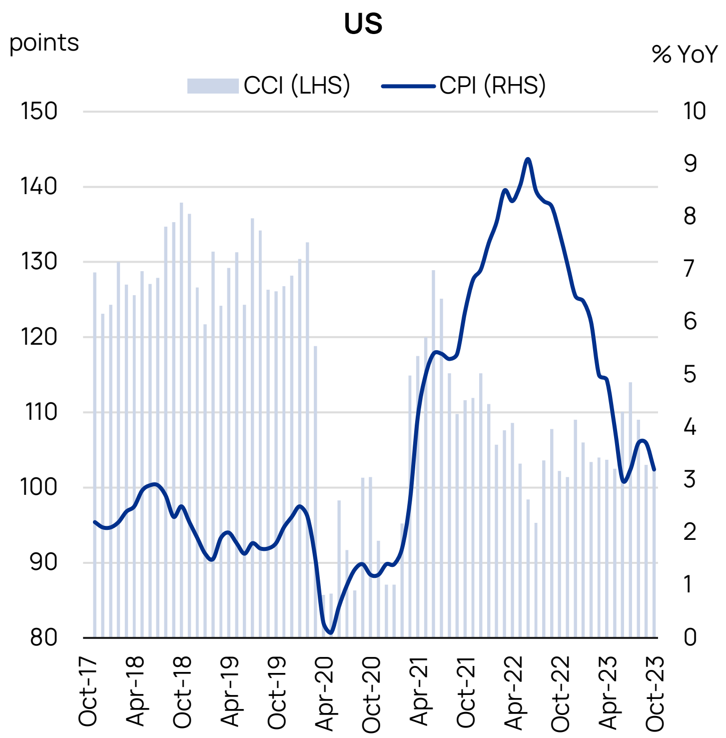
Consensus probability of US recession declining, but slower recovery in China

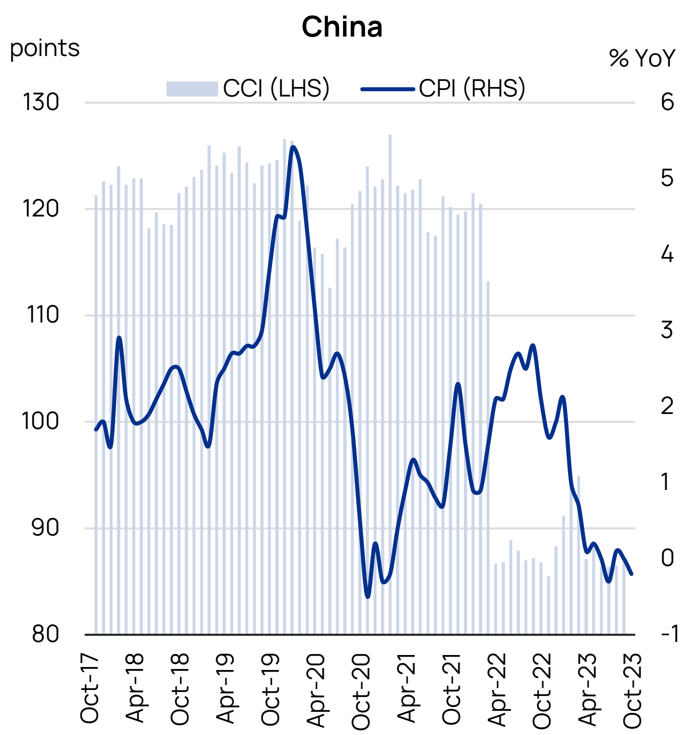
Figure 362: Bloomberg consensus shows an improving outlook for the US but a worsening outlook for China



Source: Bloomberg, Vietcap

Figure 363: Consumer Confidence Index (CCI) and CPI: Cooling inflation supported US CCI while weak consumer sentiment pulled China into deflation

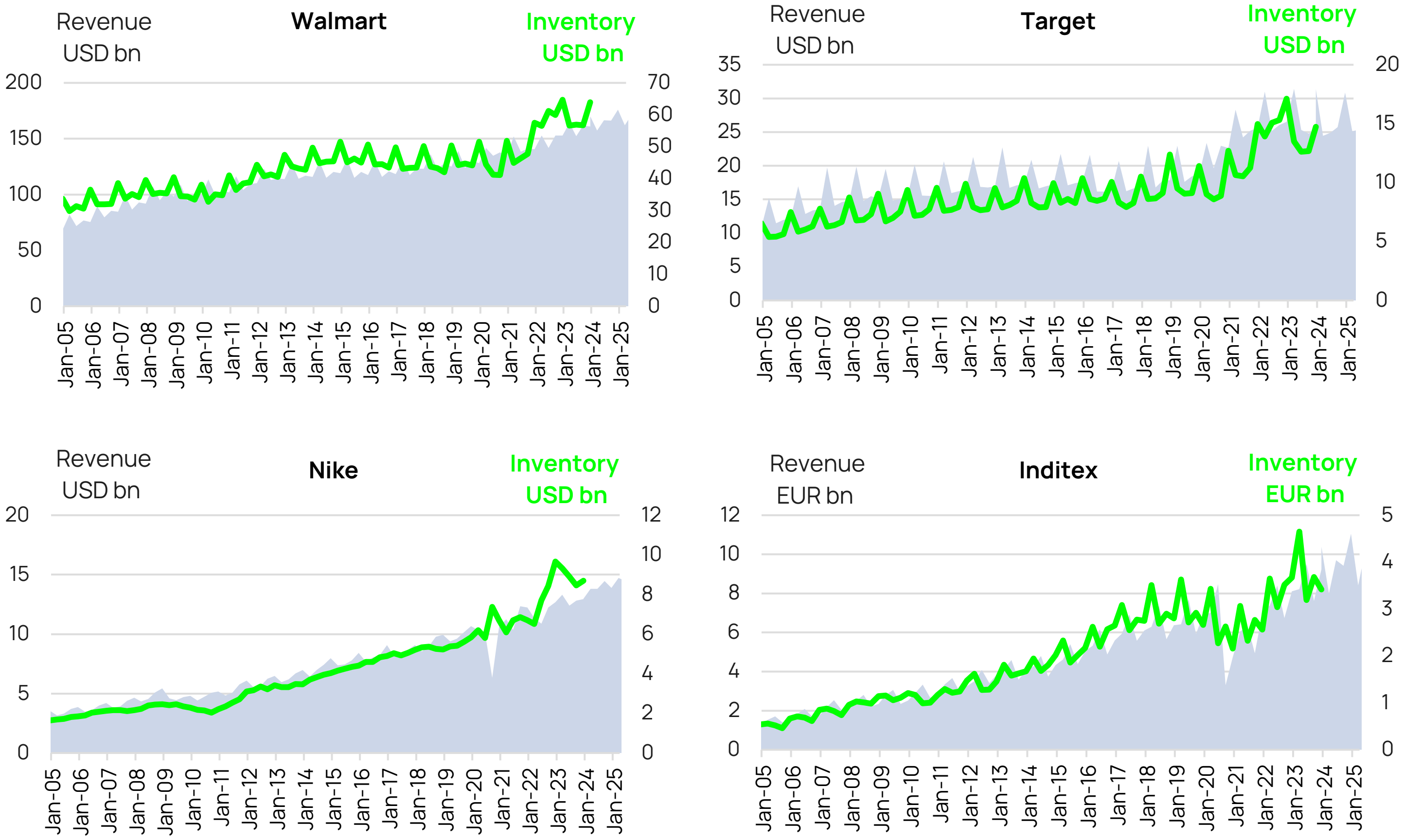




Source: Bloomberg, Vietcap

Manufacturers see a gradual recovery in orders; customers' inventory levels look healthy

Figure 364: Brand owners and retailers completed destocking in Q2 2023-Q3 2023, expecting single-digit 2024 sales growth and remaining cautious on demand



Source: Bloomberg, Vietcap. Note: data for forward periods are Bloomberg consensus estimates.

Figure 365: Comments from textile companies/association

Company/Association	Comments on business outlook
Ho Chi Minh City Textile, Embroidery, and Knitting Association	- Contrary to the usual trend, factories usually have orders scheduled until mid-year or the end of Q3 of next year, but now orders are only gradually recovering. - Returning orders are mainly from small retailers, and are demanding style, fashion, and competitive pricing. - Despite not meeting expectations, the revival of orders is seen as a positive signal, helping businesses alleviate pressure and maintain their workforces while waiting for the market to fully recover.
VGT (Vietnam National Textile Group - Vinatex)	- In Q4 2023, market signals are more positive with increased customer visits to inquire about sourcing and manufacturing capacity. - Although official orders are not confirmed yet, there is motivation for units to intensify sample production and quote with optimized pricing structures, in the hope that they may secure orders for the upcoming period. - The textile sector shows signs of recovery, with some markets indicating a potential turnaround, even though demand is still low. Some subsidiaries of Vinatex approached breakeven recently and some have shown positive profits.

(Table continues on the next page)

Company/Association	Comments on business outlook
TNG (Garment, Thai Nguyen Province)	- Proactive market coping solutions have helped the company achieve 88% of its annual revenue target in 10M 2023. Orders have been steady and should remain so. - Key customers (Decathlon and The Children's Place) consolidated orders from other manufacturers to TNG as they cut total orders. - Plans include continued investment in modern equipment and proactive sourcing of raw materials to increase production and meet consumer demand.
MSH (Garment, Nam Dinh Province)	- Orders are slowly returning, with customers closely monitoring sales for the current winter season to decide on orders for 2024 and 2025. - Expects a positive business recovery in Q4/2023 and Q1/2024. - Recently put the new Xuan Truong factory into operation.
Eclat Textile* (Taiwanese FDI, factories in southern Vietnam, Indonesia)	- Firm orders to April 2024 and some clients have placed orders for July 2024. - Rush orders are declining, and clients are tending to place long-term orders. - Currently, all of its garment factories and the Vietnam fabric mill are running at full utilization.
STK (Polyester yarn, southern Vietnam)	- After a recovery in Q3 2023, Q4 2023 sales remain flat QoQ. - Discussing with fabric customers and brand customers on capacity expansion and new orders in 2024.

Source: Vietcap compilation

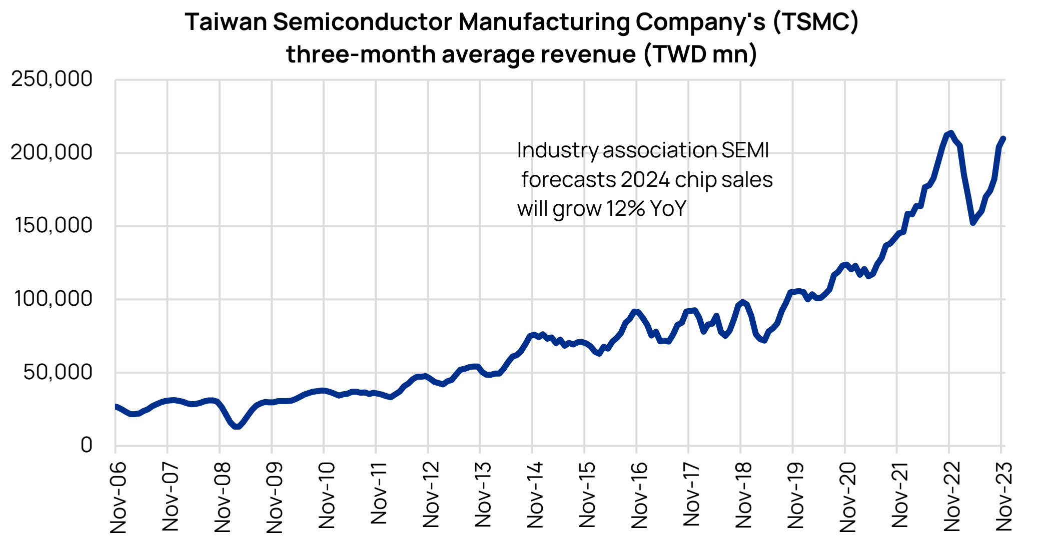
Figure 366: Comments from wooden product companies/association

Company/Association	Comments on business outlook
Vietnam Wood and Forest Product Association	- The wood export industry shows positive signs with significant recovery in some key product categories in September and October 2023. - Despite challenges from reduced demand and tight monetary policies, the sector has seen a strong rebound. - Industry recovery not only brings opportunities for orders but also increases employment opportunities.
Hiep Long Ltd. (Wooden product, Binh Duong Province)	- Expects a quick recovery in wood export markets in 2024. - The company is engaging with potential customers for orders in 2024 but does not see these bouncing back to pre-pandemic levels.
Duc Thien Ltd. (Wooden product, Binh Duong Province)	- Reports a strong recovery in orders in Q4 2023, with a 20-25% increase compared to the previous three quarters. - Anticipates further growth in Q1 2024.
PTB (Wooden product & paving stone, southern Vietnam)	- PTB suspended business with Nobel House Home Furniture Ltd. to negotiate repayment of VND60bn in receivables. This is a US customer that accounted for 12% of H1 2023 but was acquired by Gigacloud due to insolvency. - PTB expects wooden furniture orders to return to the 2022 level in mid-2024. - PTB is optimistic about stone sales thanks to continued market share gains amid high US antidumping tariffs on Chinese products. - PTB is conservative on stone profit margins because some of PTB's old stone mines and factories are operating inefficiently and there are early costs associated with its new quartz line.

Source: Vietcap compilation

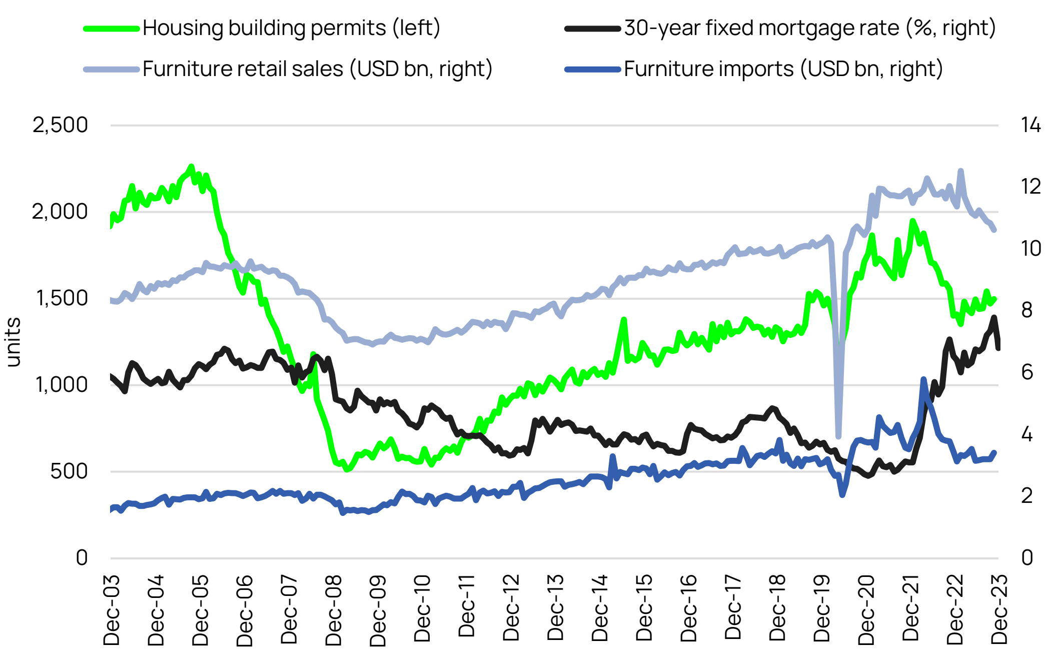
Other indicators suggest a gradual recovery in exports in 2024

Figure 367: Recent chip sales rebound burned through the inventory glut and should bolster chip manufacturing in 2024, thus demand for yellow phosphorus



Source: TSMC, SEMI, Vietcap

Figure 368: Cooling but still high mortgage rates in the US suggest a gradual recovery in building permits going forward and, in turn, furniture imports



Source: US Census Bureau, Freddie Mac, Vietcap

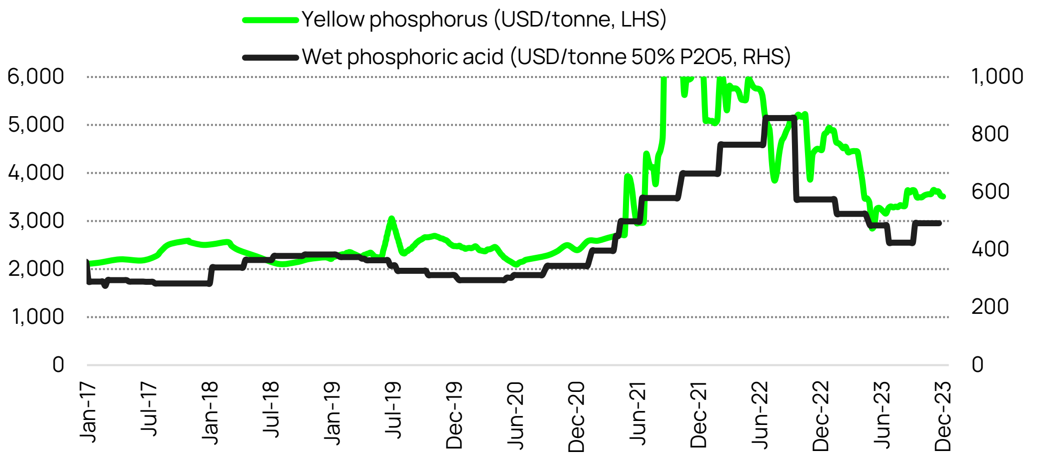
Figure 369: Vietcap's 2024F revenue forecasts for industrial manufacturers (VND bn)

Company	Commodity	2023E revenue	2024F revenue	YoY	Vietcap's comments on 2024F
DGC	Industrial phosphorus chemicals	8,855	8,285	36%	* Volume: +27% YoY, ASP: +7 % YoY * Thanks to recovering demand and a full-year contribution of DGC's new phosphorus factory.
DGC	Agricultural phosphate	3,686	3,544	5%	* Volume: +11% YoY, ASP: -6% YoY * We expect fertilizer use to bounce back as fertilizer prices have declined. DGC sold ~80,000 tonnes of agricultural phosphate in 2020 and 2021.
DHC	Packaging paper	3,142	3,659	16%	* Volume: +3% YoY, ASP: +13% YoY * We expect Vietnam's trade and consumption to increase, bolstering demand for packaging paper.
DRC	Heavy truck tires	5,042	5,501	9%	* Thanks to the recovery of domestic and overseas markets and expectations for a new radial tire factory to operate in Q1 2024
PTB	Wooden furniture	2,537	3,044	20%	* We expect a gradual recovery in furniture exports led by restocking. We project lower wood revenue in 2024 than 2022 because we assume no business will resume between GigaCloud and PTB.
PTB	Paving stones	1,714	1,889	10%	* Led by higher quartz exports and a small recovery in domestic stone sales.
STK	Polyester yarn	1,501	2,437	62%	* Thanks to restocking and market share gains. * STK plans to expand capacity by 60% in mid-2024 to capture orders relocated from China. Per STK, its direct customers (fabric makers) are also expanding their capacity. We forecast STK's capacity utilization for all factories in this period at 60%.
VHC	Frozen fish filets	10,720	12,968	21%	* Volume: +16% YoY, ASP: +8% YoY * We project that VHC's sales volume should continue to recover in Q4 2023 as global food service operators increase restocking activities for the festive season, followed by a more vibrant consumption recovery that drives higher filet ASPs in 2024.

Source: Vietcap

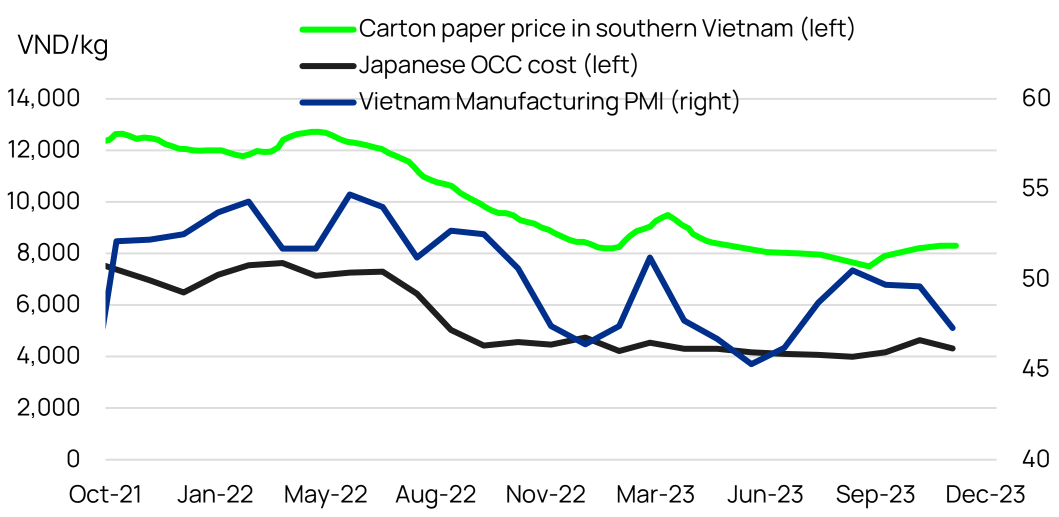
Commodity prices to edge up after a long slide in accordance as demand recovers

Figure 370: Yellow phosphorus (P_4) and wet phosphoric acid (WPA) edged up vs mid-2023 — when the average Chinese P_4 producer made losses



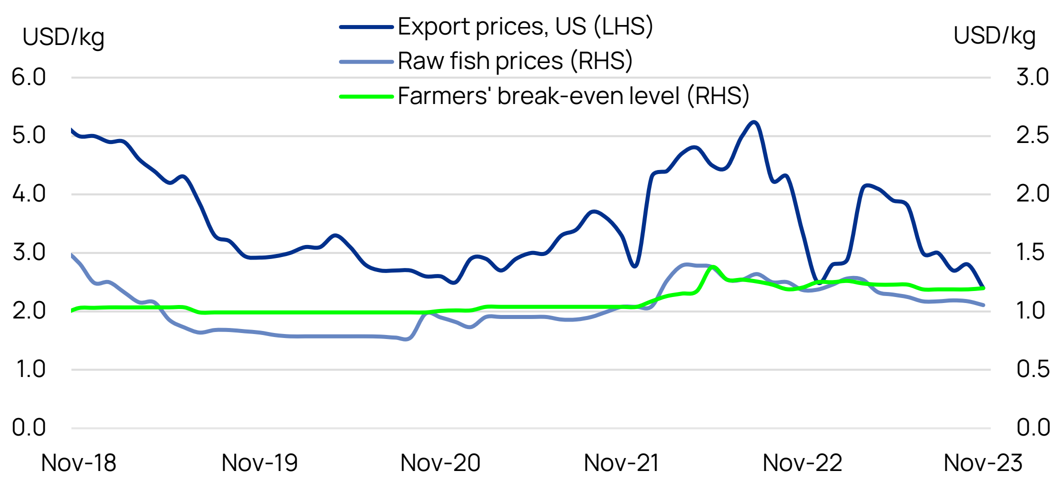
Source: Sunsirs, Bloomberg, Vietcap

Figure 371: Prices of paper and input old corrugated container (OCC) edged up from a low base; many manufacturers are still making losses



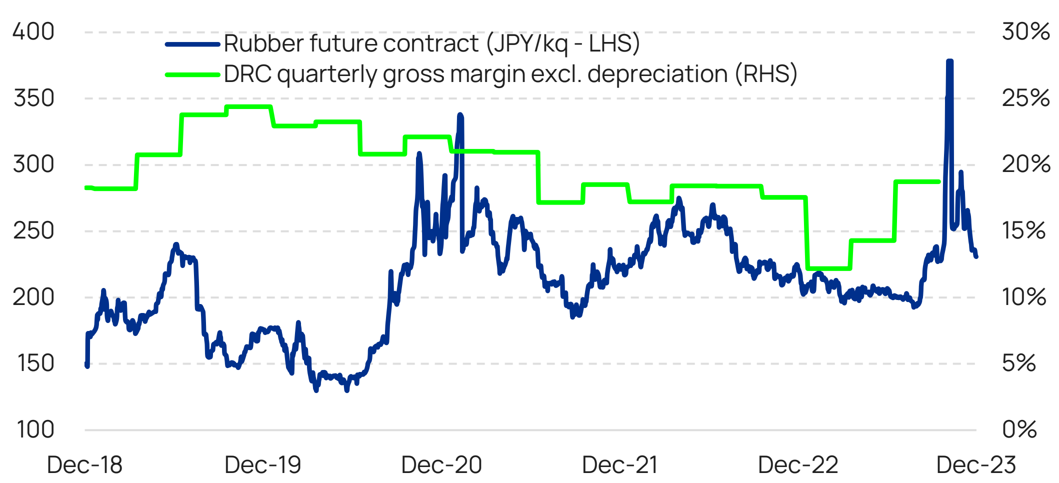
Source:Vietnam Pulp and Paper Association, Bloomberg, Vietcap

Figure 372: VHC's monthly export prices to the US, Vietnam's raw pangasius prices* and farmers' breakeven level



Sources: Agromonitor, Vietcap (data to November 2023; * raw fish is the main input material in finished fillets)

Figure 373: DRC normally stocks up on raw material inventory one quarter ahead



Source: Bloomberg, Vietcap compilation

Vietcap

Figure 374: Vietcap's 2024F ASP forecasts for commodity producers

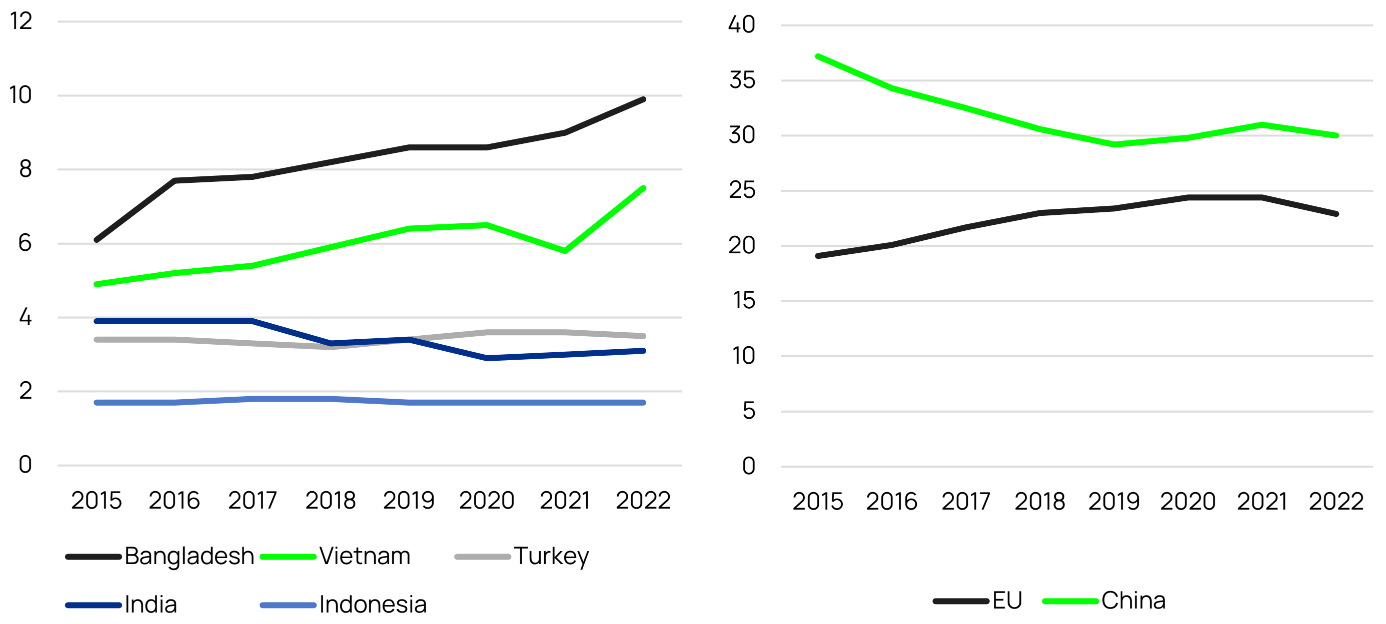
Company	Commodity	2023E ASP (VND/kg)	2024F ASP (VND/kg)	YoY	Vietcap's comments
DGC	Industrial phosphorus chemicals (on phosphorus content)	102,000	109,000	7%	Thanks to a continued recovery in demand, which began in mid-2023. DGC expects phosphorus prices to rise in 2024.
DGC	Agricultural phosphate (on phosphorus content)	47,000	44,000	-6%	Fertilizers have so far remained expensive vs their pre-COVID levels as war and climate hurt crops and fertilizer supply. Going forward, falling oil prices could dampen the price of sulfur and thus phosphate fertilizer prices.
DHC	Packaging paper	8,962	10,169	13%	
DRC	Heavy truck tires (VND/unit)	4,099,831	4,116,328	0%	We forecast radial tire ASP to increase 2% in 2023F and to be relatively flat in 2024F due to higher competition in both domestic and overseas markets.
VHC	Frozen fish filets	79,544	85,923	8%	We project ASP to increase to USD3.5/kg from USD3.3/kg in 2023 following our expectation for stronger demand and tighter supply.

Source: Vietcap

Pockets of market share growth shift from labor to capital

Cheaper labor sources compete for apparel, Vietnam to supply more textile materials

Figure 375: World's major apparel exporters and market shares (%): Garment export shares left by China have been picked up mostly by Vietnam and Bangladesh.



Source: International Trade Center, Vietcap compilation

Figure 376: Survey of US apparel importers: Vietnam's sourcing cost and ESG risks worsened in 2023 while Bangladesh improved in terms of ESG risks

Table 2-4 Strengths and weaknesses of primary sourcing bases in 2022—by country

Region	Sourcing destination	Speed to market	Sourcing cost	Flexibility and agility	Risk of labor and social compliance	Risk of environmental compliance
Western Hemisphere	USA	4.5	2.0	3.5	4.0	4.0
	Mexico	4.0	3.0	3.5	3.0	3.0
	CAFTA-DR	3.5	3.5	3.0	3.5	3.0
Asia	China	3.0	3.5	3.5	2.0	2.5
	Vietnam	3.0	4.0	3.5	3.0	3.0
	Bangladesh	2.0	4.5	3.0	2.5	2.0
	Indonesia	2.5	3.5	3.0	2.5	2.5
	India	2.5	3.5	3.0	2.5	2.5
	Sri Lanka	2.5	3.5	3.0	3.0	3.0
	Cambodia	2.5	4.0	3.0	2.5	2.5
Rest of the world	Europe	3.0	2.0	3.0	3.5	4.0
	Turkey	3.0	3.0	3.5	3.0	3.0
	AGOA	1.5	4.0	2.0	2.5	2.5
	Egypt	2.5	3.5	3.0	2.5	3.0

Note: The results are based on respondents' average rating for each country on a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average). In the table, ● means strength as a sourcing base (rating score between 5.0-4.0); ▲ means average performance (rating score between 3.0-3.9); ◆ means weakness as a sourcing base (rating score between 1.0-2.9). However, the results do NOT reflect the author's evaluation of each country.

Table 2-1 Strengths and weaknesses of primary sourcing bases in 2023—by country

Region	Sourcing destination	Speed to market	Sourcing cost	Flexibility and agility	Risk of labor and social compliance	Risk of environmental compliance
Western Hemisphere	USA	4.5	2.0	3.0	4.0	4.0
	Mexico	4.0	2.5	3.5	3.0	3.0
	CAFTA-DR	4.0	3.5	3.5	3.5	3.5
Asia	China	3.5	3.5	4.0	1.5	2.5
	Vietnam	3.0	3.5	4.0	2.5	2.5
	Bangladesh	2.0	4.5	3.5	2.5	2.5
	Indonesia	2.5	4.0	3.5	3.0	3.0
	India	2.5	3.5	3.5	3.0	2.5
	Sri Lanka	2.5	3.5	3.5	3.5	3.0
	Cambodia	2.5	3.5	3.0	2.5	3.0
Rest of the world	Europe	3.0	2.0	3.0	3.5	4.0
	Turkey	3.0	3.0	3.5	3.0	3.0
	AGOA	2.0	4.0	3.0	3.0	2.5
	Egypt	3.0	3.5	3.0	3.0	3.0

Note: The figures in the table reflect respondents' average rating for each country on a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average). In the table, ● means strength as a sourcing base (rating score between 5.0-4.0); ▲ means average performance (rating score between 3.0-3.9); ◆ means weakness as a sourcing base (rating score between 1.0-2.9). However, the results do NOT reflect the author's evaluation of each country.

Source: United States Fashion Industry Association, Dr. Sheng Lu

Figure 377: Vietnam's 2021-2030 development plan for the textile industry targets single digit export growth and more domestic raw materials

	2020	2022	2025G	2030G
Exports (USD bn)	33.5	42	50-52	68-70
	2021-2025		**2026-2030**	**2021-2030**
Exports growth per annum	7.5%-8.0%		N/A	6.8%-7.2%
Localization rate*	51%-55%		56% - 60%	N/A

Raw materials

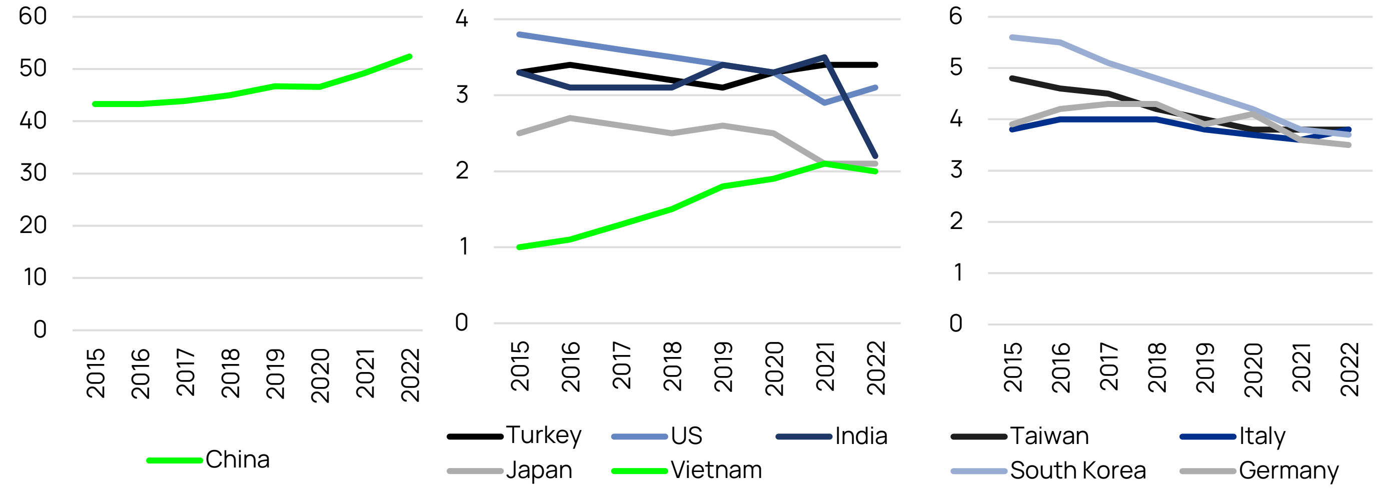
- Reduce imports, grow local production
- Functional yarn, high value-added yarn, ecofriendly yarn
- Knitted fabric, woven fabric, functional fabrics
- Centralized industrial parks that focus on textiles
- Prioritize investors with large capacity and good reputations
- Prioritize synchronized and closed production and waste treatment

Garment

- Develop higher value-added garments
- Relocate to regions with favorable labor sources and infrastructure
- Invest in automated machines and expanding production to all garment-making tasks

Source: Ministry of Industry and Trade, Vietcap (* locally produced raw materials/raw materials used)

Figure 378: Market share of world's top 10 fabric exporters (%): Vietnam can capture more raw material manufacturing



China's exports of fabric grew as garment production left the country much faster than fabric production. The country remains dominant in fabric making.	Many Taiwanese and Chinese FDI firms plan to keep/establish a fabric/yarn presence in Vietnam to benefit from FTAs, while diversifying garment manufacturing to other countries. Vietnam has emerged as one of the top 10 countries in terms of fabric exports and was the only country apart from China that recorded significant growth over the past five years.

Source: International Trade Center, Vietcap compilation

STK plans to operate its new Unitex factory in mid-2024, expanding its capacity by 60% to capture orders relocated from China. Per STK, this relocation is consistent with the plans of its brand customers and direct customers (fabric makers) and the latter are also expanding their capacity quickly. However, we expect that the factory will be profitable in H2 2024 as we forecast STK's capacity utilization for all factories in this period at 60%. In comparison, STK expects the Unitex factory to break even at ~55% utilization on its own.

US-China tension unlocks more phosphorus demand

DGC's sales to the US surged in 2023 amid weak total demand. China exported 600,000 tonnes of thermal phosphoric acid (TPA) in 2022, which is double DGC's upstream P_4 capacity. DGC is gaining market share in this product as the US began buying a significant amount of TPA from Vietnam in early 2023.

DGC stands to benefit whether chip manufacturers establish plants in Vietnam or not. The recent Comprehensive Strategic Partnership between Vietnam and the US has a focus on semiconductor R&D and production. Our house view is that chip R&D is more likely for Vietnam than chip manufacturing in the medium term. Nevertheless, DGC has established a dominant presence in East Asia (excluding China) within the P_4 market and is rapidly making inroads into the US market. Its top-tier P_4 purity surpasses that of all competitors in the global export market. Consistent purity is crucial for semiconductor production. As such, DGC is poised to benefit from increasing chip production by the US and its allies, irrespective of the location of the factories.

Global supply diversifying beyond China is crucial for DGC to tap into the growing demand for EV batteries. DGC has not yet sold to the EV sector. This is primarily because China has maintained a strong grip on the lithium ferro phosphate (LFP) market. However, the patent for LFP batteries expired in 2022, leading global manufacturers to establish their own production facilities. Owners of several electric vehicle (EV) battery plants under construction in Japan and South Korea have expressed their interest in procuring P_4 from DGC. This interest stems from a growing trend among US customers who are increasingly seeking alternatives to Chinese suppliers for both batteries and chemicals. Moreover, DGC has developed the LFP chemical — the input for the LFP battery — and is actively marketing this product to potential customers.

Top stock picks

BUY – Duc Giang Chemicals (HSX: DGC)

DGC is a top-two global exporter of yellow phosphorus. Its resource and technological advantages support our average 2020-2025F forecast ROE of 38%. We expect a 40% rebound in NPAT in 2024 YoY driven by (1) a rebound in global semiconductor sales, (2) new US customers, and (3) DGC's new factory. DGC's valuation looks undemanding at a projected 2024F P/E of 8.1x vs its five-year average of 9.0x.

Please find more details on DGC in our latest Update Report.

OUTPERFORM – Dong Hai Ben Tre JSC (HSX:DHC)

DHC accounts for 10% of Vietnam's packaging paper capacity and possesses superior cost advantages. It is enjoying an ongoing recovery in packaging paper prices from a low base. This is attributable to an expected recovery in Vietnam's and China's trade on developed economies' restocking and a seasonal upturn in the two countries' consumption over the Lunar New Year holiday. We forecast 2024F EPS growth of 27%. DHC's valuation looks undemanding at a projected 2024F P/E of 8.0x vs its 10-year average of 10.3x.

Please find more details on DHC in our latest Update Report.

BUY – Vinh Hoan Corp (HSX: VHC)

VHC is the leading global exporter of pangasius fish. We project an 8% YoY increase in frozen filet ASP in 2024, coupled with a higher share of export volumes to the US and China, to drive a 20% YoY surge in VHC's export value in 2024 vs 2023. We forecast VHC's NPAT-MI to jump 56% YoY in 2024 and return to its 2022 level in 2025.

Please find more details on VHC in our latest Update Report.

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Construction materials: Demand recovering from a low base

Signs of recovery emerged towards end-2023, paving the way for growth in 2024.

- Monthly construction steel volumes declined through most of 2023 but turned positive from September 2023 with the year-end high season for domestic construction activity.
- Flat steel products (i.e., hot-rolled coil, galvanized steel sheets, and steel pipes) recorded positive monthly YoY growth since May 2023, much earlier than construction steel, which was driven by a strong rebound in export demand from a low base in 2022.
- Cement sales volume was weak throughout 2023 with negative YoY growth recorded for all months in 10M 2023. Exported cement and clinker volume, on the other hand, was more resilient throughout 2023.

We expect volume growth in the low teens in 2024 across construction materials.

- Domestic demand: We expect infrastructure spending to remain the key driver for construction materials demand in 2024. The 2023 State budget for investment & development spending was set at the highest level since 2019 and the rate of disbursement has been the fastest during the last five years. For 2024, the State's expenditure plan for investment & development is budgeted at VND677.3tn (USD29.3bn, -7% YoY vs the planned budget for 2023).
- Exports: Leading indicators for construction material demand in key markets show mixed signals. High but declining mortgage rates in the US suggest a gradual recovery in building permits and in turn demand for construction materials. However, Eurozone Construction PMIs and Eurozone construction output growth remain low.

Recovery in commodity prices to support margin expansion in 2024.

- While the overall picture for the private property sector remains depressed, China has rolled out a series of policy measures in 2023 to revive the economy, which in turn are key drivers for strengthening sentiment toward key construction commodities prices. We expect steel-related commodity prices to have a gradual but bumpy recovery throughout 2024 as market sentiment adjusts to actual demand data.
- For 2024, we currently assume steel output prices will increase by more than input prices due to strong infrastructure spending and export demand.
- For BMP, we conservatively assume a normalization in margins in 2024 as input plastic prices recover from a low base.
- For HT1, we expect a correction in thermal coal prices to support margins.

Downside risks

- Weaker-than-expected economies and property markets dampen export demand.
- Weak Chinese demand prolongs deflation in commodity prices.
- Prolonged slowdown in the Vietnamese property market.
- Slower-than-expected budget disbursement for infrastructure projects.

Stock recommendations

- HPG offers a solid long-term growth story as the company is at the beginning of a new capex and earnings cycle. We believe 2023 is the cyclical low for HPG's earnings, therefore higher near-term P/E multiples in 2024/25 can be justified by a robust medium-term earnings growth outlook as 1) earnings start to recover in 2024 and 2) new capacity from Dung Quat Steel Complex Phase 2 comes online in 2025. We forecast 2024F NPAT-MI of VND14.4tn (USD599.6mn; +111% YoY).
- BMP remains our preferred defensive pick due to its stable earnings vs steelmakers, solid dividend yield (8.6% based on the next 12M projected dividends), and low financial risk. For 2024F, we forecast NPAT-MI to decline 24% YoY from a record high in 2023F. However, our 2024F NPAT-MI is 9% higher than that of 2022.

Figure 379: Construction materials: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
HT1	M-PF	189.2	80%	49%	89.0	0.2	12,000	13,200	4/3/2023	10.0%	4.2%	14.2%
HPG	O-PF	6,716	0%	49%	1,580.0	30.9	27,950	29,400	11/3/2023	5.2%	0.0%	5.2%
BMP	O-PF	352.8	0%	100%	46.0	0.8	104,300	93,300	11/28/2023	-10.5%	8.6%	-1.9%
CTD	SELL	282.1	0%	49%	11.0	4.1	68,800	43,400	6/2/2023	-36.9%	0.0%	-36.9%
HSG	U-PF	580.3	0%	49%	149.0	9.9	22,800	13,100	2/22/2023	-42.5%	0.0%	-42.5%
NKG	U-PF	268.2	0%	49%	87.0	9.7	24,650	13,000	2/22/2023	-47.3%	0.0%	-47.3%

Figure 380: Construction materials: Summary valuations

Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E LTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/ EBITDA 2024F x	ROE 2024F %	P/B LQ x	Net D/E LQ %
HT1	12,000	10%	34%	11%	403.6	19.0	14.3	12.8	5.3	7%	0.9	0.4
HPG	27,950	-20%	111%	35%	90.6	24.7	11.7	8.7	7.7	13%	1.6	0.3
BMP	104,300	43%	-24%	3%	7.2	8.7	11.4	11.1	4.6	28%	2.9	-0.7
CTD	68,800	873%	19%	30%	27.3	25.3	21.3	16.4	3.3	2%	0.6	-0.4
HSG	22,800	408%	21%	13%	454.8	10.9	9.0	7.9	4.7	12%	1.3	0.2
NKG	24,650	-1095%	25%	19%	-24.1	10.1	8.1	6.8	6.3	13%	1.2	0.6

Source: Company data, Vietcap forecast. Share prices as of December 29, 2023.

Figure 381: Company names and tickers

Ticker	Company name	Products/Services
BMP	Binh Minh Plastics	Plastic pipes
CTD	Coteccons Construction	Construction contractor
HPG	Hoa Phat Group	Long steel (rebar, wire rods) and flat steel (hot-rolled-coil and galvanized steel sheets)
HT1	Ha Tien 1 Cement	Cement
HSG	Hoa Sen Group	Galvanized steel sheets and steel pipes
NKG	Nam Kim Steel	Galvanized steel sheets and steel pipes

Source: Vietcap

Key sector themes and 2024 outlook

Signs of recovery emerged towards end-2023, paving the way for recovery in 2024

While the slow recovery in export markets and a sluggish domestic real estate sector have weighed on construction materials demand for most of 2023, signs of recovery have emerged across materials and markets.

Construction steel volumes, which we view as the prime indicator for domestic construction demand, recorded monthly YoY declines for most of 2023 and only showed growth since September 2023 with the end-of-year high season for construction activity. HPG, the market leader in construction steel, led the recovery with average monthly sales volume during September – November 2023 41% higher than in the same period in 2022 and 32% higher than average monthly sales during January – August 2023. HPG's November 2023 construction steel sales volume also recorded the highest monthly level since March 2022. Domestic demand recovery was the key driver of improving construction steel sales volumes in 2023 as export volume dropped 27% YoY in 10M 2023 and contributed 16% of total construction steel sales volume vs 19% in 10M 2022.

Figure 382: Total industry annual construction steel sales volume and growth

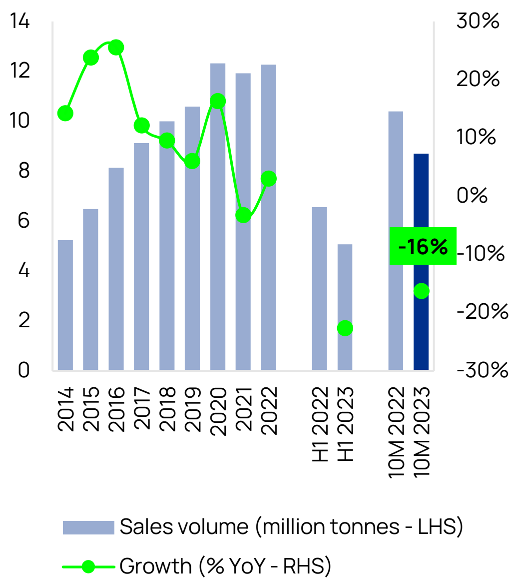


Figure 383: Total industry monthly construction steel sales volume and YoY growth by market

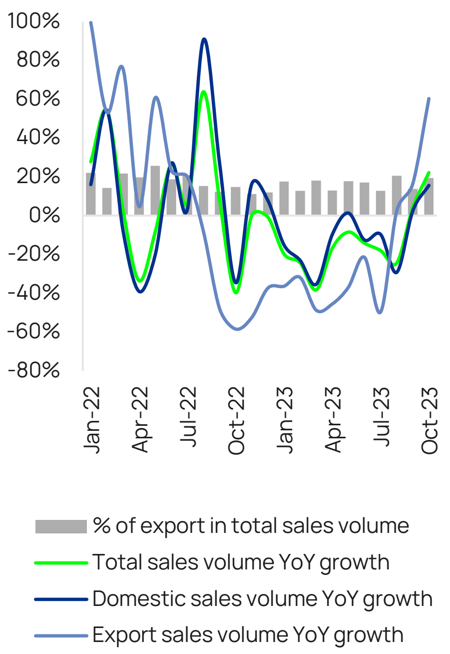
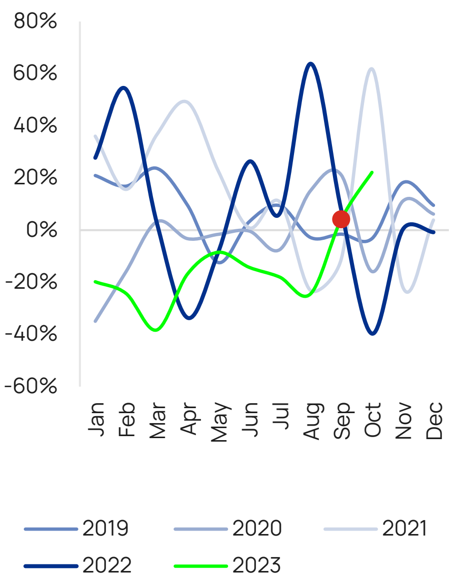


Figure 384: Total industry monthly construction steel sales volume YoY growth



Source: Vietnam Steel Association (VSA), Vietcap

On the other hand, **galvanized steel sheet and steel pipes** recorded positive YoY monthly growth since May 2023, much earlier than construction steel, which was driven by a strong rebound in export demand from a low base in 2022. For 10M 2023, galvanized steel sheets and steel pipes export sales volume grew 3% YoY while domestic sales volume dropped 11% YoY.

Hot-rolled-coil (HRC) is another steel product that benefited from export demand recovery in 2023 with export sales volume surging 201% to 2.8 million tonnes in 10M 2023, accounting for 51% of the total industry's HRC sales volume in 10M 2023 vs 18% in the same period in 2022.

Figure 385: Total industry annual galvanized steel sheet & steel pipe sales volume

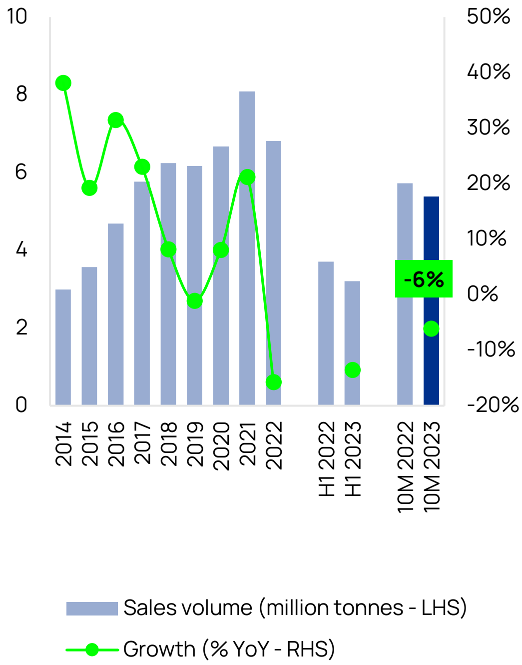


Figure 386: Total industry monthly galvanized steel sheet & steel pipe sales volume by market

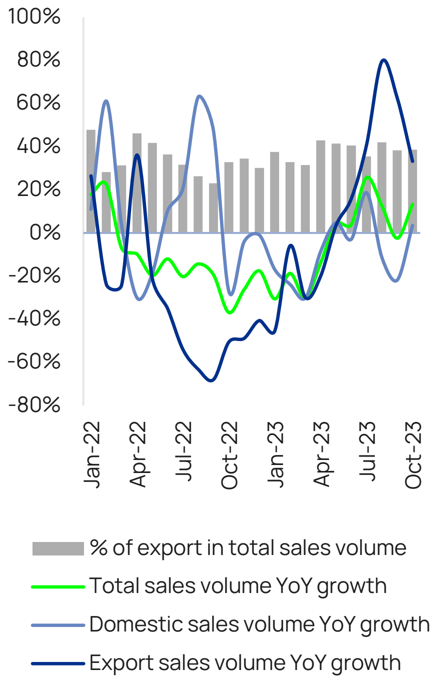
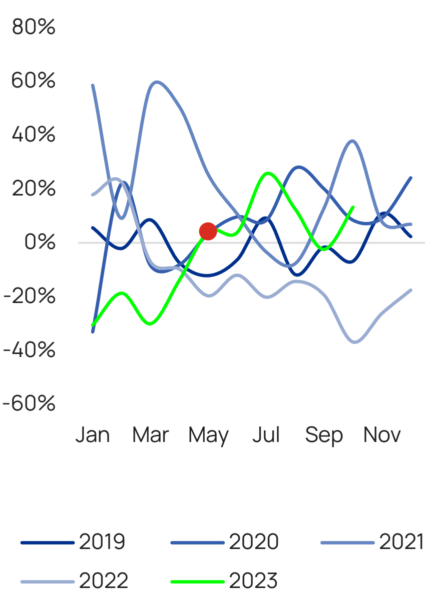


Figure 387: Total industry monthly galvanized steel sheet & steel pipe sales volume YoY growth



Source: VSA, Vietcap

Domestic cement sales volume was weak throughout 2023 with negative YoY growth recorded for all months in 10M 2023. Exported cement and clinker volume, on the other hand, recorded more volatile monthly YoY growth rates and declined 1% YoY in 10M 2023.

Figure 388: Total industry cement and clinker utilization rate

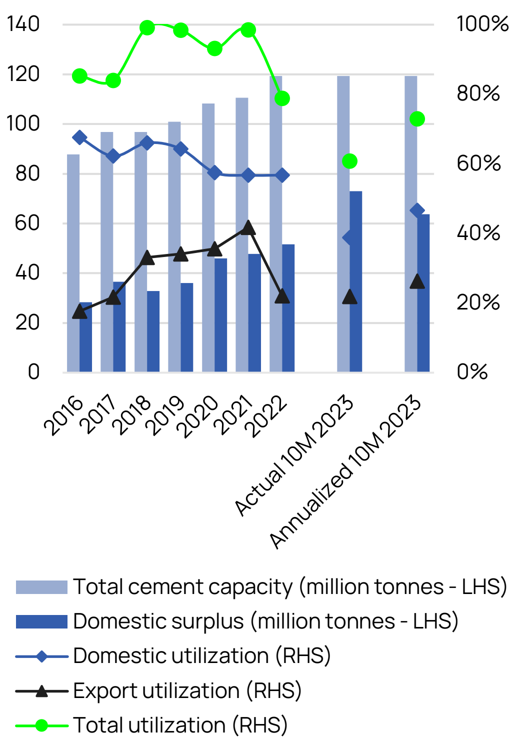


Figure 389: Total industry domestic cement sales volume

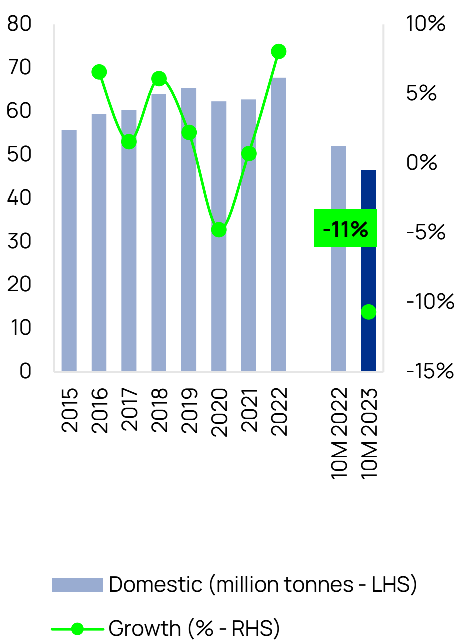
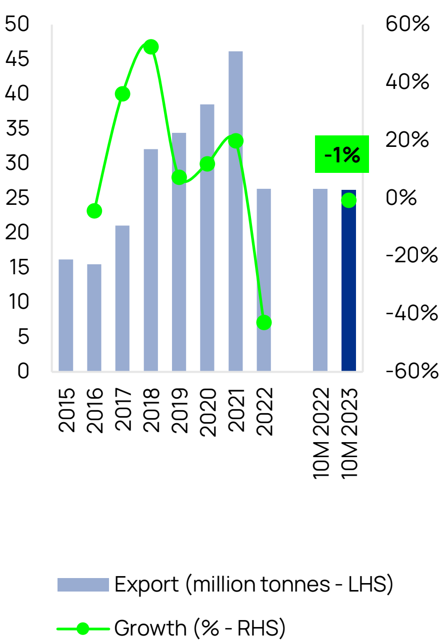


Figure 390: Total industry cement and clinker export volume



Source: Vietnam National Cement Association (VNCA), Vietcap

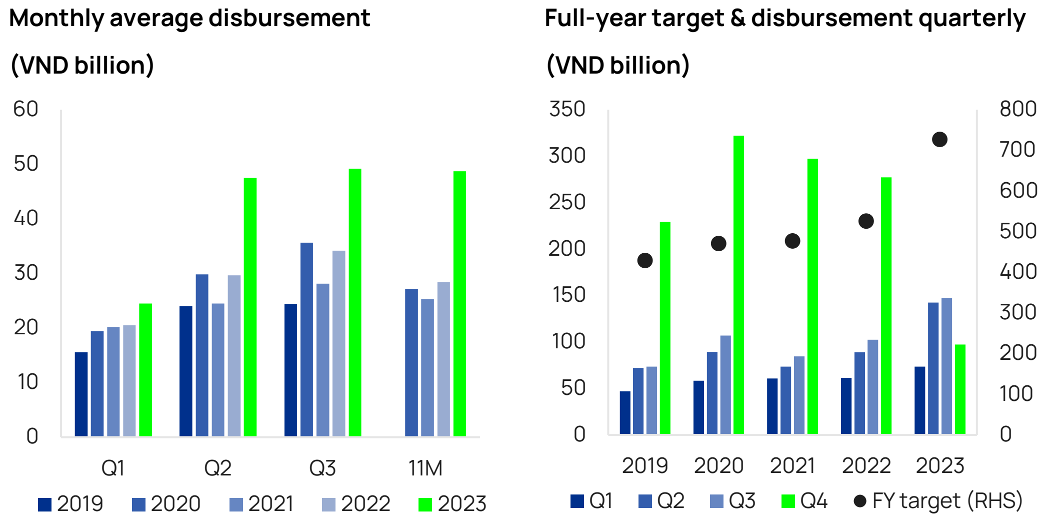
We expect volume growth in the low teens in 2024 across construction materials, led by infrastructure

Domestic demand: Infrastructure spending remains the key driver for 2024F construction materials demand

The 2023 State budget for investment & development spending was set at its highest level since 2019 and the pace of disbursement has been the fastest during the last five years. Average monthly disbursement in all four quarters of 2023 was consistently higher compared to the 2019-2022 period. In absolute terms, State investment & development spending in 11M 2023 was VND461.0tn (USD19.2bn), growing 36.8% YoY and achieving 63.4% of the full-year target of VND727tn (USD30.3bn). Like previous years, we expect seasonal acceleration in spending for investment & development in December 2023 and maintain strong momentum into 2024, which should support demand for construction materials.

For 2024, State expenditure for investment & development is budgeted at VND677.3tn (USD29.3bn, -7% YoY vs the planned budget for 2023). We note that the 2023 expenditure plan includes a special fiscal support package of VND350.0tn (USD14.1bn) that was previously approved in early 2022 for disbursement in 2022 and 2023.

Figure 391: State investment and development targets and disbursement in 2019-2023



Note: Q4 2023 data point comprises only two months' data for October and November 2023

Source: GSO, MOF, Vietcap compilation

Figure 392: State expenditure budget for investment & development in 2019-2024G

	2019	2020	2021	2022	2023	2024G
Amount planned for the year	VND429tn (USD17.9bn)	VND471tn (USD19.6bn) +10% vs 2019 planned budget	VND477tn (USD19.9bn) +1% vs 2020 planned budget	VND526tn (USD21.9bn) +10% vs 2021 planned budget	VND727tn (USD30.3bn) **+38% vs 2022** planned budget	VND677tn (USD28.2bn) **-7% vs 2023** planned budget
Actual disbursement	VND422tn (USD17.6bn)	VND576tn (USD24.0bn)	VND516tn (USD21.5bn)	VND530tn (USD22.1bn)	**VND461.0tn** (USD19.2bn) in **11M 2023**	
Actual disbursement vs amount planned for the year	**98.3%**	**122.5%**	**108.1%**	**100.8%**	**63.4%** in 11M 2023	

Source: GSO, MOF, Vietcap compilation

Infrastructure projects require various types of construction materials, with construction stone being the most significant. The Ministry of Transport estimates that the three phases of the new Long Thanh International Airport (LTA) will require 50-60 million tonnes of construction stone. Phase 1 will be built on 1,800 ha within the overall project's 5,000 ha. Other estimates by the Ministry of Transport show that 1 sqm of expressway road/ring road requires roughly one cbm of construction stone.

Figure 393: Estimated construction stone demand of major transport infrastructure projects

Project	Total investment (VND tn)	Timeline	Total construction stone demand (million cbm)
Long Thanh International Airport	360	2022-2050	50-60
Long Thanh International Airport – phase 1	109	2022-2026	18*
North-South Expressway - phase 1	90	2019-2024	N/A
North-South Expressway - phase 2	147	2023-2025	18.5
Hanoi Ring Road 4	86	2023-2026	4.4
HCMC Ring Road 3	75	2023-2026	4.4
Khanh Hoa - Buon Ma Thuot Expressway – phase 1	22	2023-2027	0.9
Bien Hoa - Vung Tau Expressway phase 1	18	2023-2025	0.7
HCMC Ring Road 4	100	2024-2028	11.6
TOTAL			**83.9**

Source: Ministry of Transport, Vietcap (* Vietcap's estimate)

Figure 394: Estimated construction materials for LTA and Beijing Daxing Airport (China)

Airport name	Beijing Daxing International Airport phase 1	Long Thanh International Airport phase 1
Location	Beijing, China	HCMC, Vietnam
Area	2,940 ha	1,800 ha
Construction Time	December 2014 - September 2019	2022-2026
CAPEX (USD bn)	11.4	4.7
Passenger capacity	• Phase 1: 72 million by 2025 • Total: 100 million	• Phase 1: 25 million (2026) • Total: 100 million
Number of runways	• Phase 1: 4 civil and 1 military • Total: 7	• Phase 1: 1 • Total: 4
Concrete	1,600,000 cbm	N/A
Construction stone	N/A	18,000,000 cbm*
Cement	N/A	1,000,000 tonnes*
Steel	100,000 tonnes	100,000 tonnes*
Paving stone	N/A	500,000 sqm*
Wooden panel	N/A	50,000 sqm*

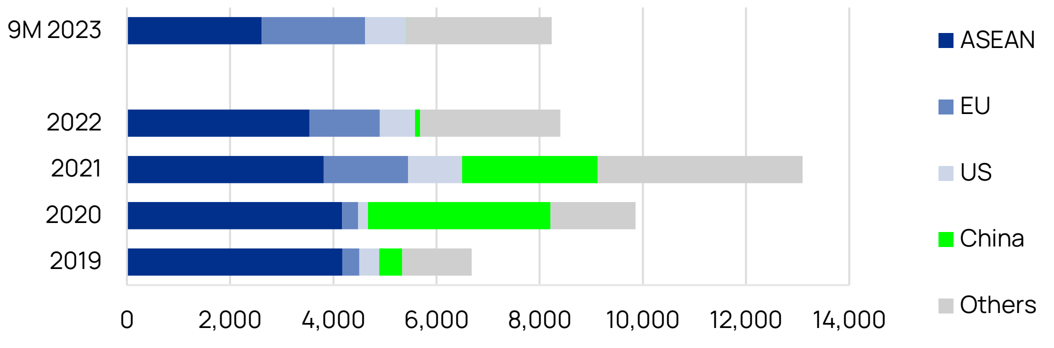
Source: Airports' official websites, www.airport-technology.com. Note (*) Vietcap's estimates based on ACV's documents

Exports: Leading indicators for construction materials demand in key markets show mixed signals

The composition of Vietnam's exports of steel products by destination has changed significantly over the last five years with a boom and bust in demand from China in 2020/21 and 2022, respectively. Increasing demand from the US and EU has partially compensated for the decline in exports to China. Export volume to the EU accounted for 24% of Vietnam's total steel exports in 9M 2023 vs 16% in FY2022 and the share of exports to the US also climbed to 10% of total steel exports in 9M 2023 vs 8% in FY2022.

As a result, we expect demand from the US and the EU to be a key swing factor for Vietnam's steel exports while recovery in Chinese demand would have more impact on commodity prices.

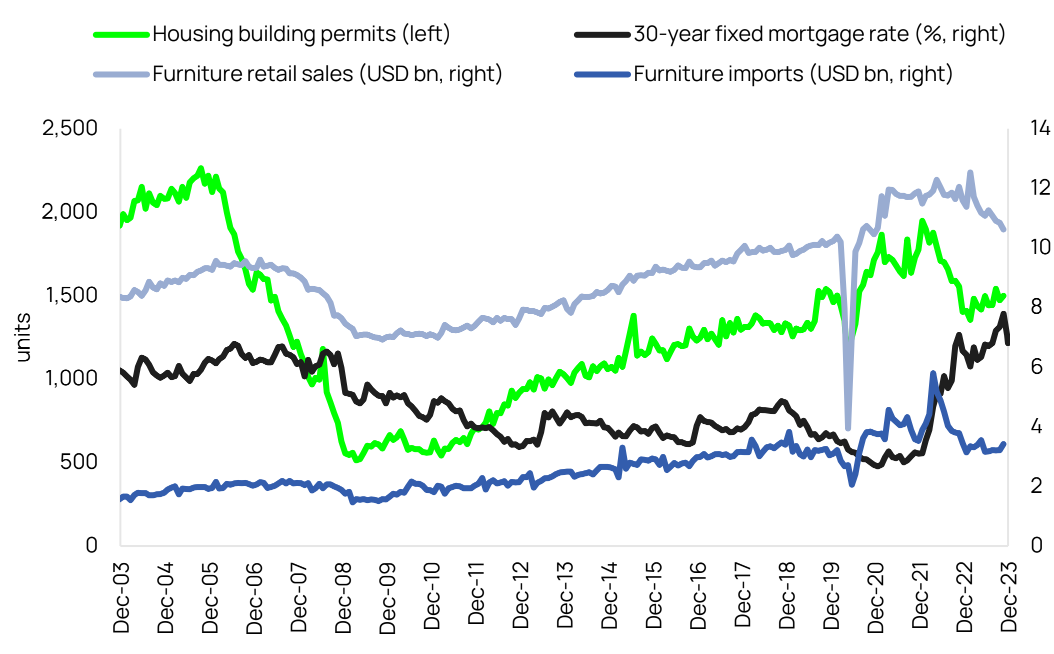
Figure 395: Vietnam's steel exports by destination ('000 tonnes)



Source: VSA, Vietcap

The United States (US) and the Eurozone. Declining but still high mortgage rates in the US suggest a gradual recovery in building permits going forward and, in turn, demand for construction materials and furniture. On the other hand, The IHS Markit Eurozone Construction PMI – which is compiled by HIS Markit from responses of around 650 construction firms in the Eurozone tracking changes in the total volume of construction activity compared with one month previously - fell to 42.7 in October 2023 which is the lowest level since December 2022. Growth in Eurozone construction output also remained at near-zero levels throughout 2023.

Figure 396: US housing building permits, mortgage rates, furniture retail sales, and furniture imports



Source: US Census Bureau, Freddie Mac, Vietcap

Figure 397: US private residential monthly construction output and private building permits

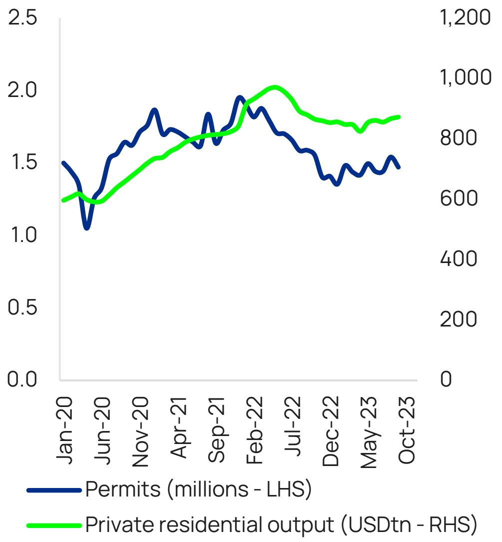
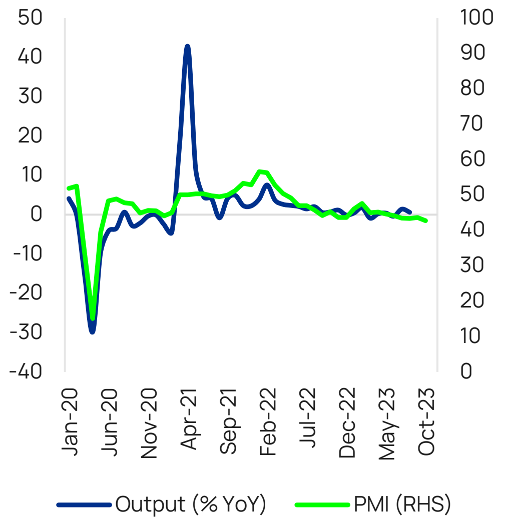


Figure 398: Eurozone monthly construction output and construction PMI

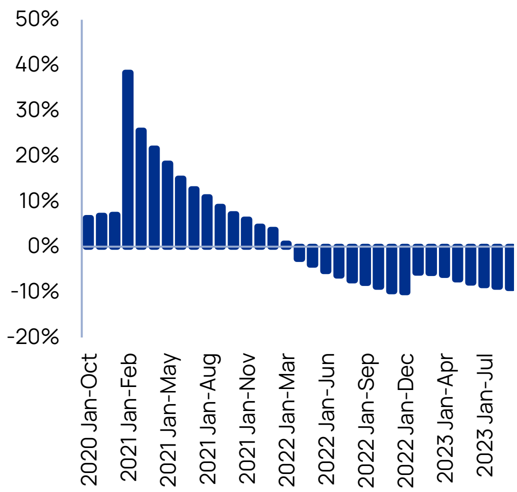


Source: World Steel Association, Vietcap

Commodity price recovery to support margin expansion in 2024F

China. While the overall picture for the private property sector remains depressed, China has rolled out a series of policy measures in 2023 to revive the economy, including banks cutting lending rates and the central bank and financial regulator issuing notices to ease some borrowing rules to aid homebuyers, such as lowering the existing mortgage rate for first-home buyers and the down payment ratio in some cities. Policy support appears to be easing the decline in the residential property sector. Policy support in China is a key driver for strengthening sentiment toward key construction commodity prices, in our view.

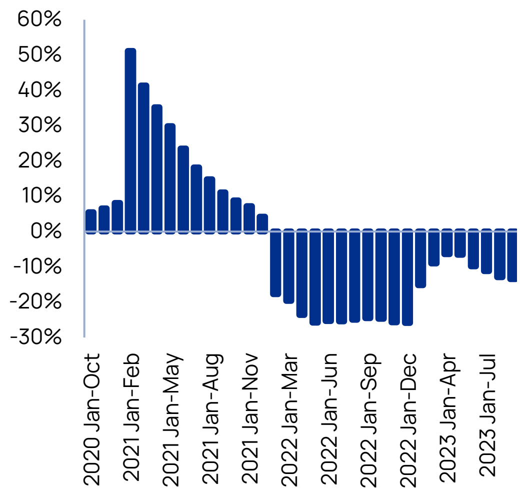
Figure 399: Investment in real estate development, cumulative YoY growth rate



Total (2023 Jan-Oct): -9%

- Residential buildings: -9%
- Office buildings: - 10%
- Commercial buildings: -17%

Figure 400: Investment fund for real estate development enterprises, cumulative YoY growth rate

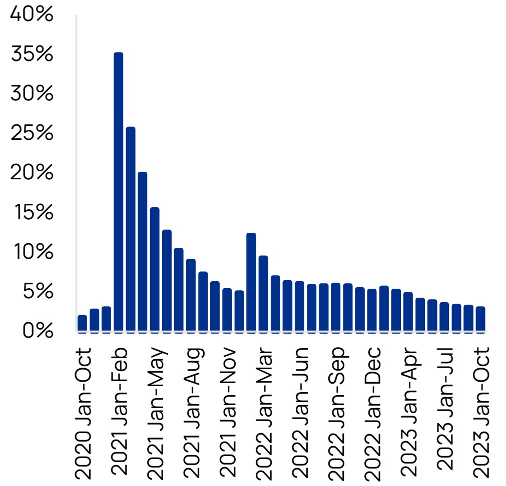


Total (2023 Jan-Oct): -14%

- Domestic loans: -11%
- Foreign investment: - 40%
- Self-raised funds: -21%
- Deposits & advance receipts: -10%
- Individual mortgages: -8%

Source: National Bureau of Statistics of China, Vietcap

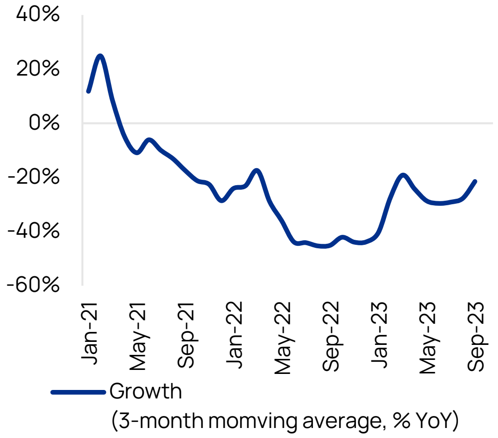
Figure 401: Investment in fixed assets, cumulative YoY growth rate



Total (2023 Jan-Oct): +3%

- State-owned/holdings: +7%
- Private investment: -0.5%

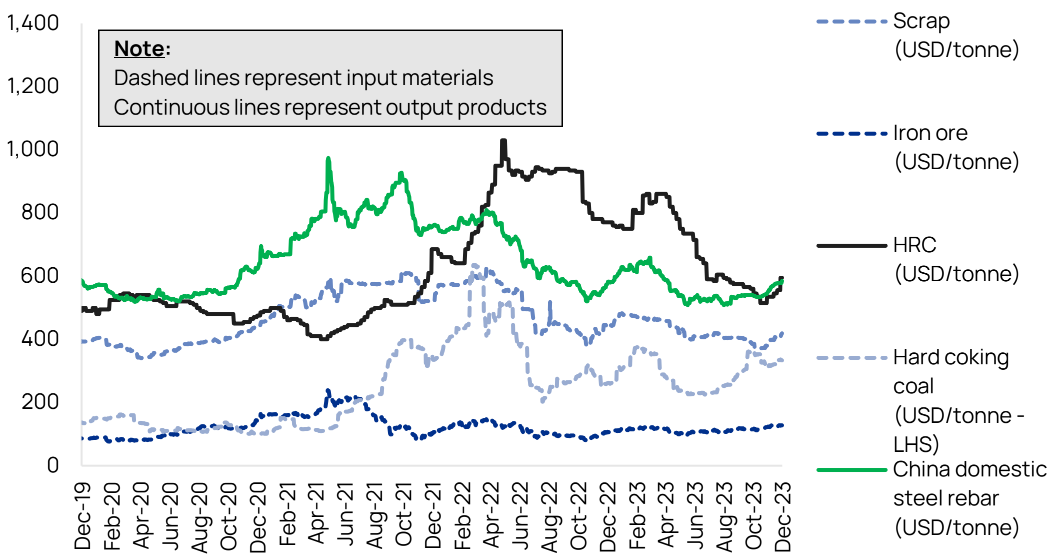
Figure 402: Residential floor space started, YoY growth rate



Source: National Bureau of Statistics of China, Vietcap

We expect steel-related commodity prices to have a gradual but bumpy recovery throughout 2024. After a strong correction period in 2022 following historical highs in 2021, prices of steel-related commodities enjoyed a short recovery in early 2023, front-running expectations for recovery in China's economy following the lifting of restrictions to control the spread of the COVID-19 virus. However, as China's economic data disappointed relative to expectations, together with a slow recovery in demand from other key markets such as the US and the EU, steel-related commodity prices declined through most of 2023. Towards the end of 2023 and going into 2024, China's more aggressive policy support for the property market has translated into more positive sentiment for key construction commodities, pushing prices higher. Together with the demand outlook in other key global markets in 2024, China remains a key catalyst for commodity prices. However, as leading indicators for construction materials demand still show mixed signals, we expect steel-related commodity prices to have a gradual but bumpy recovery throughout 2024 as market sentiment evolves with actual demand data.

Figure 403: Prices of key steel input and output materials



Source: Bloomberg, VSA, Vietcap compilation

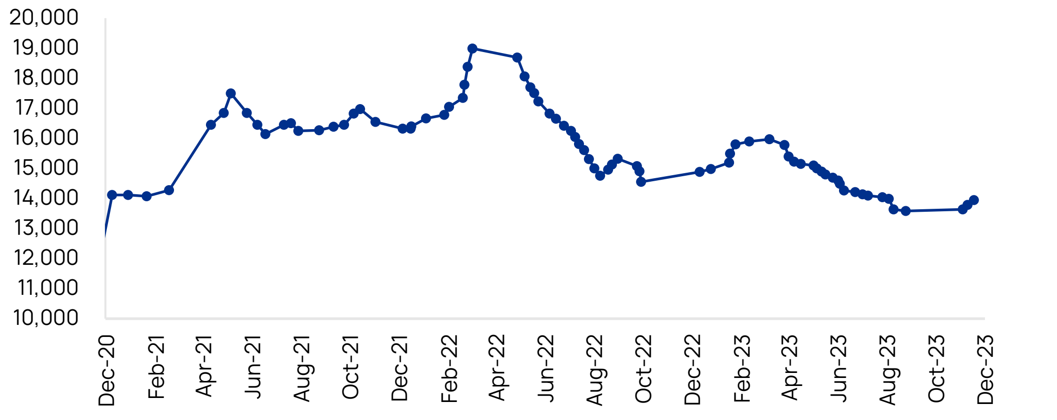
We expect a recovery in steel prices to support margin expansion in 2024F

There are two scenarios for manufacturers' margins in a commodity price uptrend (i.e., both input and output prices increasing).

- **Output prices increase by more than input prices**. This will translate to strong margin expansion driven by (1) higher absolute selling prices, (2) wider price spreads, and (3) tactical accumulation of input inventory. However, this scenario can only happen when there is strong demand. An extreme example of this scenario occurred in 2021 when steel-related commodities rallied to historical highs, driven by surging demand globally after the first wave of the COVID-19 pandemic and limited supply from China.
- **Output prices increase by less than input prices**. This will translate to margin compression, which can be partially managed by manufacturers keeping low inventory (i.e., only buying input materials on the spot market in sufficient amounts for short periods of production). This scenario is usually caused by cost-driven price rallies or supply disruption.

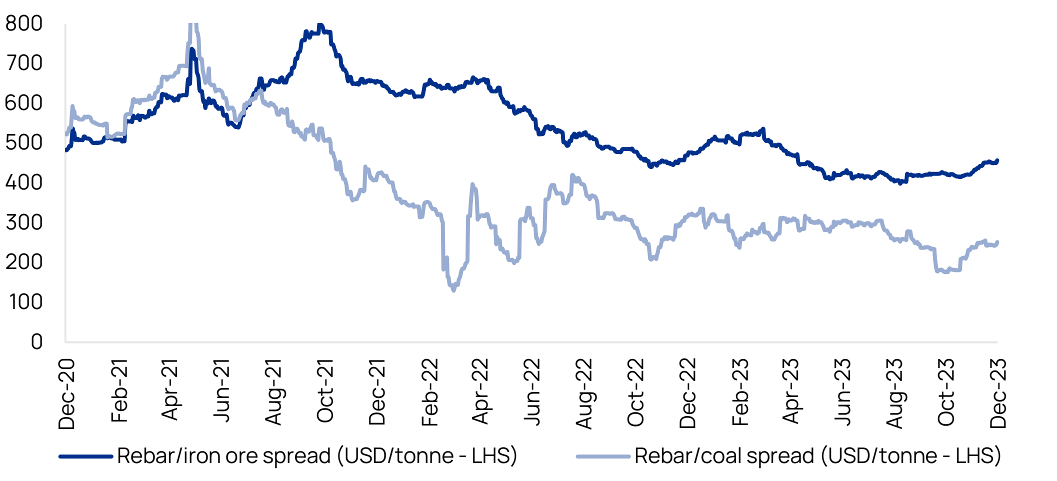
We currently assume the first scenario as our base case for Vietnam in 2024 as we expect that strong infrastructure spending and a recovery in export sales will support overall demand for construction materials. We also note that in favorable market conditions such as a cost-driven price rally together with stronger demand, leading companies like HPG with strong financial capacity can lock in input materials at low prices via forward contracts and enjoy stronger margin expansion.

Figure 404: HPG's average construction steel prices (VND/kg)



Source: VSA, Vietcap compilation

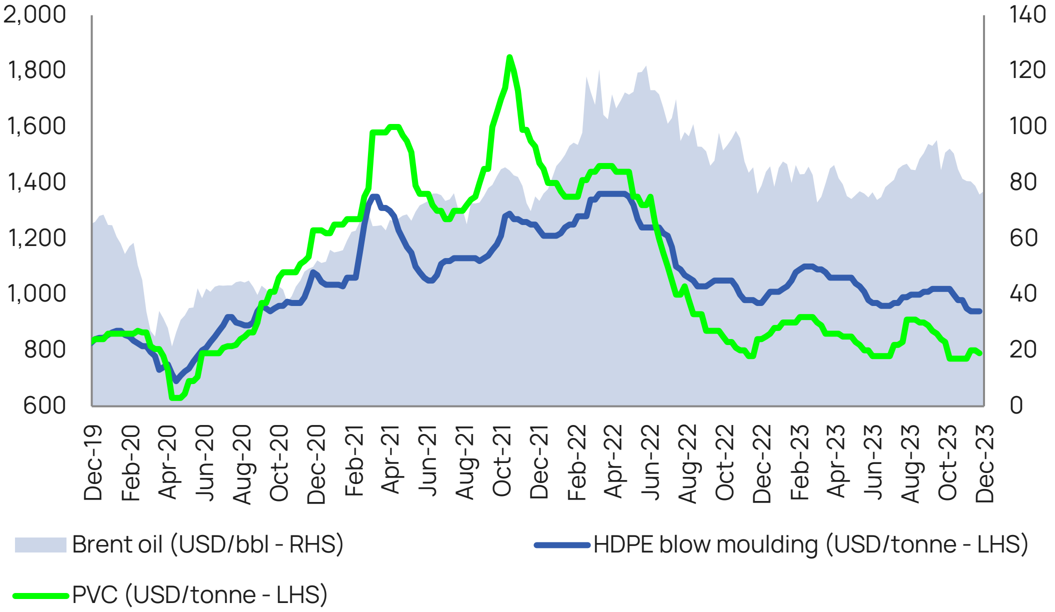
Figure 405: Rebar/iron ore spread and rebar/coal spread



Source: VSA, Vietcap compilation

BMP: we conservatively assume normalization in margins in 2024. BMP's quarterly gross margins continuingly beat our expectations through 2023 and expanded QoQ to a record high of 43.0% in Q3 2023. We attribute this surge in gross margin primarily to input plastic prices which remained low in Q3 2023 and BMP's cost optimization initiatives. While we conservatively expect input plastic prices to rise in 2024F and margins to normalize in full-year 2024F, plastic prices have remained low towards the end of 2023, which will continue to support BMP's margins at least in Q1 2024.

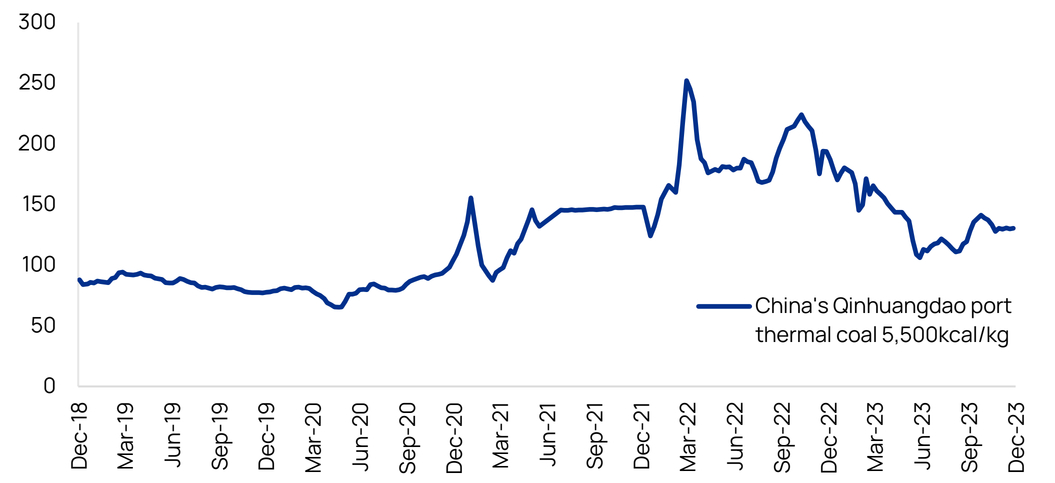
Figure 406: BMP's main input plastic prices and oil prices



Source: Polymerupdate.com, ICE Futures Europe Commodities, Vietcap compilation

HT1: we expect a correction in thermal coal prices correction to support margins in 2024. Average benchmark thermal coal prices corrected by around 20% in 2023 vs 2022's high base, supporting HT1's margins in 2023 despite low sales volumes and higher electricity prices. While coal prices climbed in Q4 2023 and seasonal winter demand picked up, we expect thermal coal prices to decline further in 2024 due to (1) concerns over global economic slowdown, (2) rising environmental costs vs clean energy sources, and (3) a recovery in coal production and supply as major coal exporters Australia and Indonesia resolve their production and export issues.

Figure 407: Benchmark thermal coal prices (USD/tonne)



Source: Source: Bloomberg, Vietcap compilation

Top stock picks

OUTPERFORM – Hoa Phat Group (HSX: HPG)

We reiterate HPG as our top stock pick for exposure to Vietnam's construction sector. HPG offers a leading market position, established scale, and proven operational efficiency.

We believe 2023 is a cyclical low for HPG's earnings and the stock should trade on higher near-term P/E multiples in anticipation of a recovery in earnings in 2024 from the low base in 2023, while new capacity from Dung Quat Steel Complex Phase 2 is expected to come online in 2025.

We forecast 2024F NPAT-MI of VND14.4tn (USD599.6mn; +111% YoY), which is backed by our assumption for sales volume and ASPs to recover from low bases across HPG's steel products.

HPG looks attractive at 2024/25F P/Es of 11.7x/8.7x, respectively. Our target price puts HPG's average 2024-25F P/E at 10.7x (12.3x for 2024F and 9.1x for 2025F), which we think is justified by strong forecast growth in NPAT-MI in 2024F (+111% YoY) and 2025F (+35% YoY). A P/E multiple of 10.6x is one standard deviation above HPG's average 10-year historical P/E of 8.3x.

Please find more details on HPG in our latest Update Report.

OUTPERFORM – Binh Minh Plastics (HSX: BMP)

BMP is our favorite defensive name in the construction material sector due to its more stable earnings compared to steelmakers, solid dividend yield, and strong balance sheet.

We forecast NPAT-MI to decline 24% YoY in 2024F from a record high in 2023F on the back of gross margin normalization that more than offsets our projection for 10% growth in the sales volume of plastic pipes & accessories. Our 2024F NPAT-MI is 9% higher than that of 2022.

We view projected 2023/24F P/Es of 7.5x and 9.8x, respectively, as appealing when compared to BMP's five-year average historical P/E of 11.1x. BMP's defensive characteristics include a high next-12M dividend yield and minimal financial risk with no long-term debt and strong liquidity ratios. With strong 2023F earnings and a track record of 100% dividend payouts over the last four years, we expect BMP to pay a total cash dividend of VND9,000/share in the next 12 months, implying an attractive cash dividend yield of 10.0% of the current share price.

Please find more details on BMP in our latest Update Report.

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Real estate: Real demand to lead gradual recovery

- We expect a gradual improvement in primary property transactions in 2024 with supply from new projects expected to enter the market later in the year. We anticipate growth in primary property transactions in 2024 compared to 2023, which will be driven by: (1) sustained recoveries in homebuyer confidence and brokerage activity, and (2) the introduction of new projects or next-phase launches at existing projects.
- We believe real demand (i.e., owner-occupiers and buy-to-rent landlords) will lead recovery in the housing market in 2024 supported by the following catalysts: (1) improving homebuyer confidence as mortgage rates and inflation remain broadly stable, (2) increasing new project launches and property brokerage activity as developers become more confident in the demand outlook, and (3) an amended Land Law, which should support overall market sentiment and have a positive impact on the supply side.
- We expect that some developers will raise equity and/or engage in M&A transactions to support their capital positions in 2024. We observe an increasing trend of developers planning to raise capital via rights issues or private placements in 2023 vs muted activities in 2022. We also expect M&A interest from foreign buyers with strong financial positions. Meanwhile, despite the Government's directives to banks to support lending to the real estate sector and growing investor demand for corporate bonds in a low deposit rate environment, we expect funding for developers from bank loans and bonds will be subject to close scrutiny of projects' legal status, sufficient collateral, and alignment with real demand.
- We believe forthcoming legal reforms will help to address legal issues and promote sustainable development of the real estate sector. The National Assembly (NA) plans to organize an extraordinary meeting in mid-January 2024 (according to a statement by the Secretary General of the National Assembly on December 18, 2023) to review and approve the amended Land Law. We believe approval of the amended Land Law will support overall market sentiment and improve the project development landscape with clearer guidance and transparency. Although the amended Land Law is expected to come into effect from January 1, 2025 (according to the Standing Committee of the National Assembly, November 27, 2023), we anticipate that the Government will promulgate amended decrees to comply with the upcoming amended Land Law before then. Hence, changes following the amended Land Law should become effective relatively quickly, in our view.
- We reiterate our view that the long-term structural drivers for Vietnam's housing sector remain positive, including improving infrastructure, a growing urban population, an emerging middle-affluent class, and increasing mortgage penetration.
- Our top picks are **VHM, KDH, NLG,** and **VRE.** Residential developers VHM, KDH, and NLG offer attractive upside to our RNAV valuations, and we believe homebuyers will value the financial and operational resilience that these developers demonstrated in the turbulent period for the industry from H2 2022 through H1 2023. We expect retail mall developer VRE to benefit from improving tenant sales, new mall openings, and expanding margins. We believe VIC's subsidiaries VHM and VRE, which have market-leading positions in their respective industries, have been oversold as their share prices have been dragged down by investors' concerns over VIC's high debt repayment obligations in 2024 and consequent high positive correlations with the share prices of VIC/VinFast.

Figure 408: Real estate: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
VRE	BUY	2,179	0%	49%	386	3.6	23,300	31,900	11/16/23	37%	0%	37%
VHM	BUY	7,741	0%	50%	2,126	22.5	43,200	56,400	11/16/23	31%	0%	31%
KDH	BUY	1,033	0%	50%	124	2.2	31,400	36,300	11/3/23	16%	0%	16%
NLG	O-PF	580	0%	50%	40	2.8	36,650	41,000	11/14/23	12%	1%	13%
VIC	O-PF	6,828	0%	48%	2,511	6.8	44,600	49,500	11/17/23	11%	0%	11%
DXS	M-PF	177	0%	50%	54	0.9	7,500	7,700	10/16/23	3%	0%	3%
DXG	M-PF	574	0%	50%	168	14.8	19,350	18,900	11/23/23	-2%	0%	-2%
DIG	SELL	671	0%	49%	295	17.9	26,750	18,200	12/22/23	-32%	0%	-32%

Figure 409: Real estate: Summary valuations

Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E LTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/ EBITDA 2024F x	ROE 2024F %	P/B LQ x	Net D/E LQ %
VRE	23,300	50%	-5%	9%	12.7	12.7	13.4	12.2	6.7	10%	1.4	-18%
VHM	43,200	28%	-26%	16%	4.5	5.1	6.9	5.9	6.1	14%	1.1	20%
KDH	31,400	-10%	10%	19%	36.5	26.9	24.5	20.6	17.9	8%	1.9	17%
NLG	36,650	-24%	54%	7%	22.6	35.8	23.3	21.9	16.6	7%	1.6	16%
VIC	44,600	-77%	-1%	18%	39.3	80.6	81.4	68.8	12.1	2%	1.4	115%
DXS	7,500	-99%	109x	75%	N.M.	N.M.	15.2	8.7	11.9	5%	0.7	21%
DXG	19,350	-19%	113%	25%	N.M.	83.3	39.1	31.3	17.6	4%	1.5	34%
DIG	26,750	38%	7%	10%	150.2	130.4	121.9	111.3	71.6	2%	2.1	31%

Source: Company data, Vietcap forecast. Note: Share prices as of December 29, 2023.

Sector outlook

Transactions to gradually improve led by robust real demand

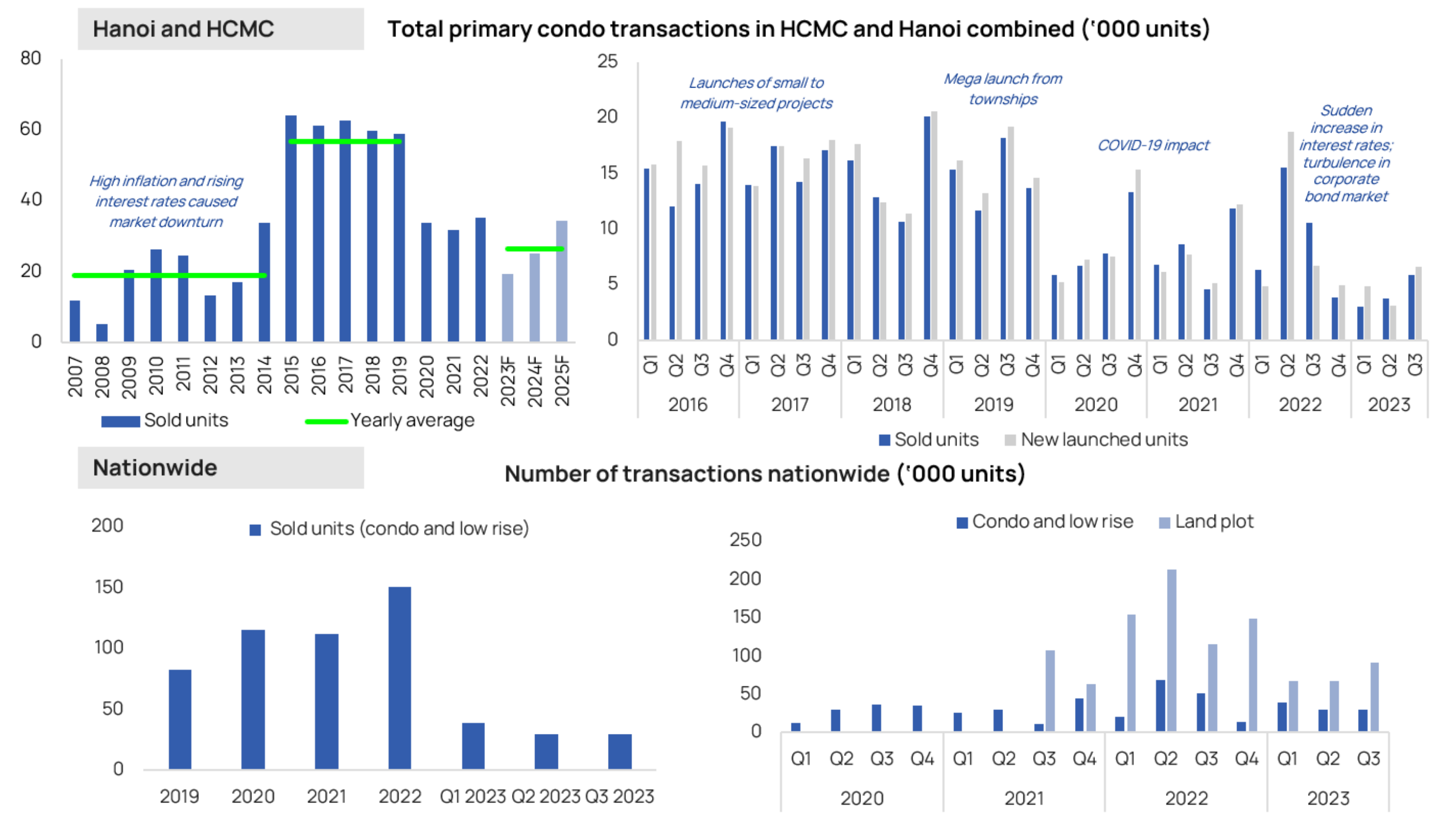
Initial signs of improvement in the primary condo market emerged in Q3 2023 following subdued performance in H1 2023

The primary condo market saw modest improvements in Q3 2023 in terms of new launches and sold units, while the landed property segment remained quiet. Per CBRE data, total primary condo transactions in HCMC and Hanoi combined were ~5,800 units in Q3 2023. Although this Q3 2023 number surged from H1 2023's muted volume (~3,400 units/quarter), it was still lower compared to previous years, which saw averages of ~15,100 units/quarter in 2017-2019 (before the COVID-19 pandemic) and ~8,500 units/quarter in 2020-2022.

Notable new launches in 2023 in the primary market include Vinhomes Grand Park – Glory Heights (HCMC; total 3,200 condo units), VHM's Golden Avenue (Quang Ninh; first launch of around 300 low-rise units), and Sky Park (Bac Giang; total 565 condo units), NLG's new batch of units at Akari City (HCMC; new batch of around 438 condo units), KDH's The Privia (HCMC; total project includes around 1,040 condos), and Masterise's Masteri West Heights (Hanoi; Block B of around 1,100 condo units) in H2 2023.

The recovery in H2 2023 was significantly weaker than our previous expectation in the middle of 2023 (as stated in our Mid-Year Strategy Report) despite a lower mortgage rate environment vs H1 2023. In addition, outstanding mortgage loans to homebuyers as of end-September 2023 declined by approximately 1% vs end-2022. We attribute the slow recovery in transactions and negative credit growth for home loans mainly to (1) overall weak consumer sentiment and spending as households remained concerned over the outlook for their future income and loan repayment ability, and (2) limited new supply.

Figure 410: Transaction volumes



Source: Ministry of Construction, CBRE's historical and forecast data for primary condo transactions in Hanoi and HCMC, Vietcap

We expect gradual improvement in primary property transactions in 2024 with supply from new projects expected to enter the market later in the year

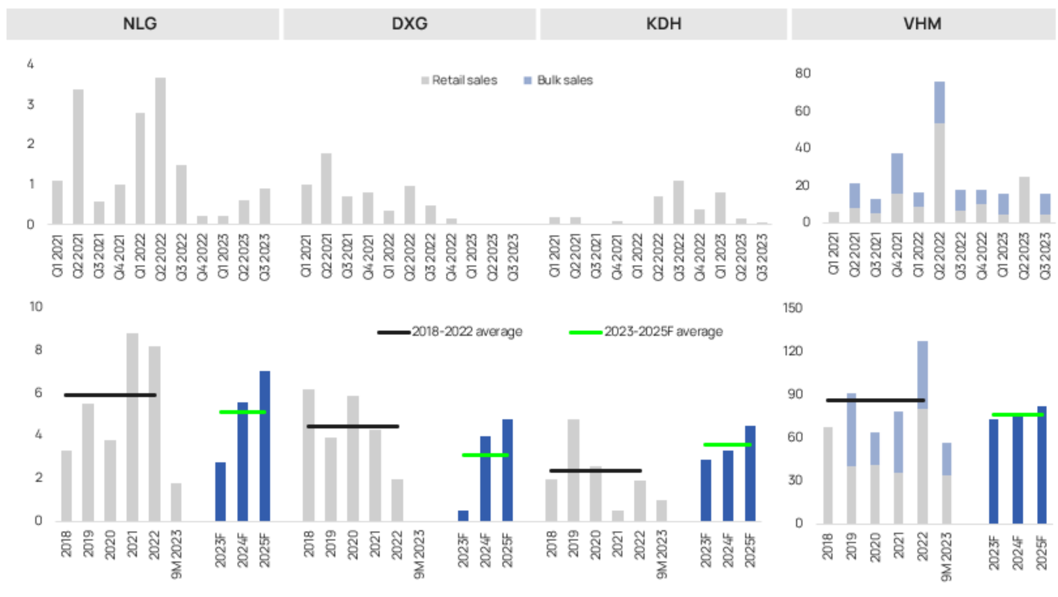
We anticipate growth in primary property transactions in 2024 compared to 2023, driven by our expectations for (1) sustained improvement in homebuyer confidence and brokerage activity and (2) the introduction of new projects or next-phase launches at existing projects. For our residential stock coverage, we forecast aggregate presales for NLG, KDH, and DXG to double in 2024F vs the low base in 2023F and slight growth of 2% in VHM's 2024F presales.

We expect that supply from new projects will not recover quickly and will only start to enter the market in the latter half of 2024 as it takes time for developers to (1) generate market interest and build suitable selling strategies and (2) complete all legal requirements before starting construction and launching presales.

We believe real demand (i.e., purchases of homes for living/rental purposes) will lead to recovery in the housing market in 2024 supported by the following catalysts: (1) improving homebuyer confidence as mortgage rates and inflation remain broadly stable, (2) increasing new project launches and property brokerage activity as developers become more confident on the demand outlook, and (3) an amended Land Law, which should support overall market sentiment and have a positive impact on the supply side. Although the amended Land Law is expected to come into effect from January 1, 2025 (according to the Standing Committee of the National Assembly, November 27, 2023), we anticipate (i) projects with clear legal status to be able to proceed in 2024 before the amended Land Law comes into effect and (ii) legal procedures will become smoother following the Prime Minister's directives on removing project legal bottlenecks.

We expect solid real demand to support 2024F presales for mid-end projects. These projects should be (1) priced affordably for the middle-income class (i.e., 4-6x the annual income of a middle-class household, based on our estimates), (2) developed by experienced developers with a proven record in managing handovers and after-sales issues, and (3) located in areas with good infrastructure and amenities. We believe projects from developers who were able to withstand the turbulent H2 2022-H1 2023 period, secure capital funding and deliver quality products on time — such as VHM, KDH, and NLG — will continue to attract real demand. Meanwhile, we think sentiment among investors (asset accumulation) and speculators (buy-to-flip) will not recover quickly in 2024, thus leading to a slower recovery in real estate segments such as land plots and townhouses/villas in second-tier regions.

Figure 411: Total presales of Vietcap's residential stock coverage (VND tn)



Source: Companies' data, Vietcap estimates and forecasts

Selling prices in the primary market to remain favorable, supported by a range of sales incentives provided by developers

Primary prices in Hanoi and HCMC remained high in 2023; developers introduced more incentives for new launches

Primary prices in both HCMC and Hanoi continued to increase in 2023 with Hanoi witnessing stronger growth YoY than HCMC as high-end supply expanded by more than overall new supply. Per CBRE, the share of high-end condos in Hanoi jumped from 52% in 2022 to 93% in Q3 2023 and increased from 90% in 2022 to 96% in HCMC in Q3 2023. In the secondary housing market, the asking prices of condos in HCMC and landed properties in Hanoi were lower than 2022's levels.

We observe that current expectations for price appreciation of next-phase/new launches are more modest than expectations in Q1 2022 (when the COVID-19 pandemic in Vietnam was largely brought under control and before strong headwinds for the sector from higher interest rates and the Van Thinh Phat situation emerged in Q4 2022). We also observe there is less pressure on the secondary market from house sales at deep discounts compared to the beginning of 2023 as mortgage rates have eased.

Per our estimates and observations at select banks, floating mortgage rates have edged down to 9%-12.7% in December 2023 vs a peak of ~14.5% in February 2023, while first-year preferential rates have decreased by 1-2 ppts in Q4 2023 vs Q3 2023. We observe the preferential rates at State-owned banks are already 1-1.2 ppts lower than levels during the COVID pandemic while the rates at most private banks under our survey are equivalent to levels during the pandemic. However, the floating rates are still 0.2-1.4 ppts higher than levels during the pandemic.

In addition, we observed that developers were more flexible in offering sales incentives with new launches in 2023 compared to their previous projects or previously launched phases of the same project. The new batch of NLG's Akari City Phase 2 in September 2023 had an ASP of VND50mn/sqm (~14% higher vs the first launch of Akari City Phase 2 of VND44mn/sqm presold in March 2022) but offered a more relaxed payment scheme and incentives with or without mortgage packages; if we adjust for the incentives and higher quality of furnishings, we estimate that the net ASP price increased more modestly by 5-6%.

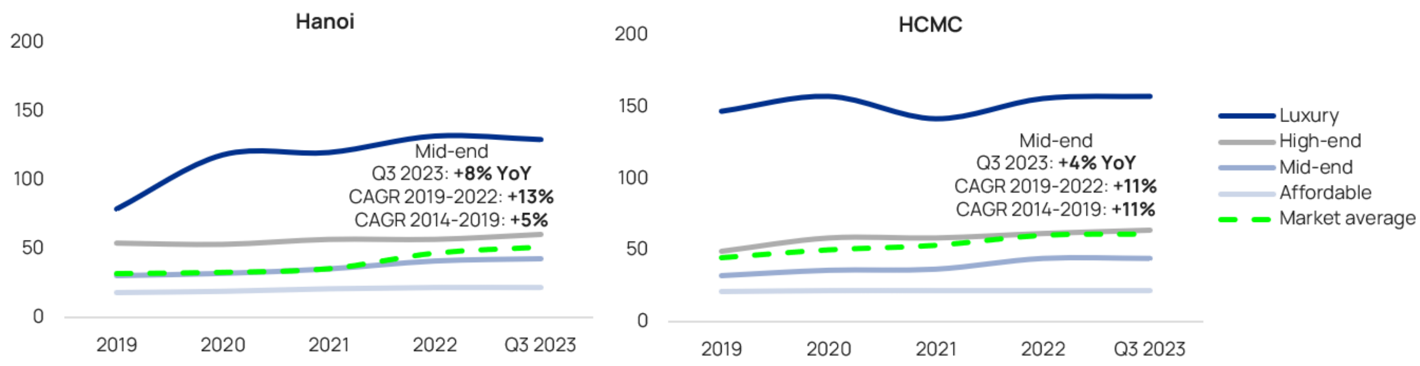
We expect selling prices in the primary market for mid-end products to grow at single digits in 2024 with continued favorable sales incentives

With increases in development costs and the current limited supply, we expect net ASPs for mid-end condos and landed properties in the primary market to continue to increase in 2024 but at single-digit growth rates for property products with similar profiles and locations. This expectation is mainly driven by our view that (1) developers will continue to provide favorable incentives for homebuyers and attempt to offer high-quality products to meet the needs of real demand, and (2) developers will avoid reducing headline pricing of new launches compared to previously launched projects/phases as this would negatively impact sentiment amongst potential buyers and the buyers of previously launched projects/phases.

We expect that developers will continue to offer more attractive sales incentives to stimulate market demand in 2024, such as lower payment amounts per installment, discounts for accelerated payment, interest rate subsidies, and rental guarantee programs for high-end products.

In the secondary market, we expect the resale prices of condos and landed properties in Hanoi and HCMC to gradually recover following the downward trend in late-2022 through 2023 as the housing market recovers supported by a lower mortgage rate environment and improving rental yields. However, we believe pressure for sales at discounts will remain in 2024 for speculative properties, including land plots and hospitality villas in second-tier provinces, due to (1) a slower recovery in demand, (2) tighter regulations in the Amended Real Estate Business Law on land plot division for sales, and (3) highly inflated selling prices during 2020-early 2022.

Figure 412: Primary condo prices in Hanoi and HCMC (VND mn/sqm)



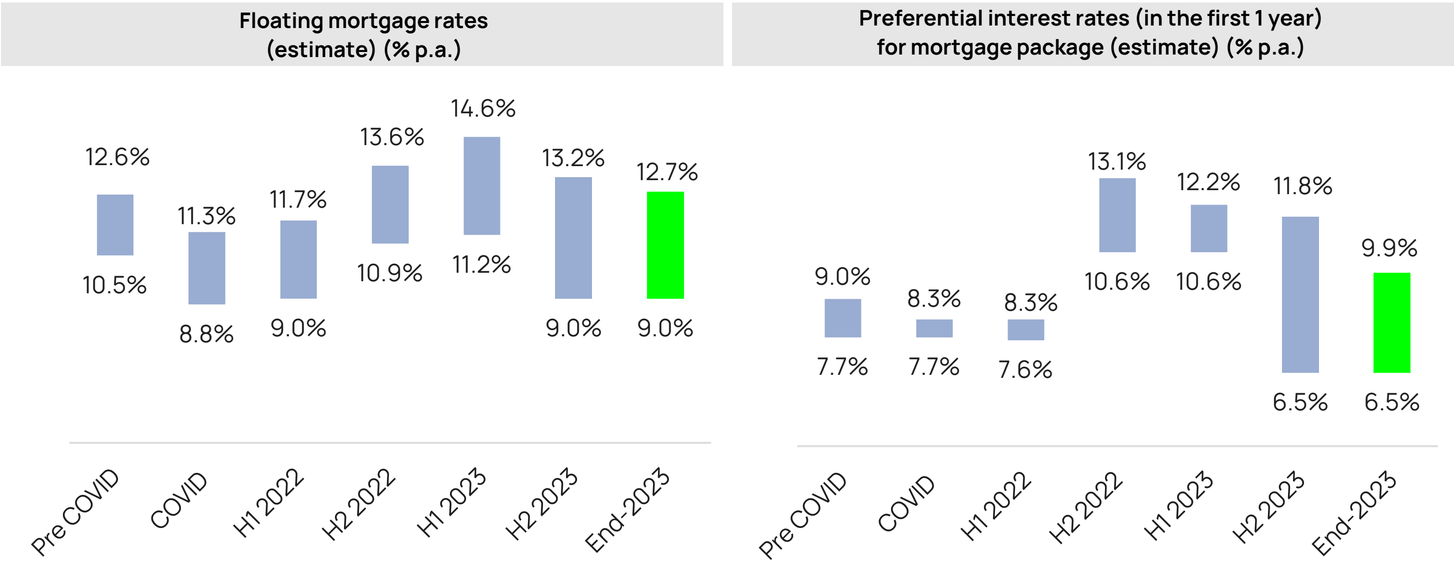
Source: CBRE, Vietcap. Note: CBRE's classification: Luxury: over USD4,000; High-end: USD2,000 to 4,000/sqm; Mid-end: USD1,000 to USD2,000/sqm; Affordable: below USD1,000/sqm; prices exclude VAT and quoted on NSA.

Figure 413: Sales policies for recent launches from NLG and KDH

	NLG		KDH	
High-rise projects in HCMC	**Akari City P2 (first launch)**	**Akari City Phase 2 (new batch launch)**	**Safira**	**The Privia**
Launch date	March 2022	September 2023	March 2019	November 2023
Payment scheme (with no mortgage)	Standard scheme: first installment of 10%, subsequent period 5%/every three months until handover Accelerated scheme: 50% installment in the first 6 months	Standard scheme: 10% installment in the first 6 months Accelerated scheme: 50% installment in the first 6 months	Standard: 30% upon SPA signing, subsequent period: 2%/month for 15 months Accelerated payment scheme: 30% upon SPA signing, next installment: 40%	Standard: 20% upon SPA signing, 5% upon two months after SPA, subsequent period: 5%/month for 9 months Accelerated payment scheme: 20% upon SPA signing, next installment: 50%
Incentives for no mortgage package	Not mentioned	Standard scheme: furnish package or 4% discount Accelerated scheme: 7% discount	Accelerated payment scheme: 4% discount	Accelerated payment scheme: 10% discount
Incentives for mortgage package	LTV up to 70% 0% principal payment in 16/24 months 0%/6% p.a. fixed interest rate in 16/24% months	LTV up to 75% 0% principal payment in 24 months Fixed interest rate of 1% p.a. in 24 months	LTV up to 70% 0% principal payment in 15 months 0% fixed interest rate in 15 months	LTV up to 75% 0% principal payment in 24 months 0% fixed interest rate in 24 months
Management fee	0% in the first two years	0% in the first two years	Not mentioned	0% in the first year

Source: Vietcap compilation from sales agents. These policies were updated as of December 2023 and are subject to change by developers.

Figure 414: Floating and preferential mortgage rates at select banks



Source: Vietcap estimates and compilation. Note: Banks under survey include VCB, CTG, TCB, MBB, and VPB.

Equity issuance and M&A to support developers' capital

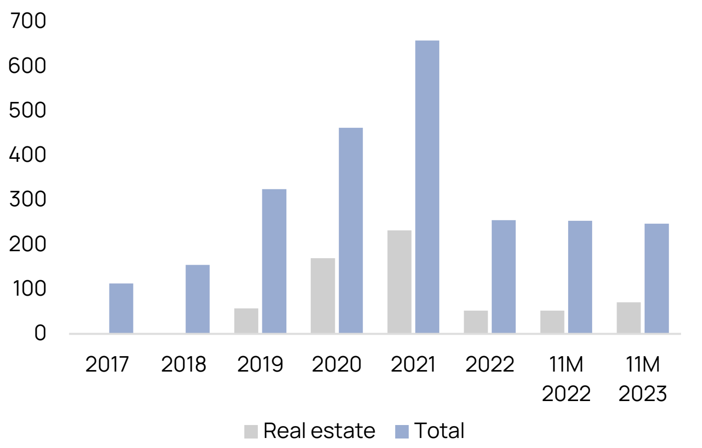
Domestic bond market to recover gradually; ongoing debt restructuring

New real estate bond issuance started to recover from July 2023 with total issuance value in July-November 2023 of VND44tn (USD1.9bn) vs the H1 2023 total of VND23tn (USD971mn). However, this was still lower compared to the period from 2020 to 2021, when new real estate bonds worth ~VND50tn (USD2.1bn) were issued per quarter, on average. In addition, we observe that real estate bond issuance was mainly from unlisted names while there were a few issues by listed real estate developers including VHM (VND9tn/USD370mn) and NLG (VND500bn/USD21mn) in 2023.

Within the legal framework of Decree 08/2023/ND-CP ('Decree 08') dated March 5, 2023, developers who aggressively issued bonds in 2019-2021 and now face financial difficulties to repay to bondholders (e.g., NVL) have actively negotiated with bondholders to (1) extend bond maturities by a maximum of two years or (2) exchange bond repayment to substitute assets. In 9M 2023, NVL reached agreements to extend bond maturities for retail bonds worth a total of VND5.35tn (USD223mn) and reduced outstanding bonds worth approximately VND2.5tn (USD102mn) by exchanging into other assets. Additionally, in late 2023, NVL officially proposed restructuring of USD300mn of international convertible bonds due in 2026. As there is no deadline for the implementation of the bond restructuring policies in Decree 08, we expect developers to continue to negotiate with bondholders to gain more time to revive their business and generate cash flow to repay debt.

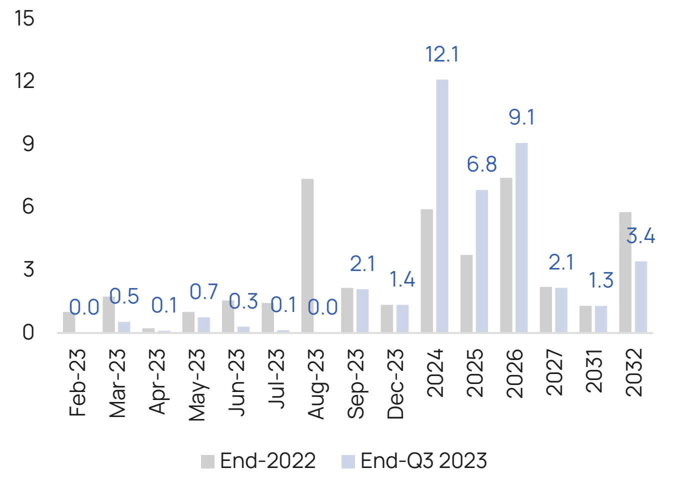
While we believe corporate bond issuance will gradually recover in 2024 as investor demand for corporate bonds increases in a low deposit rate environment, new issuance of real estate bonds may recover at a relatively slower pace as (1) bond investor sentiment for real estate issuers may take longer to recover following the Van Thinh Phat situation and several late repayments of bond principal and interest by other developers and (2) developers whose financial positions were weakened by the slowdown in the sector in late-2022 and 2023 may face tighter appraisal procedures for new issuance. Nevertheless, we continue to believe that stricter regulations on corporate bond issuance and overall business improvement should support the development of the corporate bond market in the long run.

Figure 415: Corporate bond issuance (VND tn)



Source: Vietnam Bond Market Association (VBMA), Vietcap. Note: Real estate bond issuance value before 2019 has no detailed breakdown.

Figure 416: NVL's bond maturity schedule before and after Decree 8 (VND tn)



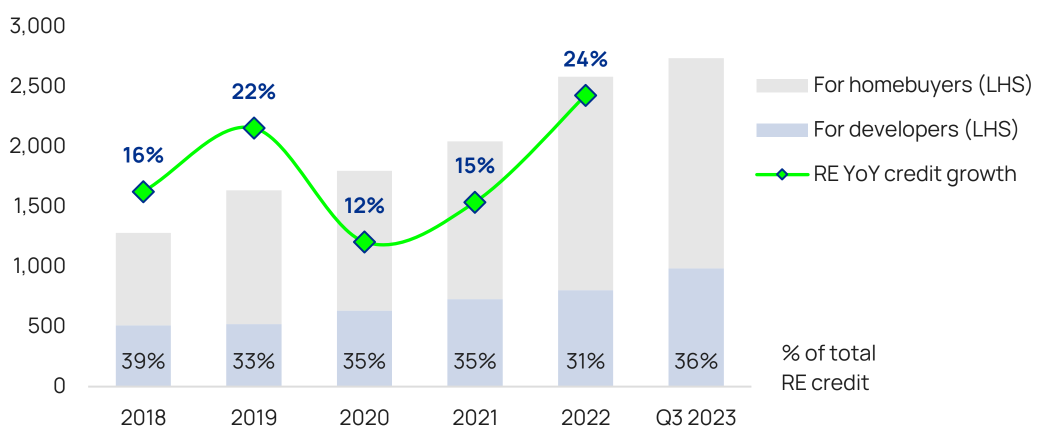
Source: NVL's financial statements, Vietcap

Bank credit to continue to fund proven developers

Lending to property developers was the main driver of credit growth for the real estate sector in the first nine months of 2023. Credit for developers as of end-September 2023 increased 21.86% vs end-2022 and exceeded credit growth for the whole system, in line with the Government's directives to commercial banks to boost lending to the real estate sector. Furthermore, the proportion of bank credit for developers to total bank credit for the overall real estate sector as of end-September 2023 reached 36%, similar to the levels in 2020-2021.

While the Government's directives to banks to support lending to the real estate sector, we believe banks will continue to appraise developer credits carefully and manage exposures to developers appropriately. We expect reputable developers whose projects have clear legal status, adequate collateral, and meet the preferences of owner-occupiers and buy-to-rent landlords (such as the mid-range segment, good connectivity, and surrounding amenities) should be able to continue to access bank credit in 2024.

Figure 417: Bank credit to real estate (VND tn)



Source: FiinGroup, State Bank of Vietnam (SBV), Vietcap

Developers to remain active in equity raising and M&A transactions

While some developers have continued to raise capital via bond issuance (e.g., VHM and NLG), we observe an increase in the number of developers raising capital via rights issues or private placements in 2023 vs 2022. The State Securities Commission (SSC) approved proposals for rights issues for DXG and CEO, and private placement for PDR in H2 2023. We expect further rights issue and private placement plans from other developers to be approved by the SSC for implementation in 2024. The purposes of equity issues are mainly for (1) paying debt principal/interest or operating expenses and (2) project development.

Figure 418: Select capital raising and share sale plans in Q4 2023 - 2024

Ticker	Capital raising plans	% of current O/S	Timeline / Status
VIC	USD250mn issuance of VIC bonds exchangeable (EBs) into existing VHM shares (owned by VIC) due November 2028 to repurchase 50% of the company's existing USD500mn of EBs due April 2026		Completed in Q4 2023
	Up to VND6tn (USD247mn) for subsequent tranches of domestic bonds via public offering		By Q1 2024
VHM	VND9tn (USD370mn) new domestic bond issuance		Completed in Q4 2023
	Up to USD500mn issuance of straight international bonds		By April 2024
	Up to VND10tn (USD412mn) issuance of convertible domestic bonds		By April 2024
NLG	VND500bn (USD21mn) new domestic bond issuance		Completed in Q3 2023
NVL	Private placement plan of up to 200 million shares with minimum issuance price of VND10,000/share	10.3%	Expected in 2024
	Rights issue plan of up to 1,17 billion shares with minimum issuance price of VND10,000/share	60%	Expected in 2024
DXG	Up to VND1.22tn (USD50mn) rights issue	16.4%	Offering from December 21, 2023 to January 15, 2024
	Up to VND1.5tn (USD62mn) private placement	7.9%	Expected in 2024
PDR	VND671.65bn (USD28mn) private placement	10.0%	Completed in Q4 2023
	Up to VND1.34tn (USD55mn) rights issue	18.2%	Expected in 2024
VPI	Up to VND650bn (USD27mn) domestic bond issuance		Expected in early 2024
DIG	Up to VND2.1tn (USD86mn) domestic bond issuance		Expected in 2024
HDC	Up to VND300bn (USD12mn) rights issue	14.8%	Expected in 2024
CEO	VND2.52tn (USD104mn) rights issue	100%	Completed in Q3 2023
CKG	Up to VND201bn (USD8.3mn) private placement	14.07%	N/A

Source: Vietcap compilation as of end-2023

There has been increasing activity in land bank transfers between developers in H2 2023, along with VHM's ongoing bulk sales strategy. While traditional retail sales were recovering slowly, VHM continued bulk sales at large-scale projects and secured bulk sales deals with both domestic and international developers in 2023. Bulk sales contracted value accounted for 39%/37% of VHM's contracted sales value in 9M 2023/2022, respectively.

Land bank transfers by other developers were in major cities such as Hanoi, HCMC, and Da Nang. The main buyers were international developers, including firms with experience in project development in Vietnam such as Keppel (Singapore) and Gamuda (Malaysia), and newcomers such as SkyWorld Development (Malaysia). We expect M&A activity to remain buoyant in 2024, mainly driven by foreign buyers, as the early recovery phase of the sector could offer a good opportunity for foreign developers who have strong financial positions but are unfamiliar with the regulatory process for land acquisition in Vietnam to pursue M&A deals.

In addition, foreign developers are starting to expand to second-tier provinces. For example, CapitaLand (Singapore) completed land acquisition from Becamex IDC (HOSE: BCM) to develop a housing-urban area complex in Binh Duong Province and Koterasu (Japan) entered joint ventures with both An Gia (HOSE: AGG) and TT Capital to develop condo projects in Binh Duong Province. We expect that the primary housing market in 2024 will welcome more new supply from foreign developers, supported by recent M&A compared to the minimal new launches from such developers during 2022-2023.

Figure 419: Select land bank/project divestment transactions in 2023

Seller	Buyer	Buyer nationality	Project	Deal size	Location	Stage of transaction	Segment
VHM	Undisclosed	Vietnam	Ocean Park 2 & 3	VND11.2tn (USD461mn)	Hung Yen	Transaction closed and profit recognized in Q1 2023	Residential
VHM	Undisclosed	Foreign	Hai Phong project	VND11.3tn (USD465mn)	Hai Phong	MOU signed in Q3 2023	Residential
KDH	Keppel Corp	Singapore	Emeria and Clarita	VND3.2tn (USD132mn) for 49% stakes	Thu Duc, HCMC	MOU signed in Q1 2023 and transaction closed in Q2 2023	Residential
Tam Luc	Gamuda	Malaysia	Eaton Park	VND7.3tn (USD300mn)	Thu Duc, HCMC	MOU signed in Q3 2023	Residential
Thuan Thanh	SkyWorld Development Berhad	Malaysia	A landbank District 8	VND350bn (USD14mn)	District 8, HCMC	Transaction closed in Q3 2023	Residential
Binh Minh	Keppel Land	Singapore	Tien Bo Plaza	VND1.23tn (USD51mn)	Hanoi	Transaction closed in Q3 2023	Mall
Bach Dang Complex	First Real	Vietnam	Bach Dang Hotel	VND200bn (USD8.2mn) for 22% stake	Da Nang	Transaction closed in Q3 2023	Hospitality
Strategic Hospitality Holdings Limited	Everland Opportunities IX Limited	Hong Kong	Ibis Saigon South and Capri by Frasers	USD106mn (VND2.5tn)	HCMC	Transaction closed in Q2 2023	Hospitality

Source: Company data, media sources, Vietcap compilation

Reforms to address legal issues and promote sustainable development in the real estate sector

Amended Land Law expected to be approved in 2024 and effective from 2025

During the sixth meeting of the 15th National Assembly (NA) held from October 23 to November 29, 2023, the NA passed the Amended Housing Law on November 27 and the Amended Real Estate Business Law on November 28. Meanwhile, the NA postponed approval for the Amended Land Law at this session. (Please refer to our Real Estate Sector Flash, dated November 27, 2023, for a summary of notable changes resulting from the amended laws based on October 2023 draft versions and our view of their impact on the sector.)

According to a statement by the Secretary General of the National Assembly on December 18, 2023, the NA plans to organize an extraordinary meeting in mid-January 2024 to review and approve the Amended Land Law.

In 2023, the Government also issued Decree 10/2023/ND-CP (dated April 3, 2023, and effective from May 20, 2023) to amend and supplement some articles in decrees that guide the implementation of the Land Law 2013. Notable changes included a hard deadline of 90 days for land price approval (please see our Regulation Update, dated April 7, 2023). We observe that Decree 10 boosted market sentiment in the short term but has not had a significant fundamental impact on real estate development since becoming effective. We attribute this to reluctance on the part of local authorities to act before the Amended Land Law is finalized following the aggressive anti-corruption campaign in 2022/23.

However, we note that since early 2023, the Prime Minister has urged local authorities to remove project legal bottlenecks but also stressed the need to provide fair treatment and not legitimize violations of the law. While we do not expect the Amended Land Law to 'bail out' backlogged projects that have violated legal procedures, it may take time for provincial-level authorities to consult with higher authorities such as the Prime Minister and relevant Ministries for appropriate solutions, in which developers may be allowed to supplement documents and resolve previous inappropriate actions to align with the amended regulations.

We believe approval of the Amended Land Law will support overall market sentiment and improve the project development landscape with clearer guidance and transparency. Although the Amended Land Law is expected to come into effect from January 1, 2025 (according to the Standing Committee of the National Assembly, November 27, 2023), we anticipate that the Government will promulgate amended decrees to comply with the upcoming Amended Land Law before then. Hence, changes following the amended Land Law should become effective relatively quickly, in our view.

Figure 420: Summary of notable changes in the Amended Housing Law, Amended Real Estate Business Law, and draft of Amended Land Law

Regulation	Old law	New law (effective from January 1, 2025)	Vietcap's comments
		Amended Housing Law	
Land allocation for social housing in a commercial project	For commercial housing projects with total land of 2 ha or more in cities of special class and class I, or 5 ha or more in cities of classes II and III, developers must allocate 20% of the total land for building social housing.	If developers do not allocate social housing inside a commercial project, they must (1) allocate social housing land outside of the commercial project or (2) pay the money to local authorities.	Developers now have more flexibility in fulfilling their social housing development obligation in that they are not required to build social housing inside their commercial projects and may choose alternative options.
Incentives for social housing developers	Net margin for a whole social housing project (including commercial component) cannot exceed 10% of the total investment.	Maximum net margin of 10% is applied for the social housing construction area. Developers can earn all profit from the commercial component (the developer is entitled to pay LURF for the commercial component).	Developers can maximize the profit of developing social housing via the commercial component.
		Amended Real Estate Business Law	
Deposit regulation	No regulation on deposit	Developers are only allowed to collect deposits of no more than 5% of the selling price or lease purchase price when the project is qualified for sale.	It should mitigate the risk for homebuyers from unqualified-for-sale projects where developers have already collected presales money through deposits.
		Amended Land Law *	
Land price	The Government shall issue land price frames every five years. The Provincial People's Committees based on the land price frame to issue the land price table every five years.	Remove land price frames. Provincial People's Committees will establish the land price table on an annual basis.	We believe that the more frequently updated land price table helps it be closer to the market price and facilitates the compensation and implementation of projects.
Land price approval deadline	Not mentioned	Provinces determine land prices no later than 180 days from the issuance date of the decision on land allocation, leasing, or change of the land-use purpose.	It should facilitate the responsibility of the authorities in terms of determining the timeline and response process to the developers.
Land recovery to implement commercial projects	Does not mention any departments to oversee land recovery for a commercial housing project.	The Government is responsible of recovering land for housing and commercial housing complex projects through LUR auctions or allocating land to developers who have won bids for these projects.	By mentioning the Government's role in land recovery for commercial projects, we believe this could streamline the land recovery process for developers. The supplement also aligns with the government's directive to promote LUR auctions and bidding for land-using projects.

Source: National Assembly portals, Vietcap. (*) Vietcap's comments on notable changes suggested in the draft Amended Land Law are based on the December 2023 draft version; this amended law is expected to come into effect from January 1, 2025.

More incentives for social housing development

In April 2023, a social housing credit package worth VND120tn (USD5bn) was created following the issuance of Resolution No 33/NQ-CP by the Government with several solutions to promote the healthy and sustainable development of the property market. However, the disbursement was slow with a total of VND105bn (USD4.3mn) disbursement for three projects as of November 2023. According to the Governor of the State Bank of Vietnam (SBV), the main reasons for slow disbursement were limited social housing supply, and stringent requirements for borrowers. For the supply issue, we believe that a supplement in the Amended Housing Law which states that the profit margin is capped at 10% for social housing construction areas but allows developers to use 20% of the floor area in a social housing project for a commercial component with no margin limit could incentivize developers to participate in the social housing segment. In the old law, the net margin of the whole social housing project (including the commercial component) was capped at 10%. We also expect that lower lending rates and simpler assessment procedures should make social housing more attractive for developers and more accessible for homebuyers.

Amongst developers under our coverage, we forecast VHM to launch two social housing projects in Thanh Hoa and Quang Tri and NLG to continue presales at the Can Tho EhomeS project in 2024. Although we believe developers should diversify product offerings to more affordable segments such as social housing, we do not believe this segment could be a strong driver for recovery in the sector due to its low value.

Figure 421: Comparison of VND120tn credit package and VND30tn credit package for social housing developers and homebuyers

	VND120tn credit package	VND30tn credit package
Implementation	**2023-2030**	**2013-2016**
Loan allocation	For social housing developers and homebuyers	~82% credit disbursed to homebuyers ~18% credit disbursed to developers => Mainly for homebuyers
Interest rate	1.5-2.0 ppts lower than the average market lending rates of four State-owned commercial banks	Fixed rate: 5-6%/year, applied for 20 years

Source: SBV, Vietcap

Figure 422: Social housing project pipeline of select developers

	Project	Location	Land area
VHM	Thanh Hoa	Thanh Hoa	9 ha (~3,100 high-rise units)
	Quang Tri	Quang Tri	2 ha (~100 low-rise units)
	Nam Trang Cat	Hai Phong	26 ha (~3,400 high-rise units)
NLG	EhomeS Can Tho	Can Tho	3.8 ha (~800 units)
	Two projects in Bien Hoa City	Dong Nai	1.4 ha and 2.85 ha
	Hai Phong	Hai Phong	9.7 ha

Source: Company data, Vietcap

Long-term structural drivers of Vietnam's housing sector remain intact

We maintain our view that the real estate sector will benefit from the following structural drivers over the long term: increasing urbanization, an emerging middle-affluent class, shrinking average household size, improving infrastructure, and increasing mortgage penetration.

Strong housing demand underpinned by growing urban population. We believe Vietnam will experience structural growth in the residential real estate market like the experience in more developed countries in the region. In particular, we expect that the substantial projected increase in urban population will lead to a heightened need for new urban development within cities. Furthermore, we anticipate an emerging middle-income class will likely follow the lifestyles of regional peers by having smaller household sizes, which should boost demand from first-time homebuyers.

Figure 423: Vietnam's projected middle-class income population

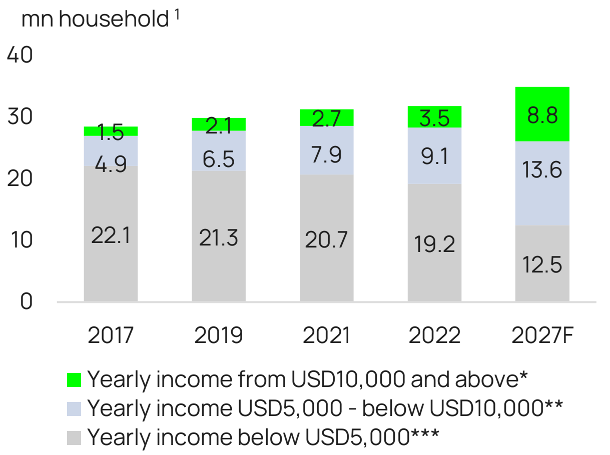
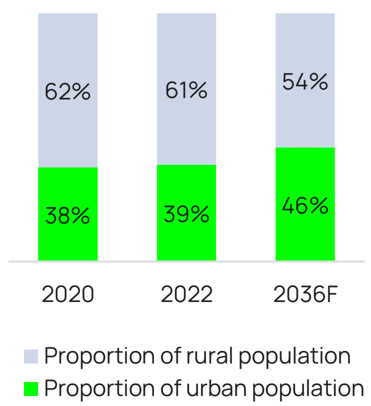


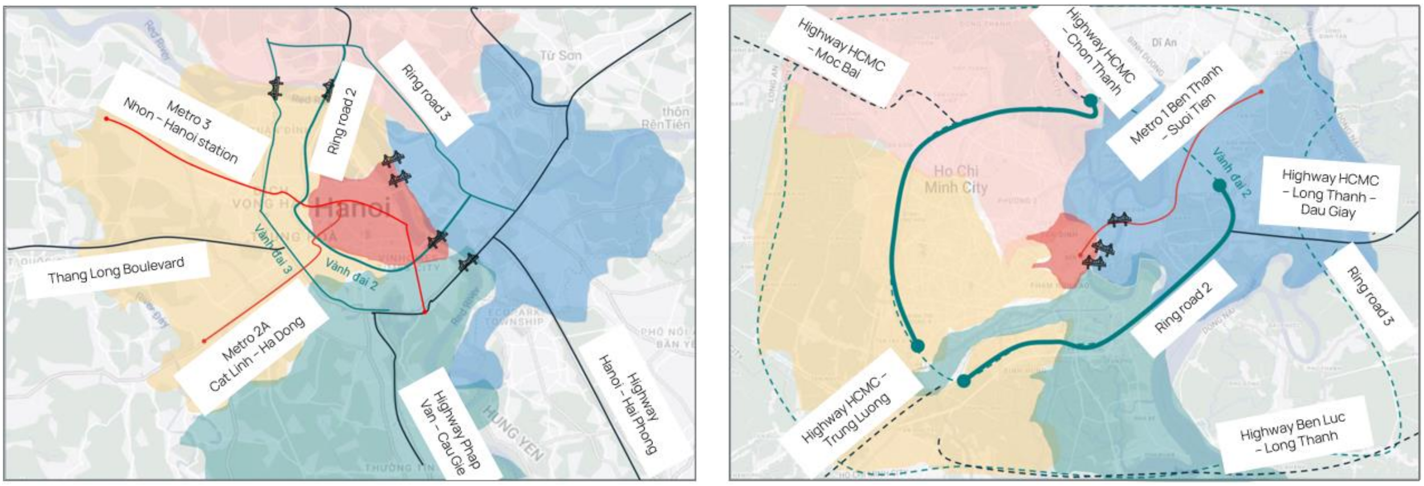
Figure 424: Vietnam's projected urbanization rate (%)



Source: Cimigo, FitchSolutions, Vietcap. Note: [1] A Vietnamese household has two working adults on average, *established consuming class, ** consuming class, ***below consuming class

Infrastructure improvement to spur demand in areas surrounding the centers of Hanoi and HCMC. The supply dynamics in Hanoi have been more favorable and diversified in location than in HCMC, mainly due to (1) better infrastructure development including ring roads, highways, and an MRT system and (2) fewer legal procedure constraints. As the HCMC authority is pushing the implementation of the MRT line 1 and Ring Road 3 (which are set to operate in 2024 and 2025, respectively), we believe connectivity will improve between the central business districts and the surrounding areas and provinces, such as Long An, Binh Duong, and Dong Nai, thus enhancing the prospects for housing development in these locations.

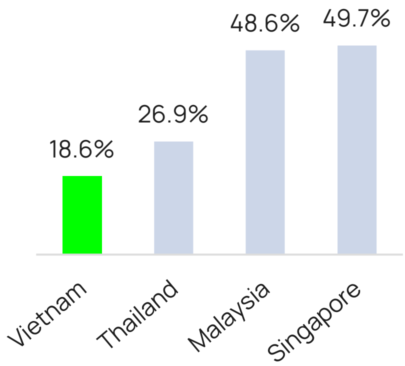
Figure 425: Infrastructure development in Hanoi, HCMC, and surrounding areas



Source: Batdongsan.com.vn, Vietcap compilation

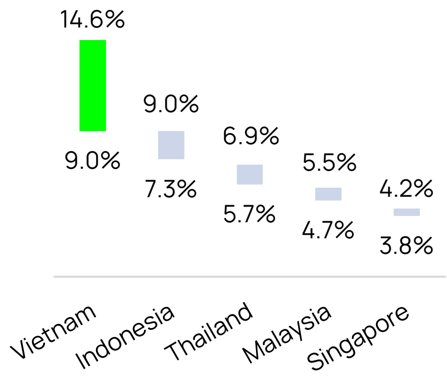
Development of Vietnam's underpenetrated mortgage market set to further support homebuyer demand. Vietnam's outstanding mortgage loans represented 18.6% of GDP in 2022, per our estimates — lower than in Thailand and far below the levels in Singapore and Malaysia. We attribute this in part to Vietnam's higher mortgage rates vs other countries. We expect cooperation between developers and commercial banks to offer flexible mortgage packages, which will foster growth in Vietnam's mortgage market and the residential market over the longer term.

Figure 426: Total home mortgage loans outstanding as a percentage of GDP in 2022



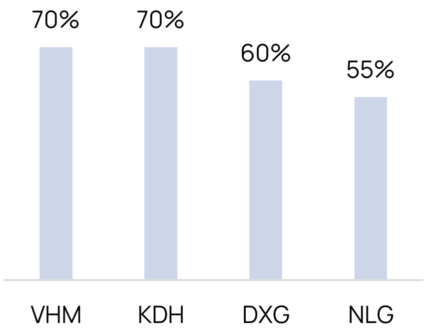
Source: Vietcap estimates and compilation

Figure 427: Mortgage rate ranges in Southeast Asia (2022-2023)



Source: Banks' published mortgage rates for 25-year tenure, Vietcap estimates, and compilation.

Figure 428: Percentage of residential units sold packaged with a mortgage product in 2021-2023



Source: Vietcap compilation. The percentage of units sold that are packaged with a mortgage (arranged or promoted by the developer in conjunction with a bank).

Share price performance

Two main catalysts drove up stock prices of mid-cap developers under our coverage (KDH, DXG, NLG, DIG, and brokerage firm DXS) in 2023: (1) faster-than-expected rate cuts and (2) Government directives targeted at removing legal/bureaucratic bottlenecks for developers that supported investor sentiment and an improving outlook for homebuyer confidence and property brokerage activities. On the other hand, stock prices of VIC, VHM, and VRE underperformed compared to the VN-Index in 2023 despite VHM's and VRE's strong fundamental performance.

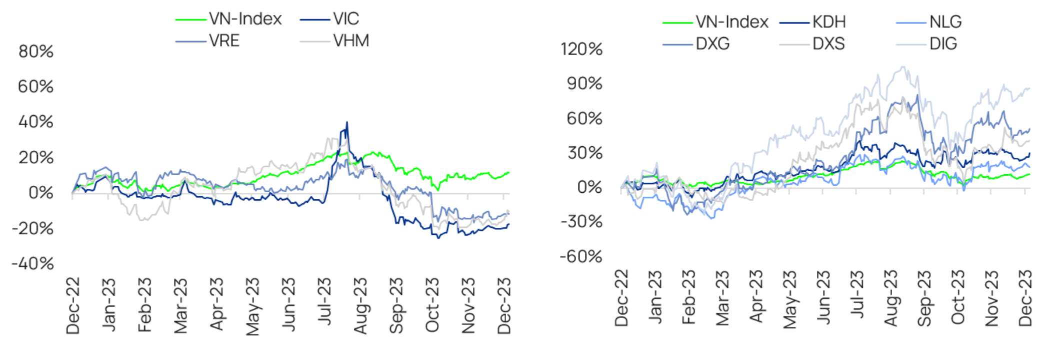
KDH - The share price was supported by its partnership with Keppel to jointly develop the Clarita and Emeria projects (MOU signed in May) and the launch of the Privia project in November.

NLG – The share price saw three strong increases in March, April, and July 2023, respectively supported by guidance on expected commercial land sales to its partner which should support 2023F earnings, the Government's direction to remove legal bottlenecks for projects in Dong Nai where NLG has the Izumi City and Paragon projects, and a rebound in Q2 2023 earnings from a low base in Q1 2023.

DXG, **DXS,** and **DIG** - We believe the strong performance of these three stocks has run ahead of fundamental progress.

VIC, **VHM,** and **VRE** - Stock prices have been increasingly correlated with news on VinFast (Nasdaq: VFS) and negatively impacted by concerns over VIC's high debt maturity obligations in 2024 and its refinancing capability. Market sentiment for VIC turned positive in July - August 2023 following VFS's groundbreaking ceremony for its EV factory in the US and its US listing. However, share prices have retreated since September, which we mainly attribute to (1) low subscriptions for the first two tranches of VIC's domestic bond public offerings in August and September 2023 and (2) a high volume of foreign selling of VHM shares in the ATO session on October 26, 2023 which we believe was due to a hedging strategy employed by some international investors who invested in VIC's international exchangeable bonds (EBs).

Figure 429: Share price performance of Vietcap real estate stock coverage



	VN-Index	VIC	VRE	VHM	KDH	NLG	DXG	DXS	DIG
2022 Q1	0%	-15%	11%	-8%	4%	-12%	33%	-3%	-4%
2022 Q2	-20%	-9%	-15%	-18%	-26%	-37%	-58%	-41%	-62%
2022 Q3	-5%	-25%	-2%	-18%	-21%	-15%	4%	-21%	2%
2022 Q4	-11%	-2%	-6%	-5%	-6%	2%	-37%	-49%	-52%
2023 Q1	6%	2%	12%	7%	4%	-14%	-2%	-14%	-6%
2023 Q2	5%	-7%	-9%	7%	12%	23%	18%	56%	56%
2023 Q3	3%	-8%	-3%	-17%	6%	6%	27%	-2%	19%
2023 Q4	-2%	-5%	-11%	-5%	6%	5%	2%	7%	7%
2022	-33%	-43%	-13%	-41%	-43%	-52%	-64%	-77%	-82%
2023	12%	-17%	-11%	-10%	30%	18%	52%	41%	87%

Source: Company data, Vietcap

Top stock picks

BUY – Vinhomes (HSX: VHM)

We believe market leader VHM is well positioned for a recovery in the sector. In a highly fragmented residential market, we expect VHM to expand its dominant position and gain market share from smaller developers by leveraging its strengths such as unique mixed-use development formats with a full suite of complimentary products/services, the largest land bank, proven brand equity, and access to flexible mortgage packages for customers. In Vietnam, VHM's market share was 43% in the high-end condo segment (2016-Q3 2023) and 39% in the mid-end condo segment (2019-Q3 2023), per CBRE.

We expect 2024F profit will be mainly driven by strong unbilled bookings. As of end-Q3 2023, VHM's total unbilled bookings were VND76.9tn (USD3.2bn). We forecast 2024F NPAT-MI of VND27.3tn (USD1.1bn; -26% vs 2023F's high-base) which is mostly due to deliveries at launched projects and expected new sales at the Vu Yen project (Hai Phong).

We expect new phases at mega projects to support the 2024-2025F presales outlook. For 2024F, we expect new presales at Vu Yen (Hai Phong) and Wonder Park (Hanoi) and ongoing presales at launched projects to support our presales projection of VND75tn (USD3.1bn; +2% vs 2023E). Meanwhile, we forecast 2025F presales of VND82tn (USD3.4bn; +10% YoY) supported by our expectation that Co Loa (Hanoi) and International University Township (HCMC) will start to contribute to sales.

VHM's valuations are attractive at a 2024/2025F P/B of 0.9x/0.8x, respectively, based on our forecasts.

Downside risk to our positive view: Slower-than-expected retail sales launches at new mega projects.

Please find more details on VHM in our latest Update Report.

BUY – Khang Dien House (HSX: KDH)

We believe housing products from experienced developers with strong brand equity — such as KDH with its dominance in the HCMC landed housing segment — will continue to attract interest from homebuyers.

We expect strong sales at The Privia to drive 2024F earnings. We expect the launch of The Privia (total project includes ~1,040 condos; Binh Tan District, HCMC) to benefit from recovery in the real estate market and support our forecast for KDH's 2024F NPAT-MI of VND1.1tn (USD45mn; +10% vs 2023F).

We expect the Emeria (~60 low-rise and ~600 high-rise units) to start launching sales by H2 2024F for the low-rise portions given that it has obtained a construction permit and is currently under construction (per KDH). Meanwhile, we expect that Clarita (~160 low-rise units), The Solina (~500 low-rise units planned for Phase 1), and Le Minh Xuan IP Expansion will start sales contributions from 2025F. We expect the large-scale Tan Tao project (~329 ha; completed ~80-85% of land clearance as of end-Q3 2023) will start sales from 2026F as KDH will focus on medium-scale projects in 2024/25F.

KDH is currently trading at a 2024F P/B of 1.7x, compared to its 3Y median P/B of 2.2x, which we think is an attractive level given the company's valuable land bank pipeline around HCMC.

Downside risk: Slower-than-expected launches of large-scale projects such as Tan Tao.

Please find more details on KDH in our latest Update Report.

OUTPERFORM – Nam Long Group (HSX: NLG)

We believe experienced developer NLG has well-positioned products to capitalize on solid owner-occupier demand in the mid-end housing market and a sustainable development strategy of partnering with Japanese developers. We expect NLG will continue to focus on the mid-range condo and landed property segments, which have been outperformers in past years in terms of price performance and demand. We also expect NLG to continue to succeed in its joint-development strategy with its land bank in HCMC, Dong Nai, and Long An.

We expect more improvements in homebuyer confidence and smoother legal progress to support NLG in launching the next phases of existing projects in 2024F. We expect strong presales rebound in 2024F at VND5.6tn (USD230mn) and 2025F at VND7.0tn (USD288mn).

We forecast that a strong backlog and Paragon stake sales recognition will support earnings growth in 2024. We estimate NLG's end-Q3 2023 property backlog at VND11.6tn (USD477mn), ~70% of which is expected to be recognized in Q4 2023-2024F, while the rest is expected to be recognized in 2025-26F. Furthermore, we expect a smoother approval process for the Paragon stake sales so that it can be recognized in 2024F and contribute ~30% of our 2024F NPAT-MI forecast. Per management, NLG is still waiting for approval from the Dong Nai authorities to update the ownership title of the foreign buyer on its enterprise registration certificate. This is the final procedure needed to recognize the 25% stake sale of Paragon to Nishi Nippon Railroad.

Downside risk: Slower-than-expected launches of new phases at key projects.

Please find more details on NLG in our latest Update Report.

BUY – Vincom Retail (HSX: VRE)

We believe leading mall developer VRE is well positioned to capitalize on the rise of modern retail in Vietnam over the long run. VRE is looking to strengthen its market dominance by leveraging its competitive advantages — including prime locations, nationwide scale, and access to the largest land bank in Vietnam — which are reflected in VRE's mall opening pipeline.

We expect retail leasing profit to remain resilient and a lower contribution from the property sales segment in 2024F. We forecast 2024F retail leasing revenue at VND8.4tn (USD346mn; +8% vs 2023F and accounting for 96% of total revenue) and gross profit at VND4.9tn (USD202mn; +9% vs 2023F). Meanwhile, end-Q3 2023 unbilled bookings of the property sales segment amounted to VND860bn (USD35mn), from which we expect VRE to recognize revenue of ~VND490bn (USD20mn) in Q4 2023F and ~VND360bn (USD15mn) in 2024F.

We expect new mall openings to resume in 2024F. We expect overall consumer spending and confidence to experience a meaningful recovery in 2024F, which will support our forecast for VRE's total retail leasing GFA to increase to 1.85 million sqm by end-2024F vs 1.75 million sqm by end-2023F, including VMM Grand Park (GFA of ~46,000 sqm), and VCP Ha Giang (GFA of ~10,000 sqm).

VRE's valuation looks attractive at a 2024F P/E of 13.4x (based on our forecast) vs the three-month average of the regional peer median consensus 2024F P/E of 20.5x, in addition to our projected 2024-2028F NPAT-MI CAGR of 14% for VRE that is a result of our expectation for additional contributions from new malls and a net margin improvement at existing malls.

Downside risk: Slower-than-expected new mall expansion due to slower-than-expected recovery of consumer sentiment.

Please find more details on VRE in our latest Update Report.

Appendix: Company names and tickers

Code	Company name
VIC	Vingroup JSC
VHM	Vinhomes JSC
VRE	Vincom Retail JSC
KDH	Khang Dien House Trading and Investment JSC
NLG	Nam Long Investment Corp
DXG	Dat Xanh Group JSC
DXS	Dat Xanh Real Estate Services JSC
DIG	Development Investment Construction JSC
NVL	No Va Land Investment Group Corp

Source: Vietcap

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Industrial parks: IP land sales outlook remains bright

- We expect aggregate IP land sales of industrial park (IP) developers under our coverage to achieve 22% growth in 2024F vs strong growth of 49% in 2023F, supported by (1) an ongoing trend of global manufacturers relocating to Vietnam, particularly in the high-tech electronics segment, and (2) an expected recovery in demand in key sectors such as machinery & equipment, steel, and textiles & garments. In addition, a pivot in monetary policy from key central banks such as the US Federal Reserve, as per current consensus forecasts, should be more supportive of capital expenditure by manufacturers relative to the aggressive tightening seen in 2022/23.
- We believe the long-term outlook for IP land sales remains bright as Vietnam will continue to attract strong foreign direct investment inflows due to the country's competitive advantages, which include relatively low labor costs, a young and increasingly well-educated workforce, a wide range of free trade agreements (FTAs), developing infrastructure, and consistent policies to support manufacturing. Vietnam also has an opportunity to move further up the global value chain, as evidenced by recent announcements of partnerships with major US semiconductor businesses, including Nvidia, Amkor, and Intel, and the country's stated commitment to training skilled workers for the semiconductor industry. We believe that IP land demand will also benefit from an ongoing shift in high-tech manufacturing and other industries as businesses diversify supply chains away from China.
- In order to capitalize on these favorable FDI trends, we expect the investment approval process for new IP projects (which is generally considered the most important step in the process of new IP establishment, in our view) to accelerate vs in 2023 due to (1) our expectation for more provincial masterplan approvals and (2) current high occupancy rates in most tier-1 industrial provinces in both northern and southern Vietnam. For the medium term, we expect that the supply in tier-1 industrial regions will remain tight as new approvals in 2020-2023 have mostly focused on tier-2 industrial areas.
- Our top picks are **IDC, KBC, SIP,** and **LHG**. We favor IP developers with large, cleared industrial land areas in tier-1 industrial regions given high occupancy rates and resilient FDI inflows into these regions. We like IDC, SIP, and LHG as these IP developers should be able to leverage their existing land banks to capitalize on current favorable market conditions and have healthy financial positions which should enable them to prepare for future growth phases over the long term. We like KBC as it is the chief beneficiary of the shift in high-tech manufacturing to northern Vietnam. KBC has been able to attract brand-name tenants such as LG, Foxconn, and Goertek, and also benefits from its undervalued residential land bank in industrial hubs.

Figure 430: Industrial parks: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
SIP	BUY	476	2%	49%	232	0.2	63,600	83,000	11/30/23	31%	3%	34%
LHG	BUY	62	49%	49%	18	0.1	30,300	37,900	9/27/23	25%	6%	31%
IDC	BUY	708	0%	49%	226	6.0	52,100	58,100	11/9/23	12%	6%	17%
KBC	BUY	1,003	0%	49%	282	8.5	31,750	35,200	10/31/23	11%	6%	17%
PHR	O-PF	277	67%	49%	92	0.5	49,700	53,200	12/21/23	7%	6%	13%
SZC	M-PF	220	58%	20%	37	2.6	36,400	34,300	12/29/23	-6%	0%	-6%
GVR	U-PF	3,490	97%	13%	442	1.7	21,200	17,600	1/3/24	-17%	1%	-16%
VGC	NR	1,013	39%	49%	440	2.0	54,900	N/A	N/A	N/A	N/A	N/A

Figure 431: Industrial parks: Summary valuations

Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E LTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/ EBITDA 2024F	ROE 2024F %	Adj. P/B LQ x	Net D/E LQ %
SIP	63,600	-16%	5%	17%	13.7	15.4	14.6	12.5	8.7	23%	1.4	-57%
LHG	30,300	2%	37%	21%	12.9	8.6	6.3	5.2	1.6	17%	1.0	-60%
IDC	52,100	-37%	60%	45%	34.3	15.6	9.8	6.7	5.4	35%	2.4	22%
KBC	31,750	45%	7%	44%	17.0	11.0	10.3	7.2	7.2	13%	1.3	13%
PHR	49,700	-41%	-15%	79%	8.2	14.3	16.8	9.4	17.6	13%	1.6	-49%
SZC	36,400	9%	4%	47%	29.0	27.0	25.9	17.6	12.1	11%	3.0	128%
GVR	21,200	-31%	19%	22%	36.0	32.2	27.0	22.1	12.9	6%	1.6	-18%
VGC	54,900	-17%	22%	1%	19.1	17.9	14.6	14.5	4.9	20%	2.6	29%

Source: Company data, Vietcap forecast. Note: Share prices as of December 29, 2023; VGC forecasts from our energy team's coverage of GEX; SZC's share price and target price are adjusted for rights issue (XR January 5, 2024); GVR updated on January 3, 2024.

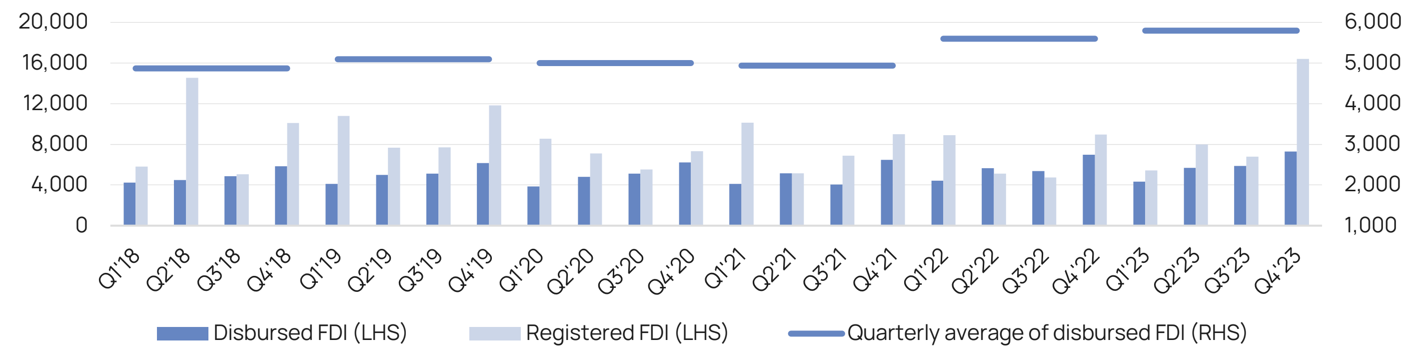
Sector outlook

Vietnam's value chain advancement and relocation by global manufacturers to support IP land demand

Recovery in manufacturing and a pivot in monetary policy in 2024 to drive IP land demand. We expect aggregate IP land sales of IP stocks under our coverage to achieve 22% growth in 2024F vs strong growth of 49% in 2023F. We expect northern IPs to maintain strong with IP land sales and FDI registrations, driven by continuing demand for the high-growth electronics sector. Meanwhile, we expect IP land sales in southern regions to pick up vs in 2023 due to an expected recovery in demand in key sectors such as machinery & equipment, steel, and textiles & garments. Additionally, a pivot in monetary policy from key central banks such as the US Federal Reserve, as per current consensus forecasts, should be more supportive of capital expenditure by manufacturers relative to the aggressive tightening seen in 2022/23.

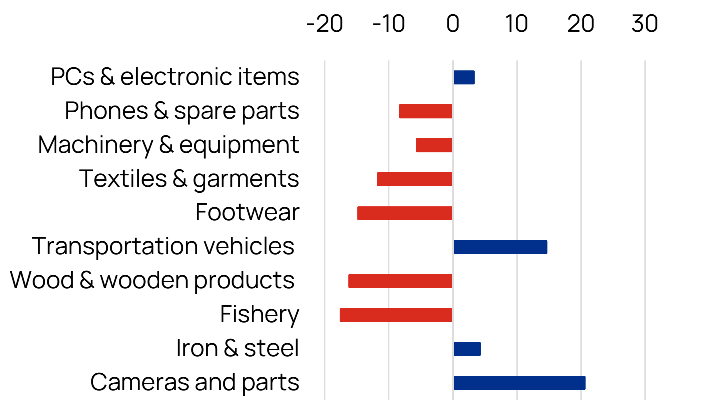
In 2023, Vietnam's new FDI registrations increased by 32.1% YoY to USD36.6bn (vs an annual average in 2012-2022 of USD27.7bn) despite a global economic slowdown. FDI registrations in 2023 to the northern and central regions increased by 50% and 49% YoY, respectively, while FDI registrations to the southern region recorded weaker growth at 8% YoY. We attribute this strong increase in the North to the ongoing shift in high-tech manufacturing from China, in addition to resilient export demand for electronic products. Meanwhile, the weaker performance in the South was mainly due to slower export demand in major sectors in the region, including machinery & equipment, textiles & garments, and iron & steel.

Figure 432: Disbursed FDI, registered FDI, and quarterly average of disbursed FDI (USD mn)



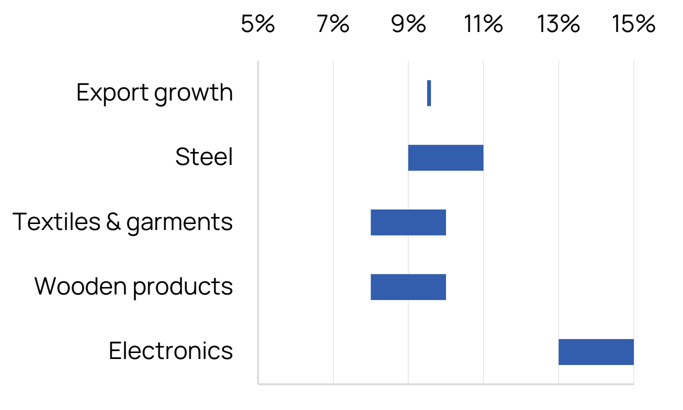
Source: Ministry of Planning and Investment, Vietcap

Figure 433: Top exports in 2023 from Vietnam by value (% change YoY)



Source: GSO, Vietcap

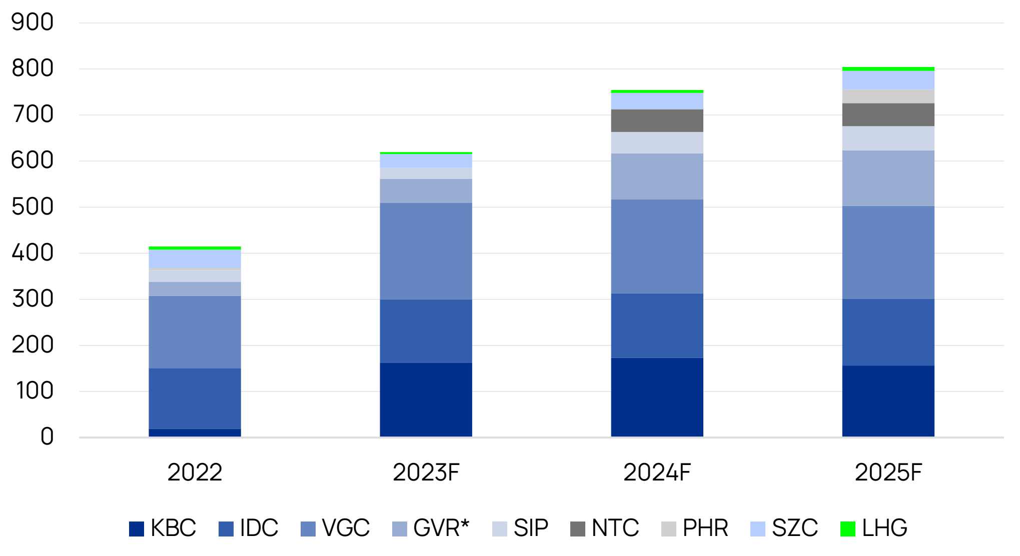
Figure 434: Projected export value growth of key industrial sectors in 2024F



Source: Vietcap forecasts

Among the IP stocks that we follow, we forecast aggregate IP land sales in 2023/24/25F to increase by 49%/22%/7% YoY to 619 ha/755 ha/804 ha, respectively. The increase in 2023F is mainly driven by a huge forecast jump in IP land sales at KBC of 8.6x YoY to 162 ha. Meanwhile, for 2024F, we expect IP land sales for KBC and IDC to be sustained at 173 ha (+7% YoY) and 140 ha (+1% YoY), respectively, as we believe these companies will continue to leverage their established tenant base to attract major contracts from FDI investors.

Figure 435: Aggregate IP land sales (ha) of select IP developers



Source: Company data, Vietcap. Note: (*) Excluding IP land sales of PHR and NTC

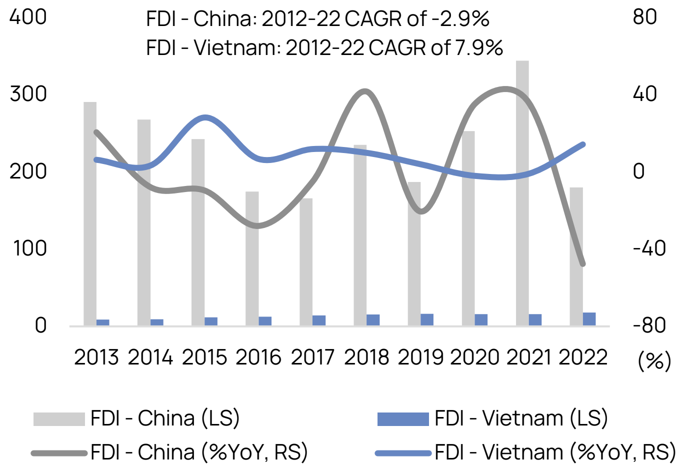
Long-term prospects for IP land sales are further supported by the ongoing shift in supply chains in high-tech manufacturing and other industries from China. Vietnam is an established destination for global manufacturers to shift their factories due to the country's strategic location, low labor costs, and broad range of free trade agreements (FTAs) and FDI inflows, which have been strong over the past decade. We expect demand for IP land to remain robust over the medium term as FDI inflows are further supported by (1) the ongoing structural shift of global manufacturers relocating to Vietnam and (2) Vietnam's efforts to move up the global value chain.

Vietnam has steadily gained traction relative to China in both FDI inflows and exports to the US. Vietnam's exports to the US, its largest export market, grew at a CAGR of 17.2% from 2008-22, compared to China's CAGR of 6.2%. We expect this trend of relative outperformance to continue over the medium and long term as Vietnam moves up the value chain, in addition to ongoing trade war tensions between China and the US. According to data from the World Bank, FDI net inflows (on a BoP basis) into Vietnam grew at a CAGR of 7.9% from 2012-22 while FDI into China decreased by 2.9% annually from 2012-22.

Figure 436: Exports to the US from China and Vietnam during 2008-11M 2023 (USD bn)

Source: United Nations, Vietcap

Figure 437: Foreign direct investment, net inflows (BoP, current USD bn) to China & Vietnam



Source: World Bank, Vietcap

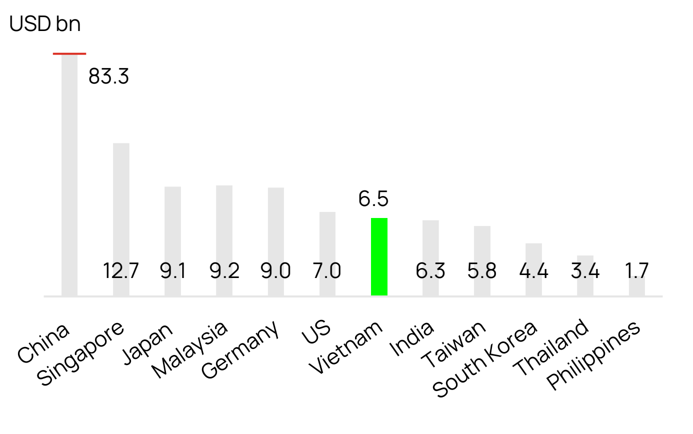
We believe Vietnam's advancement up the value chain will contribute further to long-term growth in IP demand. If Vietnam's manufacturing sector successfully moves up the global high-tech value chain, we believe this will be a long-term driver for the IP sector as the country will attract more suppliers and high-tech manufacturing. We see potential improvement in localization and technology transfer as research and development (R&D) centers have recently been established in Vietnam, including from notable US semiconductor companies such as Amkor, Intel, Marvell, and Qualcomm. Another example of Vietnam's increasingly important role in the global technology value chain can be seen in the increase in official Apple suppliers in Vietnam from 10 (5% of Apple's total suppliers) in 2016 to 25 (14% of Apple's total suppliers) in 2022, mostly located in northern Vietnam. Meanwhile, for southern IPs, we have seen increasingly diverse and capital-intensive FDI investment, ranging from Lego (toy production) and Hyosung (advanced materials and fabrics) to PepsiCo (F&B).

Vietnam has recently received a lot of publicity as a potential destination for investments in semiconductors. We believe the upgraded diplomatic relations between the US and Vietnam and Japan and Vietnam could help to bring opportunities for Vietnam to become more involved in semiconductor supply chains. This, in turn, could have a positive impact on the demand for Vietnam's industrial parks. Vietnam's government and industry leaders have expressed a clear intention to develop the country's role in the semiconductor industry as demonstrated by commitments to train skilled semiconductor workers. The Government plans to train a total of 50,000 semiconductor engineers by 2030, which is nine times the estimated number for 2023.

According to the International Trade Center (ITC), Vietnam's exported value of semiconductor devices achieved impressive growth of 83% YoY to USD6.5bn in 2022 but still represented only just 3.8% of global exports of these products. In addition to the increased integration of Vietnam in the semiconductor value chain, the global semiconductor industry is projected to grow at a high CAGR of 12.3% from 2023 to 2032, per a report by Precedence Research published in June 2023.

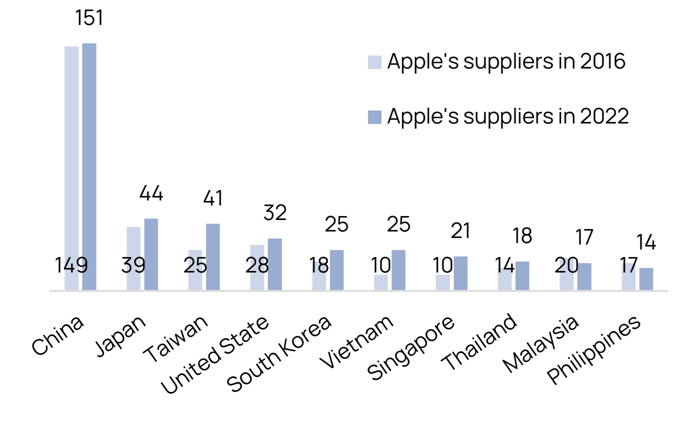
Cooperation between the US and Vietnam is proceeding with a review of Vietnam's current semiconductor ecosystem, regulatory framework, and workforce and infrastructure needs. We think that there will be a potentially greater impact on the northern IPs in the medium term as we expect that companies seeking manufacturing plants in the semiconductor business would choose locations with well-established infrastructure and proximity to existing high-tech manufacturing hubs.

Figure 438: Semiconductor device export value of selected countries in 2022



Source: World Trade Organization, Vietcap

Figure 439: Number of Apple's official suppliers in 2016-2022



Source: Apple, Vietcap

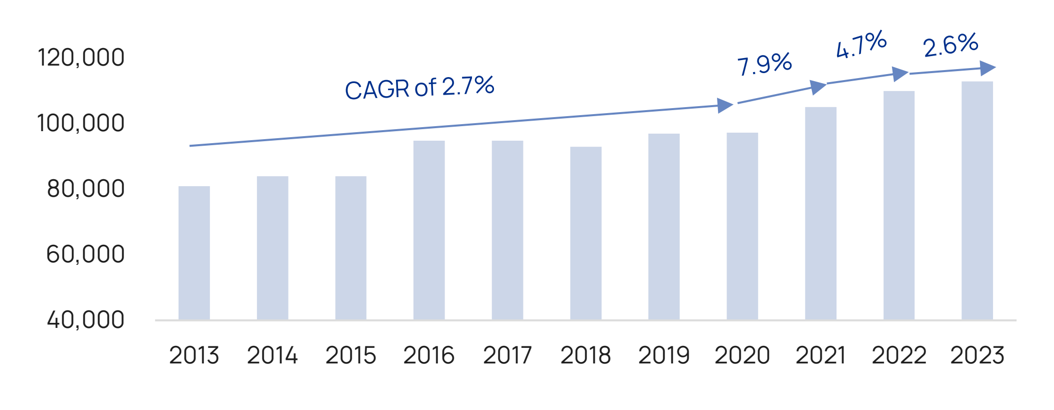
New IP project approvals to pick up in 2024-2025, contributing to IP supply

Government approvals for new IP land to accelerate vs in 2023 as more provincial masterplans are approved. We expect the investment approval process for new IP projects to accelerate in 2024 as more provincial master plans are approved.

We expect legal approvals in Binh Duong and Dong Nai to speed up as we anticipate both provinces' master plans to be finalized by 2024, given the currently limited supply of IP land and high occupancy rates in tier-1 industrial provinces, as well as strong demand for IP land in these regions. This will be favorable for IP developers who have land banks in these provinces and are in the process of completing legal procedures for new IPs, including NTC (processing land rental fee payment for NTC-3 IP), PHR (seeking 1/2000 masterplan for Tan Lap 1 IP and investment approvals for new IP clusters), GVR (substantial rubber land bank which can be converted to IP land in Binh Duong), and BCM (substantial land bank in Binh Duong).

Furthermore, we believe that the approval process should be more favorable for leading IP developers who have strong financial positions and the ability to attract tenants, such as IDC and KBC. IDC is looking to receive investment approval for the Tan Phuoc 1 IP (470 ha of total site area, Tien Giang Province) and KBC is seeking approval for the Trang Due 3 IP (687 ha of total site area, Hai Phong Province).

Figure 440: Total IP site area (ha) of IPs established* in Vietnam in 2012-2023



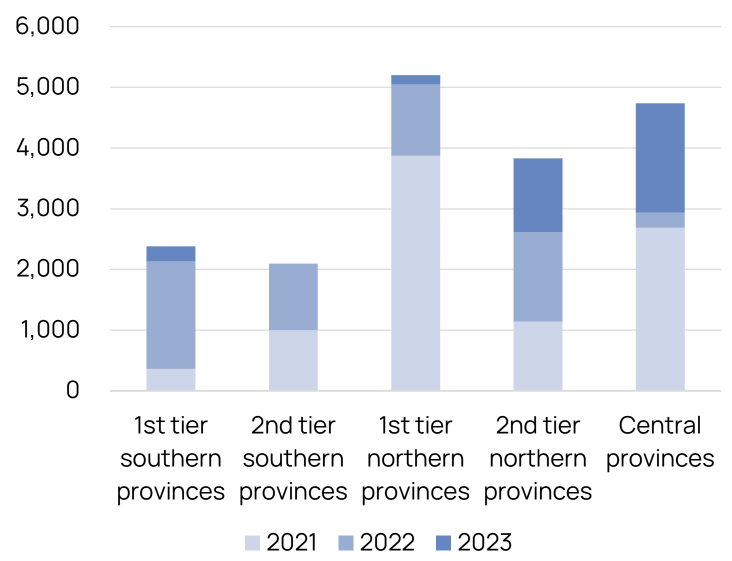
Source: MoPI, Vietcap. Note: (*) Not including IP site area in coastal economic zones.

Government approval for new establishment, expansion, and amendment of IPs slowed down in 2023 as it grew 2.6% YoY (3,411 ha) after growth of 7.9% YoY (9,061 ha) in 2021 and 4.7% YoY (5,769 ha in 2022). We attribute the slow growth in 2023 mainly to the delayed approval of provincial master plans for the period from 2021 to 2030. As of end-2023, around 46 provinces had received approval for their 2021-2030 master plans from the Prime Minister, the majority of which were approved in 2023.

In 2020-2023, we estimate that ~58% of the total new IP site area was in tier-2 provinces and central provinces, which are less established industrial provinces with generally lower leasing prices and occupancy rates compared to tier-1 provinces. The number of new approvals in tier-2 provinces and central provinces jumped up to ~88% of total new IP approvals in 2023, which we mainly attribute to developers and FDI tenants seeking investment opportunities in areas further from current established industrial hubs in anticipation of strong potential demand over the long term as these regions offer more attractive rental rates, in addition to improving infrastructure connectivity.

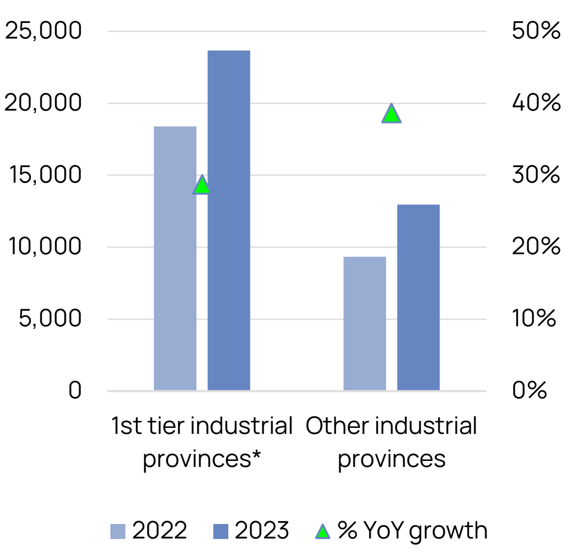
Nevertheless, we believe that tier-1 industrial hubs will continue to be the most attractive FDI destinations as these regions accounted for 65% of total FDI registrations in 2023. In addition, some key industrial provinces still ranked among the top provinces receiving approvals for new IP land area in 2022-2023, including Long An Province in southern Vietnam with 2,134 ha (12% of new IP area receiving investment approval from the Government in 2021-2023) and Bac Ninh Province and Hai Phong in northern Vietnam with 1,166 ha and 1,162 ha respectively — equivalent to 7% each of new IP area receiving investment approval from the Government.

Figure 441: Government approvals for expansion and new establishment of IP area (ha) in 2021- 2023



Source: Vietcap, Government Portal. Notes: 1st tier provinces/municipalities include Binh Duong, Dong Nai, and Long An in southern Vietnam and Bac Ninh, Hai Duong, Hung Yen, Bac Giang, and Hai Phong in northern Vietnam.

Figure 442: FDI registration by regions (USD mn)



Source: Vietcap, Government Portal. Notes: 1st tier provinces/municipalities include Binh Duong, Dong Nai, and Long An in southern Vietnam and Bac Ninh, Hai Duong, Hung Yen, Bac Giang, and Hai Phong in northern Vietnam.

Figure 443: Select manufacturing investments announced in 2023

Company	Nationality	Industry	Investment (USD mn)	Industrial park	Province*	Developer
Northern & central IPs						
Fulian/Foxconn	Taiwan	Electronics	761	Quang Chau	Bac Giang	KBC
Goertek	China	Electronics	300	Nam Son Hap Linh	Bac Ninh	KBC
SK Group	South Korea	Advanced materials	500	Deep C IP	Hai Phong	Deep C
Meiko Group	Japan	Electronics	200	Bo Trai Song Da	Hoa Binh	Da Hop
Shandong Innovation	China	Electronics	165	VSIP Nghe An	Nghe An	VSIP
Southern IPs						
Pepsico	US	F&B	186	Huu Thanh	Long An	IDC
Hyosung	SK	Advanced materials	540	Phu My 2	BR-VT	IDC
Hyosung	SK	Textile	720	Phu My 2	BR-VT	IDC
Shandong Haohua Tire	China	Rubber tire	500	Minh Hung – Sikico	Binh Phuoc	Minh Hung – Sikico
BOE	China	Electronics	300	Phu My 3	BR-VT	Thanh Binh Phu My

Source: Vietcap compilation. Note: (*) BR-VT stands for Ba Ria – Vung Tau province

Potential impact from Amended Land Law. We believe that the Amended Land Law could potentially result in some changes to the mechanism for accessing new IP land banks, specifically on the bidding and investor selection procedure in the case of more than one potential investor for the IP project. Additionally, we believe that the Amended Land Law may address the land price determination procedure for land compensation and land rental payment. From our conversations with IP developers, the general view is that they are still waiting for the new law before further assessing the impact, or that they do not think it would significantly affect their operations.

Figure 444: Notable changes between the current Land law and Land Law Draft (December 2023 version) which could impact IP developers

Differences	Land Law 2013 and the guiding Decrees	Amended Land Law (December 2023 draft version)	Vietcap's comments
(1) Conditions for accessing new IP land bank	IPs are not subject to the bidding process for land use rights. In the case of more than one potential investor, the authority will select investors based on various criteria, including experience, tenant base, and executional and financial capability.	No bidding process is required for IP projects utilizing public investment capital or invested under the PPP method. However, a bidding process for land use rights will be organized if there are multiple potential investors.	This will make the approval process more complicated in the case of more than one investor. However, we note that due to the demanding nature of IP project development, many projects are proposed to the authority by investors. Subsequently, the investors will complete the required documents, which are then submitted to the authorities for investment approval of the projects. In addition, the leading IP developers such as IDC or KBC tend to be the only potential investor in their projects (such as Trang Due 3 IP of KBC and Tan Phuoc 1 IP of IDC).
(2) Land price determination	Land price frames developed once every five years.	Land price table established on an annual basis.	This can potentially result in higher land compensation and land rental fee payments for IP developers. However, we note that IP land is mostly converted from rice fields ('greenfield' land), which do not tend to fluctuate significantly in price and have a less complicated compensation/land price determination procedure compared to residential land.

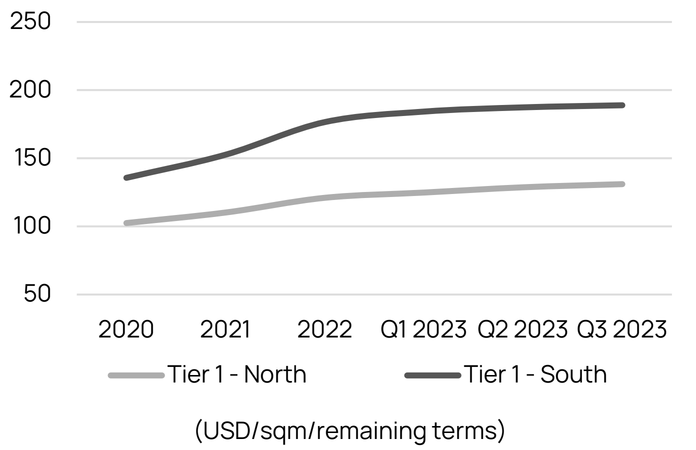
Source: National Assembly portals, Vietcap compilation

Sustained IP land ASP increase, occupancy remains high

Sustained IP land ASP increase in key industrial regions. Per Cushman & Wakefield, average primary asking prices in southern and northern IPs in Q3 2023 increased by 8.5% YoY and 10.2% YoY, respectively. These increases in asking prices were in line with increases during 2019-2022 of 8-10%. We have observed higher price increases in 2023 for IPs in the North among stocks under our coverage ranging from 9% to 15%, which we attribute to strong demand from high-tech FDI tenants such as Foxconn and Goertek. Meanwhile, for major IPs in the South such as Huu Thanh, Phu My 2, and Long Hau 3.1, asking prices as of end-Q3 2023 were mostly similar to end-2022 levels.

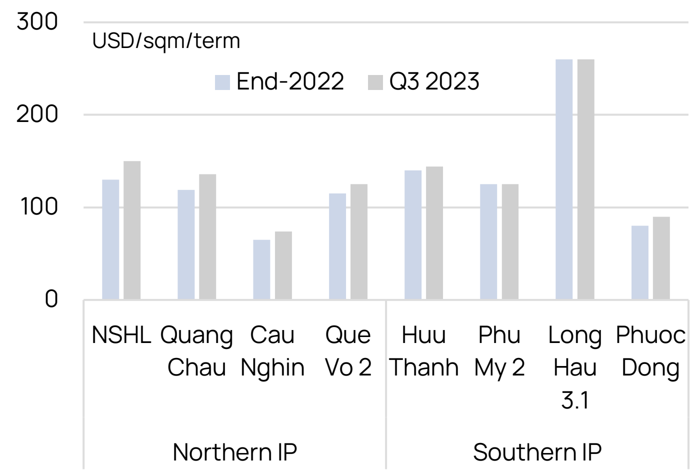
Across the IPs under our coverage, we anticipate a 5-8% price increase for 2024F for existing IPs as we believe that the trend of price appreciation could persist in the medium term, particularly in northern IPs due to strong demand growth. Meanwhile, the southern IPs may experience a slower price increase in the short term due to a relatively weaker demand outlook, despite higher occupancy rates in key industrial provinces such as Binh Duong and Dong Nai.

Figure 445: Industrial land rental rates



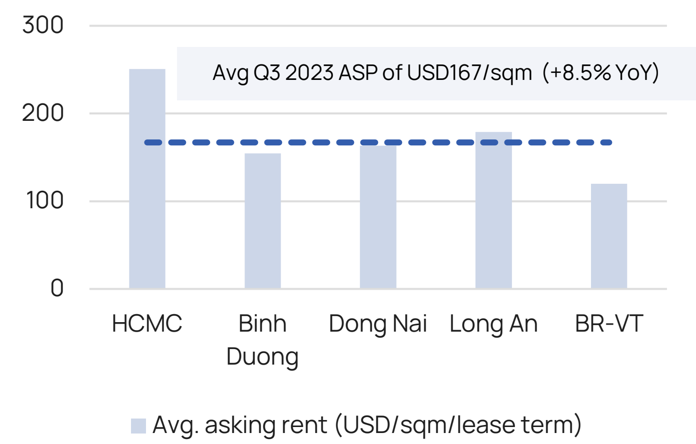
Source: CBRE, Vietcap

Figure 446: ASP of select IPs



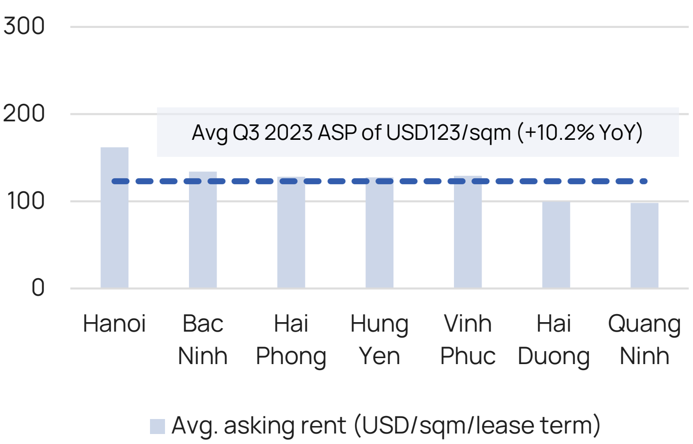
Source: Vietcap. Note: we only account for projects that are already under sales progress.

Figure 447: ASP in southern industrial provinces in Q3 2023



Source: Cushman & Wakefield, Vietcap

Figure 448: ASP in northern industrial provinces in Q3 2023

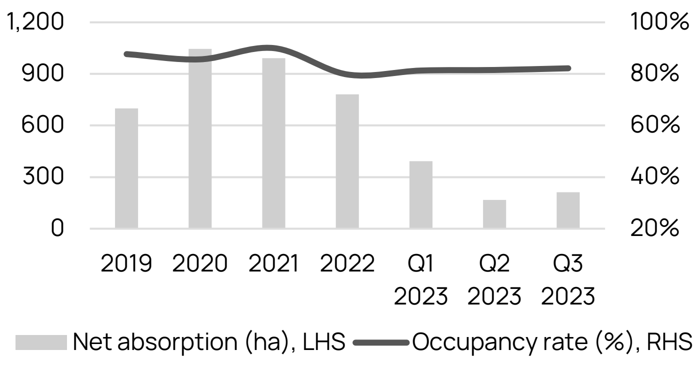


Source: Cushman & Wakefield, Vietcap

Occupancy rates remain high. Per CBRE, net absorption in 2023 (in terms of total ha) in the North is expected to increase by 150% YoY while absorption in the South is expected to increase 120% YoY. As of Q3 2023, the occupancy rate in tier-1 industrial regions in both the North and the South remained high at around 80% (-3 ppts YTD) and 82% (+2 ppts YTD), respectively.

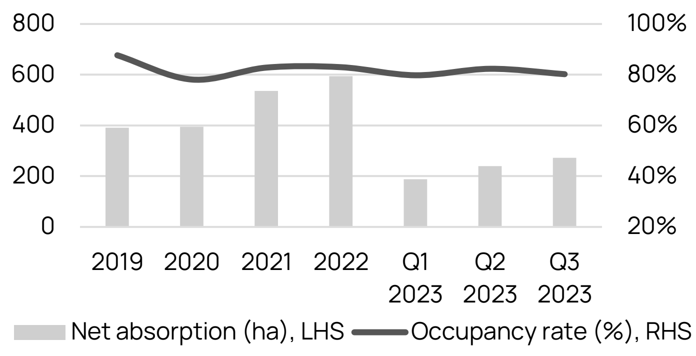
We observe high occupancy rates for listed IPs in tier-1 industrial areas as these regions continue to attract major tenants. Among the listed IP stocks that we follow (which account for 95% of total listed IP market cap), the average occupancy rate is 77% for a total leasable area of ~15,600 ha as of end-Q3 2023. Most IP stocks that have land banks are focused in tier-1 industrial areas, including BCM, GVR, KBC, NTC, LHG, PHR, and IDC, which have high occupancy rates at around 87% on average. Meanwhile, stocks that have a higher proportion of their land bank in tier-2 industrial regions, including SIP, VGC, SZC, have an average occupancy rate of around 54%.

Figure 449: Net absorption and occupancy rate in southern industrial provinces to Q3 2023



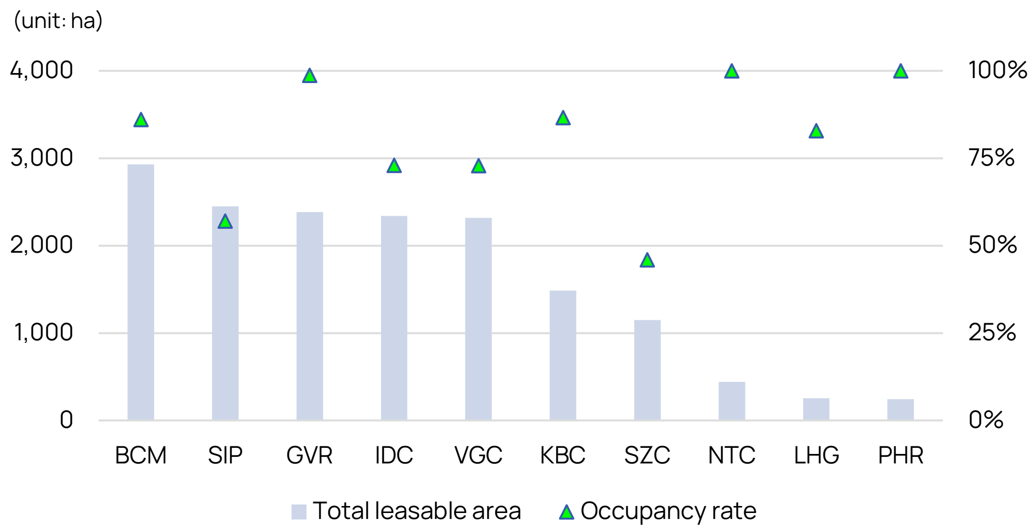
Source: CBRE, Vietcap

Figure 450: Net absorption and occupancy rate in northern industrial provinces to Q3 2023



Source: CBRE, Vietcap

Figure 451: Leasable area and occupancy rate for select IP developers as of Q3 2023



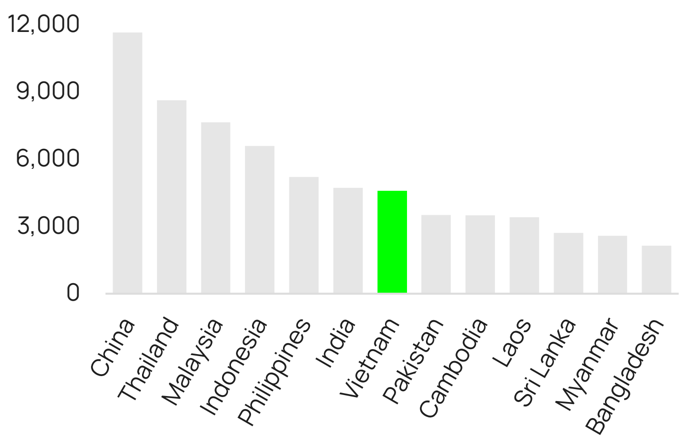
Source: Vietcap. Note: we only account for projects that are already under sales progress (we don't include the upcoming Trang Due 3 IP of KBC, Tan Phuoc 1 IP of IDC, Cay Truong IP of BCM, NTC-3 IP of NTC, Tan Lap 1 IP of PHR, Thuan Thanh IP of VGC).

Vietnam's competitive advantages in attracting foreign direct investment remain intact

Vietnam retains an advantage in relatively low labor costs. While Vietnam's land rental cost has approached regional averages, the country still retains a comparative advantage in labor, infrastructure construction, and electricity costs, which are lower than its peers. We expect that these advantages will continue in the short and medium term and remain one of the key drivers for FDI inflows to the country.

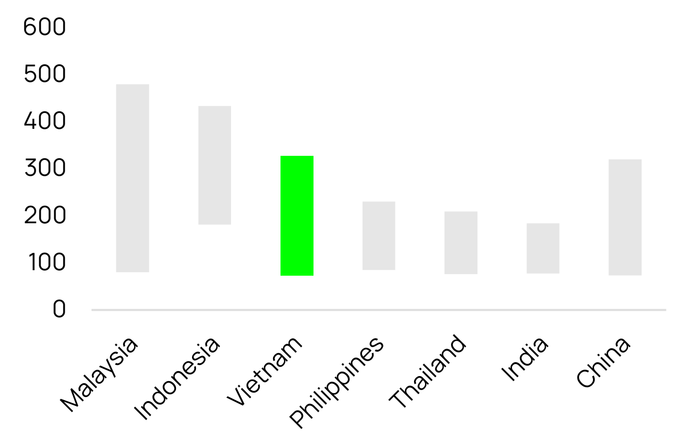
Wage inflation is the top consideration for management in the manufacturing sector across different countries. In 2023, per JETRO, Vietnam's manufacturing wage is projected to grow at 5.5% YoY, compared to projected growth of 9.1% in India and a regional peer median average of 4.6%. Given Vietnam's low costs and geographical proximity to China, Vietnam remains an attractive destination for multinationals following a 'China + 1' strategy.

Figure 452: Total cost of a manufacturing worker* in Asia (USD per year)



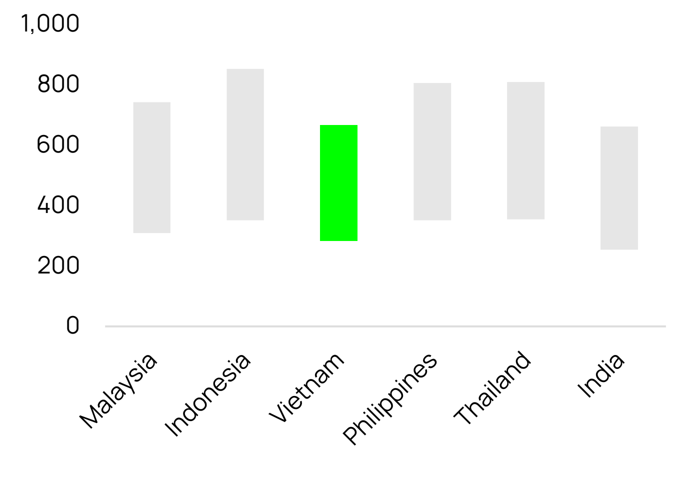
Source: JETRO (data for 2022), Vietcap. Note: (*) Regular general workers with three years of work experience

Figure 453: Average asking rent (USD/sqm/term)



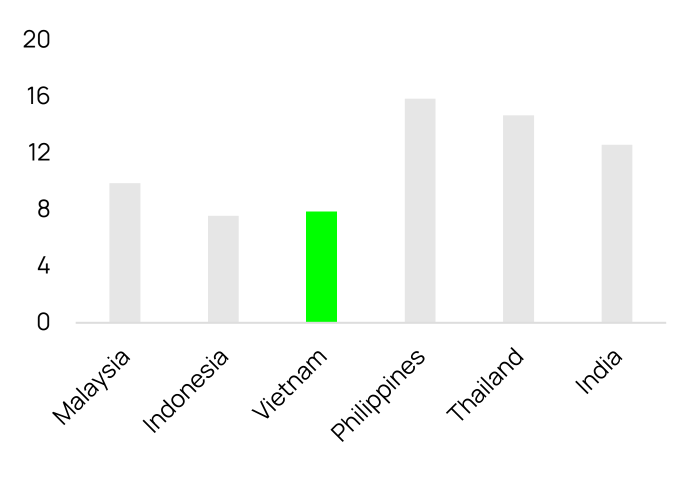
Source: JLL (data as of end-2022), Vietcap

Figure 454: Infrastructure construction cost (USD/sqm)



Source: JLL (data as of end-2022), Vietcap

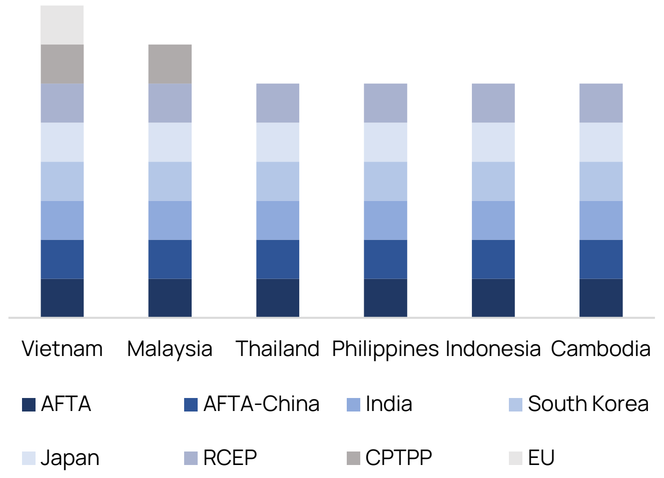
Figure 455: Industrial electricity cost (USD/kWh)



Source: JLL (data as of end-2022), Vietcap

Vietnam has the highest number of FTAs among Southeast Asian peers. In addition to advantages in production costs, Vietnam possesses the highest number of FTAs among its Southeast Asian peers. In 2023, Vietnam has upgraded its relationship with USA and Japan to Comprehensive Strategic Partnership (CSP), which is the highest designated partnership for Vietnam's relations with a foreign country.

Figure 456: FTAs among Southeast Asian countries



Source: World Trade Organization, CEIC, Vietcap

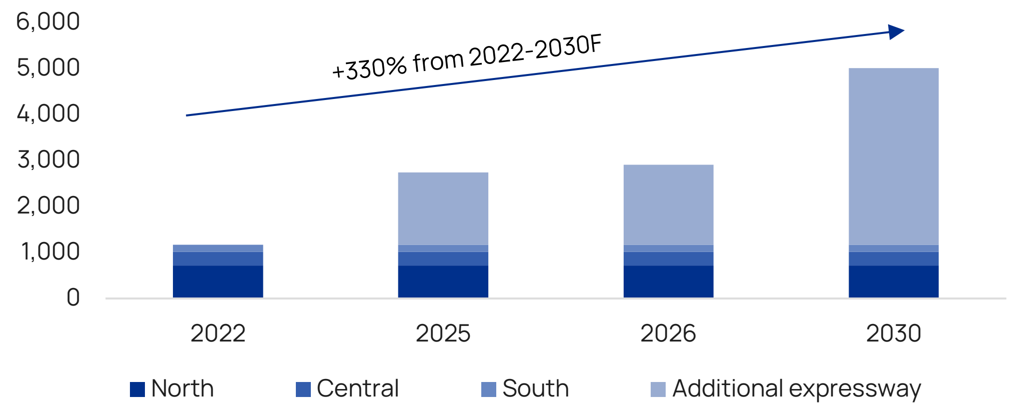
Figure 457: Select diplomatic events and impact on FDI

Timeline	Notable diplomatic events and news that affected FDI outlook
June 2023	South Korea President and multiple Chaebols visited Vietnam, following which multiple new manufacturing MoUs were signed in subsequent months. Growth in FDI registrations YoY turned positive from June.
Sep 2023	US President and US semiconductor businesses visited Vietnam. The relationship was upgraded to CSP and multiple agreements focused on semiconductor development in Vietnam were signed.
November 2023	Japan was upgraded to CSP.
December 2023	China's President visited Vietnam. FDI inflows from China have been increasing in recent years and ranked among the top 4 countries with the highest FDI inflows to Vietnam in 2023. Vietnam's PM visited Japan, following which there was USD3.5bn of new FDI registrations from Japan in December.

Source: Vietcap compilation

Vietnam's growing focus on infrastructure development. The completion of key expressway projects could increase total expressway length by 150% from 2022-2026F and 330% from 2022-2030F. In addition, the Party Congress continued to identify building a synchronous infrastructure system as one of three key strategic targets for the Government for the 2021-2030 period. The Congress set targets of 3,000 km of expressways in 2025 and 5,000 km in 2030.

Figure 458: Expressway kilometers in Vietnam (Unit: km)



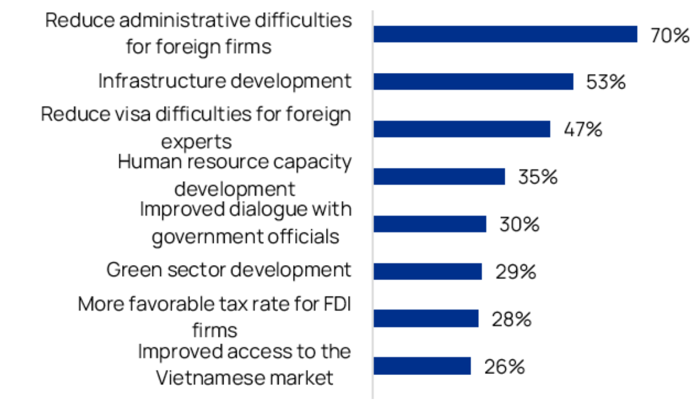
Key expressway projects	Total investment capital (VND tn)	Total length (km)	Status	Timeline
North-South Expressway - Phase 1	96	654	Partially in operation	2019-2023
North-South Expressway - Phase 2	147	729	Under construction	2023-2025
Chau Doc - Can Tho - Soc Trang Expressway	45	188	Under construction	2023-2025
Khanh Hoa - Buon Ma Thuot Expressway	22	118	Under construction	2023-2026
Bien Hoa - Vung Tau Expressway - Phase 1	18	54	Under construction	2023-2026

Source: Ministry of Transport (MoT), Vietcap

Global minimum tax could have a short-term impact on FDI but should not dampen Vietnam's long-term advantages. On November 29, 2023, the National Assembly passed the 'Resolution on applying Global minimum tax (GMT)' which will be effective from January 1, 2024 and applied from FY2024. According to the resolution, a tax rate of 15% will be applied to multinational enterprises with a consolidated revenue of at least EUR750mn in two of the four most recent years. According to the Vietnam General Department of Taxation, the GMT will affect 122 MNEs in Vietnam and could add VND14.6tn (USD600mn) to the State's budget revenue. While we think the GMT could have a short-term impact on investors, the Vietnamese Government plans to develop a draft decree on using the GMT revenue to support and attract MNEs, which should be completed in 2024 and mitigate the impact from GMT. In addition, tax is just one of the many factors for foreign investors to consider when investing in Vietnam. For example, despite being among the most heavily impacted by the GMT, Samsung stated in November that it plans to invest an additional USD2bn in Vietnam, bringing its total cumulative investment in the country to USD22bn.

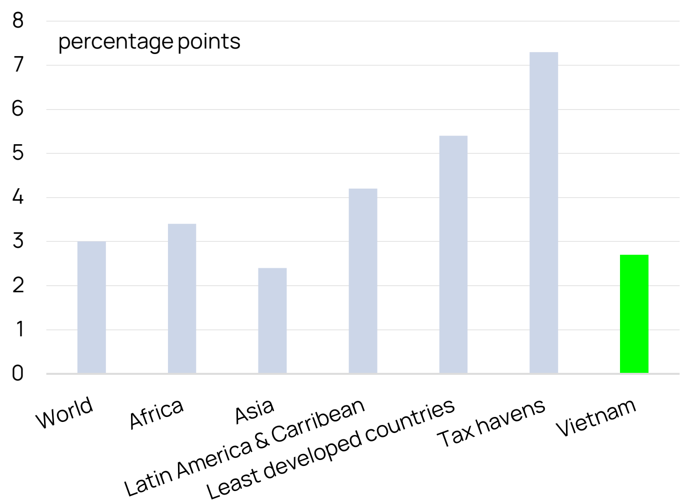
While Vietnam's effective tax rate (ETR) for FDI investors in Vietnam is expected to increase by 2.7ppts to 15.0% because of the GMT, we believe Vietnam will still retain significant advantages relative to peers as the increase in ETR is broadly in line with increases elsewhere in Asia.

Figure 459: End-2022 survey of criteria for Vietnam to improve to attract FDI



Source: Eurocham, Vietcap compilation

Figure 460: Percentage point increase in effective tax rates (ETRs) for FDI investors after application of GMT



Source: World Investment Report 2022, UNCTAD, JETRO, Institute of Policy Administration and Development Strategy, Vietcap compilation

Vietnam needs to improve on non-cost factors. While Vietnam still retains cost advantages, the country is also placing special focus on improving other non-cost factors such as infrastructure (see above) and its business environment, which should help to increase long-term demand. Efforts to move up the value chain, including the training of a skilled workforce in high-tech sectors like semiconductors and the establishment of R&D centers with foreign companies, should improve worker efficiency and help to attract FDI inflows from higher-skilled industries such as semiconductors and the production of advanced materials.

Figure 461: Comparison of non-cost factors at end-2022

	Infrastructure			Work force		Business environment		
	Logistics efficiency	Road quality	Port quality	Worker efficiency (USD/capita/year)	Ready work force (mn people)	Ease of doing business index	Real estate transparency index (lower is better)	Political stability
Vietnam	3.2	3.4	3.8	7,029	66.6	69.7	3.4	-0.03
Thailand	3.7	4.4	4.1	11,476	50.1	80.6	2.6	-0.38
Indonesia	2.9	4.2	4.3	8,259	183.9	69.7	2.9	-0.44
Philippines	3.2	3.7	3.7	8,694	71.8	63.1	2.9	-0.71
Malaysia	3.6	5.3	5.2	24,544	23.2	81.7	2.6	0.14
China	4.0	4.6	4.5	21,803	988.5	77.2	2.5	-0.44
India	3.2	4.5	4.5	6,305	940.4	71.1	2.7	-0.57
Median	**3.2**	**4.4**	**4.3**	**8,694**	**71.8**	**71.1**	**2.7**	**-0.44**

Source: JLL, Vietcap compilation. Note: The scorecard shows Vietnam's competitive position relative to other economies. While the scales vary amongst indices shown, red represents a low score, blue represents a medium score, and green represents a high score.

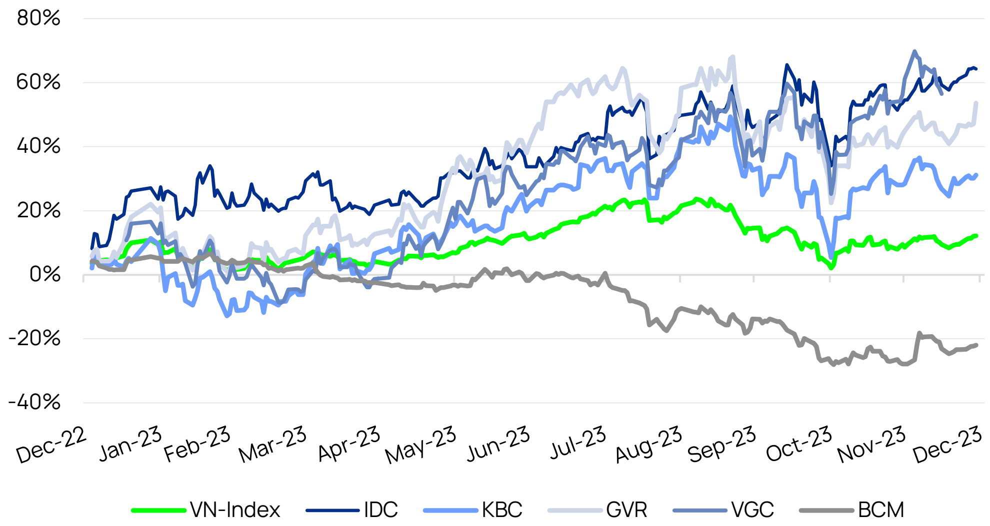
Risks of serious electricity shortages. We project Vietnam to have a sufficient power supply in 2024 vs power shortages in 2023, which should also help to support the investment outlook for FDI. We project sufficient power supply in 2024 as the MoIT issued Decision 3110 in early December 2023 which guides for a power supply of 306 billion kWh for 2024, which we estimate represents an increase of 6-9% vs 2023. We believe this will be sufficient to meet power demand in 2024, which we forecast to grow by 7.7% YoY. The power shortage in 2023 was partially attributed to inadequate preparation by EVN and the National Load Dispatch Center (NLDC) to deal with the unexpectedly hot and dry weather exacerbated by El Nino conditions. However, we expect EVN and the NLDC to have better planning in 2024 given clear signs of El Nino and stronger monitoring from the MoIT. In addition, the approval of the Power Development Plan (PDP 8) in 2023 should improve Vietnam's electricity generating capacity in the long-term.

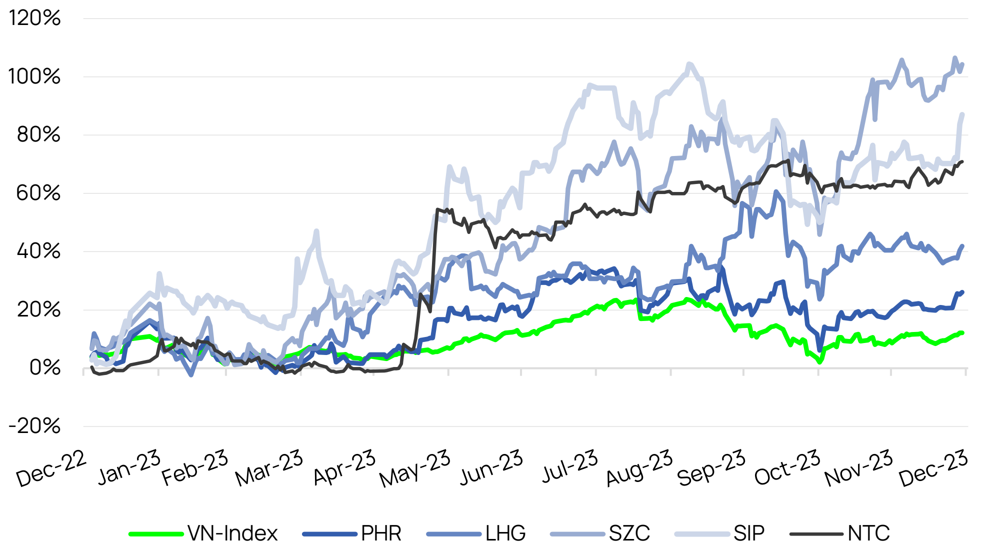
Green energy trends. As Vietnam has committed to achieving net zero emissions by 2050, in line with COP26, and with stricter green energy requirements for exports to the EU and US, it is crucial for IP developers to adapt and reduce their carbon footprint. Failure to do so may result in falling behind their counterparts. While local IP developers still generally operate on lower costs, we have seen that foreign IP developers such as Deep C and VSIP are more equipped to deal with the Green Energy transition. Nevertheless, we have also seen increased efforts by local IP developers to increase production of green energy sources, such as IDC, which issued a Resolution in October 2023 to invest VND511bn (USD21mn) in cooperation with IDERGY for the development of rooftop solar power and SIP, which has developed around 50 MWp of rooftop solar power in its IPs.

Share price performance

IP stocks overperformed the VN-Index in 2023. We believe this outperformance was attributable to declines in interest rates during the year, strong FDI inflows, and new project registrations in 2023, expectations that FDI demand will remain resilient in 2024-2025F, and a positive medium-term outlook for land sales and profits for most IP developers in 2024-2025F vs 2023F.

Figure 462: Share price performance of select IP stocks and the VN-Index





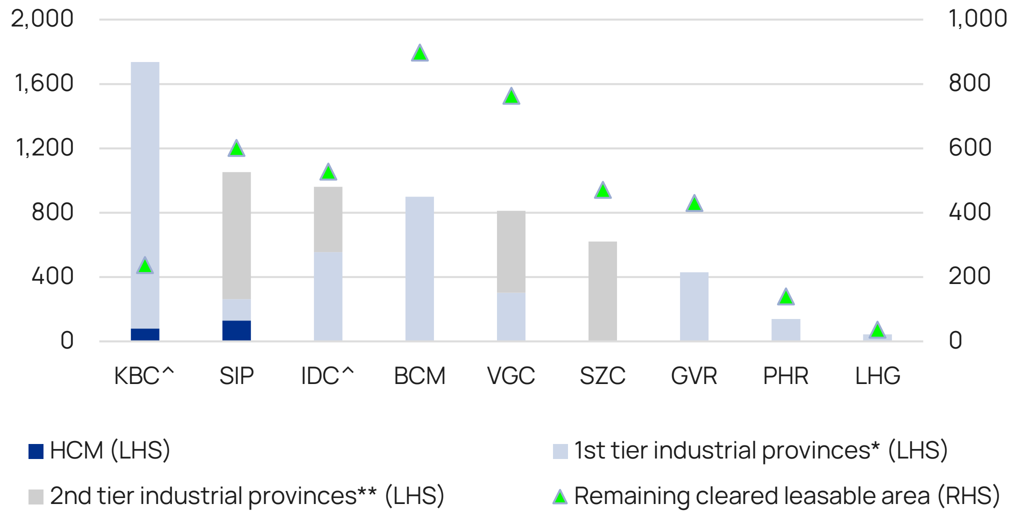
	VN-Index	GVR	PHR	KBC	LHG	IDC	SZC	SIP	VGC	BCM	NTC
2022 Q1	0%	-8%	13%	-13%	8%	10%	12%	-1%	22%	15%	11%
2022 Q2	-20%	-34%	-20%	-18%	-43%	-31%	-41%	-25%	-19%	-9%	-21%
2022 Q3	-5%	-7%	-15%	-11%	-23%	-1%	-9%	4%	-2%	35%	0%
2022 Q4	-11%	-34%	-28%	-17%	-15%	-36%	-36%	-37%	-34%	-11%	-33%
2023 Q1	6%	12%	2%	0%	4%	29%	13%	31%	-1%	3%	1%
2023 Q2	5%	25%	16%	21%	19%	3%	23%	28%	28%	-4%	45%
2023 Q3	3%	1%	2%	9%	26%	9%	17%	7%	9%	-12%	11%
2023 Q4	-2%	9%	5%	-1%	-9%	13%	26%	5%	18%	-9%	6%
2022	-33%	-63%	-45%	-47%	-60%	-52%	-61%	-51%	-36%	26%	-42%
2023	12%	54%	26%	31%	42%	64%	104%	87%	62%	-22%	71%

Source: Company data, Vietcap. Note: Data as of December 29, 2023.

Top stock picks

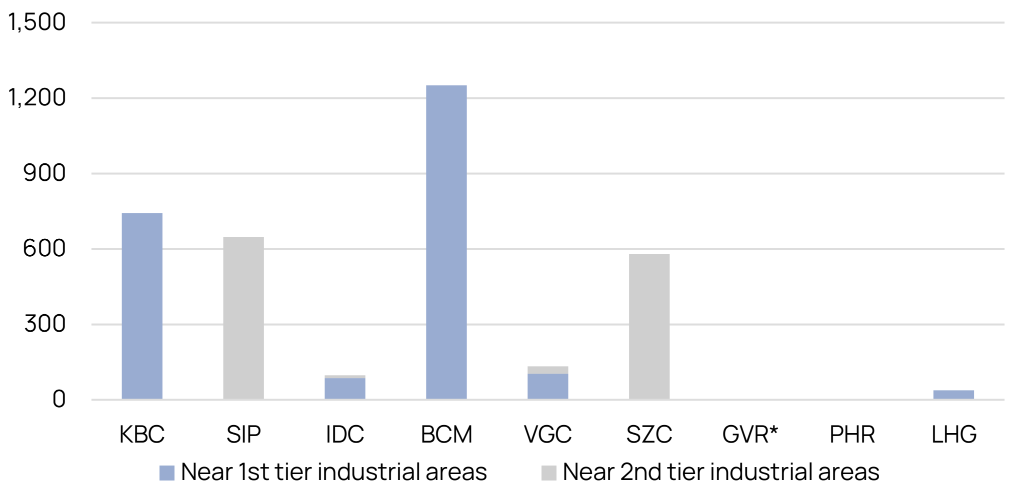
Stock picks: IDC, KBC, SIP, & LHG. We believe that IP developers with large, cleared industrial land areas will continue attracting tenants amid current limited IP land availability. We like IDC, SIP, and LHG as these IP developers should leverage their existing land banks to capitalize on current favorable market conditions as well as their healthy financial positions to prepare for further growth phases over the long term. We also like KBC as it can attract brand-name tenants such as LG, Foxconn, and Goertek while also benefiting from its undervalued residential land bank near industrial hubs.

Figure 463: Remaining leasable area (ha) of IP projects of select IP developers that have obtained investment approval as of Q3 2023



Source: Vietcap, Government Portal. Note: (^) Including Tan Phuoc 1 IP of IDC and Trang Due 3 IP of KBC which we expect to receive investment approval by end-2023 or early 2024; Not including IPs of the companies' associates/affiliates; (*) We consider key industrial areas as having average IP land prices of above USD100/sqm/term, including in Tier 1 provinces or areas with proximity to port systems and Tier 1 provinces; (**) other areas have average IP land prices below USD100/sqm/term.

Figure 464: Total site area (ha) of pipeline urban area projects of select IP developers



Source: Company data, Vietcap compilation. Note: Data as of Q3 2023; (*) not available

Most IP developers under our coverage have solid financial positions. IP projects are normally developed and sold over a long period that ranges from four to more than 10 years depending on the size of the project. We have observed that the cash generation of IP development is skewed toward the end of the land sales process. Most IP developers under our coverage had a net cash position as of end-Q3 2023, including GVR, PHR, LHG, and SIP, as these companies have already disbursed capex for land clearance and infrastructure and do not have any planned expansion or new projects over the short term. Meanwhile, KBC and IDC are planning expansion, resulting in higher leverage ratios with net debt/equity of 13% and 22%, respectively, as of end-Q3 2023.

Figure 465: Financial positions of IP developers under coverage as of end-Q3 2023

VND bn	Total debt	Bond balance as of Q3 2023	Net D/E	Cash [A]	Short-term debt [B]	[A]/[B]
SZC	2,373	300	128%	214	453	0.5
IDC	3,314	400	22%	2,085	481	4.3
KBC	3,867	0	13%	1,339	571	2.3
GVR	6,224	0	-18%	16,304	1,905	8.6
PHR	206	0	-49%	2,027	96	21.0
SIP	1,263	0	-57%	3,467	1,159	3.0
LHG	182	0	-60%	1,097	44	25.2

Source: Company data, Vietcap

BUY – IDICO (HNX: IDC)

IDC is a leading IP developer in Vietnam that has a current leasable IP site area of 631 ha in key industrial provinces. The company is able to leverage its leading position and land bank in prime locations in order to attract anchor tenants such as Hyosung, PepsiCo, Hoa Phat, and Kinh Noi.

We expect IDC's resilient IP land sales to support cash flow generation. We forecast 2023F IP land sales of 138 ha (9M 2023 IP land sales of 122 ha) and we expect resilient IP land sales in 2024/25F of 140/145 ha, respectively, as manufacturing activity is expected to recover. We believe IDC can sustain this land sales momentum thanks to its large remaining leasable land bank (~631 ha with ~85% cleared at end-Q3 2023).

We believe IDC can achieve our 2024F and 2025F NPAT-MI growth forecasts at 60% and 45% YoY, respectively, which are predominately driven by (1) an estimated end-2023F IP backlog of 98 ha, (2) our expectation for strong IP land sales as mentioned above, and (3) higher residential revenue in 2024F.

We expect IDC's upcoming Tan Phuoc 1 IP (470 ha of total site area, 65% owned by IDC) to receive investment approval by end-2023 or early 2024 and start contributing to IDC's IP revenue in 2026F. Furthermore, IDC is seeking to expand its total land bank by at least another ~1,400 ha in total site area (excluding the Tan Phuoc 1 IP) over the next five years.

Downside risk: Slower-than-expected approval and development of future IP projects.

Please find more details on IDC in our latest Update Report.

BUY – Kinh Bac City (HSX: KBC)

We expect KBC to benefit from continuing FDI inflows to Vietnam and increasing manufacturing activity due to its large land bank in key industrial hubs in northern Vietnam. We expect that future IP land sales should be underpinned by key anchor tenants such as LG, Foxconn, Canon, and GoerTek as these major manufacturers expand and/or relocate more of their supplier base to Vietnam.

We expect resilient IP land sales handovers for KBC with 173 ha in 2024F (vs 19 ha/162 ha in 2022/2023F), which will be mainly from the handovers at the NSHL IP (~70 ha) and the TD3 IP (~50 ha). Furthermore, we expect the new Hung Yen and Long An industrial clusters (ICs) to contribute ~10 ha each in handovers for the company in 2024F. We expect TD3 IP to receive investment approval in either Q4 2023 or early 2024, after which the company can launch sales and start handovers in 2024F with LG being a potential anchor tenant. LG committed to invest USD1bn to expand its production in Hai Phong, which could benefit the Trang Due 3 IP as most of LG's suppliers and subsidiaries (including LG Innotek) are in the Trang Due 1 & 2 IPs of KBC, which are fully occupied.

We estimate that KBC currently possesses ~280 ha of cleared sellable UA land bank. We expect UA land sales handovers in 2024/25F at ~8.5/18.9 ha vs a minimal amount in 2023F. We expect the Phuc Ninh UA to resume handovers in 2024F (which has ~9.5 ha of unbilled backlog) after paying the remaining land use rights fees. Meanwhile, we expect the Trang Cat UA to start land sales and handovers from 2025F after revising the 1/500 masterplan.

Downside risks: Delays in launching new projects and/or investment delays from potential customers.

Please find more details on KBC in our latest Update Report.

BUY – Sai Gon VRG (HSX: SIP)

SIP is one of the largest listed industrial park (IP) developers in Vietnam's southern industrial hub. SIP currently owns four IPs in Tay Ninh Province (~2,200 ha), HCMC (~500 ha), and Dong Nai Province (~500 ha), totaling around 3,200 ha of IP land site area. SIP also operates four electricity substations and provides water & other utilities in its IPs, generating solid recurring income.

SIP has a strong cash position and robust cash flow generation from IP land sales and recurring income. SIP had a strong cash position of VND3.5tn (USD143mn; including cash, cash equivalents, and short-term deposits) at end-Q3 2023 and a net cash/equity ratio ranging from 0.6x to 1.2x in 2020-9M 2023. We expect SIP to maintain its abundant cash position as we forecast cash inflow from IP land sales to average VND1.1tn (USD45mn) p.a. in 2023-2025F (+67% vs 2022 IP land sales cash inflow) thanks to our expectation for IP land sales to average 41 ha p.a. in 2023-2025F (+65% vs 2022 IP land sales). In addition, we forecast average gross profit from IP utility services at VND667bn (USD28mn) p.a. in 2023-2025F, +10% vs 2022.

As of end-Q3 2023, SIP possessed a remaining cleared leasable IP land bank of around 600 ha, which we estimate will be able to sustain the company's IP land sales outlook. We believe this land bank will provide long-term growth headroom for SIP as we expect demand to increase due to the currently limited IP land supply in southern provinces and price appreciation. In addition, SIP has around 170 ha of remaining cleared saleable UA land in the Phuoc Dong UA – Phase A project.

Downside risks: Slower-than-expected IP land sales and/or revenue from utilities.

Please find more details on SIP on our latest Update Report.

BUY – Long Hau (HSX: LHG)

We believe LHG is a major beneficiary from high demand for IP land in Long An Province and HCMC. In addition to its valuable cleared land bank in prime locations, we believe LHG is well-positioned to capture IP land demand as neighboring Hiep Phuoc IP faces legal obstacles.

We view LHG as a cash-rich IP developer with solid growth prospects and development pipeline. At end-Q3 2023, LHG had a strong net cash position (VND1.1tn/USD45mn). Additionally, the LH3.1 IP (total site area of 124 ha) had completed 91% of compensation payments and 83% of land-use fee payments. We estimate the remaining leasable IP land bank of ~44 ha (including ~7 ha from the backlog) could yield VND2.6tn (USD108mn) of revenue at an assumed ASP of USD246/sqm (current offering price is ~USD260/sqm). Moreover, LHG plans to expand its total site area by an additional 290 ha from the 90-ha Long Hau expansion – Phase 2 IP (LH3.2) and the 200-ha An Dinh IP, and it expects these projects to receive investment approval by end-2023, as stated in its AGM documents. We have not yet factored these two projects into our valuation.

We expect ready-built factory (RBF) and dormitory leasing to provide stable cash inflows. We estimate that gross profit from this segment will increase at a CAGR of 15% in 2023-2025F, with an average segment gross profit of VND92bn/year (USD3.8mn), accounting for 25% of our gross profit forecasts. We estimate that LHG has ~28 ha of remaining leasable area in the LH3.1 IP (9 ha) and Da Nang Hi-tech IP (19 ha), which will be reserved for the development of RBFs and built-to-suit (BTS) factories.

Downside risks: Lower-than-expected absorption rate and IP land ASP; higher-than-expected land clearance payables.

Please find more details on LHG on our latest Update Report.

Appendix: Company names and tickers

Code	Company name
GVR	Vietnam Rubber Group – Joint Stock Company
IDC	IDICO Corporation - JSC
KBC	Kinh Bac City Development Holding Corporation
LHG	Long Hau Corporation Joint Stock Company
PHR	Phuoc Hoa Rubber Joint Stock Company
SZC	Sonadezi Chau Duc Shareholding Company
SIP	Sai Gon VRG Investment Corporation
BCM	Investment and Industrial Development Joint Stock Company
VGC	Viglacera Corporation - JSC
NTC	Nam Tan Uyen Joint Stock Company

Source: Company data, Vietcap

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Oil & Gas: Domestic E&P to enter new cycle in 2024

We forecast the average Brent oil price at USD83/bbl for 2024F, then to normalize at USD75/bbl in 2025-2028F. In 2023, Brent oil averaged USD82/bbl, marking an 17% YoY drop from the high base in 2022. Bloomberg's consensus projects an average of USD86/bbl for Brent in 2024. Downside risks to our forecast are subpar global economic growth and lower-than-expected cuts in OPEC+ output.

We forecast imported LNG prices to Vietnam of USD12-13/MMBTU in 2024-2028F, which supports LNG imports from 2024. The International Energy Agency (IEA) forecasts the 2024 average gas price at USD12.8/MMBTU (+24% YoY) due to moderately increased demand and continued tight supply.

We believe domestic exploration & production (E&P) activities will enter a new cycle in 2024, supported by our resilient 2024-2028F Brent oil price expectations and Vietnam's revised oil & gas law effective from July 1, 2023. We estimate total domestic E&P capex for upstream and midstream segments of USD14bn in 2023-2033F, implying an average of USD1.4bn p.a. This is double the total capex in 2016-2022 and equivalent to ~80% of total capex in the peak period of 2010-2015. This should benefit GAS, PVS, and PVD.

PVS (our top pick) to benefit from global/domestic E&P recovery and the huge potential of offshore wind power projects. PVS secured Limited Letter of Agreements (LLOA) for three contracts of Block B (EPCI#1-3) and is bidding for the other contracts. Full disbursement for the three secured contracts is expected by H1 2024, coinciding with our forecast for Block B's final investment decision (FID). Additionally, PVS stands to benefit from global offshore wind growth. We forecast a 21% EPS CAGR for 2022-2025F, backed by a projected 2023-2027F M&C backlog of USD5.7bn and an average profit of ~VND493bn p.a. from FSO/FPSO JVs during 2023-2028F.

We forecast PVD's NPAT-MI to jump 2.4x YoY in 2024F, driven by 1) PVD's average 2024-day rate to increase by 24% YoY to USD98,500 supported by the tight jack-up market outlook and 2) recovery of the well-related services segment due to our expectation for domestic E&P recovery.

We expect GAS' long-term growth to be driven by Vietnam's LNG imports. We believe GAS will operate its Thi Vai LNG terminal – Phase 1 in 2024, expand it with Phases 2 & 3, and implement the Son My LNG terminal. Together with volume from Block B and White Lion Phase 2B, this should help to double sales volume in 2023-28F. We forecast GAS to deliver a 10-year EPS CAGR of 10%.

Vietnam's government foresees a 2022-2027F CAGR of 3.4% in petroleum consumption, (quadruple the global growth rate projected by the International Energy Agency, IEA), which should benefit PVT, BSR, and PLX. **We like PVT (our second top pick)** as it was successful in expanding its oil products/chemical and LPG fleet by ~60% in 2023 while the tanker rate outlook remains resilient. We forecast 2024F recurring NPAT-MI growth of 27% YoY due to the full-year contribution from six new tankers acquired in 2023 and a continued tight market.

We expect a strong gap between global petroleum supply and demand in 2024 to support BSR's crack spreads. We forecast BSR's NPAT-MI to be VND7.4tn in 2024, down 12% YoY but is still near the previous cyclical peak in 2017. We anticipate a 29% growth in PLX's 2024F reported NPAT. This growth is expected from a 5% YoY increase in gross profit per liter, aided by the full-year impact of ~3% higher regulated costs from early July 2023. Additionally, improved input cost control and reduced inventory provision YoY contribute, with an expected flat YoY oil price in 2024 compared to a 17% YoY decline in 2023.

DCM (our third top pick) and DPM are dividend yield plays (projected yields of 6%-10% in the next three years). We anticipate earnings recovery in 2024 for DCM (+70% YoY) and DPM (+20% YoY), which should translate to robust dividend yields. Furthermore, we expect the average Middle East urea price to increase marginally to USD370/tonne in 2024.

Vietcap

Figure 466: Oil & Gas and Petroleum stocks – Key data

Code	Rating	Market Cap, USD mn	State O'ship %	Foreign Limit %	Foreign Avail, USD mn	ADTV 30D, USD mn	Share price, VND ps	Target price, VND ps	Target price, updated	Upside %	Div yield %	12M TSR %
PVS	BUY	756	51.4	49	204	7.6	38,000	43,700	11/1/23	15.0	1.8	16.8
PVT	BUY	352	51.0	49	123	4.5	26,400	30,300	11/3/23	14.8	1.1	15.9
DCM	O-PF	697	75.6	49	274	3.2	32,400	33,800	11/17/23	4.3	9.3	13.6
BSR	O-PF	2,378	92.0	49	1,175	3.8	18,600	20,400	11/13/23	9.7	3.8	13.4
PLX	O-PF	1,809	75.9	20	605	1.1	34,500	37,800	11/16/23	9.6	2.9	12.5
PVD	O-PF	643	50.5	49	171	4.7	28.300	31,000	11/20/23	9.5	1.8	11.3
GAS	M-PF	7,213	95.8	49	3,243	2.2	75,500	80,800	12/28/23	7.0	4.0	11.0
DPM	M-PF	536	59.6	49	208	2.2	33,300	31,500	11/17/23	-5.4	9.0	3.6

Source: Fiinpro, Vietcap (Data as of December 29, 2023)

Figure 467: Oil & Gas and Petroleum stocks – Summary valuations (*)

Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E TTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/EBITDA 2024F x	ROE 2024F %	P/B LQ x	Net D/E LQ x
PVS	38,000	4.9	32.4	27.2	19.7	22.3	16.8	13.2	8.3	8.7	1.4	-64.7
PVT	26,400	14.8	22.3	10.2	9.1	9.0	7.4	6.7	3.2	16.2	1.3	12.4
DCM	32,400	-76.1	70.3	14.5	10.6	18.1	10.6	9.3	4.6	16.9	1.8	-99.5
BSR	18,600	-43.1	-11.6	-8.5	7.2	6.9	7.8	8.5	3.3	12.4	1.1	-49.9
PLX	34,500	110.1	29.3	4.1	18.1	15.8	12.3	11.8	6.7	12.3	1.7	-38.4
PVD	28,300	N.M.	143.6	63.5	N.M.	43.9	18.0	11.0	6.5	6.7	1.1	2.6
GAS	77,000	-20.7	-10.1	13.6	14.3	15.1	16.8	14.8	10.0	15.9	2.8	-53.6
DPM	33,300	-87.1	20.2	62.6	8.0	22.7	18.9	11.6	5.2	7.2	1.1	-57.6

Source: Fiinpro, Vietcap (* Earnings growth and P/E based on reported earnings; data as of December 29, 2023)

Oil & Gas Stock Performance in 2023

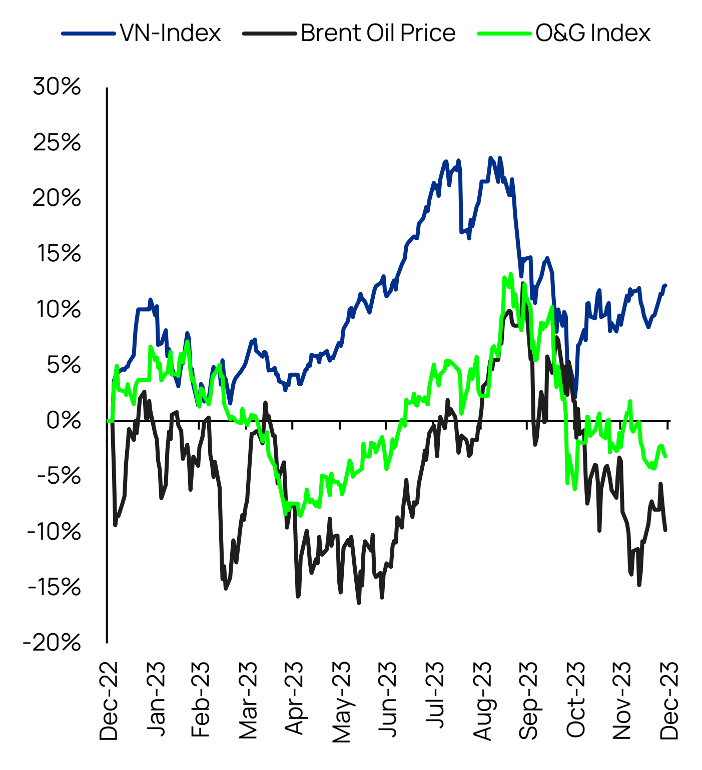
Upstream oil & gas companies among the top performers in 2023

PVS and PVD – These upstream companies led the Oil & Gas sector in 2023 thanks to the global recovery of E&P activities and several significant positive developments of the giant Block B project. PVS secured three contracts in the new business (offshore wind power).

GAS – Due to its strong positive correlation with Brent oil prices, the share price decreased at a roughly similar pace as the decreases in Brent oil price YoY.

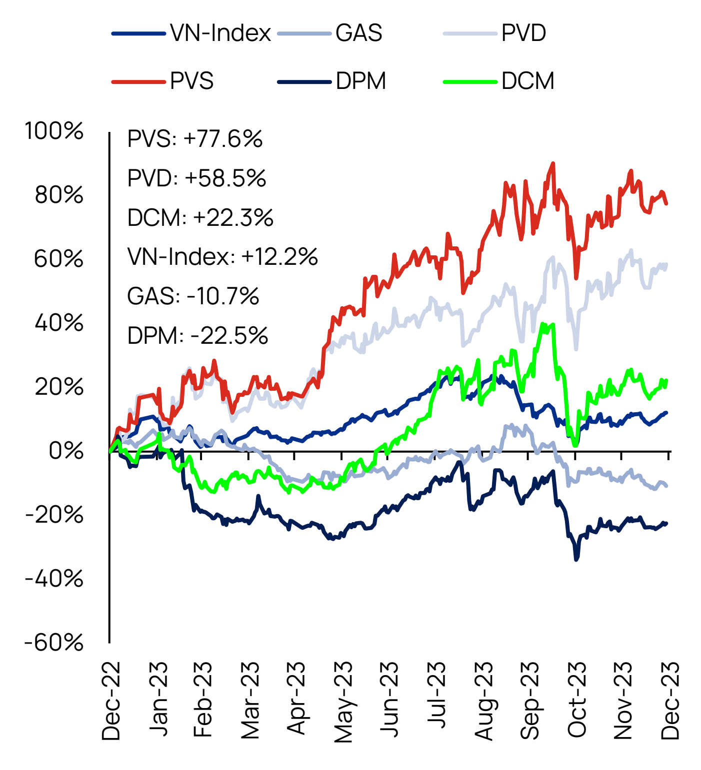
DCM and DPM – The two fertilizer producers' share prices diverged in 2023. We attribute the decline in DPM's share price to the decrease in global urea prices from 2022's high base and losses in the NPK segment. Meanwhile, DCM's share price was driven by its better performance mainly due to its slightly higher average urea selling prices, slightly lower input gas costs, and the profitable NPK segment.

Figure 468: Vietcap Oil & Gas Index vs VN-Index



Source: Bloomberg, Vietcap. Note: Our Oil & Gas Index is based on market cap weighted performance of oil & gas stocks GAS, PVD, and PVS and fertilizer stocks DPM and DCM.

Figure 469: Oil & Gas stocks vs VN-Index



Source: Bloomberg, Vietcap

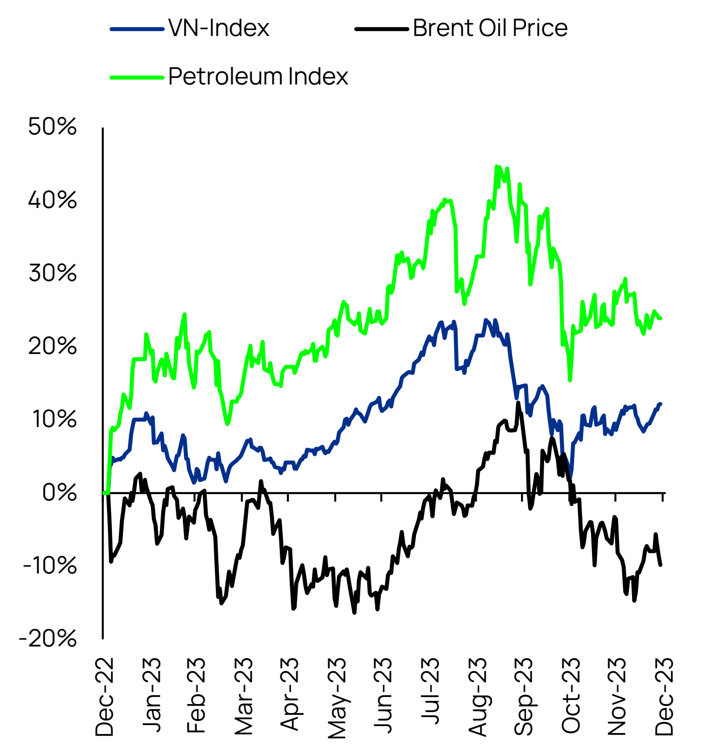
Petroleum stocks outperformed VN-Index in 2023

BSR - BSR outperformed the VN-Index and other petroleum stocks in 2023. BSR's share price surge is mainly due to (1) the recovery of brent oil price since July 2023, which boosted the price of refined products, combined with (2) BSR securing low-cost crude oil feedstock in H1 2023, which widened its crack spreads and resulted in strong Q3 2023 performance with NPAT-MI of VND3.3tn (+581% YoY; +143% QoQ). We note that BSR has a strong positive correlation with brent oil price. Moreover, BSR's share price momentum was also supported by the expectation of listing on HOSE.

PVT - PVT outperformed the VN-Index since September 2023, reversing its 9M 2023 underperformance. We attribute the underperformance in 9M 2023 due to VN-Index having more room to bounce back in 2023 as it plunged 33% in 2022, while PVT's share price remained resilient in 2022, decreased only 9%. However, PVT started to rise and outpace the VN-Index in September, driven by market expectations of resilient tanker rates outlook as well as PVT's surprising success in significant fleet expansion in 10M 2023, which supports PVT's 2024 outlook.

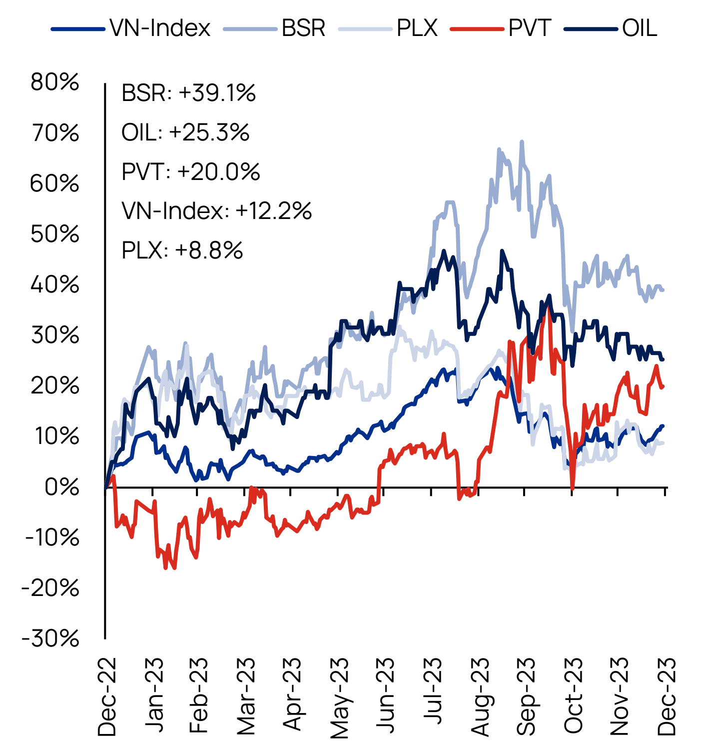
PLX - PLX outperformed the VN-Index in H1 2023 but aligned with the VN-Index in H2. We attribute the outperformance of PLX in H1 2023 as mainly due to (1) a strong Q4 2022 result, (2) the expectation of the PG Bank divestment gains, and (3) an increase in the regulated cost in July to support PLX covering its actual cost. However, PLX's share price has fallen since September, due to the decline in oil prices, which caused PLX to record an inventory provision.

Figure 470: Vietcap Petroleum Index vs VN-Index



Source: Bloomberg, Vietcap. Note: Our Petroleum Index is based on market cap weighted performance of refiner BSR, petrol distributors PLX and OIL, and oil transporter PVT.

Figure 471: Petroleum stocks vs VN-Index



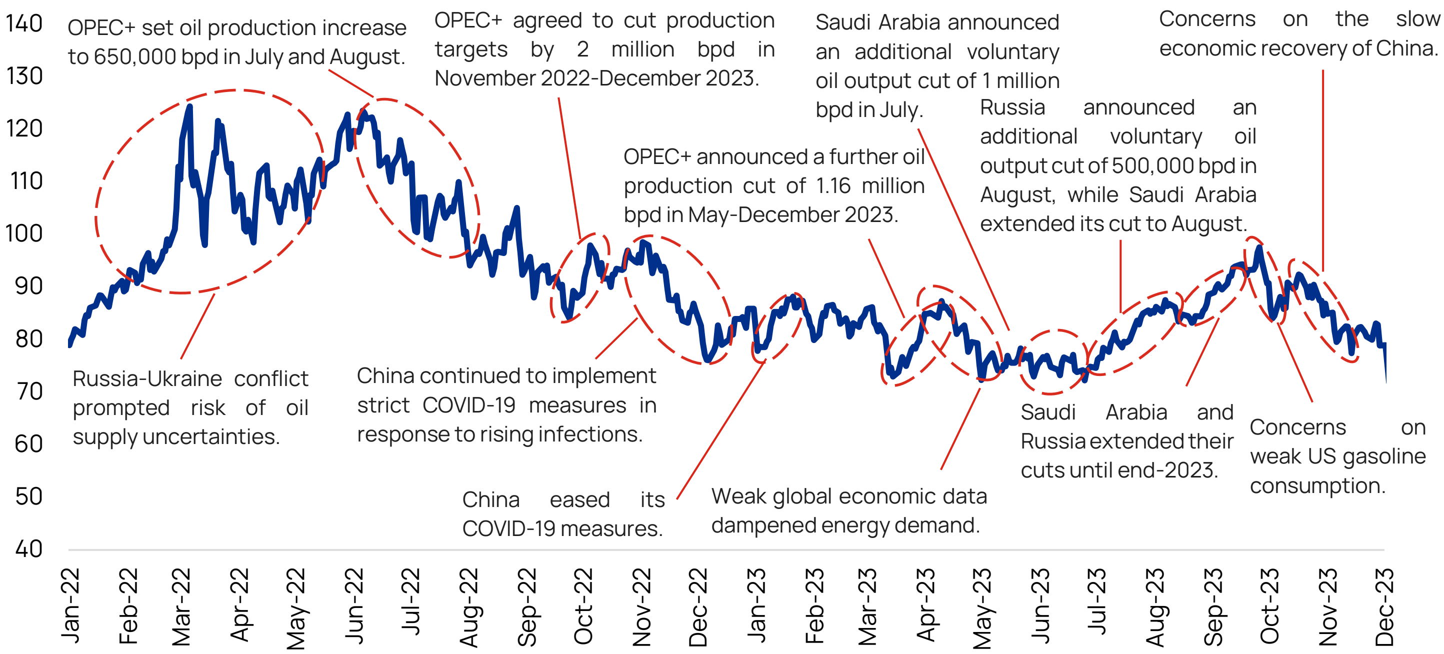
Source: Bloomberg, Vietcap

2023 Recap

Brent oil prices: Weak performance in H1 but better performance in H2

In 2023, Brent oil averaged USD82/bbl (-17% YoY), broadly aligning with our forecast of USD83/bbl. Prices declined in H1 2023 but rebounded in H2 2023. Starting the year at USD86/bbl, it hit a low of USD72/bbl in mid-June amid weak global economic data. Recovery from July to October was driven by OPEC+ production cuts, especially from Saudi Arabia and Russia, amid concerns over geopolitical tensions. However, a subsequent decline was triggered by worries about weakening Chinese demand. OPEC+ announced voluntary output cuts of 2.2 million bpd for Q1 2024, extending Saudi Arabia and Russia's voluntary cuts of 1.3 million bpd until Q1 2024. Russia further cut its production by 200,000 bpd, due to its fuel export bans. In addition, the remaining 700,000 bpd is divided among other six member of OPEC+.

Figure 472: Brent oil price movement (USD/bbl)



Source: Fiinpro, Vietcap

Fuel oil prices declined less than Brent oil prices in 2023

In 2023, the average fuel oil (FO) price (the traditional benchmark for Vietnam's gas price) was USD448/tonne (-11% YoY) – in line with our forecast of USD450/tonne.

Figure 473: Historical Brent oil prices (USD/bbl) and fuel oil prices (USD/tonne)

Source: Bloomberg, Vietcap

From the beginning of 2023 to mid-June 2023, FO prices showed a positive correlation with Brent oil prices. In mid-2022, the International Maritime Organization (IMO) reduced permissible sulfur content from 0.5% to 0.1% for the shipping industry, which required the global shipping fleet to consume more VLSFO. However, we believe the impact of IMO on HSFO prices is minimal as the proportion of global fleets equipped with scrubbers is expected to increase to 24% by 2023 according to Clarksons Research – a data provider in the shipping and trade industries.

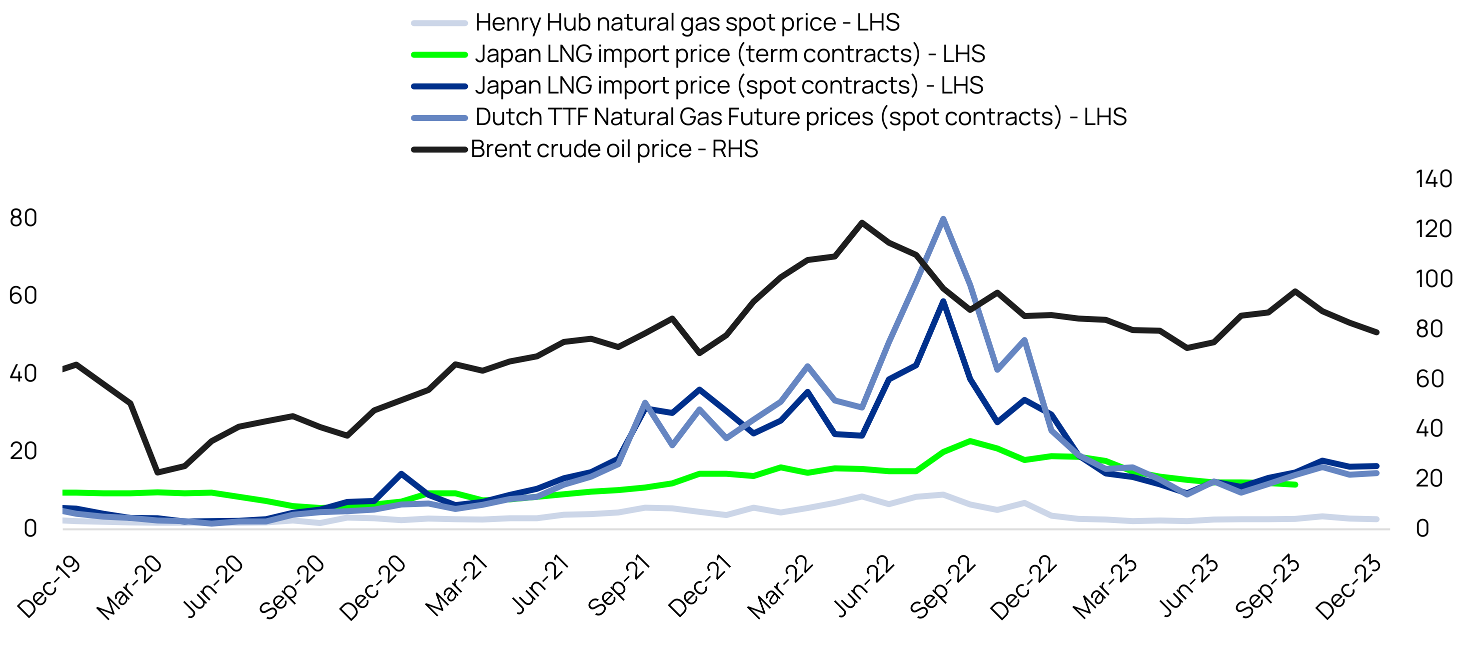
From mid-June to mid-August 2023, FO prices outperformed Brent oil prices. We attribute the increase in Brent oil prices to a tighter supply caused by the oil production cuts of OPEC+. Amidst favorable refining margins driven by domestic demand recovery and discounted feedstocks, Chinese independent refineries shifted to using FO rather than their usual feedstocks of crude oil and bitumen blend.

Since mid-August 2023, FO prices have underperformed compared to Brent oil prices, which we attribute to lower demand for FO in China. In fact, recovering imports of diluted bitumen led to an 8% MoM drop in China's fuel oil imports in August, according to the Chinese General Administration of Customs.

Global natural gas & LNG prices plunged from 2022's high base

Natural gas and LNG markets moved towards a gradual rebalancing in 2023 after a supply shock caused by the escalation of the Russia-Ukraine conflict in 2022. The average of natural gas & LNG prices in key markets including the US, Europe, and Japan dropped significantly by 65% YoY in 2023 from their high base in 2022. Specifically, the average spot natural gas & LNG prices in 2023 in the US, Europe, and Japan decreased 60% YoY, 71% YoY, and 58% YoY, respectively. The drivers for the gas markets in 2023 were 1) weak gas demand caused by unseasonably warm weather and 2) European natural gas inventories sitting well above their historical average.

Figure 474: Global spot and term LNG prices (USD/MMBTU) vs Brent oil prices (USD/bbl)



Source: Bloomberg, Investing.com, Vietcap

2024 outlook for oil & gas prices

Brent oil price outlook

We maintain our average Brent oil price forecasts at USD83/bbl for 2024F and USD75/bbl for 2025-2028F

We maintain our average Brent oil price forecast at USD83/bbl for 2024F (3% lower vs the consensus). After the OPEC+ oil production cut of 4.96 million bpd expired at the end of 2023, the cuts will reduce to 2.2 million bpd (~2.2% of global demand) for Q1 2024 and 1.66 million bpd (~1.7% of global demand) for the remainder of 2024. The EIA expects that the ongoing cuts from OPEC+ will keep global production growth lower than global consumption growth and contribute to a global oil deficit in Q1 2024 before turning into surpluses throughout the remaining quarters. The voluntary nature of the cuts led to some skepticism about whether producers would fully implement them. However, according to the International Monetary Fund (IMF), Saudi Arabia needs to earn USD80/bbl to meet its spending goals in 2024. We thus believe Saudi Arabia has incentive to implement its voluntary cuts as announced. In addition, as OPEC+ has shown commitment to support oil prices, we believe the organization may announce new production cuts for 2024, on top of the planned cut. As such, we believe global oil supply will not improve strongly in 2024 vs 2023. On the demand side, in its World Economic Outlook Report (October 2023), the IMF forecasted a global real GDP growth rate of 2.9% in 2024F vs 3% in 2023. In its Monthly Oil Market Report (November 2023), OPEC expects total global oil demand to increase by 2.2 million bpd in 2024 after surpassing pre-COVID levels in 2023, with the bulk of consumption growth predicted to come from China, India, and the Middle East.

We maintain our 2025-2028F Brent oil price assumption at USD75/bbl, slightly lower than the consensus around USD78/bbl. USD75/bbl is seen as robust support, attributed to global oil industry underinvestment and elevated production costs. Financing constraints from the EU, the US, and Japan hinder new oil and gas projects, while lasting deglobalization, aiming for resource self-sufficiency, bolsters long-term oil price support.

Figure 475: Brent oil average price forecasts (USD/bbl)

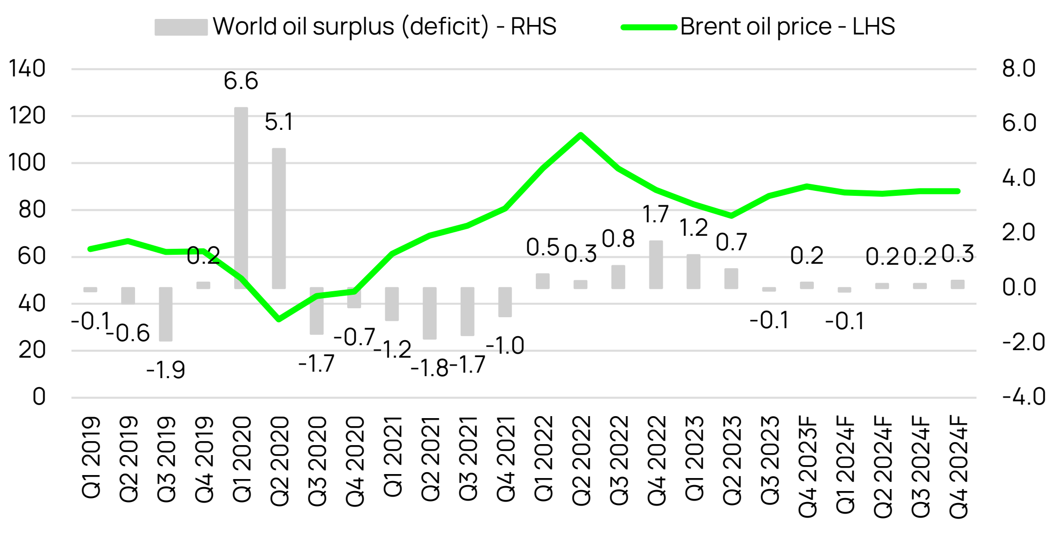
Institutions	2023F	2024F	2025F	2026F	2027F	2028F	Forecast as of
Bloomberg consensus	84	85	83	77	77	N/A	Dec-23
EIA	84	93	N/A	N/A	N/A	N/A	Nov-23
World Bank	84	81	80	N/A	N/A	N/A	Oct-23
Average of above forecasts (New)	**84**	**86**	**81**	**77**	**77**	**N/A**	
Average of above forecasts (Old)	**83**	**86**	**80**	**78**	**72**	**N/A**	
Change %	1.1%	0.8%	1.8%	-1.0%	6.3%	N/A	
Vietcap's oil price base case	**83**	**83**	**75**	**75**	**75**	**75**	

Source: Institutions in table, Vietcap

Nominal global oil surplus in 2024, the EIA reduces its oil surplus forecast for 2024 in its November report vs its October report

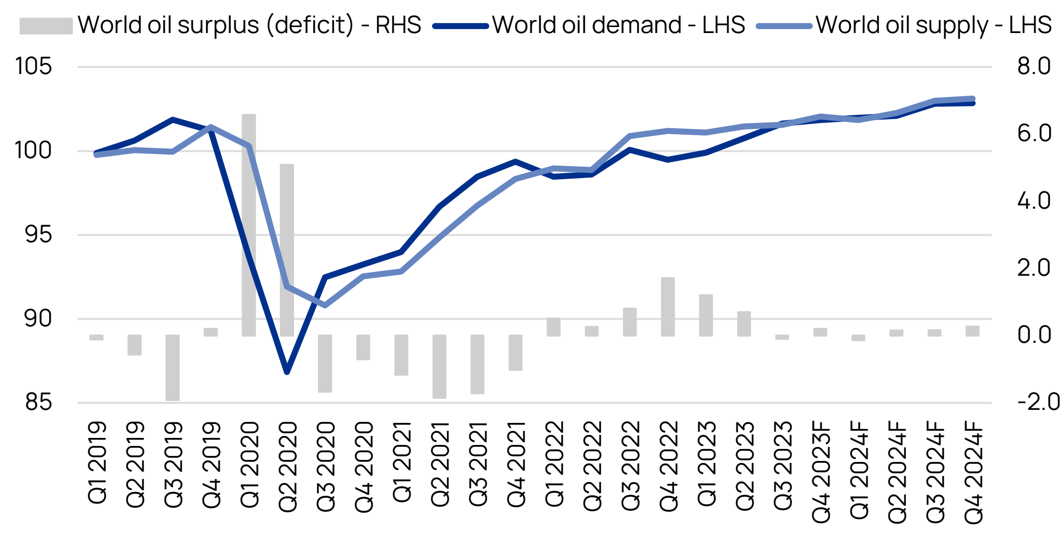
Quarterly oil price movements correlate closely with changes in the balance of crude oil supply and demand. The EIA forecasts a 0.1 million bpd deficit in the world oil market for Q1 2024, shifting to a 0.2-0.3 million bpd surplus for the rest of the year. This change in surplus projections for 2024 reflects the EIA's belief that continued OPEC+ cuts will limit global production growth, trailing behind consumption growth. Additionally, the EIA forecasts that China's average oil consumption will increase 2% YoY to 16.3 million bpd (16% of global consumption) in 2024, while average oil consumption in the US will inch up by 1% YoY to 20.4 million bpd (20% of global consumption) in 2024.

Figure 476: EIA's world crude oil balance (million bpd) (*) vs Brent oil prices (USD/bbl) (**)



Source: Fiinpro, EIA's short-term energy outlook as of November 2023, Vietcap. Note: (*) World oil supply includes production of crude oil and a small amount of natural gas plant liquids, biofuels, and other liquids; (**) Bloomberg consensus as of December 2023.

Figure 477: World liquid oil supply and consumption forecasts (million bpd) (*)



Source: EIA's short-term energy outlook as of November 2023, Vietcap. Note: (*) World oil supply includes production of crude oil and a small amount of natural gas plant liquids, biofuels, and other liquids.

OPEC+ production cut to support oil prices in 2024

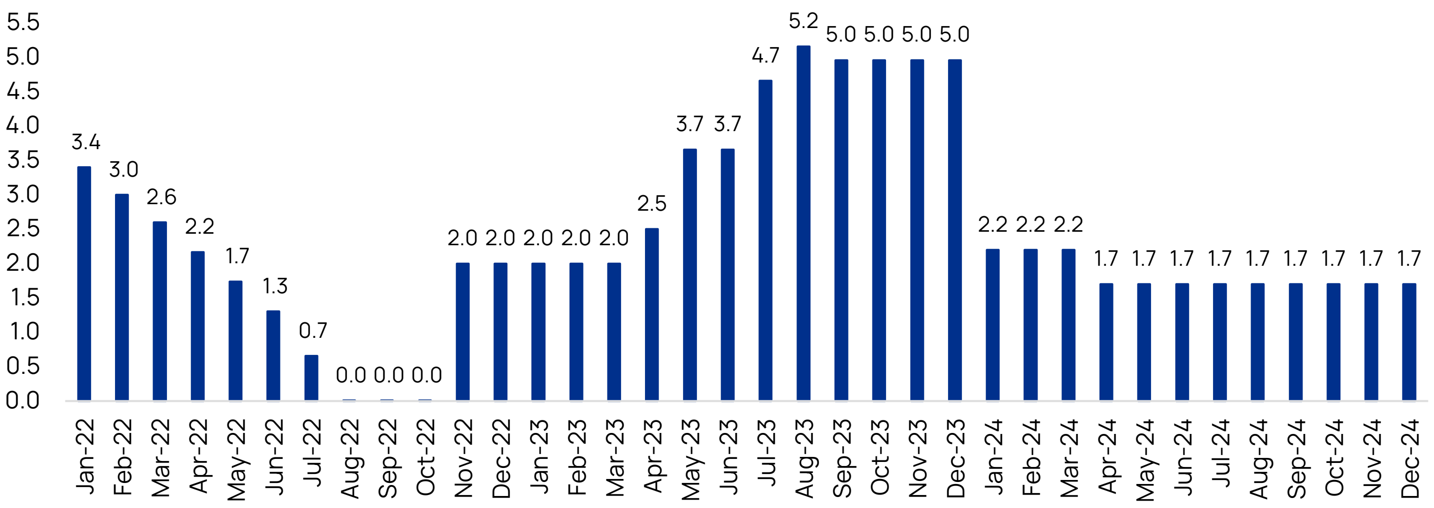
In June 2023, OPEC+ extended its voluntary cuts of 1.66 million bpd — which were initially set to expire at the end of 2023 — until the end of 2024. On top of this, Saudi Arabia announced a voluntary oil output cut of 1 million bpd in July, which was extended until the end of 2023. Furthermore, Russia, which had previously announced that it would reduce its production by 300,000 bpd in September, pledged to continue this reduction until the end of the year.

In November 2023, OPEC+ agreed to voluntary output cuts of 2.2 million bpd (2% of global demand) during Q1 2024. Saudi Arabia and Russia extended their total voluntary cuts of 1.3 million bpd beyond the originally planned expiration date at the end of 2023, extending it through the end of Q1 2024. Additionally, Russia voluntarily cut its production by 200,000 bpd due to its fuel export bans. The remaining 700,000 bpd is divided among the other six members of OPEC+.

According to the IMF, Saudi Arabia needs oil prices to be USD80/bbl for balancing its budget in 2024 vs its 10-year average of USD88/bbl. We believe the decline in the fiscal, break-even oil price of Saudi Arabia is due to projected lower YoY total expenditure in 2024. Saudi Arabia guided for total expenditure of SAR1,251bn (USD333bn) (-1% YoY). As such, we believe that Saudi Arabia has incentive to implement its voluntary cuts as announced.

In 2018, the US reimposed sanctions on Iran, which had been lifted as part of the 2015 nuclear deal known as the Joint Comprehensive Plan of Action (JCPOA), aiming to cut Iran's oil sales to zero. Despite the sanctions by the US, a huge amount of Iranian oil has been sold to China by middlemen and brokers, by ship-to-ship transfers. The cargoes have mostly been rebranded as Malaysian oil as per international tanker tracking companies. In August 2023, Iran and the US reportedly put an informal arrangement in place that permits the flow of Iranian oil into the market. As such, we believe US sanctions on Iran have a neutral impact on Iranian crude exports.

Figure 478: OPEC+'s plan for production cuts (million bpd)

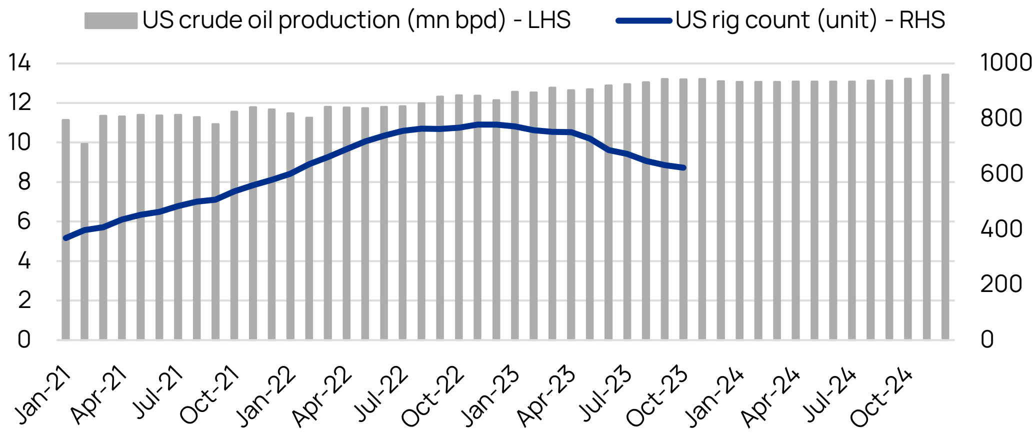


Source: OPEC, public media, Vietcap

2024 expected to see reduced US oil production growth compared to previous years

In response to the fall in Brent oil prices in H1 2023, the number of drilling rigs fell from an average of 779 in December 2022 to 623 in October 2023, according to oilfield services firm Baker Hughes. The EIA forecasts US oil production to grow 2% YoY in 2024 vs 6%-8% YoY in 2022-2023.

Figure 479: US crude oil production (million bpd) and number of rigs (unit)



Source: EIA's short-term energy outlook as of November 2023 (actual data to October 2023, forecast data from November 2023 to December 2024), Baker Hughes, Vietcap

Institutions raise 2024 oil demand forecast, oil demand to surpass pre-COVID level in 2023 and set to increase further in 2024

The IEA, EIA, and OPEC increased their 2024 crude oil demand growth forecasts by 100,000 bpd on average in November 2023 vs their forecasts as of October 2023. The median global oil demand growth forecast from these three institutions suggests that oil demand will increase by 1.4 million bpd to 103.2 million bpd in 2024F after surpassing the pre-COVID level in 2023.

Figure 480: Global oil demand growth forecasts (million bpd)

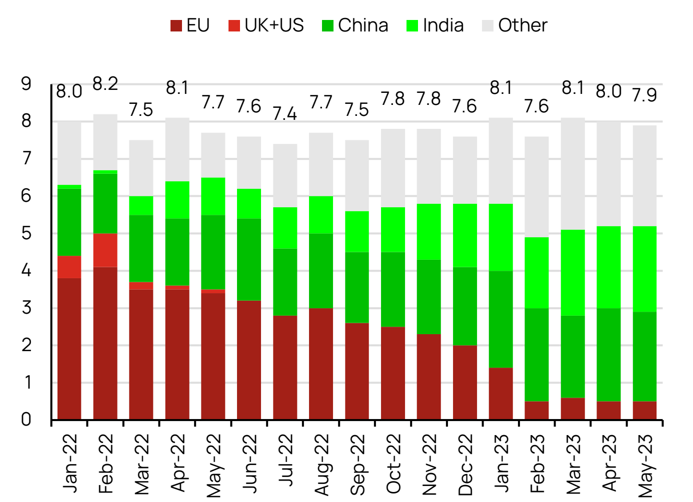
Institution	Forecasts (as of November 2023)		Forecasts (as of October 2023)	
	2023F	**2024F**	**2023F**	**2024F**
IEA	2.4	0.9	2.3	0.9
EIA	1.9	1.4	1.8	1.3
OPEC	2.5	2.2	2.4	2.2
Median	**2.4**	**1.4**	**2.3**	**1.3**

Source: Institutions in table, Vietcap

Geopolitical risks: impact on oil prices

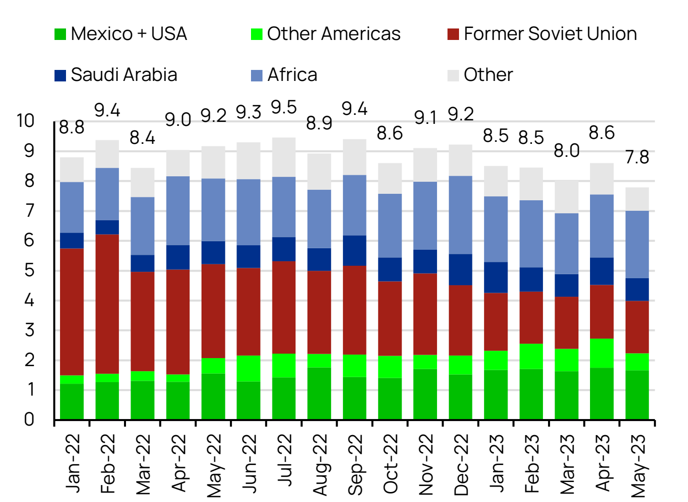
Oil market absorbs impact of Russia-Ukraine conflict amidst adaptability of Russian exports finding new markets and Europe diversifying its energy sources. Russia is one of the largest oil producers with total supply of approximately 9.8 mb/d (9.8% total global supply oil, as of end-2022), and Ukraine is a vital transit country for Russian exports to Europe. Following this conflict, the EU and the US imposed sanctions on Russian oil and gas exports. The G7, the EU, and Australia also imposed a price cap of USD60/bbl on Russian oil, to reduce its energy export revenue. The sanctions and the price cap had an immediate impact on the oil market, as Brent crude oil prices surged to USD127/bbl on March 8, 2022, the highest level in nearly 14 years. However, the oil market soon adjusted to the new reality, as Russia redirected its oil exports to Asia, mainly China and India, which were not part of the sanctions **(Figure 481).** In response, Europe diversified its energy sources and imports from the Americas **(Figure 482)**. Furthermore, sluggish global demand resulting from decelerating economic growth, major central banks raising interest rates, and the strength of the US dollar have exerted downward pressure on oil prices, counterbalancing the geopolitical risk premium.

Figure 481: Russian crude oil and oil product exports by destination (mb/d)



Source: IEA, Argus Media Group, Kpler. (Note: Turkey, Middle East, and Africa contribute 50% in other)

Figure 482: OECD Europe crude imports by source (mb/d)



Source: IEA (Note: Former Soviet Union including Russia)

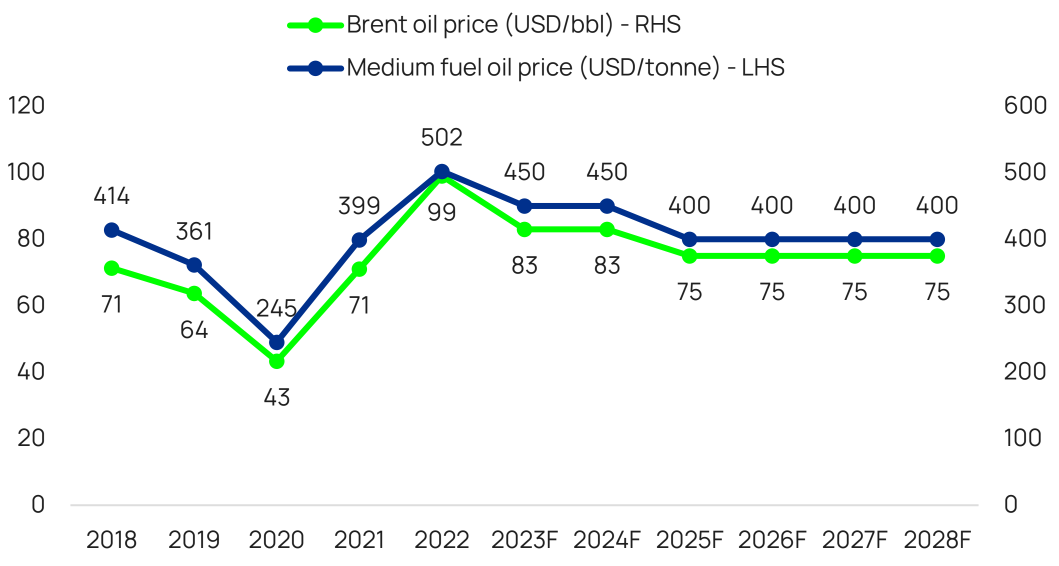
The Israel-Palestine conflict might pose a significant geopolitical risk for the oil market, as it could trigger a supply disruption in the Middle East region. So far, the oil market has been unaffected by any direct consequences of the Israel-Palestine conflict, as neither party is a major oil producer. However, the conflict might still pose a significant geopolitical risk for the region, which produces 31.1 mb/d of crude oil (31% of global supply) and 8.2 mb/d of refinery product (10% of global supply), according to IEA data as of end-2022. The Middle East region also holds 48% of global oil reserves, with oil-rich countries, such as Saudi Arabia, Iran, Iraq, Kuwait, and the UAE. The conflict could also disrupt the oil and gas transit routes in the region, which are vital for the global oil trade. The World Bank warns that a prolonged conflict could trigger a supply shock like the 1970s oil crisis, with a 6-8 mb/d shortfall and prices reaching a range of USD140/bbl to USD157/bbl.

Fuel oil price outlook: We maintain our average FO price forecasts at USD450/bbl for 2024F and USD400/bbl for 2025-2028F.

Like our Brent oil price assumptions, we expect average FO prices to remain high at USD450/tonne in 2024F and remain at USD400/bbl in 2025-2028F.

In Q4 2019, FO prices plummeted in anticipation of the then new International Maritime Organization (IMO) regulations that came into effect at the beginning of 2020. These rules require the shipping industry to consume higher quality fuel that contains a lower sulfur level — also known as very low sulfur fuel oil (VLSFO) and diesel oil. In mid-December 2022, the IMO agreed to reduce the permissible sulfur content from 0.5% to 0.1%. Going forward, we expect the impact of IMO on FO prices to be minimal as the proportion of global fleets equipped with scrubbers is expected to increase according to Clarksons Research.

Figure 483: Vietcap's Brent oil and fuel oil price base case assumptions



Source: Vietcap. Note: Medium fuel oil is the average of HSFO 380 cst and HSFO 180 cst prices.

Natural gas & LNG prices outlook

Natural gas & LNG prices to recover in 2024

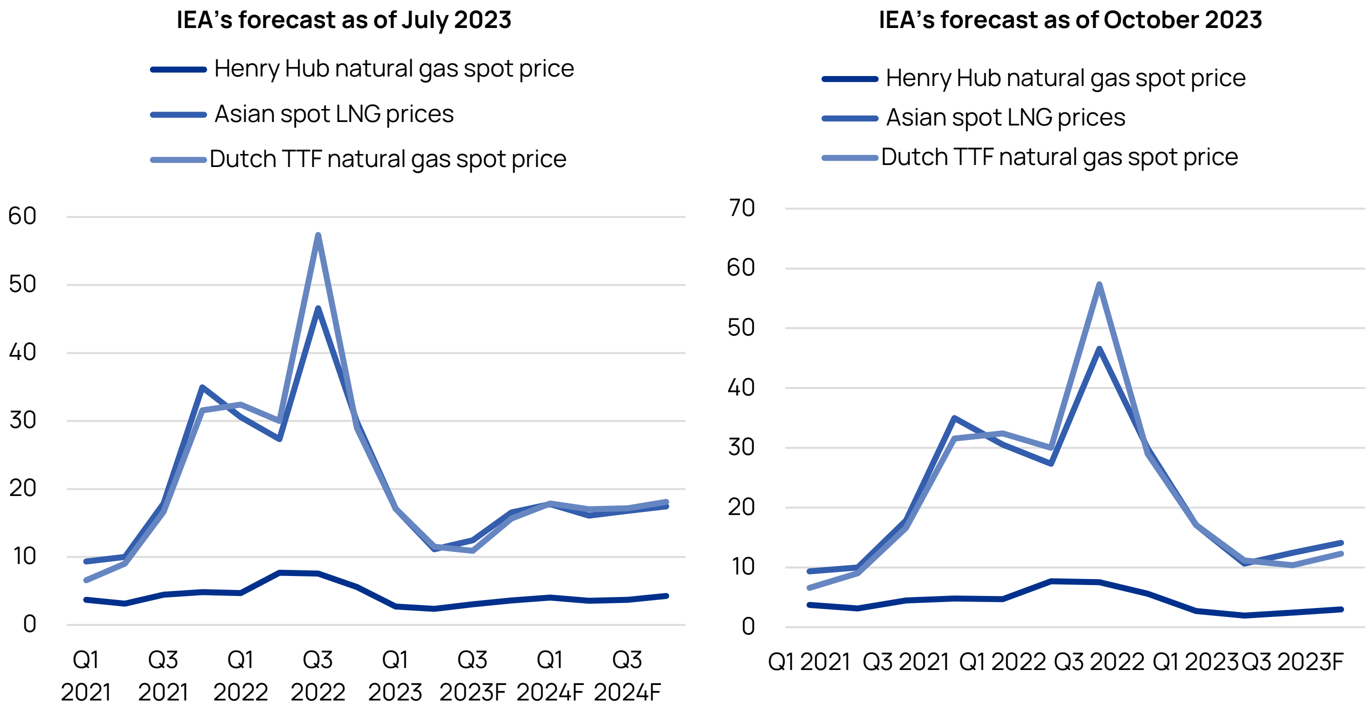
Gas prices are set to recover in 2024 due to moderately increased demand and continued tight supply. In its October 2023 gas report, the IEA cut its 2023 average gas price forecast in Japan, the EU, and the US by 7% to USD9.6/MMBTU (-63% YoY) vs its July 2023 report. We note that in its July gas report, the IEA forecast 2024 average gas price at USD12.8/MMBTU (+24% YoY). According to the IEA, global gas demand is expected to return to moderate growth in 2024, primarily driven by the Asia-Pacific and the Middle East. Meanwhile, the EIA expects supply to remain tight due to assumed full termination of Russian piped-gas supplies to the EU starting from October 1. Besides, CME futures as of December 2023 imply average LNG prices in Asia of USD14.2/MMBTU in 2024.

CME futures imply average LNG prices to normalize in the long term. We attribute this normalization to the robust growth of global LNG supply outweighing the demand growth. Meanwhile, the IEA has not yet provided LNG prices beyond 2024.

Demand growth to be more robust in 2025-2026 vs moderate growth in 2024. Demand growth is estimated at 7% between 2022 and 2026, per the IEA. According to the IEA, China alone accounts for almost half of the increase in global gas demand over the 2024-2026 period. This is followed by the Middle East with the expansion of gas-intensive industries and higher gas burn in the power sector.

Global LNG supply is expected to expand strongly by 25% between 2022 and 2026, with 70% of the supply increase concentrated in 2025-2026. The US alone is set to contribute around half of incremental LNG supply, reinforcing its position as the world's largest LNG exporter.

Figure 484: IEA gas price forecasts in July 2023 and October 2023 gas reports (USD/MMBTU)

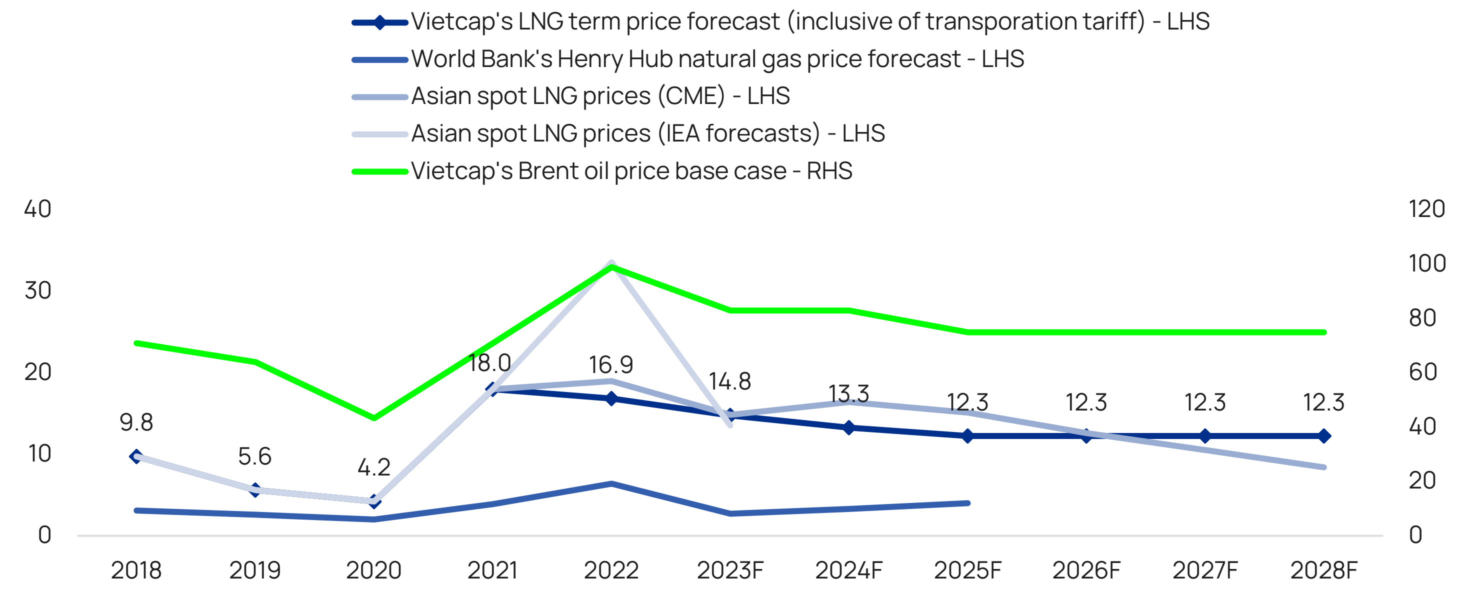


Source: IEA, Vietcap

Long-term prices of imported LNG to remain competitive with prices of Vietnam's new gas fields

We understand that international LNG prices are typically based on Brent oil and Henry Hub natural gas prices. Presently, we maintain our assumptions that Vietnam's future LNG import prices could be primarily benchmarked to Brent oil prices. We maintain our assumptions for Vietnam's imported LNG term price at USD13.3/MMBTU in 2024F and USD12.3/MMBTU in 2025-2028F (including tariffs for storage, regasification, and inland transportation fees), which is competitive with the prices of domestic new gas fields (~USD12-14/MMBTU).

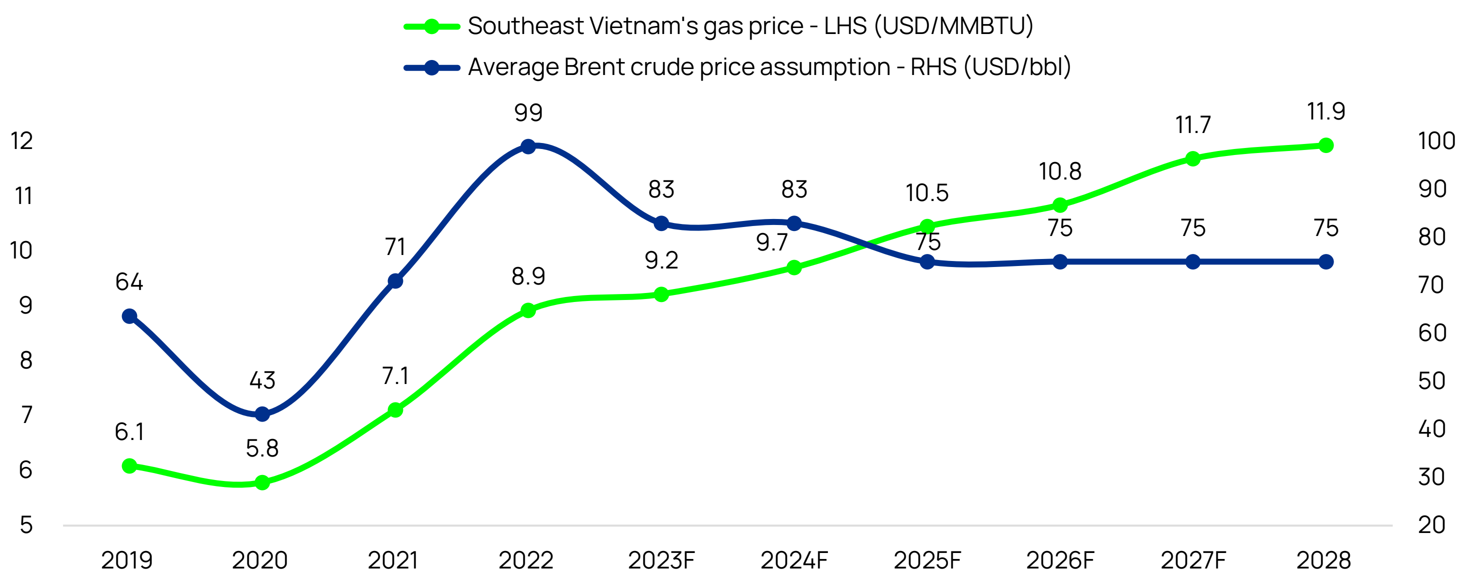
Figure 485: Brent oil price (USD/bbl) and LNG prices forecasts (USD/MMBTU)



Source: World Bank, IEA, CME, Vietcap. Note: Vietcap's LNG price forecast (term contract) is calculated based on 13% of Brent oil price + tariff, according to industry players. Forecasts of the World Bank and IEA are as of October 2023 and CME's is as of November 2023.

Outlook for Vietnam's domestic gas prices

Figure 486: Gas prices outlook for power plants (USD/MMBTU)



Source: GAS, industry players, Vietcap

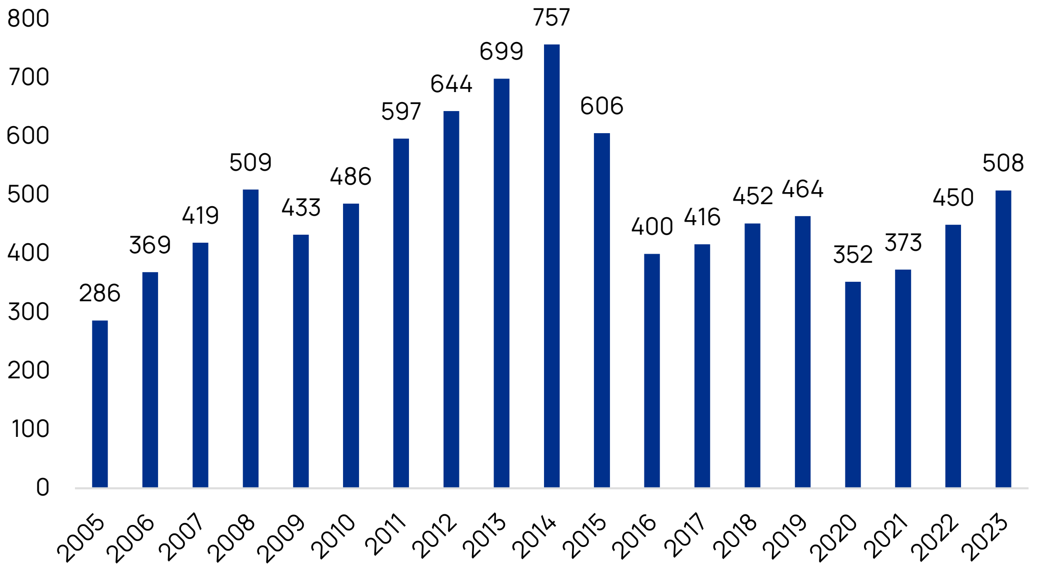
Historically, Vietnam has self-supplied all gas feedstock for power plants, fertilizer plants, and industrial parks in the country. The domestic gas price is partly based on 1) a fixed price (well-head gas price plus regulated return), 2) FO prices, and 3) transportation tariffs. As Vietnam's domestic gas field production will decline significantly beginning in 2024, the country's gas prices will be a blended pool of domestic gas prices and imported LNG prices.

In our GAS Update Report, dated December 28, 2023, we cut our forecast for Vietnam's gas prices for 2024F by 5% to USD9.7/MMBTU due to our latest assumption of no LNG to be used for power generation in 2024 vs our previous forecast of a significant amount (out of a total of 650 million cbm of LNG for all purposes, including power generation, fertilizer production and industrial parks).

Despite our expectations for long-term Brent oil prices to normalize to USD75/bbl in 2025-2028F, we forecast domestic gas prices to increase each year as Vietnam runs out of cheap domestic gas and must import more expensive LNG.

Global E&P outlook for 2024

Figure 487: Global oil & gas upstream capital spending (USD bn)



Source: Evercore ISI, Vietcap

We believe that the Bloomberg consensus for average Brent oil price of USD83-85/bbl for 2024-2025F and USD77/bbl for 2026-2027F is sufficiently high to support global E&P activities. Additionally, S&P Global expects oil prices to remain in the range of the high USD80s to low USD90s per barrel in the next two years for the base case scenario. This oil price level should support global E&P activities to continue recovering.

S&P Global forecasts global spending for the upstream oil & gas sector to recover at a 4% CAGR in 2023-2027F. Furthermore, the International Energy Forum forecasts global spending for the upstream oil & gas sector to recover at a 6% CAGR in 2022-2025F.

Middle East to lead the recovery of global E&P. The demand drivers in the Middle East are Saudi Aramco (Saudi Arabia's public petroleum and natural gas company) and Abu Dhabi National Oil Company (ADNOC). Saudi Arabia plans to increase capacity to 13.2 million bpd from their current 12.2 million bpd by 2027. Saudi Aramco has planned to allocate capex of USD45-55bn (+20%-46% YoY) in 2023, which will increase until 2025 as part of its strategy to grow its oil production capacity to 13 million bpd by 2027. The company is expected to increase its fleet by 42 units to more than 90 between now and 2024. Additionally, ADNOC plans to expand to 5 million bpd from 4.2 million bpd by 2027. To execute this plan, ADNOC plans to spend up to USD150bn of capex in the next five years. These two companies will hold about 70% of the Middle East's demand.

The Middle East has a huge capex plan for oil & gas upstream despite net zero targets. In our view, major oil-producing countries in the Middle East aim to accelerate the exploitation of their potential oil & gas reserves before reducing the share of fossil fuel energy in its energy mix by the committed net zero-year target. Some countries in the Middle East set the net zero-year target in 2050/2060, while the others have not yet made official announcements. Saudi Arabia, the leading member of OPEC+ in terms of oil production, targets to achieve net zero by 2060. We note that the typical life cycle of oil & gas projects is around 20 years. Another reason for this huge capex plan is because the energy sector is a substantial contributor to the government revenue of Middle East countries. In 2016, Saudi Arabia launched Vision 2030 specifying its strategic objectives for the country's development. Although the overarching goal of Vision 2030 is diversifying away from hydrocarbons, the plan has led to significant project announcements in the oil and gas sector. We attribute this action as a method to generate revenue to finance the country's other projects. According to estimates of Goldman Sachs, the major spending sector is upstream energy at 24% of total capex, while renewable energy accounted for 12%.

Despite its plans of boosting E&P capex as mentioned previously, Saudi Arabia keeps implementing production cut policy. We believe this action is to support oil prices in the short term, which helps Saudi Arabia to sufficiently finance its government spending. Potential increases in oil prices (because of lower oil supply) may offset the potential decreases in production of Saudi Arabia, helping to broadly maintain its revenue from exporting oil. In the long term, the increased E&P spending in the Middle East will serve global oil demand, which is expected to peak in 2040 per OPEC estimates. According to OPEC, global demand for oil will peak at roughly 110 million bpd in 2040, primarily driven by large emerging economies such as India and China.

Southeast Asia has an upbeat E&P outlook. The notable countries with E&P activities in Southeast Asia are Malaysia, followed by Indonesia, Thailand, and Vietnam. In Malaysia, Petronas (the Malaysian national oil & gas company) targets for capex of USD24bn for the oil & gas sector for 2023-2027F, which is 12% higher vs 2018-2022. Furthermore, PTT Exploration and Production (PTTEP) – the national petroleum exploration and production company in Thailand – guided for a 6.3% CAGR increase in production in 2022-2027F. The company also targets to spend USD18.1bn on E&P activities in 2023-2027F.

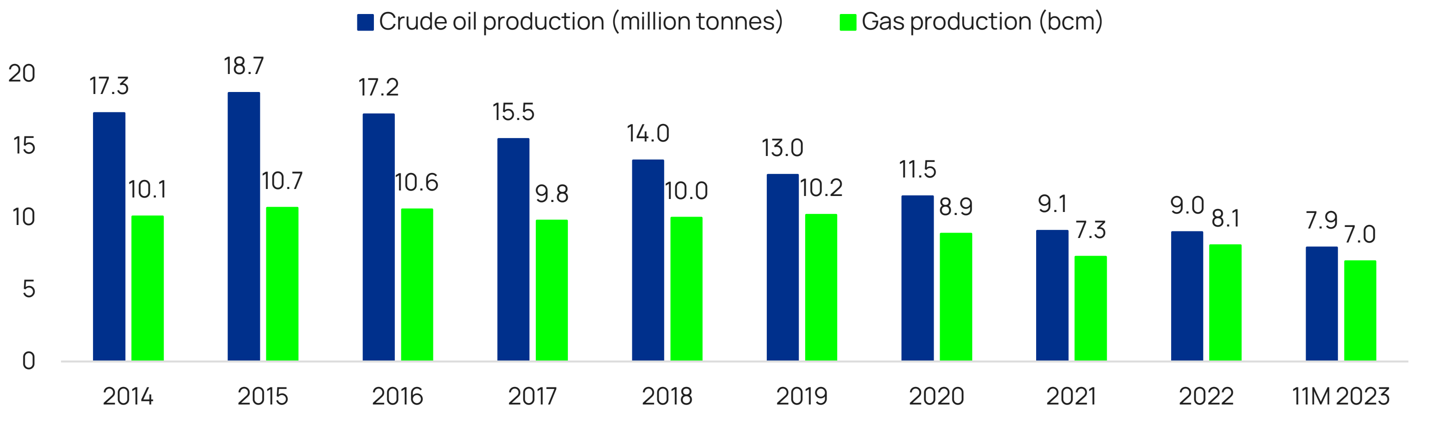
Vietnam's E&P to enter a new cycle in 2024

Crude oil & gas production outlook

In 11M 2023, crude oil production decreased 4% YoY to 7.9 million tonnes. In addition, natural gas production decreased 5% YoY to 7 bcm. We attribute the decreases in crude oil & gas production to declining reserves of existing fields and slow investments into new projects.

According to PetroVietnam (PVN), increases in proven oil & gas reserves were 12 million tonnes of oil equivalent in 11M 2023 vs 17 million tonnes of oil equivalent in 2022. This decrease was due to a quiet domestic drilling market with small and scattered drilling campaigns.

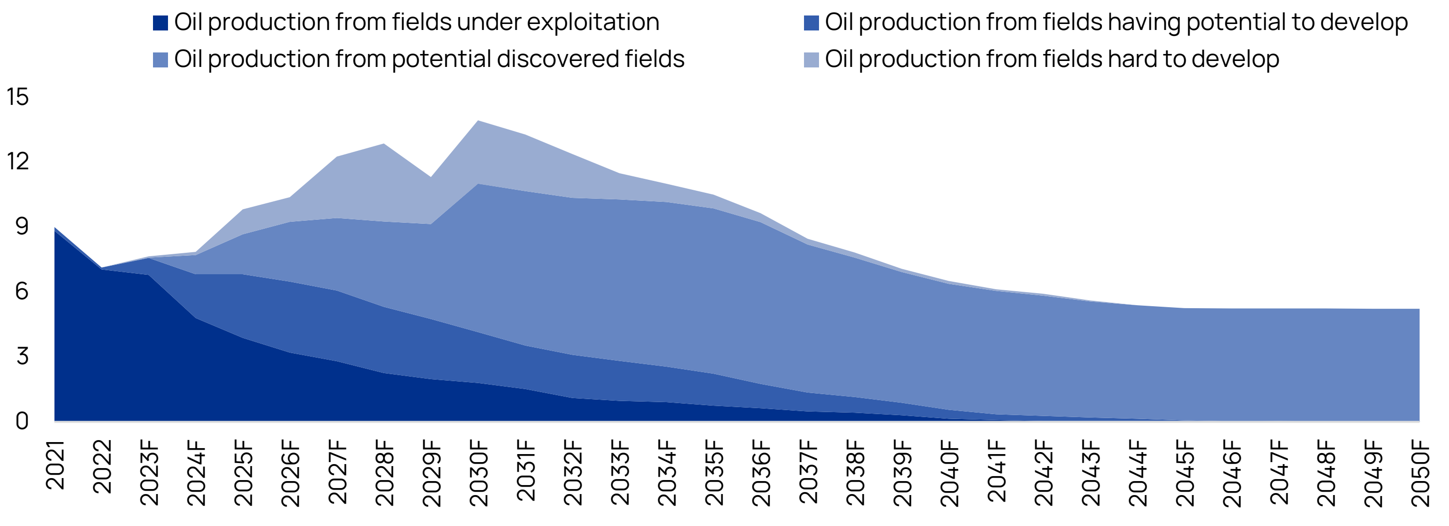
Figure 488: Crude oil and gas production in Vietnam



Source: PetroVietnam Group (PVN), General Statistics Office of Vietnam (GSO), Vietcap

According to the National Energy Development Plan for 2021-2030, Vietnam's crude oil production from "fields under exploitation" is forecasted to decline 18% p.a. in 2021-2025 due to depleted reserves at old oil fields. However, the outlook of oil production is expected to recover from 2024, with an estimated 2024-2030 CAGR of 10% to reach 13.9 million cbm by 2030. These targets depend on contributions from "potential discovered fields" and "fields hard to develop".

Figure 489: Crude oil production forecasts (million cbm)



Source: National Energy Development Plan for 2021-2030, Vietcap

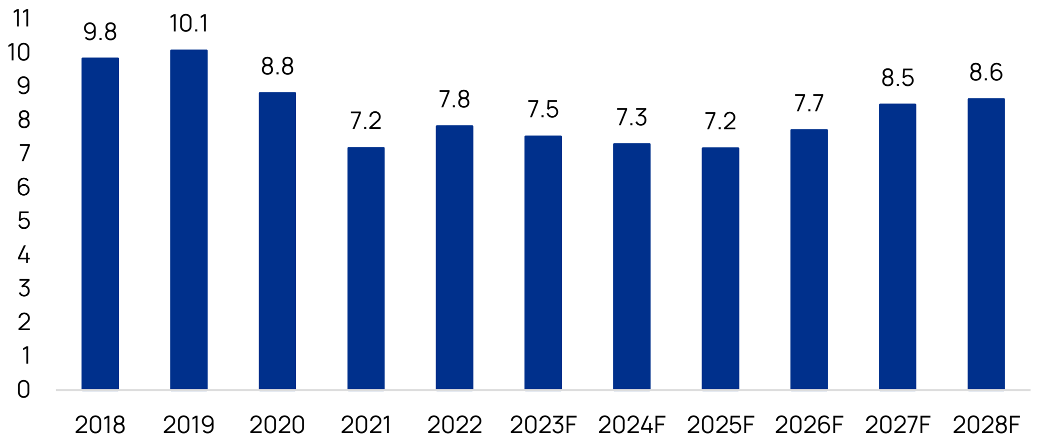
In the National Energy Development Plan for 2021-2030, the Government forecasts total gas production volume to more than double in 2031-2050 vs 2021-2030. This is driven by contributions from new gas fields — mostly from fields in central and southern Vietnam. Gas production over 2021-2030 is targeted to reach 118 bcm, which is 10% higher vs the 2010-2020 period with contributions of Block B (in the southwest) and Blue Whale (in the central). Production from the southeast region is guided to reach 60.7 bcm in 2021-2023 period with While Lion phase 2B, Thien Nga-Hai Au, and others.

Figure 490: Gas production forecasts (bcm)

	2021-2030	2031-2050
Northern	0.9	0.2
Northern-Central	0.0	0.0
Central	20.6	145.1
Southern-Central	0.0	0.0
Southeast	60.7	27.9
Southwest	35.8	70.0
Total	**118.0**	**243.1**

Source: National Energy Development Plan for 2021-2030, Vietcap

Figure 491: Vietnam's gas production forecasts (bcm)



Source: GAS, Vietcap

Vietnam's revised oil & gas law

On November 14, 2022, Vietnam's National Assembly approved the revised oil & gas law, which came into effect from July 1, 2023. Overall, we believe the revised law is marginally positive for the sector as it could facilitate E&P activities and accelerate domestic oil & gas projects.

According to the management of PetroVietnam Technical Services (HNX: PVS), the revised oil & gas law allows oil & gas operators to bolster their E&P activities through lowering the profit-sharing ratio of the host country and lowering taxes for critical projects.

According to the CEO of PetroVietnam Exploration Production Corporation (PVEP), the revised oil & gas law outlines a clearer investment procedure and sets preferred investment terms that should help PVEP and other field operators to develop small/frontier oil & gas fields. As such, PVEP estimates that at least 12 projects can be executed thanks to the revised oil & gas law.

Figure 492: Comparison between the old and revised Oil & Gas Law

	Old Oil & Gas Law	Revised Oil & Gas Law	Vietcap's comments
Extend contract term of oil & gas contracts	Not more than 25 years.	Not more than 30 years.	Provides more flexibility for investors' investment horizons; encourages longer-term investment.
Tax incentives	No rule on preferred tax rates for special projects.	For oil & gas blocks/fields receiving special preferred/preferred investment policy, the corporate income tax rate is 25%/32% and crude oil export tax is 5%/10%, respectively.	Reduces tax burden for investors and encourages investment in oil & gas projects.
Cost recovery and profit sharing	Cost recovery ratio and profit-sharing ratio are negotiated and stated in oil & gas contracts.	Industry players expect the profit-sharing ratio (50%-80%) between Vietnam and foreign investors to be higher. The maximum cost recovery ratio for oil & gas contracts receiving preferred investment policies and receiving special preferred investment policies is 70% and 80%, respectively. According to industry players, the revised cost recovery ratios are higher than the previous ratios.	Creates a more favorable business environment for investors as higher cost recovery ratios will allow investors to recover more capex and opex.

Source: Vietnam's National Assembly, Vietcap

Apart from the revised oil & gas law, Vietnam's PDP VIII, which was approved on May 15, 2023, should provide a strong legal framework for the development of two large gas fields in Vietnam, including Block B and Blue Whale.

Domestic E&P activities to enter a new cycle

According to Fiinpro data, Brent oil prices averaged USD95/bbl in 2008-2014, leading to robust E&P activities in Vietnam. Industry players stated that PetroVietnam (PVN) spent a total of USD17bn (USD2.8bn p.a. on average) on E&P activities in 2010-2015. However, following the plunge of oil prices in 2015 and 2016 and the negative impact of the COVID-19 pandemic, Vietnam's E&P activities have been muted in recent years. In fact, PVN's total capex was USD5.7bn in 2016-2022, implying an average annual capex of USD818mn in the period. In 2023, the domestic drilling market remained quiet with small and scattered drilling campaigns.

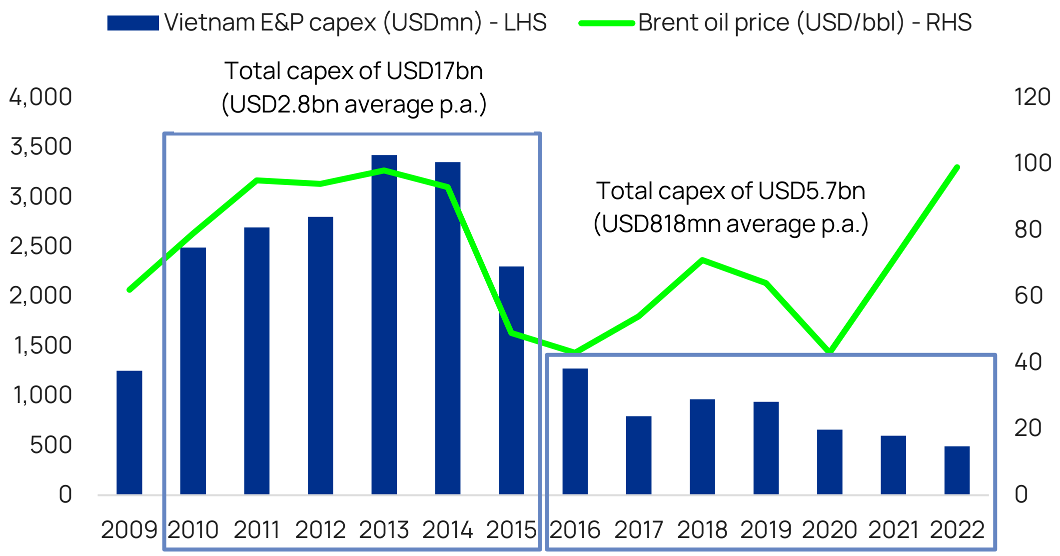
Vietcap

Figure 493: Select oil & gas projects in Vietnam expected in 2023-2033

No.	Block	Project	Capex* (USD mn)	Oil/gas reserves	Investors	Status	Expected first gas or first oil	Location
				GAS PROJECTS				
1	52/97; 48/95	Block B	5,186	107 bcm	PVN (42.9%), PVEP (26.8%), MOECO (22.6%), PTTEP (7.7%)	Expected to get an FID in H1 2024.	2027	Malay Tho Chu Basin
2	117-119	Blue Whale	4,600	150 bcm	ExxonMobil (64%), PVN (36%)	Preparing field development plan.	2030	Song Hong Basin
3	15-1	White Lion - Phase 2B	1,100	24 bcm	Cuu Long JOC including PVEP (50%), ConocoPhillips (23.25%), KNOC (14.25%), SKI (9%), Geopetrol (3.5%)	Expected to get an FID in H1 2024. PVS is bidding. GAS expects to finish feasibility study approval for the gas pipeline in mid-2024.	2026	Cuu Long Basin
4	112-113	Bao Vang - Bao Den	1,321	58 bcm	PVN (50%), Gazprom (50%)	Exploration	N/A	Song Hong Basin
5	114	Ken Bau	N/A	200-250 bcm	Eni Vietnam B.V. (50%), Essar E&P Limited (50%)	Discovery	N/A	Song Hong Basin
6	46/07; 51	Nam Du - U Minh	N/A	4.8 bcm	Jadestone Energy (100%)	Preparing field development plan.	N/A	Malay Tho Chu Basin
				OIL PROJECTS				
1	15/1-05	Yellow Camel	700	63 mn bbl	Murphy Oil (40%), PVEP (35%), SKI (25%)	Received an FID in November 2023. Expected PVS to be awarded M&C contracts in H1 2024.	2026-2027	Cuu Long Basin
2	09-2/09	Kinh Ngu Trang - Kinh Ngu Trang Nam	650	6 mn bbl	Vietsovpetro (40%), PVEP (30%), AO Zarubezhneft (30%)	In development	2025	Cuu Long Basin
		Total	**13,557**					

Source: Public media, Vietcap (* Vietcap's estimated capex for upstream & midstream segments for 2023-2033F; bcm: billion cubic meters; FID: final investment decision)

Figure 494: Vietnam's historical E&P capex (USD mn) vs Brent oil price (USD/bbl)



Source: Industry players, Fiinpro, Vietcap

We expect domestic E&P to pick up in H2 2024 with the progress of projects such as Block B, White Lion – Phase 2B, and Yellow Camel. The high average Brent oil price base of USD99/bbl in 2022 (per Fiinpro data) and our forecast of USD75-83/bbl for 2024-2028F should support the recovery of E&P. We note that E&P usually lags increases in Brent oil prices. We estimate total E&P capex for domestic oil & gas projects of at least USD13.6bn in 2023-2033F. Moreover, we estimate total E&P spending of ~USD1.4bn p.a. on average for this 10-year period, which is nearly double the total spending in 2016-2022 and equivalent to ~80% of the spending in the peak period of 2010-2015.

The domestic drilling market has experienced low activity in 2023 with small and scattered drilling campaigns. In 2023, PVEP plans to drill 21 wells vs 40-45 wells p.a. in 2016-2022. Following domestic E&P recovery, many drilling jobs have been scheduled to be carried out from 2024, as shown below.

Figure 495: Select tentative drilling jobs in Vietnam

No.	Oil/gas field	Location	Operator	Status	Workload	Start drilling date
1	N/A	N/A	Vietsovpetro	Possible	540 drilling days	October 1, 2023
2	N/A	N/A	Cuu Long JOC	Pre-tender	N/A	February 1, 2024
3	Sao Vang – Dai Nguyet	Nam Con Son basin	Idemitsu	Pre-tender	Two wells	March 1, 2024
4	Te Giac Trang & Ca Ngu Vang	Cuu Long basin	Hoang Long-Hoan Vu JOC	Pre-tender	One or two rigs, 4-6 wells (540 drilling days)	April 1, 2024
5	Block 15-2/17 – Hai Su Trang/Hai Su Den	Cuu Long basin	Murphy	Tender	One JU rig, one to six firm wells, and four optional wells (60-520 drilling days for firm wells and 400 drilling days for optional wells)	June 30, 2024
6	Block 11-2 – Rong Doi	Cuu Long basin	KNOC (Incoming operator: Zarubezhneft)	Tender	Two wells	H1 2024
7	Dai Hung – Phase 3	Cuu Long basin	PetroVietnam Exploration Production Corporation (PVEP)	Tender	One JU rig, 12 wells	July 15, 2024
8	Block 09-2 - Ca Ngu Vang	Cuu Long basin	Vietsovpetro	Tender	Two JU rigs (2-year-contract for each JU rig)	September 2024
9	Yellow Camel	Cuu Long basin	Murphy	Market survey	One JU rig, eight wells (800 drilling days)	2026
10	Block 15-1	Cuu Long basin	Cuu Long JOC	Pre-tender	N/A	April 1, 2025

Source: PVD, Vietcap. Note: JOC: joint operating company

Domestic oil & gas projects progressing

White Lion – Phase 2B gas field: PVEP and foreign partners are working to extend the production sharing contract (PSC) of White Lion – Phase 2B for an additional 12-15 years. PVEP's stake in the PSC may increase from 50% to 60%-70%, which meets the requirements to execute the project. We expect the White Lion – Phase 2B gas field to get its PSC extended in H1 2024, which should follow an announcement of FID. PVS is bidding for engineering, procurement, construction, and installation (EPCI) contractors for this project. GAS expects to finish its feasibility study approval for the gas pipeline in mid-2024. In addition, we assume that White Lion – Phase 2B will extract its first gas in 2026.

Yellow Camel oil field: In November 2023, Murphy Oil (the field operator) issued an FID for the Yellow Camel oil field following the approval of a field development plan (FDP) in June. Murphy Oil targets to extract the first oil from Yellow Camel in 2026. PVS is bidding for EPCI contracts involving construction of one central processing platform and one well head platform (total contract value of USD283m). We expect PVS to be awarded this contract in H1 2024. Furthermore, Murphy Oil is carrying out a market survey for one jack-up rig to drill eight wells in the Yellow Camel oil field in 800 days (2.2 years). PVD plans to join bidding for this drilling campaign; however, further details have not yet been disclosed. We estimate that PVD may conduct drilling for this oil field starting in 2026, with an estimated drilling contract value of USD294mn (approximately one year of PVD's revenue) as per the FDP.

Blue Whale gas field: The progress of the Blue Whale gas project is slower than planned due to adjustments in ExxonMobil's investment strategy and slow pace of preparatory work (including land clearance, progress of upgrading the Ky Ha Port for producing condensate, & the plan to build a gas pipeline going though Chu Lai Airport). Vietnam's Ministry of Industry and Trade has instructed various related ministries, local authorities, PVN, and Vietnam Electricity Group (EVN) to speed up the pace of preparatory work for this project. We currently assume that this gas field to extract its first gas in 2030. We believe the approval of this project will benefit PVS, PVD, and BSR; however, we see no impact for GAS.

Figure 496: Jobs for oil & gas companies from notable domestic projects, 2023-2033 period

Companies with potential workload	White Lion - Phase 2B	Yellow Camel	Block B	Blue Whale
GAS	Pipeline investment and gas transportation	No	Pipeline investment and gas transportation	No
PVS	1 CPP + 1-2 WHP	1 CPP + 1 WHP + 1 FSO	1 CPP + 46 WHPs + 1 FSO	1 WHP
PVD	1 JU rig	1 JU rig	1-2 JU rigs	1 semi-submersible rig
Vietsovpetro + PXS	No	No	No	1 CPP (sub-contractor)
PVB	Pipeline coating			
PVC	Mud and chemicals for drilling			
Contract value* (USD mn)	**White Lion - Phase 2B**	**Yellow Camel**	**Block B****	**Blue Whale**
GAS	350	N/A	N/A	N/A
PVS	250	283	3,313	830
PVD	220	294	857	N/A
Vietsovpetro + PXS	0	N/A	N/A	N/A
PVB	17	N/A	130	N/A
PVC	15	N/A	N/A	N/A
Others	248	N/A	886	N/A
Total capex (USD mn)	**1,100**	**700**	**5,186**	**4,600**

Source: Vietcap (* Vietcap's estimated capex for upstream & midstream segments for 2023-2033F, ** GAS has a 51% stake in the gas pipeline which is included in PVS's contract value; PXS: Petroleum Equipment Assembly & Metal Structure; PVB: PetroVietnam Coating; PVC: PetroVietnam Chemical & Services; CPP: central processing platform; WHP: well head platform; FSO: floating storage and offloading unit)

Block B makes significant progress to receive FID in H1 2024

After several small developments in the Block B project since 2022, Block B made significant progress in 2023. On October 30, 2023, PVN and foreign partners held a ceremony to sign heads of agreement (HOA) to extract the first gas from the Block B project in 2027. Details of the HOA have not yet been disclosed, but we understand that there are significant improvements regarding the remaining obstacles to Block B. These obstacles include 1) finalizing the gas price (recently, the Science Council proposed to reduce Block B's gas price from USD13-14/MMBTU to USD12/MMBTU) and 2) signing the Power Purchase Agreement (PPA), the Gas Sales Agreement (GSA), the Gas Sales Purchase Agreement (GSPA), and the Gas Transportation Agreement (GTA) with contracted volume.

Given the current progress, we believe that Block B will receive an FID in H1 2024. Our view on the pros and cons to Block B receiving an FID are below.

Figure 497: Pros & cons to Block B receiving a final investment decision

Pros	Cons
1. **On October 30, 2023, PVN and foreign partners held a ceremony to sign heads of agreement (HOA) to extract the first gas from Block B project in 2027.** In addition, PVS received the Limited Letter of Agreements (LLOA) of EPCI#1-3 contracts. 2. **On October 9, 2023, Can Tho City People's Committee approved EVN to transfer the ownership of the O Mon III & IV power plants to PVN.** In addition, the MoIT allowed O Mon power plants to indirectly join the competitive generation market. 3. **In 2022, foreign partners agreed to have no Government guarantee.** The production sharing contract (PSC) of Block B was extended to December 31, 2049, which will be effective starting from the date the Prime Minister of Vietnam issuing FID. 4. **Huge demand for gas:** The MoIT targets for gas-fired power capacity to more than double to 14,930 MW by 2030 compared to 2020. In addition, Vietnam faced a gas shortage in Q2 2019 and Q2 2023. 5. **The Government can collect estimated tax revenue of USD22bn from Block B during its lifespan**, apart from ensuring a secure national energy supply.	1. **Block B's gas price (USD12-14/MMBTU including transportation tariff of USD1.57/MMBTU) is not competitive with the price of LNG imports.** We forecast Vietnam's import LNG term price to be USD14.8/MMBTU in 2023F and then decline to USD13.3/MMBTU in 2024F and USD12.3/MMBTU in 2025-2028F. As a result, the electricity price of the O Mon power plants fueled by gas from Block B is potentially higher than if being fueled by LNG. This means EVN may pay a higher cost to mobilize electricity from the O Mon power plants. We note that the Science Council has recently proposed to reduce Block B's gas price from USD13-14/MMBTU to USD12/MMBTU. 2. **PVN and EVN have not yet finalized contracted volume for each power plant, Gas Sales & Purchase Agreement (GSPA), Gas Sales Agreement (GSA), Gas Transportation Agreement (GTA), and Power Purchase Agreement (PPA).** However, we note that a passthrough mechanism (gas price to electricity price) was approved.

Source: Public media, Vietcap

We expect that the Block B project will provide a sustainable workload for PVS, PVD, and GAS. We believe PVB (NOT RATED) will benefit during a specific duration of the project (2025-2027F).

Figure 498: Estimated revenue and NPAT for beneficiaries of Block B (USD mn)

Beneficiaries	Potential revenue	Potential NPAT	Details
PVS	5,800	330	We forecast profit from the below six contracts of at least USD330mn in 2024-2050F. We also forecast these contracts to contribute 8%-37% to PVS's 2023-2027F NPAT-MI. We have not yet included any contract value from gas field clearance at the end of the project's life cycle. Contract details: 1. EPCI#1 of 1 CPP + 1 living quarters platform + 1 flare tower (USD500mm) 2. EPCI#2 of 4 WHPs and interfield gas pipelines (USD400mn) 3. EPCI#3 of offshore gas pipeline (USD400mn) 4. EPCI#4 of onshore gas pipeline (USD300mn) 5. EPCI of 42 WHPs (USD4.2bn) 6. FSO leasing contract
PVD	2,074	267	We estimate profit from drilling & well-related services to contribute USD44mn to PVD's NPAT-MI in 2026-2027F (16% of its 2026-2027F aggregate NPAT-MI). We expect profit from Block B to contribute USD223mn to PVD's NPAT-MI in 2028-2050F.
GAS	3,575	2,100	We estimate profit from gas transportation to account for an average ~6% of GAS's NPAT-MI in 2028-2033F.
PVB	130	13	Contract for gas pipeline coating.

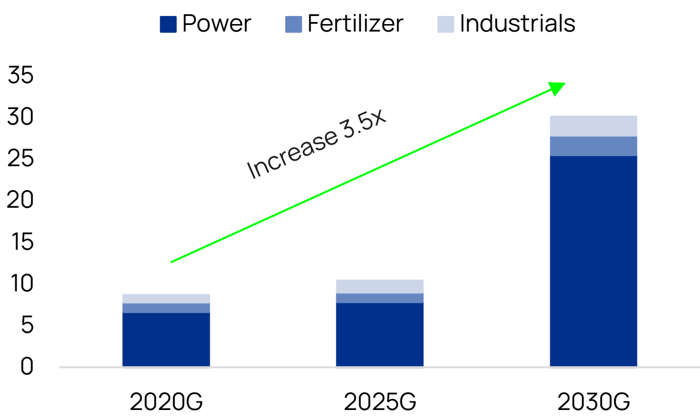
Source: Vietcap

See more details on the Block B project in our Energy Sector Flash, published October 30, 2023.

LNG import projects are the future of Vietnam's oil & gas industry

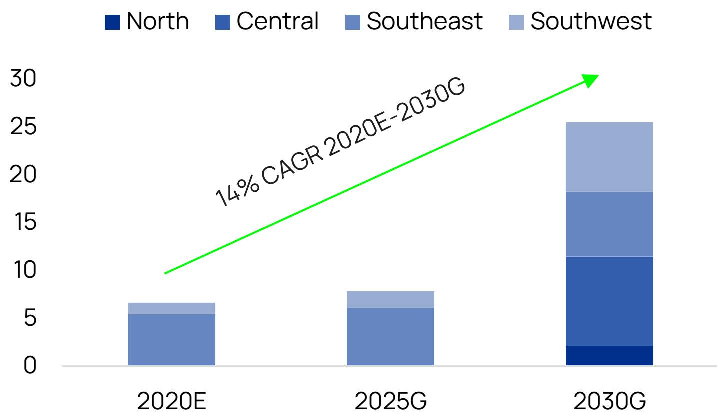
The Government guides for Vietnam to have strong gas demand, which will be driven by robust gas demand from power plants that is projected to increase 3.5x in the next 10 years. However, we believe the gas supply from domestic gas projects — including Sao Vang – Dai Nguyet, Block B, White Lion – Phase 2B, and Blue Whale — will not be enough to meet the upcoming strong demand. Vietnam will primarily self-supply gas until 2023; however, we estimate a deficit of approximately 3.9 billion cbm starting in 2025. Therefore, importing LNG will be necessary.

Figure 499: Vietnam's gas demand by segment (bcm)



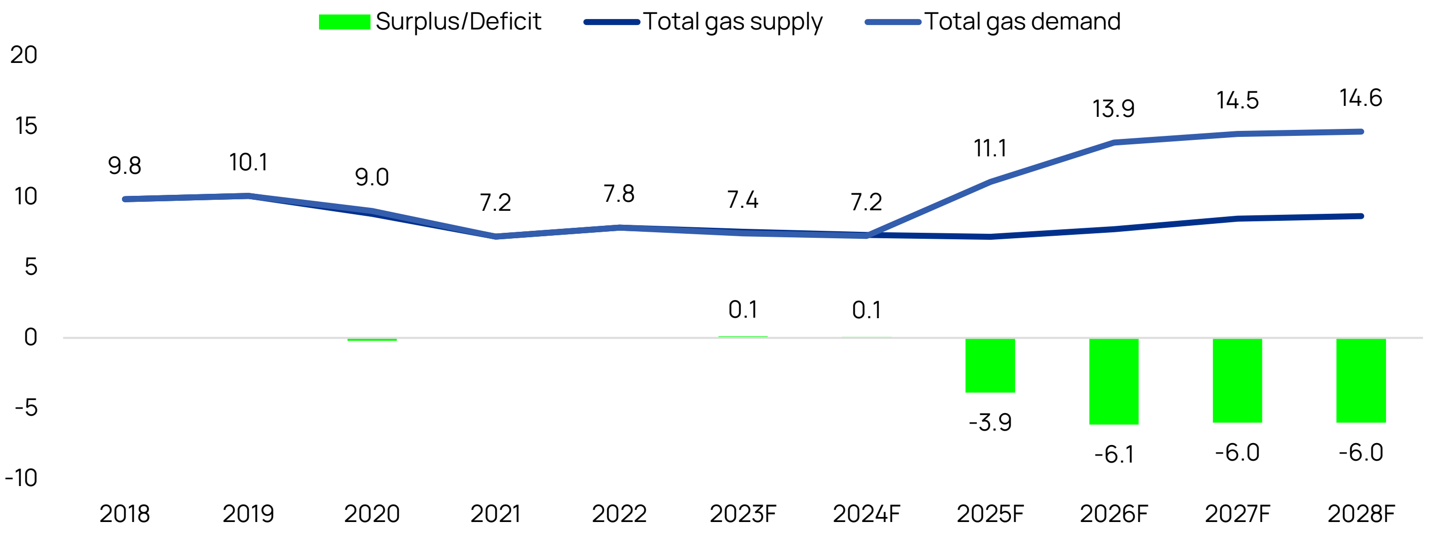
Source: National Energy Development Plan for 2021-2030, Vietcap

Figure 500: Vietnam's gas demand from power plants by region (bcm)



Source: National Energy Development Plan for 2021-2030, Vietcap

Figure 501: Gas shortage outlook (Vietcap estimates) (bcm)



Source: GAS, Vietcap

Total capex of USD26bn for LNG infrastructure in the next ten years

The development of LNG infrastructure is critical for Vietnam to ensure input for its power plants and sustain strong economic growth. In the National Energy Development Plan for 2021-2030, the Government targets to import 2.2 bcm of LNG by 2025, which is guided to increase to 15.7 bcm of LNG by 2030. 16 LNG projects (LNG terminal and LNG-fired power plants) were approved in the Government's gas master plan for 2020-2035 and Vietnam's Power Development Plan VIII.

Figure 502: Pipeline of Vietnam's LNG infrastructure

Region	Project	Capacity	Capex (USD mn)	Timeline	Potential investors	Status
Southern (at least 17.5 MMTPA; 14,000 MW)	Thi Vai LNG terminal – Phase 1, 2, 3	1-6 MMTPA	686	2019-2028	GAS & foreign partners	Phase 1: GAS held an inauguration ceremony Phase 2: Waiting for MoIT's approval of a feasibility study Phase 3: N/A
	Ca Mau LNG terminal – Phase 1, 2	1-2 MMTPA	N/A	2022-2025	PVN/foreign companies (potentially POW)	N/A
	Tien Giang LNG terminal	4-6 MMTPA	N/A	2022-2025	EVN	N/A
	Nhon Trach 3 & 4 LNG-fired power plants	1,500 MW	1,400	2021-2026	POW & Samsung C&T Corporation	Under construction, expected to come online in 2025-2026
	Hiep Phuoc LNG-fired power plant – Phase 1, 2	1,200-2,700 MW	N/A	2021-2025	Hai Linh Co Ltd	N/A
	Bac Lieu combined-cycle power plant	3,200 MW	4,000	2025-2027	Delta Offshore Energy Pte. Ltd	Preparing feasibility study
	Long An I, II LNG-fired power plants	1,500-3,000 MW	3,130	2025-2026	VinaCapital & GS Energy	Expected to come online in 2028
	Long Son LNG project	3.5 MMTPA; 3,600 MW	4,390	2026-2030	PGV, TV2, TTC Group, Thai Binh Duong Group, General Electric	N/A
Central (at least 9 MMTPA; 7,500 MW)	Son My LNG Terminal – Phase 1, 2, 3	1-6 MMTPA	1,400	2023-2035	GAS & AES Corporation	Received approval for the investment plan
	Khanh Hoa (Van Phong) LNG Terminal	3 MMTPA	N/A	2030-2035	PLX & partners	N/A
	Ca Na I LNG-fired power plant	1,500 MW	2,238	2025-2026	Gulf Energy	Preparing pre-feasibility study
	Son My I, II CCGT plant	4,500 MW	4,300	2023-2028	AES Corporation	Received approval for the investment plan
	Hai Lang LNG-fired power plant	1,500 MW	2,300	2025-2026	T&T Group, HANWHA, KOSPO, KOGAS	N/A
Northern (at least 6.5 MMTPA; 1,500 MW)	Thai Binh FSRU	0.2-0.5 MMTPA	N/A	2026-2030	N/A	N/A
	Hai Phong LNG Terminal	1-3 MMTPA	N/A	2030-2035	N/A	N/A
	Ha Tinh LNG Terminal	2-3 MMTPA	N/A	2031-2035	N/A	N/A
	Quang Ninh I LNG-fired power plant	1,500 MW	2,000	2026-2027	POW, Colavi, Tokyo Gas, Marubeni	N/A
	Total	**at least 33 MMTPA; 23,000 MW**	**at least 25,844**			

Source: Vietnam's Gas Master Plan, Vietnam's Power Development Plan VIII, public media, Vietcap (FSRU: floating storage regasification unit, CCGT: combined-cycle gas turbine)

In 2023, GAS imported a batch of LNG at a good price (USD9.46/MMBTU) to test run the Thi Vai terminal. In 2024, GAS plans to import 50 million cbm of LNG, mainly to supply industrial parks. As a result, we maintain our assumption that GAS will begin importing LNG in 2024 and forecast LNG volume at 50 million cbm. We forecast Thi Vai LNG terminal to experience from a net loss of VND1,043bn in 2024F. Despite short-term challenges, we assume the Thi Vai LNG terminal will contribute 5%/19% to GAS's NPAT-MI in 2027/2028F, respectively.

According to PetroVietnam Low Pressure Gas Distribution JSC (HOSE: PGD) – a 50.5%-stake subsidiary of GAS - their input pricing has switched from 100% domestic gas price to 10% LNG and 90% domestic price. The output gas price mechanism will also incorporate Brent oil prices in addition to LPG and FO prices in the future. According to CNG Viet Nam JSC (HOSE: CNG) – a 56%-stake subsidiary of GAS - CNG's LNG facilities in Long An Province are ready to distribute LNG to customers. CNG is developing facilities to distribute LNG to the North of Vietnam.

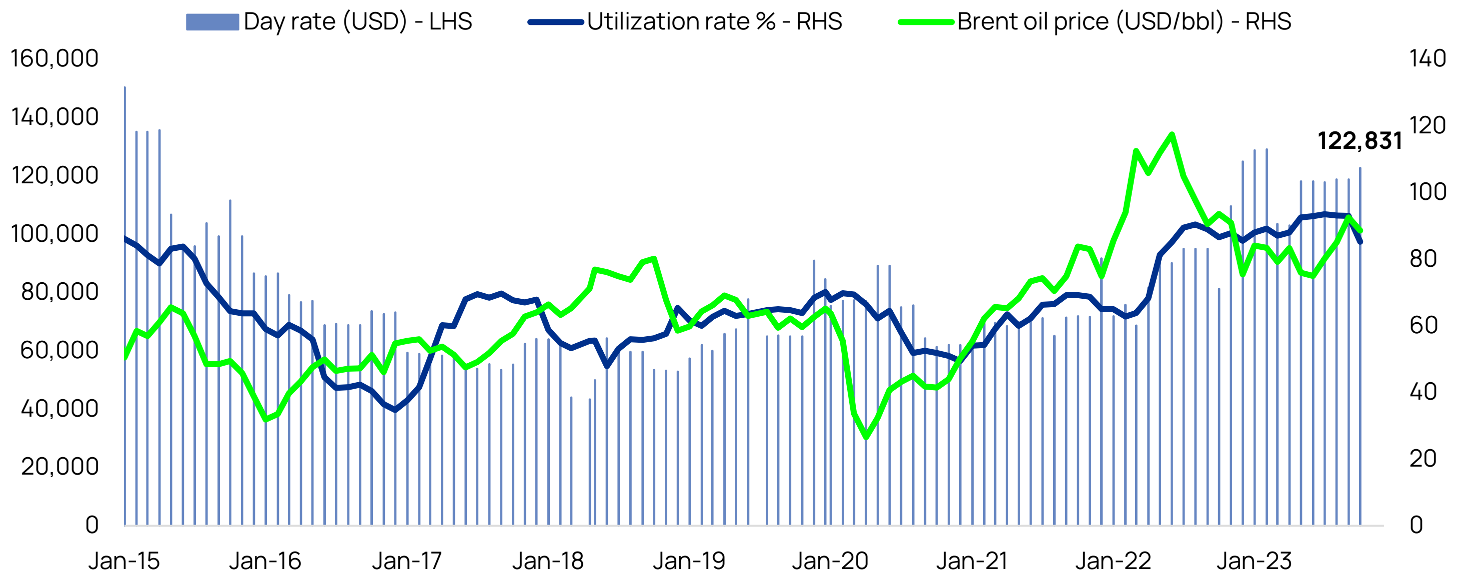
On July 13, 2023, the People's Committee of Binh Thuan Province approved the investment plan for the Son My LNG Terminal, which is GAS's second LNG terminal. This approval lays the foundation for the project to begin construction. We maintain our expectation for this project to come online in 2027. We forecast that the Son My LNG Terminal will contribute minimal profit to GAS's NPAT-MI in 2027 and roughly 3% on average to GAS's NPAT-MI in 2028-2033F.

Tight SEA jack-up market outlook to boost day rates

Following our PVD Update Report, published November 20, 2023, we present the key summary below.

Due to the mobilization of rigs from Southeast Asia to the Middle East, the Southeast Asian jack-up (JU) market is expected to face a tight outlook as S&P Global forecasts the rig supply will fail to meet the rig demand. The day rate of JU 361-400 IC in Southeast Asia rose 39% YoY from ~USD85,000 in 10M 2022 to ~USD118,000 in 10M 2023. In addition, the utilization of JU 361-400 IC in Southeast Asia improved from 78.2% in 10M 2022 to 90.3% in 10M 2023.

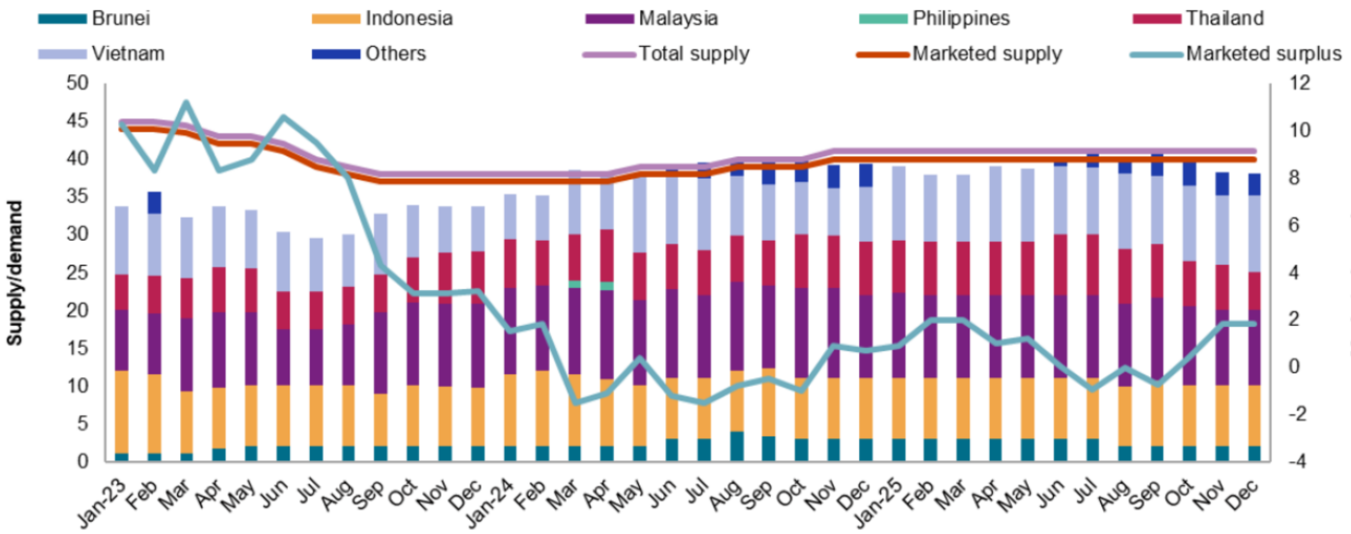
Figure 503: Day rate of JU 361-400 IC in Southeast Asia



Source: S&P Global, Vietcap

According to S&P Global's September 2023 report, the Southeast Asian JU market will potentially face a rig shortage in nearly all of 2024-2025F. Although S&P Global forecasts the marketed surplus to improve in 2025, we note that many countries have not yet announced their E&P plans beyond 2024. The marketed surplus is thus subject to decrease after the approval of E&P plans beyond 2024. Specifically, the marketed surplus in Southeast Asia is projected to either be in negative territory or have small positive numbers (0-2 rigs) in 2024-2025F. As a result, S&P Global expects the Southeast Asian JU market to remain tight until at least end-2025.

Figure 504: Southeast Asian jack-up rig count forecast



Source: S&P Global (September 2023 report), PVD. Note: The bar chart represents rig demand, units for both axes are rigs.

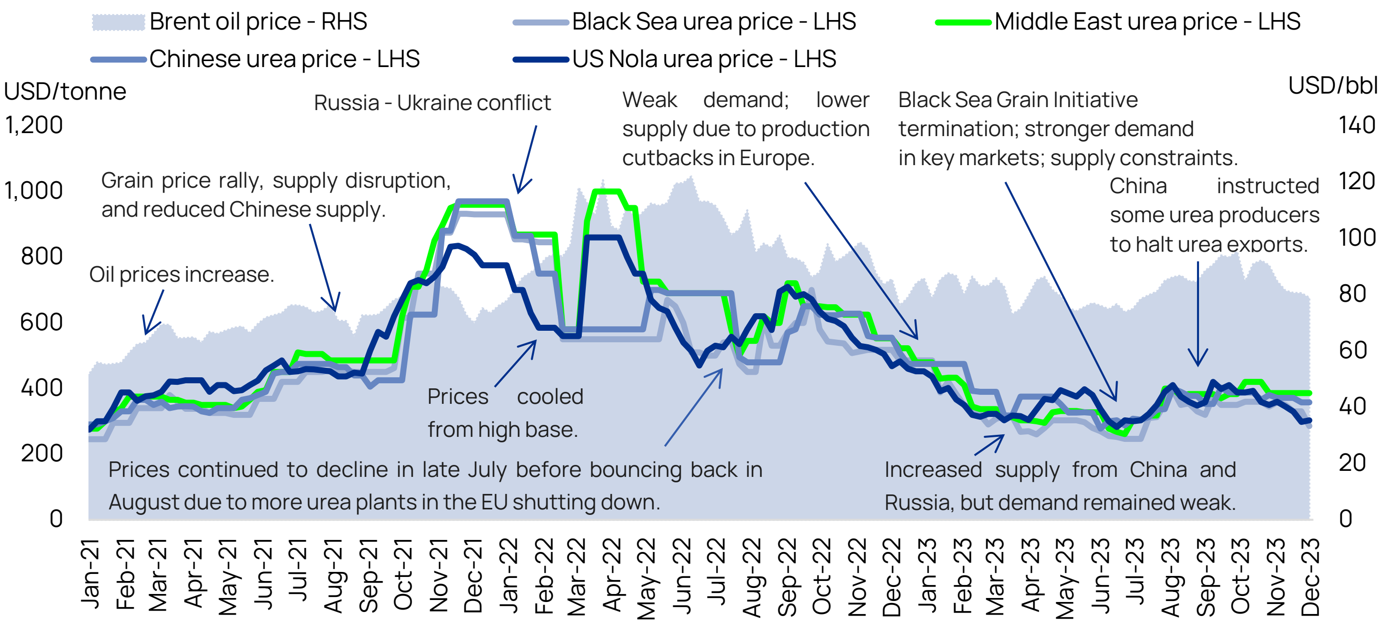
Marginally higher urea price outlook in 2024

Global urea prices have cooled down in 2023 from 2022's high base

In 2023, international urea prices cooled down from the disruption caused by the escalation of the Russia-Ukraine conflict in early 2022. The Middle East urea futures price recovered to ~USD380/tonne in mid-November 2023 from its bottom of ~USD260/tonne in late June due to China's urea export restriction announced in September and Russia's extension of its export quota on nitrogen fertilizers to end-2024.

As of December 29, 2023, the Middle East urea futures price was USD323/tonne and the 2023 average was USD358/tonne – in line with our assumption of USD360/tonne.

Figure 505: Global urea price movements



Source: Bloomberg, Vietcap (urea price is weekly data and as of December 4, 2023)

Global urea price outlook in 2024

We forecast the average Middle East urea price for 2024F at USD370/tonne (+3% YoY). We expect that China's urea export restrictions (to stabilize the Chinese urea market) and potentially lower urea exports from the EU (based on the International Energy Agency's forecast for increased EU gas prices YoY) will support urea prices in 2024, outweighing slightly higher YoY urea exports from Russia.

We expect China's urea exports to remain relatively flat YoY in 2024. Potential lower urea exports (caused by China's urea exports restriction) should offset potential higher urea exports (due to Bloomberg's consensus forecasts for the price of coal to decline 21% YoY in 2024F), leading to relatively flat YoY urea exports from China in 2024.

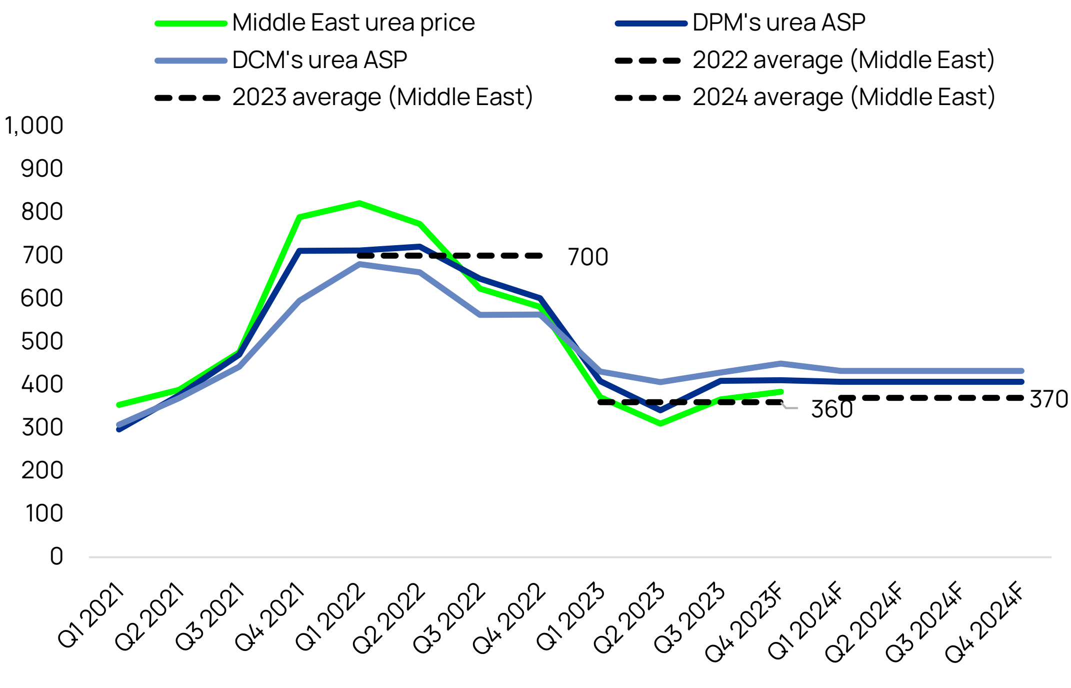
We expect Russia's urea exports to increase slightly YoY in 2024. In December 2022, Russia extended its export quota for nitrogen fertilizers (including urea, ammonia, and ammonium nitrate) until May 2023, raising the quota to nearly 11.8 million tonnes vs 8.3 million tonnes as previously. According to DPM, Russia has extended this export quota until December 31, 2024. Additionally, Russia introduced a new export duty on fertilizers of 7% at a minimum, which is in effect from September 1, 2023, to December 31, 2024. According to the Russian government's estimates, the duty for nitrogen fertilizers is at least USD11.4/tonne. Despite this, industry players expect Russia's urea exports to increase slightly YoY in 2024.

Gas prices to recover in 2024 due to moderately increased demand and continued tight supply. This should put pressure on urea production from gas-based urea plants in the EU.

Domestic urea price outlook in 2024

We assume premiums of 10%/17% for DPM/DCM's urea ASPs vs the average Middle East urea price for 2024-2028F.

Figure 506: Middle East urea prices vs domestic urea prices (USD/tonne)



Source: Vietcap, industry players (actual data for 2021-Q3 2023; Vietcap forecast for Q4 2023-2024)

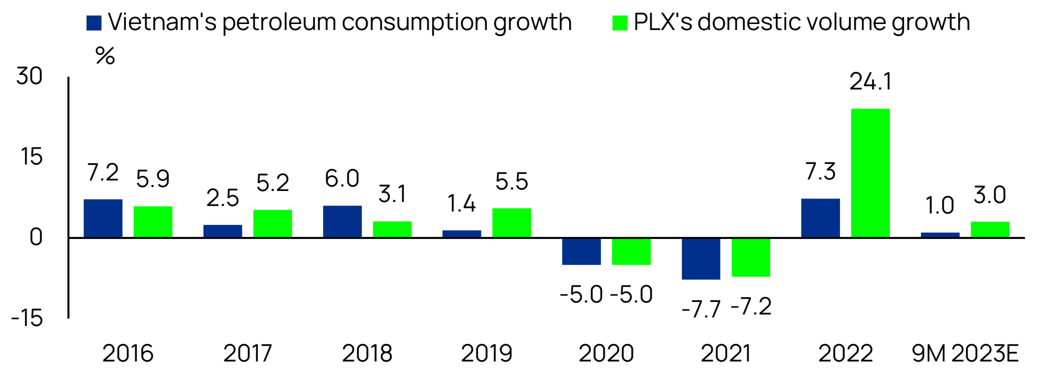
See more in our Urea Sector Update, published November 17, 2023.

Vietnam's petroleum sector outlook

Vietnam's petroleum consumption set for continued growth in 2024 with sufficient supply

Vietnam's petroleum consumption in 9M 2023 grew despite a high base in 2022. In 2022, Vietnam's petroleum consumption rebounded strongly by 7% YoY, recovering from the low base in 2020-2021, which is due to: (1) The rapid recovery of the domestic economy with real GDP growth of 8% YoY in 2022, and (2) surging transportation demand and travel activities after COVID pandemic restrictions were fully lifted in Q2 2022. For 9M 2023, we estimate Vietnam's petroleum consumption grew by 1% YoY, despite the high base of 2022. In 9M 2023, Vietnam petroleum net imports were 5.7 million tonnes (+13% YoY), partly to ensure petroleum supply for the domestic market when Nghi Son Refinery conducted its first maintenance. PLX, as the leading petroleum distributor in Vietnam, outperformed the market with a 3% YoY growth in domestic sales volume in 9M 2023, thanks to its top nationwide distribution network. OIL (the second largest petroleum distributor) has 9M 2023 sales volume growth of 30% YoY **(Figure 507)**.

Figure 507: Vietnam's petroleum consumption and PLX's domestic volume growth (%)



Source: Vietcap estimates, MoIT, BSR, PLX. Note: (*) Vietcap's estimates based on production, imports, and export numbers from the MoIT.

For full-year 2023, we estimate Vietnam's petroleum consumption to grow by 1% YoY to 20.8 million tonnes with domestic refineries supplying 73% of the demand. We expect a stable petroleum supply in Q4 2023, as both Nghi Son Refinery and Binh Son Refinery (BSR) operate at high efficiency rates. Regarding NSR, the company reported that it had completed the maintenance seven days ahead of schedule and resumed sales from October 12. NSR also said it would maintain maximum production of petroleum products until the end of the year to ensure stable domestic oil supply. Besides that, BSR also said it had secured enough crude oil feedstock and could operate at a high capacity in Q4 2023. We estimate NSR's output at 8.0 million tonnes (38% of demand) and BSR's output at 7.2 million tonnes (35% of demand) **(Figure 508)**.

We project Vietnam's petroleum consumption to increase by 5% YoY to 21.9 million tonnes in 2024, driven by the recovery of the domestic economy, especially the industrial and transportation sectors. We also expect a stable petroleum supply in 2024 thanks to (1) NSR's full operation during BSR conducting maintenance in early 2024, and (2) relatively stable imported petroleum prices. According to NSR, the refinery will not conduct any maintenance in 2024, so we estimate that the output of NSR will be about 10.8 million tonnes (49% of demand). On the other hand, BSR will conduct its fifth maintenance in early 2024, which will last for about 45 days. We estimate that the output of BSR will be about 6.3 million tonnes (29% of demand). The combined output of NSR and BSR in 2024 will account for 78% of the domestic demand. To ensure the rest of domestic demand, we forecast that 4.8 million tonnes (-16% YoY) will be imported in 2024. We believe that petroleum imports in 2024 will be less challenging than in 2022, as we expect relatively stable Brent oil prices in 2024 **(Figure 508)**.

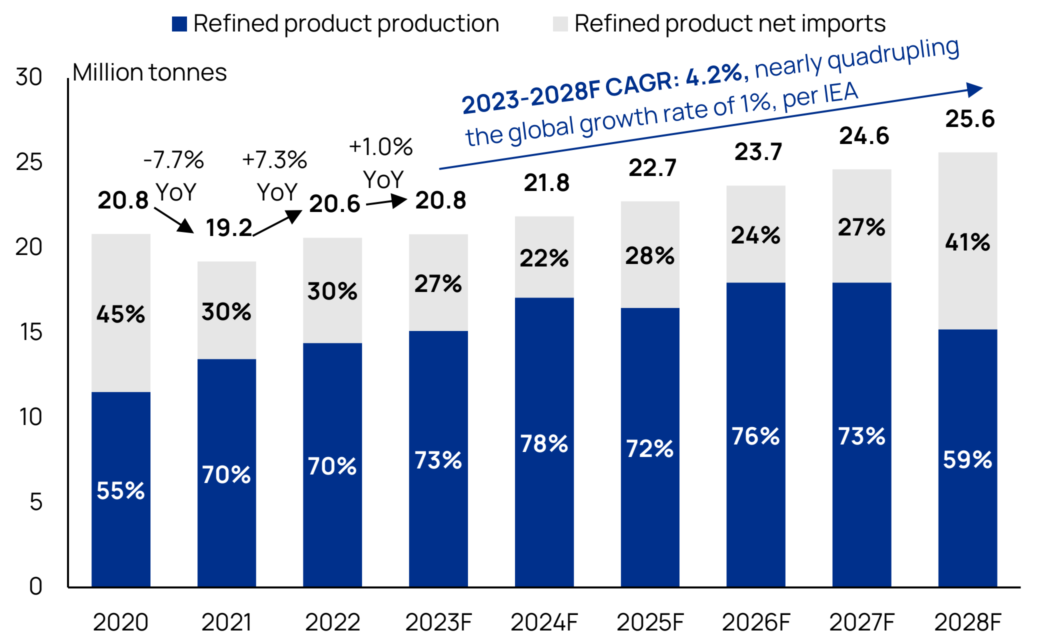
We project Vietnam's petroleum consumption to grow at a CAGR of 4.2% in 2023-2028F, four times the IEA's projected global growth rate

A significant increase in vehicles in operation drives petroleum demand growth, a shift from motorbikes to automobiles further boosts petroleum consumption per vehicle. The number of vehicles, particularly automobiles and motorbikes, increased significantly by 12% and 5% CAGR in 2017-2022, respectively. We expect vehicle growth to continue in 2023-2028F with a CAGR of 18% for automobiles and 6% for motorbikes, which will boost the demand for petroleum consumption. We also note that automobiles consume more petroleum than motorbikes, as the average consumption of automobiles is about 7.0-9.0 liters per 100 kilometers, while motorbikes are about 1.5-2.0 liters per 100 kilometers. Therefore, a shift from motorbikes to automobiles will further increase gasoline consumption per vehicle.

The electric vehicle market remains small and poses little threat to petroleum consumption in the near term. The electric vehicle market in Vietnam is still in its nascent stage. The total number of electric automobiles only reached 20,065 units, equivalent to 0.4% of total automobiles in operation (as of July 2023). Additionally, the Vietnam Automobile Manufacturers Association (VAMA) forecasts that Vietnam will reach the milestone of 1 million electric vehicles around 2028, which we estimate is equivalent to 8% of total automobiles in operation, which is still small compared to automobiles using petroleum.

PetroVietnam (PVN) also expect Vietnam's petroleum consumption to grow at a CAGR of 6.2% from 2020 to 2030F, reaching about 25 million tonnes in 2025 and 33 million tonnes in 2030. We note that PVN's 2030 estimate is 19% higher than our forecast, which reinforces expectation for Vietnam to experience strong petroleum consumption growth over the next five-seven years.

Figure 508: Vietnam's petroleum consumption forecasts



Source: Vietcap estimates, MoIT, BSR, PLX, International Energy Agency (IEA)

Decree 80 yields modest benefit for petroleum distributors

On November 17, 2023, the Government issued Decree No. 80/2023/ND-CP, which amends some articles of Decree No. 95/2021/ND-CP and Decree 84/2014/ND-CP on petroleum business. The main changes are:

(1) Shortening the retail price adjustment cycle from ten days to seven days (conducted every Thursday). This will help the distributors to adjust their retail prices more frequently and in line with the fluctuations of the global oil prices. This could mitigate the risk of loss for petrol distributors when oil prices increase sharply in a short period of time.

(2) Shortening the review of base price's components from six months to three months. The base price formula mirrors Decree 95, but now reviews of regulated transportation costs, insurance fees, and premiums occur every three months instead of six. This adjustment ensures the base price aligns more accurately and promptly with distributors' actual input costs. It aids distributors in covering expenses and sustaining profitability.

(3) Allowing a retail distributor to have more than one major/wholesale distributor (three is the maximum). This will create more competition and bargaining power for the retail distributors, as they can choose from different wholesale distributors based on the discounts. This could also increase the proactiveness and efficiency of the retailers in stocking inventory, supplying enough petroleum to the market, and avoiding petroleum shortage.

Figure 509: Old and new retail petrol price formulas

Retail price calculation under Decree 83/2014	Retail price calculation under Decree 95/2021	Retail price calculation under Decree 80/2023
Base price = (International price + Import tax + Special tax consumption) * Exchange rate + **Regulated cost for distributors + Regulated profit for distributors** +/- Amount to "Petrol price stabilization fund" + Environment tax + Other fees and tax	**Base price** = (1) Import price * weight of import petroleum (%) + (2) Domestic price * weight of domestic petroleum (%) **(1) Import price** = International price +/- **premium + regulated transportation cost** (freight from overseas to Vietnam) + **Regulated operating cost + Regulated profit** + Amount to "Petrol price stabilization fund" + Other fees and taxes **(2) Domestic price** = International price +/- **Premium (if any) + regulated transportation cost** (freight from refinery to port of distributors) + **Regulated operating cost + Regulated profit** + Amount to "Petrol price stabilization fund" + Other fees and taxes	**Base price** **Similar to Decree 95**

Source: MoIT, PLX, Vietcap

Figure 510: Differences between Decree 83, Decree 95, and Decree 80

	Decree 83/2014	Decree 95/2021	Decree 80/2023
Petrol price adjustment cycle	15 days	10 days	7 days (every Thursday, excluding public holidays)
Inventory days	30 days' supply	20 days' supply	20 days' supply
Premium, regulated transportation cost	Not mentioned	MoF will review every six months.	MoF will review every three months.
Regulated operating cost	VND1,050/liter for gasoline and VND950/liter for diesel	MoF will review every year; will announce the exact number in the following circular.	MoF will review every year; will announce the exact number in the following circular.
Regulated profit per liter	VND300/liter	MoF will review every year; will announce the exact number in the following circular.	MoF will review every year; will announce the exact number in the following circular.
Transferring Government's stake to foreigners	Not mentioned	Requires approval from Prime Minister.	Requires approval from Prime Minister.
Maximum number of wholesale distributor for retail distributor	One	One	Three

Source: MoIT, PLX, Vietcap

Figure 511: Current pricing elements of base price

VND/liter	Gasoline	Diesel oil	Kerosene	Mazut/FO
Regulated cost*	1,080	1,030	950	416
Regulated profit	300	300	300	300
Stabilization fund	300	300	300	300
Import tax*	5.62%	0.58%	0.08%	1.38%
Special consumption tax	10%	N/A	N/A	N/A
Environmental tax**	2,000	1,000	600	1,000
VAT	10%	10%	10%	10%

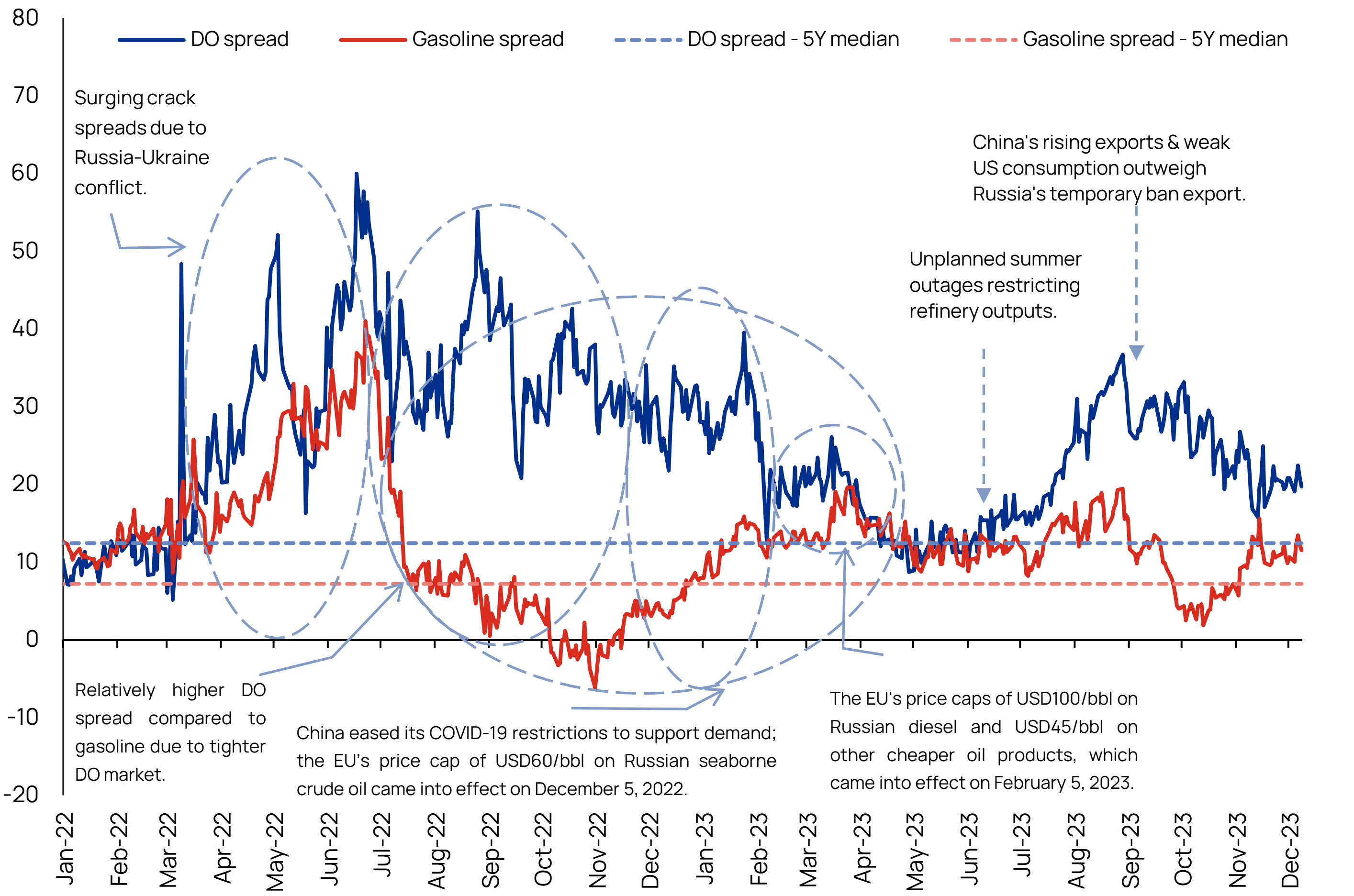
Source: MoIT, Vietcap (* Applied since July 3, 2023; ** environmental tax is applied from January 1, 2023, to December 31, 2023)

Refining market outlook

We expect a favorable refining market in 2024 as the gap between supply and demand of refinery products remains wide

In 9M 2023, the average Singapore gasoline and diesel spreads were USD13/bbl (-20% YoY) and USD21/bbl (-26% YoY), respectively, declining from 2022's high bases. However, in Q3 2023, they respectively increased by 7% QoQ and 97% QoQ as US refineries faced operational constraints due to lower-than-expected crude oil inventories.

Figure 512: Impact of major events impact on Platts Singapore gasoline and diesel spreads (vs Brent) (USD/bbl) (2022 – December 2023)

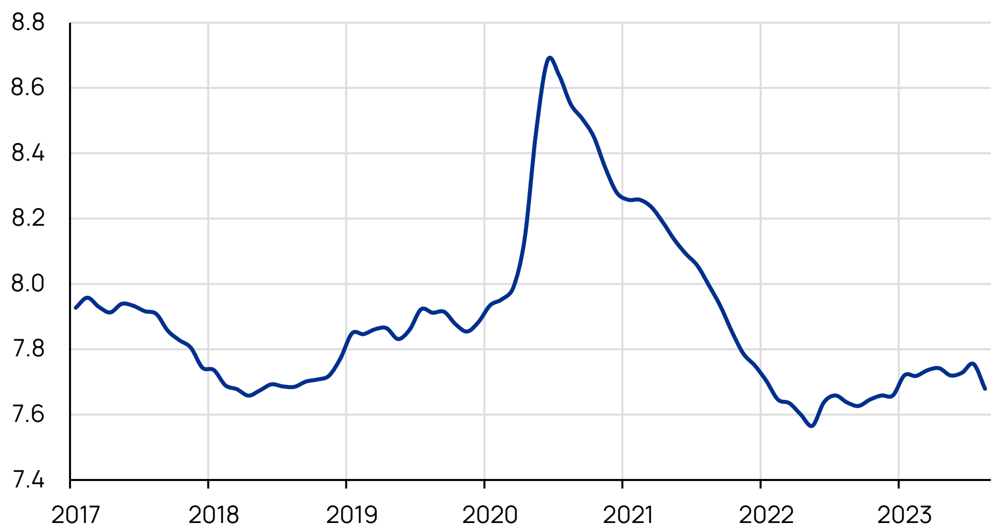


Source: BSR, Bloomberg, Vietcap (Data as of December 08, 2023)

We expect a favorable refining market in 2023-2024 as the gap between supply and demand of refinery products remains wide, supporting resilient crack spreads. According to the IEA's October 2023 report, global refinery products demand will increase by 2.1 mb/d in 2023 reaching 85.2 mb/d, driven by (1) increased use of oil in power generation, especially in Asia and the Middle East, (2) resurgent Chinese consumption, and (3) robust demand in India and Brazil for jet fuel and petrochemical feedstocks, which will outweigh (4) weak consumption in the US, particularly in gasoline. The refinery product demand growth in 2024 will slow down to 0.9 mb/d in 2024, reaching 86.1 mb/d, due to the risk of economic slowdown weighing on petroleum use, especially a decrease in gasoline consumption given increasing electric vehicle penetration in the global market **(Figure 514)**.

On the supply side, IEA expects that the supply of global refinery products will increase by 2.4 mb/d in 2023 to reach 82.3 mb/d and increase by 1.0 mb/d in 2024 to reach 83.3 mb/d, as new refining capacity comes online to meet rising demand, which partly offsets the low processing rates of diesel output in European refineries. As a result, the gap between the supply and demand of refinery products will remain wide at 2.9 mb/d in 2023 and 2.8 mb/d in 2024, which are still wider than pre-pandemic levels. This implies that the favorable refining market will continue, supporting resilient crack spreads in the next two years **(Figure 514)**.

Figure 513: Global observed oil inventories (including crude oil, refined products, & others, billion barrels)



Source: IEA, Kayrros Kpler, FEDCom/S&P Global Platts, Enterprise Singapore (data as of August 2023)

Figure 514: Global refinery product supply and demand (mb/d)

mb/d	2018	2019	2020	2021	2022	2023F	2024F
Refinery products balance							
Refinery products demand	84.4	84.5	75.7	85.1	83.1	85.2	86.1
Refinery products supply*	82.2	82.0	74.8	77.8	79.9	82.3	83.3
Implied supply and demand gap	**-2.2**	**-2.5**	**-0.9**	**-7.3**	**-3.2**	**-2.9**	**-2.8**
YoY change (mb/d)							
Refinery products demand	0.6	0.1	-8.8	9.3	-2.0	2.1	0.9
Refinery products supply	1.4	-0.2	-7.2	3.0	2.1	2.4	1.0

Source: IEA, Vietcap estimate (* proxy by global refinery crude throughput) (IEA forecast as of October 2023)

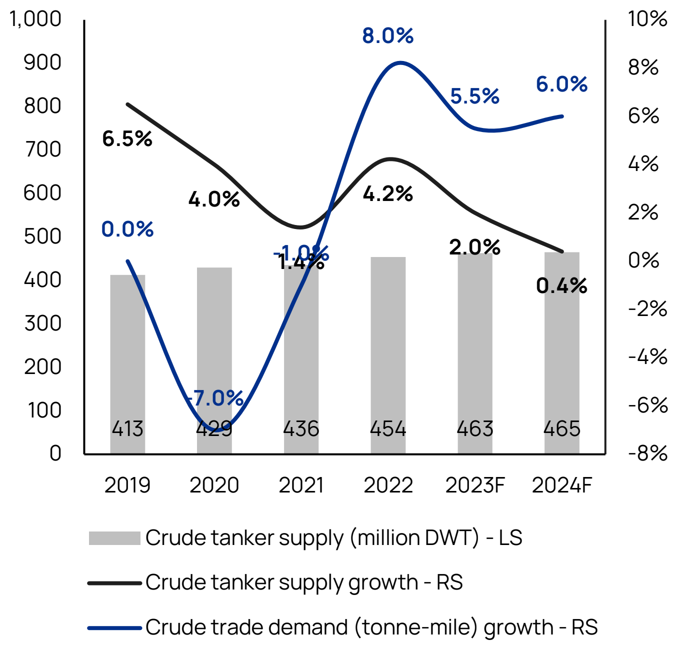
Tanker market outlook

Tanker rate to remain strong in 2024 with oil demand recovery; longer sailing distances amid geopolitical tensions and limited fleet growth

The time charter rates for Aframax and medium-range tankers, benchmarks for crude oil and oil product tankers, respectively, dropped by 36% and 6% by end-September 2023 from their 2022 peaks **(Figure 517 & Figure 518)**. However, in the 9M 2023 average these rates remained 13% and 55% YoY higher, reflecting the tight supply-demand balance in the tanker market. We attribute the sustained high tanker rates to (1) limited fleet growth due to low newbuilding orders, (2) oil consumption recovery, and (3) longer sailing distances amid geopolitical tensions, i.e., the Russia-Ukraine conflict. This conflict has boosted tonne-miles demand, especially for the Russia-India (crude oil) and India-Europe (oil products) routes. Apart from India, the EU has also diversified its crude and oil products imports from other sources, such as the US, which is now the top crude supplier to the EU.

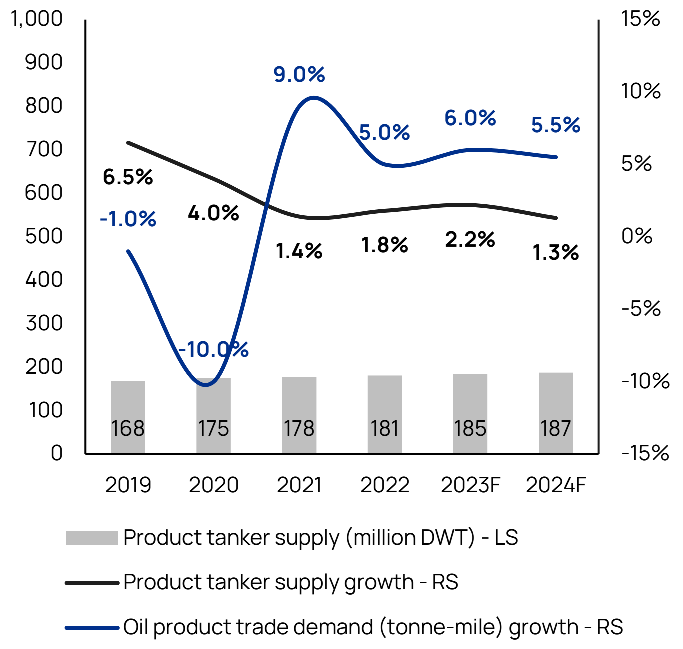
According to Clarksons, the already tight market will become tighter in 2024, as tonne-miles demand growth still outpaces tanker supply growth. This implies a wider gap between supply and demand growth in 2024 compared to 2023 for the crude tanker market and oil product tanker market **(Figure 515 & Figure 516)**.

Figure 515: Crude oil trade supply and demand



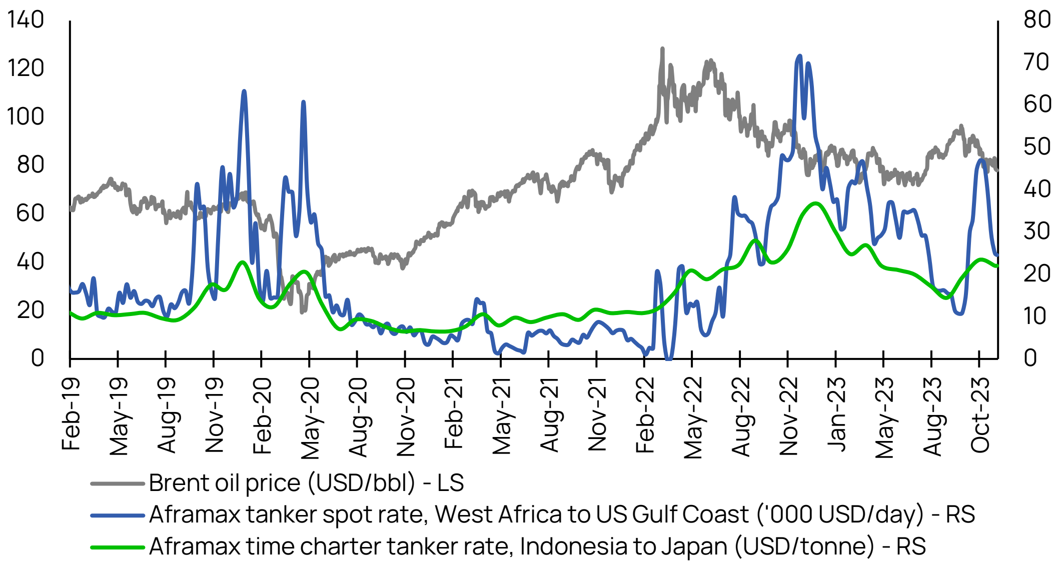
Source: BIMCO, Clarksons Shipping Intelligence Network, PVT, Vietcap

Figure 516: Oil product trade supply and demand



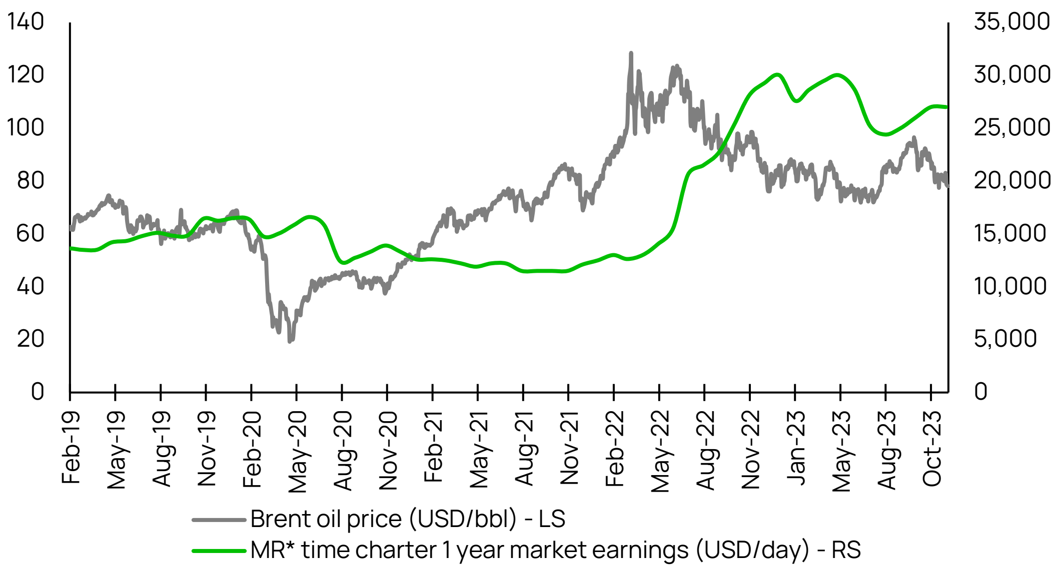
Source: BIMCO, Clarksons Shipping Intelligence Network, PVT, Vietcap

Figure 517: Brent oil prices and Aframax (100,000 DWT) crude tanker rates



Source: Bloomberg, Vietcap (data as of December 05, 2023)

Figure 518: Brent oil prices and oil product (medium range) tanker rates (*)



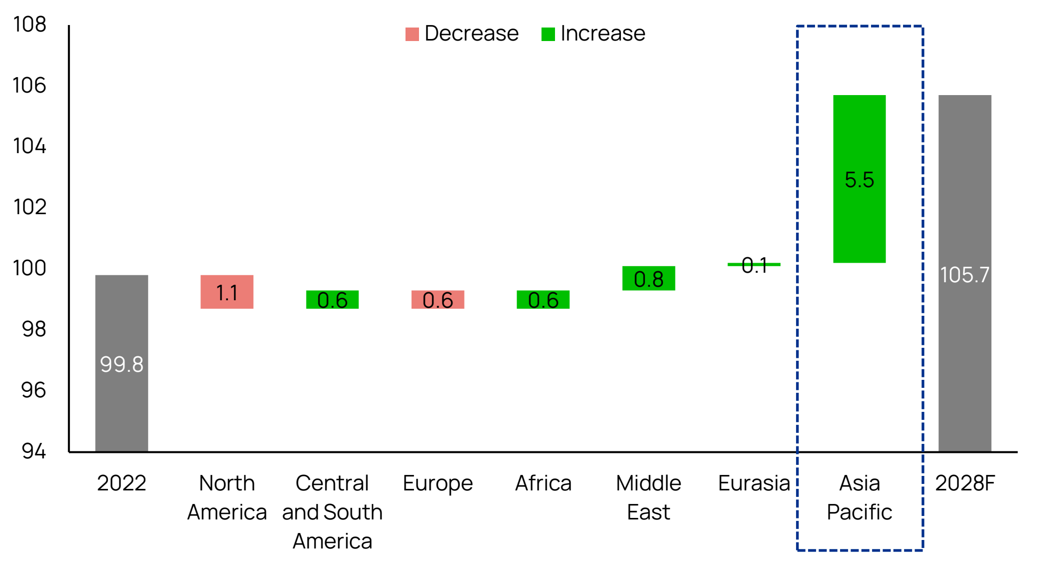
Source: Concordia Maritime, Vietcap (* MR 47,000 DWT, non-scrubber, built after 2010), (data as of November 30, 2023)

Mismatch between oil supply and demand between regions supports long-term growth in tonne-mile demand

Asia Pacific spearheads robust growth in global oil demand. According to the International Energy Agency, global oil demand will increase by 5.9 mb/d from 99.8 mb/d in 2022 to 105.7 mb/d in 2028. Non-OECD countries will account for most of this growth, especially Asia Pacific, which will see a rise of 5.5 mb/d from 2022 to 2028 (representing about 72% of the oil demand growth) **(Figure 519)**. China and India will be the key drivers of this growth, with their oil demand increasing by 2.9 mb/d and 1.0 mb/d respectively, reaching 17.6 mb/d and 5.3 mb/d in 2028. We attribute this growth to several factors: the post-COVID-19 recovery, petrochemical and aviation sector expansions, rising oil usage in China for power and heating, and India's swift urbanization, industrialization, and motorization.

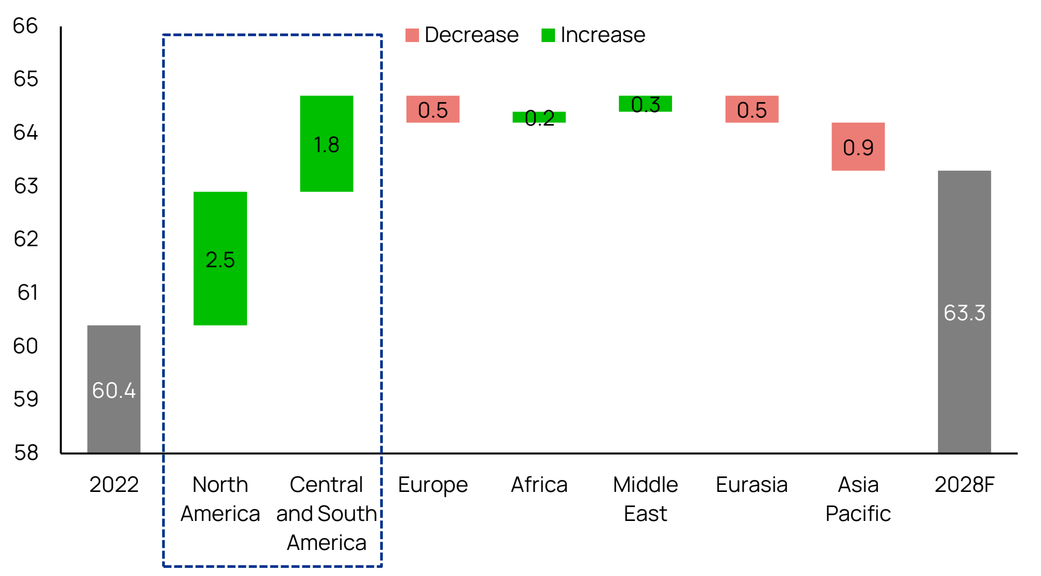
Meanwhile, non-OPEC oil supply growth is mainly from the Americas, which we expect to support tonne-mile demand until 2028. IEA expects that supply will have continuous growth to meet rising oil demand. However, the supply of oil is not evenly distributed across the world, creating a mismatch between the regions of production and consumption. The main sources of oil supply growth are the Americas, which will increase by 4.3 mb/d from 2022 to 2028 (representing about 90% of the non-OPEC+ supply growth) **(Figure 520)**. The United States and Brazil will be the key contributors, with their oil supply increasing by 2.5 mb/d and 1.0 mb/d, respectively, reaching 20.5 mb/d and 4.1 mb/d in 2028. In contrast, the Asia-Pacific faces challenges with ongoing declines in supply, particularly from China, which is projected to lose 0.2 mb/d production output. This implies that the demand for oil imports in Asia will remain high, while the supply from the Americas will increase. This will increase the average sailing distances for crude oil and oil product tankers, as most of the oil volume growth from the Americas will be destined for Asian markets.

Figure 519: Global cumulative oil demand growth by region, 2022-2028 (mb/d)



Source: IEA, Vietcap estimate

Figure 520: Non-OPEC cumulative oil supply growth by region, 2022-2028 (mb/d)



Source: IEA, Vietcap estimate (not including Processing gain and Global Biofuels)

Stock recommendations for 2024

Top picks

BUY – PetroVietnam Services (HNX: PVS): PVS is the leading provider of non-drilling technical services in Vietnam's oil & gas sector. PVS provides various oil & gas technical services, including seismic survey, mechanics & construction (M&C), operation & maintenance (O&M), and ship, port, and floating oil storage (FSO/FPSO). We expect PVS to benefit from the global/domestic E&P recovery and the huge potential of global offshore wind power projects. In addition, it is a direct beneficiary of PDP VIII from constructing/developing domestic offshore wind farms in the long term. We forecast 2022-2025F EPS CAGR of 21% driven by our 2023-2027F M&C backlog forecast of USD5.7bn and average profit from FSO/FPSO joint ventures of ~VND493bn in 2023-2028F p.a. We forecast 2024F NPAT-MI to increase 32% YoY mainly as we anticipate M&C revenue to more than double YoY to VND19tn, driven by the recovery of domestic E&P activities and contributions from new offshore wind power projects.

BUY – PetroVietnam Transportation (HSX: PVT): PVT is a leading tanker company in Vietnam, operating in both domestic and international markets. Its business model consists of two segments: transportation and floating oil storage. PVT has the largest tanker fleet in Vietnam, with a total fleet capacity of 1.1 million DWT, diversified across four types of vessels: crude oil (312,800 DWT), oil product/chemical (400,000 DWT), LPG (152,000 DWT), and dry bulk (206,300 DWT). PVT has a major position in the domestic market, holding a 50-70% market share for crude oil transportation of the Binh Son Refinery, 30% for oil product/chemical transportation, 100% for LPG, and 10% for floating oil storage. In 10M 2023, PVT significantly expanded its fleet by acquiring six new tankers, increasing its capacity by 55% for oil product/chemical, 56% for LPG, and 38% for dry bulk. With the positive outlook for the tanker market, driven by the growth in tonne-miles demand, we forecast PVT to achieve a 2022-2025F EPS CAGR of 26%. For 2024, we project PVT to deliver a 27% increase in core NPAT-MI, supported by full-year contributions from the six new tankers.

OUTPERFORM – PetroVietnam Ca Mau Fertilizer (HSX: DCM): DCM is one of Vietnam's two largest urea producers (~32% market share) and has a strategic location, trusted brand name, and high-quality urea products. Vietnam is the world's third largest rice exporter, leading to stable urea demand growth of 2% p.a. (according to AgroMonitor). Coupled with rising export potential, these support a stable urea sales volume of ~850,000 tonnes p.a. (~106% utilization rate) for DCM in 2024-2028F. We forecast DCM's NPAT-MI to jump 70% YoY in 2024F, driven by a 6% YoY higher urea ASP and a plunge in depreciation expenses. In addition, DCM's financial capacity is strong with net cash of VND9.5tn (USD390mn) and a net debt/equity ratio of -100% as of end-Q3 2023. These factors should support our projected cash dividend of VND2,000-3,000/share (6%-10% yield).

Other stocks

OUTPERFORM – PetroVietnam Drilling (HSX: PVD): PVD is the leading domestic provider of drilling services for the oil & gas industry and has a 50% market share in drilling services. PVD has a high efficiency drilling fleet and well-managed cost control, which we believe will help the company to benefit from rising drilling demand in the region. Given the upbeat outlook for the jack-up market, we forecast 2023-2026F reported EPS CARG of 75% for PVD. We forecast 2024F reported NPAT-MI to more than double YoY, which is supported by a 24% YoY increase in the average jack-up day rate to USD98,500 and the recovery of the well-related services segment.

OUTPERFORM – Binh Son Refinery (UPCoM: BSR): BSR operates the Dung Quat Refinery, the first refinery in Vietnam with a capacity of 148,000 bbl/day (6.5 million tonnes). BSR is a key player in Vietnam's petroleum market, holding a 30% market share in petroleum products. For 2024F, we project BSR's NPAT-MI to decrease by 12% YoY to VND7.4tn (still equivalent to the previous cyclical peak in 2017), mainly due to (1) lower sales volume because of scheduled maintenance and (2) YoY lower crack spreads which are partly offset by a VND400bn inventory provision writeback based on projected flat YoY oil price assumptions vs the projected 16% YoY decline in 2023.

We expect a high GRM of USD8.5/bbl in 2023-2024F, as we anticipate a tight refining market. We also expect the GRM to normalize to USD5.4/bbl in 2025-2027F as we assume the crack spreads to normalize to their historical levels. We believe that this robust GRM over the next five years will support sufficient cash flow for BSR's upgrade and expansion project (USD1.3bn) to increase its capacity to 171,000 bbl/day (+15%) and maintain its leading market position in Vietnam.

OUTPERFORM – Petrolimex (HSX: PLX): PLX is the market leader in petrol distribution in Vietnam, with a 50% market share. In 9M 2023, PLX continued taking market share from smaller competitors in the period, as its sales volume continued increasing by 3% YoY despite the high base in 2022. For 2024, we expect PLX's 2024F NPAT to grow by 29% due to (1) 5% YoY higher gross profit per liter, supported by the full-year effect of the higher regulated cost per liter in early July 2023, and (2) YoY lower inventory provision and better input cost control as we expect a stable YoY oil price in 2024. For the long-term, we forecast a 14% CAGR in reported EPS for 2023-2027F, driven by PLX capitalizing on Vietnam's petroleum consumption growth through its nationwide distribution network. With a solid financial position, we expect PLX to pay a 2023/2024 cash dividend of VND1,000/share and VND2,000/share, respectively.

MARKET PERFORM – PetroVietnam Gas (HSX: GAS): GAS is the monopoly operator of gas transportation and trading in Vietnam. It provides input feedstock for 100% of Vietnam's gas thermal power plants, 70% of urea producers, and 100% of industrial parks. GAS also has a 70% market share in the LPG wholesale business. We believe GAS's long-term growth will be bolstered by LNG being imported to Vietnam. We believe GAS will start the commercial operation of its Thi Vai LNG terminal — Phase 1 in 2024. Despite short-term challenges to LNG, we believe GAS will continue to expand the Thi Vai LNG Terminal with Phases 2 & 3 and execute the Son My LNG terminal to supply feedstock for new power plants including Nhon Trach 3 & 4, Long An and Son My. Together with volume from Block B and White Lion Phase 2B gas fields, this should help to double sales volume in 2023-2028F. We forecast 2024F NPAT-MI to decline 10% YoY based on a flat YoY FO price assumption, 3% YoY lower gas volume, a loss from the Thi Vai LNG terminal with nominal volume of 50 million cbm, and a higher weighted average input gas price.

MARKET PERFORM – PetroVietnam Fertilizer & Chemicals (HSX: DPM): DPM is the leading urea producer in Vietnam and has a ~35% market share, trusted brand name, and strong nationwide distribution network of ~3,000 points of sale. We forecast 2024F NPAT-MI to recover 20% YoY, which is mainly driven by a 5% YoY higher urea ASP and our expectation for a recovery of the NPK & NH3 segments. DPM has a strong financial profile with net cash of VND6.6tn (USD272mn) and a net debt/equity ratio of -57.6% as of end-Q3 2023, which should help the company to offer robust and sustainable cash dividends of VND2,000-3,000/share (6%-9% yield) in 2023-2028F. However, DPM's valuation looks fair, in our view, with projected 2024 EV/EBITDA of 5.1x vs the three-year average EV/EBITDA of its regional peers at 5.5x.

Company names and tickers

Code	Company
GAS	PetroVietnam Gas
BSR	Binh Son Refinery
DCM	PetroVietnam Ca Mau Fertilizer
DPM	PetroVietnam Fertilizers and Chemicals
PLX	Petrolimex
PVD	PetroVietnam Drilling
PVS	PetroVietnam Technical Services
PVT	PetroVietnam Transportation

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Power & Water: Growth in renewable power to pick up from 2024 onwards

Water sector outlook

We expect BWE (our top pick) and TDM will receive higher water tariffs, effective July 1, 2024. We forecast water volumes to grow at double-digit rates over the 2025-2028 period in BWE's and TDM's home province of Binh Duong, double Vietnam's water volume growth rate. BWE and TDM have also established a presence in seven of Vietnam's 63 provinces/municipalities. BWE acquired a 91% stake in Biwase Long An Water JSC in June 2023, which we expect to bolster long-term growth. We forecast Biwase Long An's NPAT to grow at a CAGR of 53% in 2022-2027F due to doubling capacity and double-digit growth in water tariffs.

Power sector outlook

We expect the implementation plan for the Power Development Plan (PDP) VIII and a new pricing mechanism for renewables in 2024. On May 15, 2023, the Prime Minister approved PDP VIII, which targets to nearly triple the country's renewables capacity to ~50,000 MW by 2030. We expect a strong recovery in investment in renewables once a new price mechanism is released. We anticipate that this will be a bidding mechanism with price caps (ceiling prices), which should be higher than tariffs for transitional renewable power plants to encourage investment in the sector. In addition, a Direct Power Purchase Agreement (DPPA) mechanism, which we expect to be approved in 2024 and piloted in 2025, should also accelerate investments in renewables.

We expect the Just Energy Transition Partnership (JETP) to facilitate meaningful policy progress and capital disbursements for Vietnam's renewables sector. The USD15.5bn resource mobilization plan for JETP was re-confirmed in December 2023.

We believe power supply will be sufficient in 2024. In early December 2023, the MoIT issued Decision 3110 which guides for a power supply of 306 billion kWh for 2024, which we estimate represents an increase of 6%-9% vs 2023. We believe this will be sufficient to satisfy demand in 2024, which we forecast to grow by 7.7% YoY. In the worst-case scenario, EVN forecasts a power shortage in the North of 420-1,770 MW (or only one-third of the power shortage in Q2 2023).

We forecast an average competitive generation market (CGM) price of VND1,551/kWh (+14% YoY) in 2024, which should help to offset the negative impact of higher gas prices (we forecast an increase of 5% YoY) on thermal power producers. Meanwhile, we forecast the average price for mixed coal to decline by 6% YoY.

Vietnam's renewable power sector to enter a new growth cycle from 2024. We like REE. REE's industry expertise and strong financial capacity should enable it to expand its power portfolio from 1,050 MW currently to ~1,700 MW in 2027. REE's 2024F P/E of 8.7x is the cheapest among renewable power stocks under our coverage and we forecast an EPS CAGR of 12% in 2023-2027F. In addition, divestment from PPC would potentially open the door for an IPO of REE Green Energy in the long term. **We are also optimistic about recovery in core earnings for GEX, PC1, and HDG in 2024**, supported by recovery in the power and real estate sectors. We forecast GEX to record a VND950bn pretax gain from planned power divestments in H1 2024.

Dividends from thermal power plants are to be supported by earnings recovery. We expect **PPC**'s NPAT to jump by 90%/20% YoY in 2024/25F, which should support our dividend yield forecasts of 14% for 2024. **We are positive on QTP** – a 16%-owned associate of PPC. QTP is trading at a 2024F P/E of 7.8x, ~30% lower compared to the average P/E of thermal stocks under our coverage, while its projected dividend yield is two times higher. We derive a fair value of VND16,900/share, implying a projected TSR of 28.3% including a 14% dividend yield.

POW is a diversified play on growth in Vietnam's power consumption and structural transition to LNG with its upcoming Nhon Trach 3 & 4 LNG-fired power plants, which are targeted to come online in late 2024/mid-2025 and expand POW's capacity by 35%. We forecast an EPS CAGR of 78% over 2023-2025F.

Figure 521: Power & Water stocks – Key data

Code	Rating	Market Cap, USD mn	State O'ship %	Foreign Limit %	Foreign Avail, USD mn	ADTV 30D, USD mn	Share price, VND ps	Target price, VND ps	Target price, updated	Upside %	Div yield %	12M TSR %
REE	BUY	960	0	49	0	1.6	56,800	74,000	11/3/23	30.3	1.8	32.0
BWE	BUY	326	19	50	105	0.2	41,200	52,100	11/7/23	26.5	0.0	26.5
PPC	O-PF	196	51	49	70	0.1	14,750	15,400	12/18/23	4.4	13.6	18.0
POW	O-PF	1,089	80	49	489	1.9	11,250	13,000	12/18/23	15.6	0.0	15.6
TDM	O-PF	184	0	50	73	0.4	40,550	44,600	11/7/23	10.0	3.7	13.7
HDG	O-PF	348	0	50	91	1.8	27,600	30,900	11/10/23	12.0	0.0	12.0
GEX	O-PF	830	0	50	312	17.2	23,600	24,100	11/20/23	2.1	4.2	6.4
NT2	M-PF	291	60	49	103	0.6	24,500	23,500	12/18/23	-13.3	9.7	5.5
PC1	O-PF	370	0	49	154	2.1	28,800	28,000	11/9/23	-2.8	0.0	-2.8
QTP	NR	275	64	49	131	0.2	14,800	16,900	12/18/23	14.2	14.1	28.3

Source: Fiinpro, Vietcap (Data as of December 29, 2023)

Figure 522: Power & Water stocks – Summary valuations (based on reported earnings)

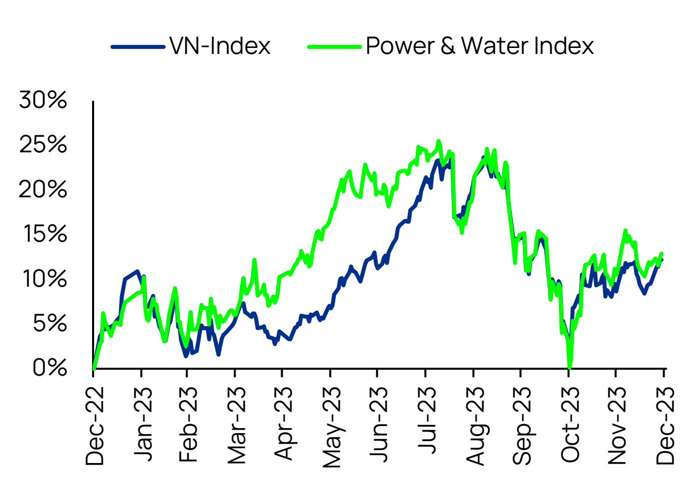
Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E TTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/EBITDA 2024F x	ROE 2024F %	P/B LQ x	Net D/E LQ x
REE	56,800	-8.5	8.0	10.5	9.7	9.4	8.7	7.9	7.3	14.2	1.4	35.7
BWE	41,200	-9.8	21.0	48.4	11.4	13.2	11.8	8.0	6.8	15.7	1.7	91.8
PPC	14,750	-27.0	116.3	9.0	13.6	13.8	6.4	5.8	7.2	14.3	0.9	-12.5
POW	11,250	-47.6	24.9	152.8	16.5	25.7	20.6	8.2	6.0	4.2	0.8	0.1
TDM	40,550	28.7	-30.9	78.3	12.9	15.5	22.5	12.6	10.8	9.1	1.9	8.6
HDG	27,600	-34.7	20.3	87.6	13.0	12.1	10.1	5.4	6.4	13.7	1.5	68.0
GEX	23,600	35.0	177.1	-39.8	47.9	40.7	14.7	24.4	5.2	11.5	1.6	70.3
NT2	24,500	-55.6	84.0	-4.0	17.0	20.0	16.0	11.1	7.0	10.3	1.7	-13.3
PC1	28,800	-24.9	95.6	21.5	37.9	28.0	14.3	11.8	8.1	12.3	1.8	115.2
QTP	14,800	-12.1	54.0	11.7	16.4	12.0	7.8	7.0	7.3	15.5	1.1	8.4

Source: Fiinpro, Vietcap (Data as of December 29, 2023)

2023 recap

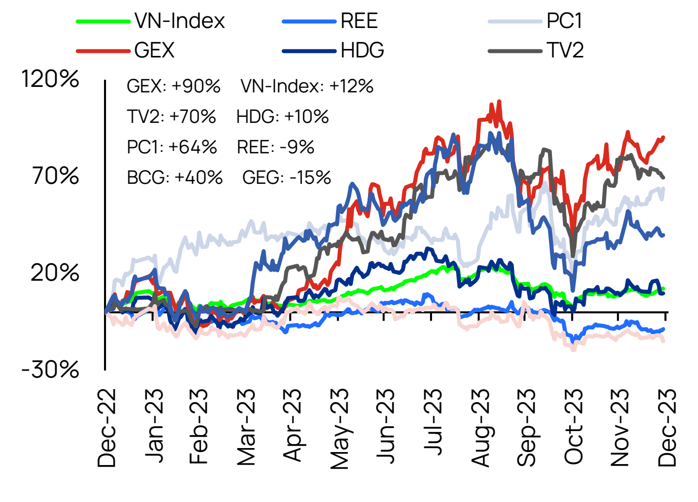
Share price performance

Figure 523: Vietcap Power & Water Index (*) vs VN-Index



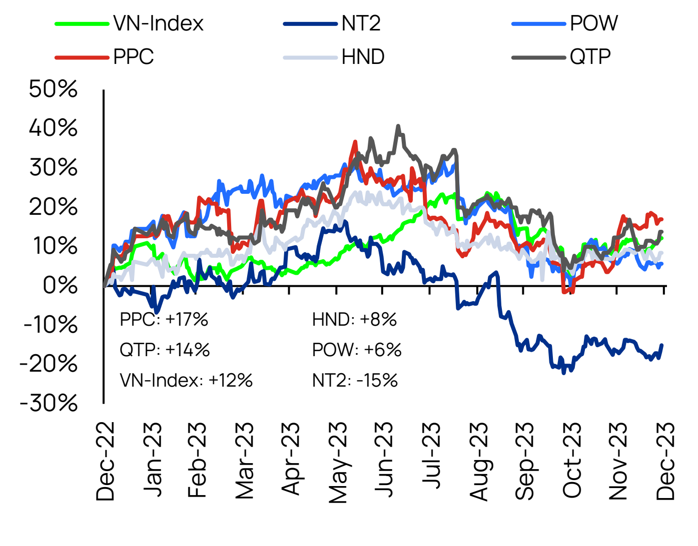
Source: Bloomberg, Vietcap (* Our power & water index is based on market cap weighted price performance of power & water stocks under our coverage - REE, HDG, PC1, GEX, POW, NT2, PPC, TDM, and BWE - and non-rated stocks GEG, BCG, TV2, HND, and QTP).

Figure 524: Renewable power stocks



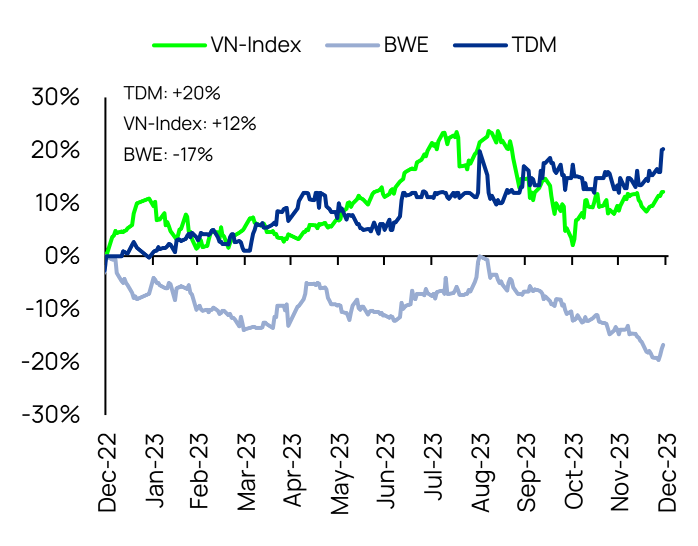
Source: Bloomberg, Vietcap

Figure 525: Other power generation stocks



Source: Bloomberg, Vietcap

Figure 526: Water stocks



Source: Bloomberg, Vietcap

Renewable power stocks with compelling earnings growth outlooks outperformed the VN-Index. GEX substantially outperformed the VN-Index due, in our view, to investors' expectations for strong earnings rebound in 2023, which we attribute primarily to the impressive performance of its industrial park (IP) leasing & services segment.

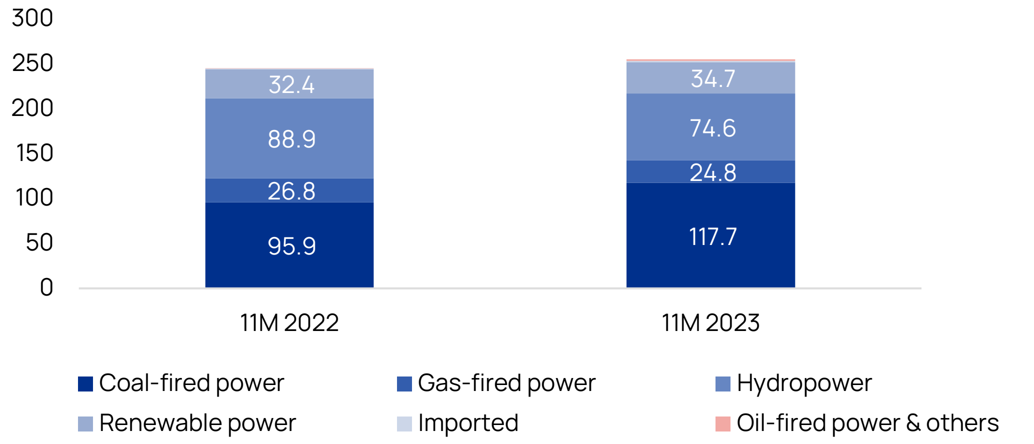
PC1 also outperformed the VN-Index for most of 2023 despite it being a challenging year for its power construction and power generation segments. We attribute the market's enthusiasm for PC1 to better-than-expected results from the newly added nickel mining segment as well as expectations for PC1 to win sizeable power construction contracts from the extended 500 kV line 3 (total capex of VND22.4tn). In addition, **TV2** outperformed the VN-Index from late April, after the announcement that TV2 and Sunway Construction (Malaysia) signed a USD2.42bn EPC contract for the Song Hau 2 coal-fired power project (2,120 MW). Meanwhile, power stocks with large exposure to hydropower such as **REE** underperformed the VN-Index. **HDG** – with exposure to both hydropower and the real estate sector – performed broadly in line with the VN-Index.

Coal-fired power plants such as QTP and PPC outperformed the VN-Index as their sufficient coal supplies, good condition of their generators and turbines (Pha Lai 2's S6 generator re-entered operation in September), and locations enabled them to benefit from power shortages in the North in 2023. In contrast, gas-fired power producers such as **NT2** and **POW** underperformed the VN-Index due to their poor performance in 9M 2023, which was driven by high costs for operations and maintenance from running on diesel oil (DO) in Q2, weak competitive generation market (CGM) prices in Q3, and NT2's major maintenance in September and October.

The share prices of water companies BWE and TDM diverged in 2023. We attribute the weak performance of BWE in 2023 to a decline in its earnings YoY. (We forecast NPAT-MI to fall 10% YoY.) Meanwhile, TDM's share price increased roughly in line with the VN-Index. We believe this was due to strong reported earnings growth YoY supported by dividend income from BWE.

Power production grows 4% in 11M 2023

Figure 527: 11M 2023 electricity production volume (billion kWh)



Source: EVN, Vietcap

In 11M 2023, Vietnam's power production increased 4% YoY. We estimate that power consumption also grew at 4% YoY. Lower rainfall led to significantly weaker electricity production volume from hydropower in 2023 vs 2022. According to EVN, electricity production volume from hydropower dropped by 16% YoY in 11M 2023 with the largest YoY decrease in Q2 of 42% (Q1 2023: -7% YoY; Q3 2023: -10% YoY). We note that hydropower volume improved 9% YoY in August 2023 and was flat YoY in September 2023 due to unexpectedly high rainfall in these months. Nevertheless, we expect lower electricity production volume from hydropower in Q4 2023 vs Q4 2022 as El Niño weather conditions intensify.

Meanwhile, production volume from coal-fired power increased by 23% YoY in 11M 2023 (Q1 2023: -1% YoY; Q2 2023: +41% YoY; Q3 2023: +30% YoY) while that from gas-fired power edged down 7% YoY in the same period (Q1 2023: -6% YoY; Q2 2023: +8% YoY; Q3 2023: -18% YoY). In addition, production volume from renewable power increased 7% YoY and accounted for 13% of the total system. Imported power increased 30% and oil-fired power & others increased by 180% YoY.

Power: 2024 and long-term outlook

We expect the implementation plan for PDP VIII to be issued in 2024

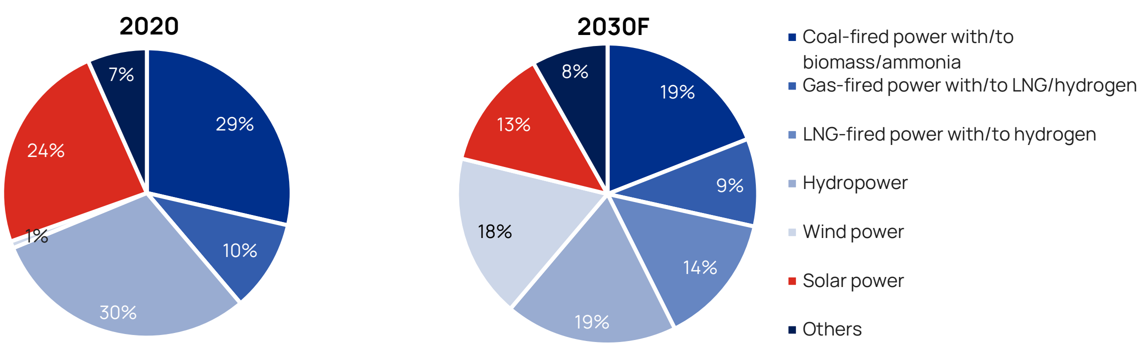
On May 15, 2023, the Prime Minister signed Decision No.500/QD-TTg, approving Vietnam's PDP VIII for 2021-2030, with a vision to 2050. PDP VIII guides for a total national installed capacity of 158 GW by 2030 – more than double 2020's capacity. It also emphasizes a transition to clean energy as renewable power (including hydropower) is targeted to account for up to 47% and 72% of total electricity production by 2030 and 2050, respectively. Solar and wind power capacity is guided to nearly triple to ~50,000 MW compared to 2020 and become Vietnam's biggest source of power by 2030 (31% of total national installed capacity).

Figure 528: Ministry of Industry & Trade (MoIT)'s forecasts for Vietnam's power capacity

MW	2020A	2025F	2030F	2035F	2040F	2045F	2050F
Onshore wind power	539	13,416	21,880	30,400	46,100	62,250	77,050
Offshore wind power	-	-	6,000	18,000	45,500	79,500	91,500
Solar power	16,491	17,891	20,591	56,866	94,866	135,824	189,294
Biomass, cogeneration & others	1,750	2,630	4,970	6,590	9,460	9,710	10,515
Hydropower	20,789	26,795	29,346	33,654	34,414	35,139	36,016
Pump-storage hydropower & energy battery storage	-	50	2,700	9,450	19,950	33,750	45,550
Gas-fired power (domestic gas) switching to use LNG	7,076	7,076	14,930	7,900	7,900	7,900	7,900
Gas-fired power (domestic gas) switching to use LNG and hydrogen (*)	-	-	-	7,030	7,030		-
Gas-fired power (domestic gas) to hydrogen	-	-	-	-	-	7,030	7,030
LNG-fired power	-	2,700	22,400	22,700	12,200		
LNG-fired power (with hydrogen)	-	-	-	2,700	13,200	21,900	4,500
LNG-fired power to hydrogen	-	-	-	-	-	3,500	20,900
Coal-fired power	19,825	28,757	30,127	23,137	15,337	3,635	-
Coal-fired power (with biomass/ammonia) (**)	-	-	-	6,990	14,790	18,642	-
Coal-fired to biomass/ammonia	-	-	-	-	-	6,900	25,632
Oil-fired power	1,596	1,221	-	-	-	-	-
Imported power	1,272	4,453	5,000	7,742	10,242	11,042	11,042
Flexible power plants	-	-	300	9,000	23,100	33,900	46,200
Total installed capacity	**69,338**	**104,989**	**158,244**	**242,159**	**354,089**	**470,622**	**573,129**
Five-year CAGR		**8.7%**	**8.6%**	**8.9%**	**7.9%**	**5.9%**	**4.0%**

Source: MoIT (PDP VIII), Vietcap (* Hydrogen: An alternative fuel for natural gas; when burned with oxygen for energy generation, it only produces steam instead of carbon dioxide. (**) Biomass: Made of material from living organisms such as plants, animals, and waste. Ammonia: A fuel that helps to reduce carbon emissions).

Figure 529: Vietnam's power capacity breakdown by type



Source: MoIT (PDP VIII), Vietcap

We expect the implementation plan for PDP VIII to be issued in 2024. In the latest draft (November 2023), the MoIT outlines the commercial operation deadlines for thermal power plants (coal-fired, gas-fired, and LNG-fired) as well as medium and large-scale hydropower projects. Specifically, POW's Nhon Trach 3 & 4 LNG-fired power plants (total capacity of 1,500 MW) are scheduled to come online in 2024-2025 – sooner than our expectations. In addition, the MoIT targets to bring the O Mon 2, 3, & 4 gas-fired power plants (total capacity of 3,150 MW and to use gas from Block B gas fields) online by 2027 – in line with our expectations.

The draft implementation plan of PDP VIII also provides the solar and wind power capacity planned for each province and region by 2030. In terms of onshore wind power, central Vietnam accounts for over 51% of the total additional capacity by 2030. In addition, its share of offshore wind power capacity is also the highest at 42% of total planned additional installations by 2030 (the same share as northern Vietnam). In northern Vietnam, the Danish Energy Agency estimates the potential capacity for offshore wind power in the Gulf of Tonkin at 13 GW. Meanwhile, several coastal cities/provinces such as Quang Ninh, Hai Phong, Thai Binh, and Nam Dinh have proposed to develop offshore wind power.

Figure 530: Additional solar and wind power capacity by 2030, by region

MW	Rooftop solar	Onshore wind	Offshore wind
Northern	927	3,816	2,500
Central	565	18,064	2,500
Northern-central	*231*	*2,200*	*0*
Central	*168*	*1,900*	*500*
Highlands	*32*	*4,100*	*2,000*
Southern-central	*134*	*3,064*	*0*
Southern	1,107	6,800	1,000
Total	**2,600**	**21,880**	**6,000**

Source: MoIT (Draft implementation plan of PDP VIII, November 19, 2023), Vietcap

Figure 531: Capex requirements for the power sector

USD bn	2021-2025	2026-2030
Power generation	48.1	71.7
Power transmission	9.0	5.9
Total	**57.1**	**77.6**

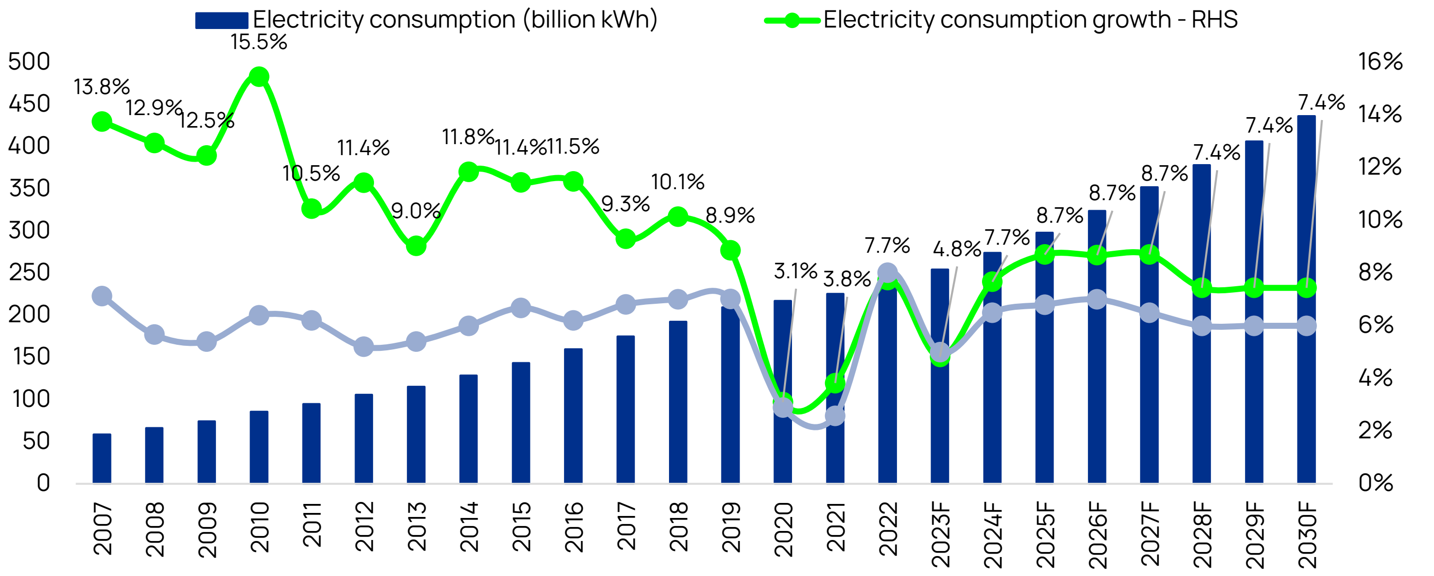
Source: MoIT (Draft implementation plan of PDP VIII (November 19, 2023)), Vietcap

We forecast 2024F electricity consumption growth at 7.7% YoY

In our Thermal Power sector update**, published December 18, 2023, we trimmed our 2023F electricity consumption growth projection by 0.2% to 4.8% YoY** following lower-than-expected 11M 2023 production volume. According to EVN, 11M 2023 electricity production inched up 4% YoY to 257.4 billion kWh. Consumption data is not disclosed but we estimate 11M consumption growth at ~ 4% YoY, in line with production, and expect December volume growth to be stronger YoY.

In the above sector update, we also reduced our 2024F electricity consumption growth forecast to 7.7% YoY from 8.4% YoY previously, mainly due to weak November PMI readings. Our macro team forecasts Vietnam's GDP growth at 6.5% in 2024. With assumptions for Vietnam's annual GDP growth rate at 6.8%/7.0% in 2025/26 (as forecast by our macro team) and at 6.5% in 2027 (as guided by the MoIT), and maintaining our assumption for the elasticity ratio between GDP growth and electricity consumption growth at ~1.2x-1.3x (normalized ratio), we estimate that Vietnam is likely to experience electricity consumption growth of ~9% p.a. in 2025-2027F.

Figure 532: Vietnam's electricity consumption growth vs GDP growth*



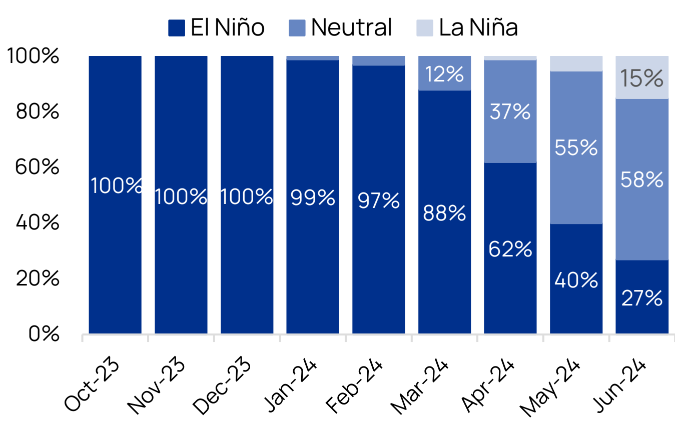
Source: Vietnam Electricity (EVN), Vietcap (*The real GDP growth rates shown for 2024-2026F are Vietcap's GDP growth forecasts; numbers for 2027-2030F are based on the MoIT's guidance)

El Niño to continue into 2024 with less severity

According to the weather forecast by the International Research Institute for Climate and Society (IRICS) as of November 2023 (illustrated in **Figure 533**), the occurrence of El Niño is almost certain in Q4 2023 with a probability of 99%-100%, which is slightly higher compared to the prediction in June 2023 of 96%. Vietnam's National Center for Hydro-Meteorological Forecasting (NCHMF) also forecasts the average temperature in November 2023-January 2024 to be 0.5–1.0 degrees Celsius higher than the multi-year average due to El Niño.

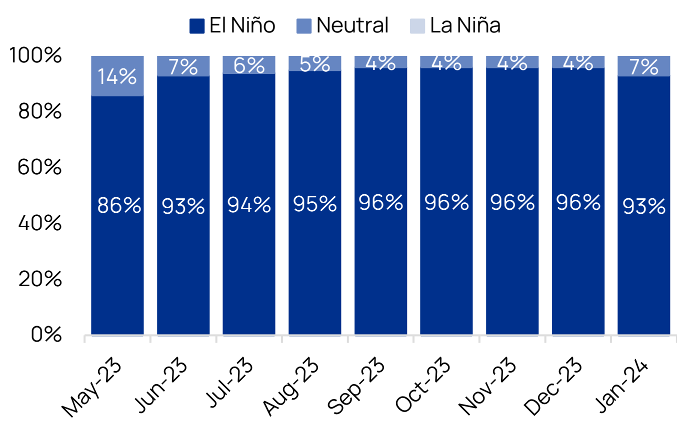
El Niño weather conditions are expected to dominate until end-Q1 2024 with a probability of occurrence ranging from 88% to 99% in January-March 2024. However, in November 2023, IRICS predicted the likelihood of El Niño would fall to 62%, 40%, and 27% in April, May, and June 2024, respectively, giving way to neutral weather conditions. We note that any changes to weather forecasts should be closely monitored.

Figure 533: Probability for weather conditions as of November 2023



Source: International Research Institute for Climate and Society, Vietcap

Figure 534: Probability for weather conditions as of June 2023



Source: International Research Institute for Climate and Society, Vietcap

We forecast sufficient power for 2024 vs power shortage in 2023

We believe the power supply will be sufficient in 2024. In early December 2023, the MoIT issued Decision 3110 which guides for a power supply of 306 billion kWh for 2024, which we estimate represents an increase of 6%-9% vs 2023. We believe this will be sufficient to meet power demand in 2024, which we forecast to grow by 7.7% YoY. We also understand that the MoIT plans to mobilize significantly higher volume from coal-fired power plants (+25% YoY) while expecting lower mobilization from gas-fired power (-14% YoY) and hydropower (-1% YoY) as well as roughly flat volume from renewable power.

Reduced risk of power shortage vs 2023 can be partly attributed to better preparation by EVN, the National Load Dispatch Center (NLDC), and thermal power plants. In our view, one of the reasons for power outages in the North in Q2 2023 was inadequate planning by EVN and NLDC, who were caught by surprise by unexpectedly hot and dry weather. In late 2022 and early 2023, NLDC did not request hydropower reservoirs to accumulate water in advance to prepare for the 2023 dry season, thus leaving thermal power plants and their feedstock suppliers too little time for restocking to accommodate sudden increases in power demand. In 2024, we expect EVN and NLDC to have better planning given clear signs of El Niño and stronger monitoring from the MoIT, which should help to mitigate the risk of a power shortage.

In the extreme case in which El Niño continues to intensify power demand during the summer months of 2024 (May-July) while negatively affecting hydropower performance, the North might still face a power shortage. EVN forecasts a potential power shortage in June-July 2024 in the North ranging from 420 to 1,770 MW in this worst-case scenario, which is only about a third of the power shortage in May-June 2023. According to EVN, the North faced an electricity shortage equivalent to 1,600-4,900 MW from May to June 2023, accounting for 12%-18% of the region's daily consumption in 2022 or 5%-8% of the national daily consumption in 2022. As a result, EVN resorted to cutting power supply for both residents and manufacturers in northern Vietnam in May–early June, which resulted in an estimated economic cost of ~USD1.4bn or 0.3% of Vietnam's 2022 GDP, according to the World Bank.

We maintain our forecasts for growth in Vietnam's total power capacity at 5.7%/3.7% YoY in 2023/24F as stated in our Thermal Power Sector Report, dated October 25, 2023.

Figure 535: Vietcap's forecasts for Vietnam's power generation capacity (MW)

MW	2021	2022	2023E	2024F	2025F
Hydropower	21,836	22,544	22,976	23,436	24,016
Coal-fired power	24,671	25,312	27,344	27,344	28,009
Gas-fired power	7,125	7,160	7,160	7,160	9,110
Solar power (farm)	8,736	8,736	9,123	9,243	9,243
Solar power (rooftop)	7,954	7,954	7,954	7,954	7,954
Wind power	3,980	3,980	4,980	6,980	8,980
Others	2,318	2,114	2,729	3,229	3,829
Total capacity	**76,620**	**77,800**	**82,266**	**85,346**	**91,141**
YoY growth	*10.5%*	*1.5%*	*5.7%*	*3.7%*	*6.8%*

Source: EVN, Vietcap forecasts

To ensure enough electricity in 2024, relevant authorities focus on the following measures: (1) limiting technical issues at power plants, especially those in the North, (2) requesting hydropower reservoirs to start accumulating water from September 2023, (3) allocating high volume for thermal power in the early part of 2024 to conserve water for the summer months (May-July), (4) pushing transitional renewable power projects to complete legal requirements for commercial operation, (5) accelerating the progress of transmission infrastructure projects, and (6) working with Vietnam Coal and Mineral Industries Group (Vinacomin/TKV), Dong Bac

Corporation, and PetroVietnam Gas (HOSE: GAS) to ensure enough coal and gas feedstock for power generation in 2024.

Feedstock for coal-fired power. On December 12, the MoIT issued Decision 3111, which guides for 74 million tons of coal for power production in 2024, which we estimate represents an increase of 20% YoY. Domestic coal supply for power generation in 2024 is guided to be 48.2 million tonnes (flat YoY, per our estimate). Vinacomin, one of the two coal suppliers in Vietnam, commented that it has delivered 36.2 million tonnes of coal (+13% YoY) for power production in 11M 2023.

Feedstock for gas-fired power. The MoIT has approved natural gas supply for power generation in 2024 of 4.19-4.47 billion cbm (down 19%-24% YoY compared to GAS's guidance for gas supply for power generation in 2023), of which 2.94-3.06 billion cbm is expected to come from the southeastern region while the remainder will be from the southwestern region. The substantial decline in planned gas supply for 2024 YoY implies that domestic gas fields are running low, which requires PetroVietnam and EVN to put LNG into use for power generation in case power consumption is higher than expected or there are more technical shutdowns than expected in the system. We currently expect the Thi Vai LNG Terminal to enter commercial operation in 2024. However, we forecast LNG supply from this terminal to be minimal in 2024 at 50 million cbm for industrial parks.

In addition, the Government is pushing for the construction of the extended national 500 kV Line 3 to come online mid-2024. This line is from Quang Trach (Quang Binh province) to Pho Noi (Hung Yen Province) to increase power transmission capacity from central Vietnam to northern Vietnam to 5,000 MW from 2,200 MW currently. This 515-km line has an estimated total capex of VND22.4tn (USD0.92bn). The National Power Transmission Corporation (EVNNPT) has started bidding on all four subprojects. Industry players estimate construction of the whole project will take about 18 months to complete (i.e., by early to mid-2025.)

Figure 536: Subprojects of the extended 500 kV Line 3 project

Subproject	Length (km)	Capex (trillion VND)
Thanh Hoa – Nam Dinh	74	2.9
Nam Dinh – Pho Noi	124	5.5
Quang Trach – Quynh Luu	225	9.8
Quynh Luu – Thanh Hoa	92	4.1
Total	**514**	**22.4**

Source: EVNNPT, Vietcap

Average CGM price to increase 14% YoY in 2024

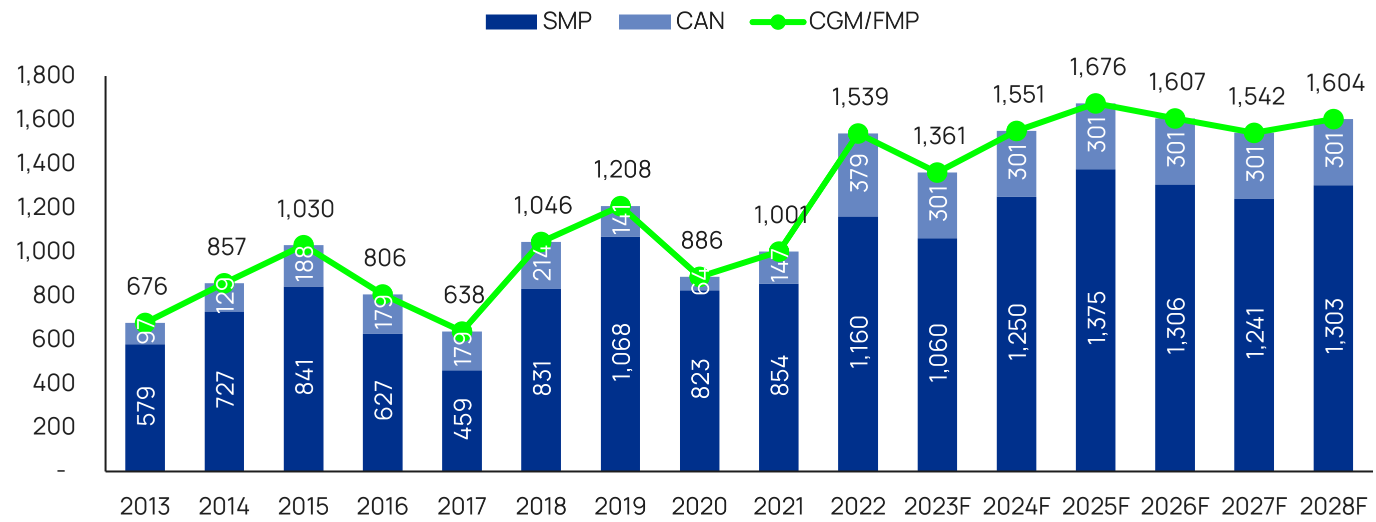
In our Thermal Power sector update, dated December 18, 2023, we cut our forecast for the average CGM price in 2023F by 13% to VND1,361/kWh (-12% YoY) as the average CGM price in 11M 2023 of VND1,406/kWh (-7% YoY) trailed our previous projection. The YoY decline can be primarily attributed to weak CGM prices from August to November. This was due to (1) higher-than-expected rainfall in these months, and (2) high mobilization from solar & wind power (which does not participate in CGM) and coal-fired power (which has enjoyed substantially lower imported coal prices YoY for the past few months). As of December 8, the benchmark Australian Newcastle thermal coal price was 64% lower than at the end of 2022.

In this sector update, we also reduced our projection for the average CGM price in 2024F by 5% to VND1,551/kWh (+14% YoY) following lower-than-expected CGM prices in 11M 2023. In addition, we trimmed our 2025-2028F CGM price forecasts by 1% following the cuts in our 2023-2024F CGM price projections.

We forecast CGM prices to increase in 2024 to be close to 2022 levels due to our projected growth in electricity consumption of 7.7% YoY (similar to growth in 2022 of 8% YoY) as well as projected higher gas prices in 2024 vs 2022. According to industry players, the System Marginal Price (SMP – a component of CGM price, the highest auction price required to balance system supply and demand) is capped at VND1,510/kWh for 2024, down 15% vs 2023. Capacity add-on-price (CAN – the other component of CGM price, the extra price paid in order for the best new entrant power plant to break even) is estimated at an average of VND330/kWh – a ~10% increase vs 2023. We estimate that the impacts of these two offset each other but this generally benefits coal-fired power plants.

Our forecast implies a CAGR of 3% in average CGM prices for the 2023-2028F period, which is roughly in line with expected inflation.

Figure 537: Average CGM prices (VND/kWh)



Source: MoIT, EVN, industry players, Vietcap. Note: CGM price = FMP (full market price) = SMP (system marginal price) + CAN (capacity-add-on price). SMP: the highest auction price required to balance system supply and demand; CAN: the extra price paid in order for the best new entrant power plant to break even.

5a-equivalent mixed coal price to decline 6% YoY in 2024F

Our current forecasts for coal prices in Vietnam are illustrated in **Figure 538**. Please see our Thermal power sector update, dated October 25, 2023, for more details. In this sector report, we forecast an average 5a domestic coal price of VND1.9mn/tonne in 2023F. 2023 saw a 7.5% YoY increase in retail electricity prices. Consequently, we anticipate the MoIT to greenlight a 5% hike in domestic coal prices, deviating from TKV and Dong Bac Corporation's proposed 10% increase. This adjustment aims to ease EVN's financial burden. Subsequent years may witness annual 5% increases in domestic coal prices, mirroring escalating coal production costs.

2023 & 2024 mixed coal price assumptions of VND2.6mn/tonne (-9% YoY) and VND2.4mn/tonne (-6% YoY), respectively. In the long term, we project a 2% YoY mixed coal price decrease in 2025, a 6% YoY decrease in 2026, and an 8% increase in 2027, assuming a stable mix of 50% domestic and 50% imported coal, which is consistent with industry players' guidance.

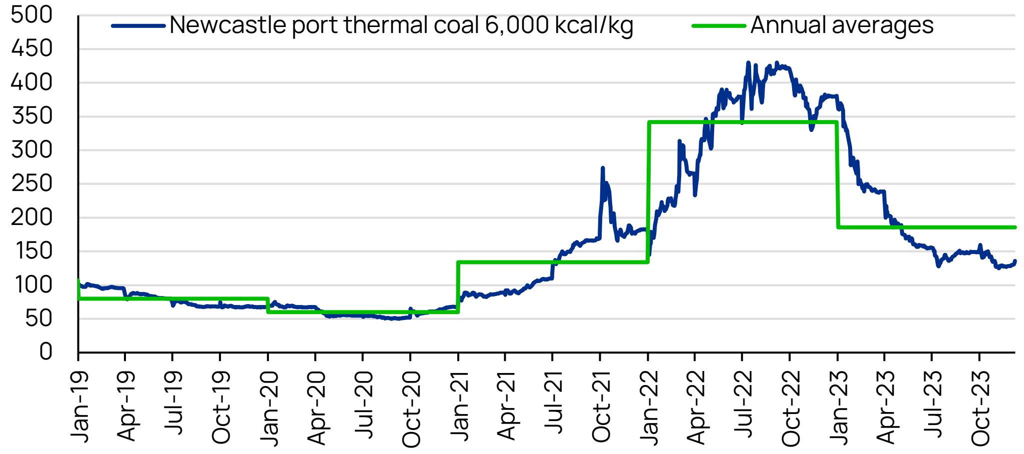
Figure 538: Average prices of 5a domestic coal and its mixed coal equivalent

VND mn/tonne	2022	2023F	2024F	2025F	2026F	2027F
Domestic coal, 5a (5,500 kcal/kg)	**1,845**	**1,937**	**2,034**	**2,136**	**2,243**	**2,355**
YoY growth	0%	5%	5%	5%	5%	5%
Mixed coal, 5a equivalent (*)	**2,825**	**2,583**	**2,420**	**2,382**	**2,247**	**2,436**
YoY growth	38%	-9%	-6%	-2%	-6%	8%

Source: MoIT, Bloomberg consensus, Vietcap forecasts (*) a mix of imported coal and domestic coal 6a

Bloomberg consensus Newcastle thermal coal price forecasts for 2023F/24F are 14%/18% lower vs June 2023

Figure 539: Newcastle thermal coal 6,000 kcal/kg FOB (USD/tonne)



Source: Bloomberg, Vietcap (FOB price does not includes transportation cost and VAT; data as of December 8, 2023)

Bloomberg consensus (as of October 2023) suggests a sharp decline in the average Newcastle thermal coal price in 2023 to USD178/ton (-49% YoY, 14% lower than the forecast in June 2023), due to stronger coal supply and lower gas prices. The market has returned to a more normal pattern in 2023, with a downward trend since end-2022. In 9M 2023, the average price of Newcastle thermal coal fell by 40% YoY. The demand for thermal coal was dampened by (1) falling natural gas prices, which encouraged a switch from coal to gas in power generation, especially in Europe, and (2) concerns over a global economic slowdown, which could reduce energy consumption. On the supply side, global coal production is expected to grow in 2023, as major coal producers such as China, India, and Indonesia ramped up their output and exports in the first six months of the year. In Q4 2023, we expect thermal coal prices to remain stable, as the market has reached a low point since August 2023. Bloomberg consensus forecasts that the average thermal coal price will decline by 49% YoY in 2023 **(Figure 540).**

Figure 540: Bloomberg consensus forecasts for Newcastle thermal coal price (6,000 kcal/kg)

USD/tonne	2022A	2023F	2024F	2025F	2026F	2027F
Bloomberg consensus (median)	**352**	**178**	**141**	**123**	**100**	**105**
YoY change (%)		-49%	-21%	-13%	-19%	5%
Previous consensus (June 2023)		206	172	130	104	113
New vs previous		-14%	-18%	-5%	-3%	-7%
Select contributors						
Goldman Sachs Group Inc/The		171	129	121	107	105
Fitch Solutions		180	170	160	150	130
Bank of America Merrill Lynch		184	160	125	112	99
Deutsche Bank AG		173	150	120	100	110
Morgan Stanley		171	125	103	100	105
Market Risk Advisory Co Ltd		178	98	101	75	N/A

Source: Bloomberg, Vietcap compilation (FOB price does not include transportation tariff, logistic costs, and VAT; Bloomberg consensus data as of October 2023)

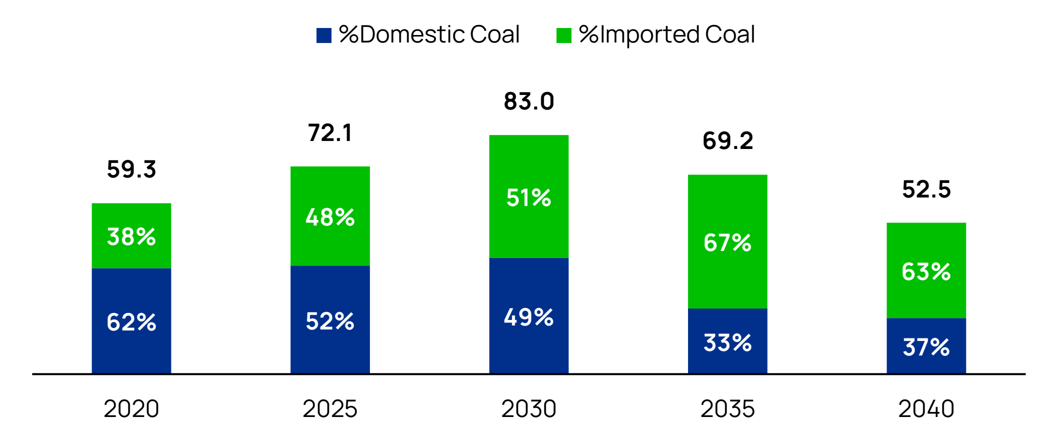
International coal prices to decline further by 21% YoY in 2024 to USD141/ton but still ~64% higher compared to the pre-COVID-19 pandemic level. According to Bloomberg consensus forecasts, the Newcastle coal price will drop by 21% YoY in 2024 and 13% YoY in 2025, driven by three main factors: (1) flat global demand, (2) rising environmental costs, and (3) a recovery in coal production and supply. According to the International Energy Agency, global demand for thermal coal is expected to be flat as consumption declines in the United States and the European Union (-8% CAGR in 2022-2025F), which will offset growth of +0.9% CAGR in 2022-2025F in China (which accounted for 53% of global consumption as of end-2022) and growth of +3.2% CAGR in 2022-2025F in India. Environmental costs diminish coal's competitiveness against cleaner sources like natural gas and renewables, while coal supply is projected to rebound as major exporters like Australia and Indonesia resolve production and export issues. The Minister of Energy and Mineral Resources of Indonesia (the largest coal exporter, accounting for 35% of global coal exports) stated that the country plans to export 518 million tonnes of coal in 2023 (+15% YoY). Meanwhile, Australia, the world's second largest coal exporter accounting for 26% of global coal exports, estimates its coal exports will rise 3.6% to 203 million tonnes in 2023-2024 compared to 2021-2022. Bloomberg consensus forecasts prices to stabilize at USD103/tonne in 2026-2027, as illustrated in **Figure 540.**

We forecast sufficient coal supply in Vietnam in 2024F

We believe that coal supply for thermal power plants in 2024 will be sufficient, as EVN, Vinacomin, and Dong Bac Corporation are actively coordinating with each other and as coal prices have fallen significantly from their 2022 peak. On December 12, 2023, the MoIT issued Decision 3111 which guides for 74 million tons (+20% YoY) of coal for power production in 2024, in which imported coal is planned to contribute 26 million tons (+97% YoY, accounting for 35% of total coal consumption).

Vietnam will need to increase coal imports significantly to ensure sufficient thermal coal supply going forward. According to the national energy master plan (July 2023), domestic coal output will grow slightly at a CAGR of 1% from 36.8 million tonnes in 2020 to 37.6/40.3 million tonnes in 2025/2030, due to limited reserves and mining licensing difficulties. However, thermal coal demand for power generation is projected to expand at a 4.0% CAGR from 59.3 million tonnes to 72.1/83.0 million tonnes by 2025 and 2030, respectively. Therefore, Vietnam will need to increase its coal imports significantly. According to the national energy master plan, imported coal will increase at a CAGR of 7.4%, from 22.5 million tonnes in 2020 to 34.5 /42.7 million tonnes in 2025/2030. Coal imports will supply 48% of total coal consumption in 2025 (**Figure 541**) and 67% in 2035 before decreasing to 63% in 2050.

Figure 541: Coal demand for power generation and coal supply (million tonnes, %)

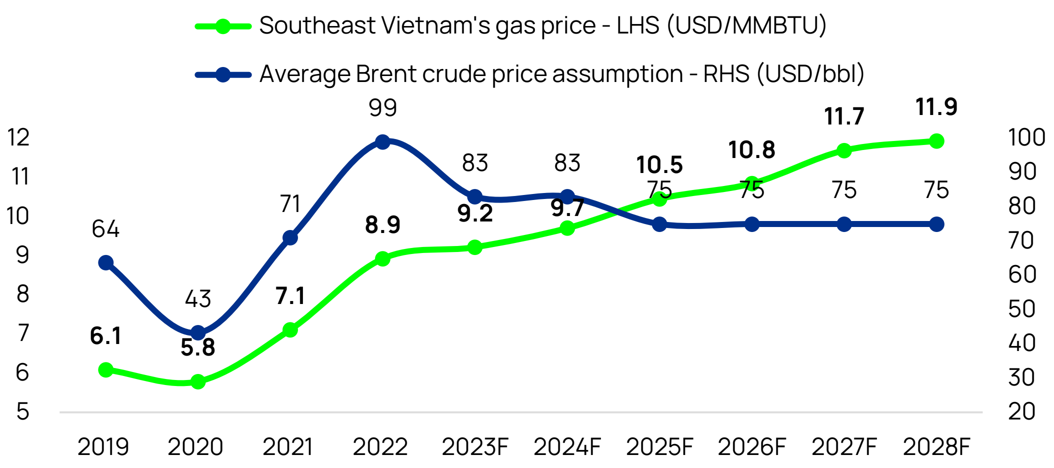


Source: MoIT, National energy master plan for 2021-2030, Vietcap

Gas prices to increase by 5% YoY in 2024

Our current forecasts for benchmark gas prices in Vietnam are illustrated in **Figure 542**. Please see our GAS update report, dated December 28, 2023, for more details. In this report, we cut our forecast for Vietnam's gas prices for 2024F by 5% to USD9.7/MMBTU due to our assumption of no LNG to be used for power generation in 2024 vs our previous forecast for a significant amount of LNG for multiple purposes, including power generation, fertilizer production, and industrial parks).

Figure 542: Gas price outlook for power plants in southeastern Vietnam (USD/MMBTU)

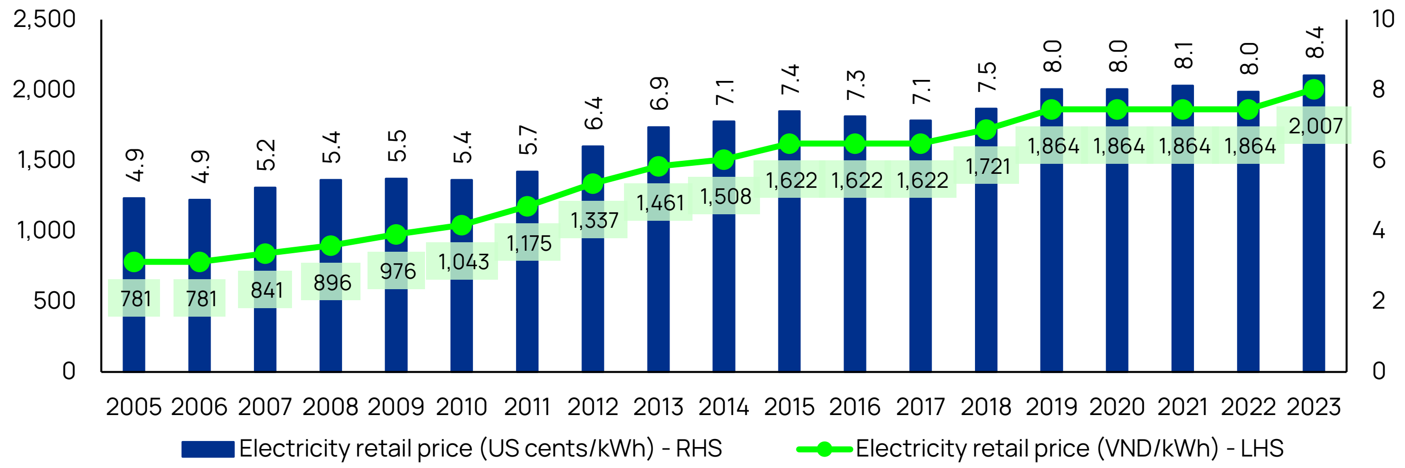


Source: GAS, industry players, Vietcap

We expect a 7% YoY hike in retail electricity prices in 2024

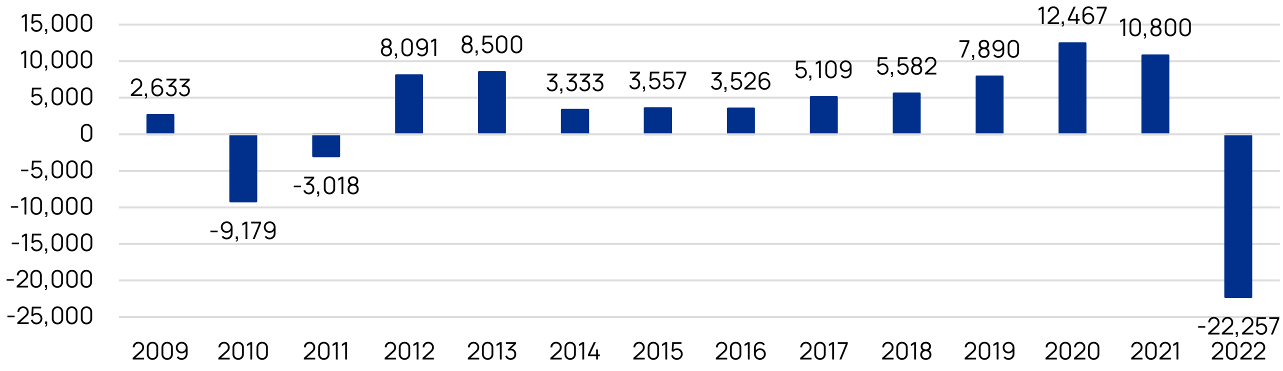
The MoIT approved a total retail electricity price increase of 7.5% in 2023 (3% in May and 4.5% in November) to a base price of VND2,007/kWh or US8.3cents. While this increase will not bring higher earnings to power plants, it is positive for power stocks as it should support their cashflow. Per local reports, EVN slashed its net loss from VND35.4tn in 6M 2023 to VND24.6tn in 12M 2023 with the 7.5% price hike. EVN posted an audited net loss of VND22.2tn in 2022 and an accumulated net loss of VND13.3tn (on its balance sheet) by end-2022, hinting at an estimated total accumulated net loss of VND37.9tn by end-2023.

Figure 543: Vietnam's historical retail electricity prices (base price) in VND/kWh and US cents/kWh*



Source: MoIT, Vietcap compilation (*Prices are converted into US cents/kWh at the average VND/USD exchange rate for each year).

Figure 544: EVN's reported NPAT-MI in 2009-2022, VND bn



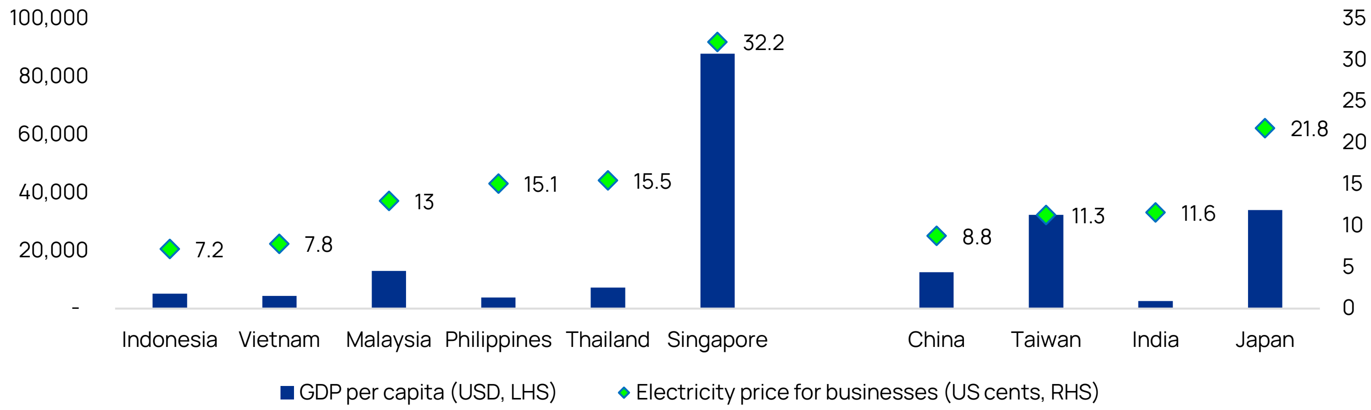
Source: EVN, Vietcap

We expect 7%/10% YoY price hikes in 2024/25F. We believe these are necessary to help EVN break even after its massive cumulative loss in 2022-2023. In addition, we expect that in the next two years, the cost of electricity (to EVN) is unlikely to experience another sudden surge such as in 2022 due to a surge in global energy commodity prices in 2021/22. We anticipate 6%/2% YoY decreases in mixed coal prices in 2024/25F to offset 5%/8% YoY increases in gas prices in 2024/25F, respectively. We note that coal-fired power accounted for 46% of national electricity production volume on average over the past four years while the share of gas-fired power was only 13%.

Moreover, in a recent proposal to the Prime Minister, the MoIT suggested a periodic review of retail electricity prices every three months vs six months according to current regulations. This shorter duration should help to ensure that changes in the costs of power generation are reflected in selling prices in a fair and timely manner. The MoIT cited the three most recent instances of retail electricity price hikes: in 2018 (+6.08% YoY), 2019 (+8.36% YoY), and 2023 (+7.5% YoY). There was no price increase from end-2019 to April 2023 despite increases in the costs of power generation in this period, which was the primary reason for EVN's net loss.

The electricity price for businesses in Vietnam is ~38% below the average price in Southeast Asia (excluding Singapore), suggesting further upside to prices in the coming years.

Figure 545: Electricity prices for businesses in selected countries



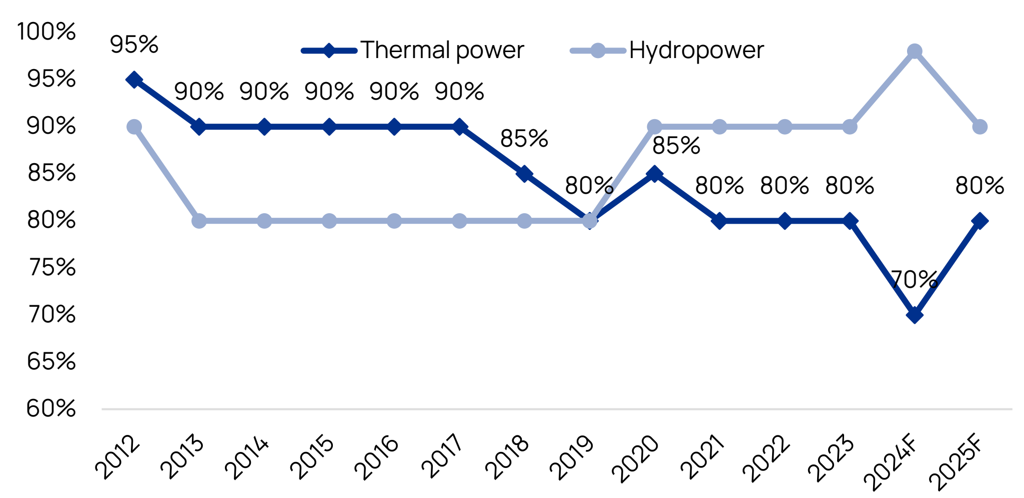
Source: IMF, EVN, public media of mentioned countries, Vietcap (Electricity prices for businesses as of end-2023 for Vietnam and March 2023 for all other countries. GDP per capita data as of 2023).

Contracted volume (Qc) ratios for thermal power and hydropower plants at 70% and 98% in 2024F, respectively

According to EVN and the MoIT, the Qc ratio is targeted to reduce to 60% before 2025, which is in line with progress in liberalizing the power sector and there has been guidance regarding the negotiation of Qc ratios between power plants and EVN Power Trading companies. However, it seems that it will take a long time to put new agreements into practice.

According to industry players, the contracted volume ratio for thermal power plants is guided at 70% for 2024, lower compared to 80% in previous years. This potentially creates more challenges for thermal plants, especially gas-fired power plants. In addition, the contracted volume ratio for hydropower plants is guided at 98% compared to 90% in previous years, which potentially lowers the profit of hydropower plants.

Figure 546: Contracted volume ratios (%, Qc)



Source: MoIT, industry players, Vietcap

Renewable energy

We expect a new pricing mechanism for renewable power in 2024

Vietnam's renewable power sector has faced short-term challenges in 2022-2023, primarily due to the lack of a new pricing mechanism. The country experienced exponential solar and wind power capacity growth, surpassing 20,600 MW by 2021, driven by favorable FiT policies from 2017-2021. However, post-expiration (December 2020 for solar, October 2021 for wind), minimal capacity additions occurred.

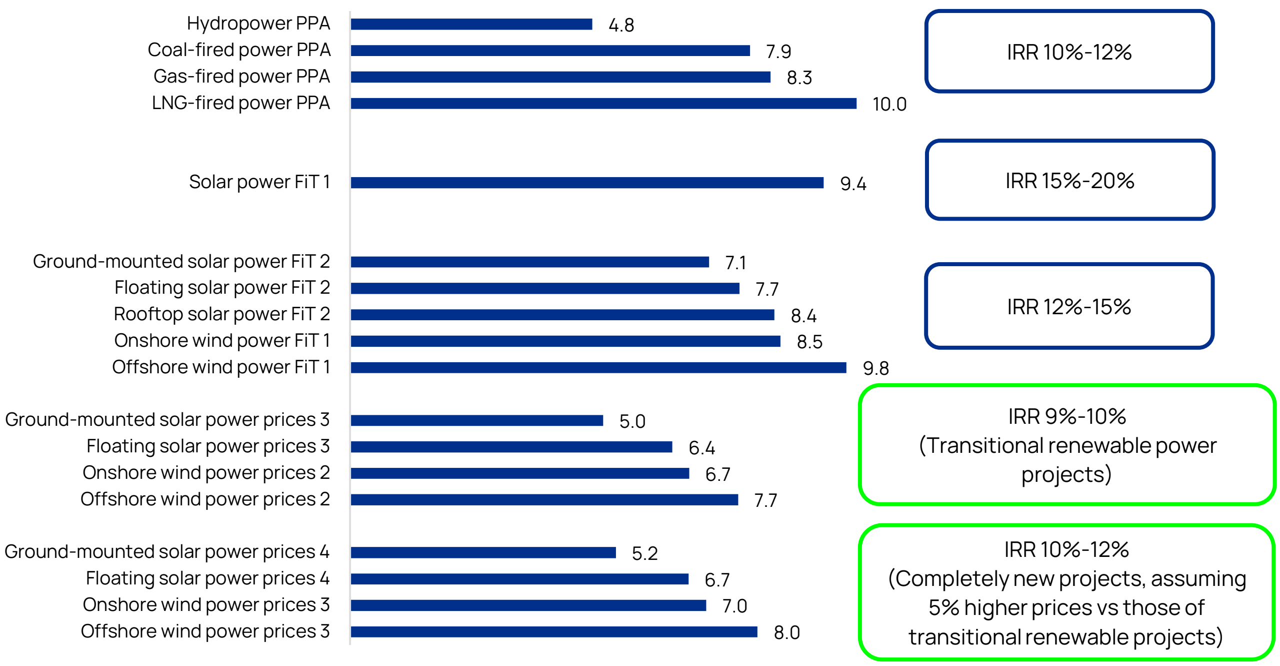
On January 7, 2023, the MoIT issued ceiling prices for transitional renewable power plants, which are 17%-29% lower compared to the previous favorable FiTs. There are 85 transitional renewable power plants with a total capacity of 4,736 MW. Nearly half of this capacity has finished construction but missed the FiT deadlines, while the remainder is still under development.

By November 10, 2023, 21 plants (totaling 1,201 MW capacity) connected to the national grid at temporary prices, set at 50% of the ceiling prices. These rates, proposed by EVN, are interim until official prices are agreed upon. Notable plants include GEG's Tan Phu Dong 1 wind power (100 MW), VLP Ben Tre (4.2 MW of 30 MW), BCG's Phu My 1 & 3 solar plants (88 MW remaining), and Trung Nam Group's Trung Nam Thuan Nam solar plant (172 MW remaining). Commercial operation for transitional renewable plants faces delays mainly due to paperwork complexities.

Although the approval of PDP VIII in May 2023 was positive news for the renewable power sector, we believe a strong recovery will only occur after the release of a new pricing mechanism. In early November 2023, the MoIT issued Circular 19/2023/TT-BCT on the methodology to calculate prices for solar and wind power. Vietnam Electricity (EVN) has recently requested the Electric Power Trading Company (EPTC, wholly owned by EVN) to develop a price range for renewable energy with a submission deadline of mid-December 2023.

We anticipate higher new ceiling prices for renewable power in 2024 from MoIT, incentivizing investors beyond transitional plant rates. With a projected 5% increase over transitional project prices, we estimate project IRRs at ~10%-12%, matching traditional power sources' returns (including medium & large-scale hydropower and thermal plants).

Figure 547: Contracted Power Purchase Agreement (PPA) prices of traditional power vs FiT and Vietcap's assumptions for new prices for renewable energy (US cents/kWh)



Source: MoIT, Vietcap

We also expect the Government to approve a competitive bidding/auction mechanism, which will potentially help to accelerate investment in renewable energy, especially wind power.

- Local governments will provide basic information about the project in the prefeasibility study, including capacity, potential land clearance costs, and sun radiation/wind speed.
- Investors will submit an electricity selling price based on their estimation of the project's investment cost and required return on capital. Investors' bid prices must not exceed ceiling prices stipulated by the MoIT.
- The winner gets the right to develop the project and then negotiate with EVN to secure a fixed electricity selling price, which must not exceed the winning bid's price.

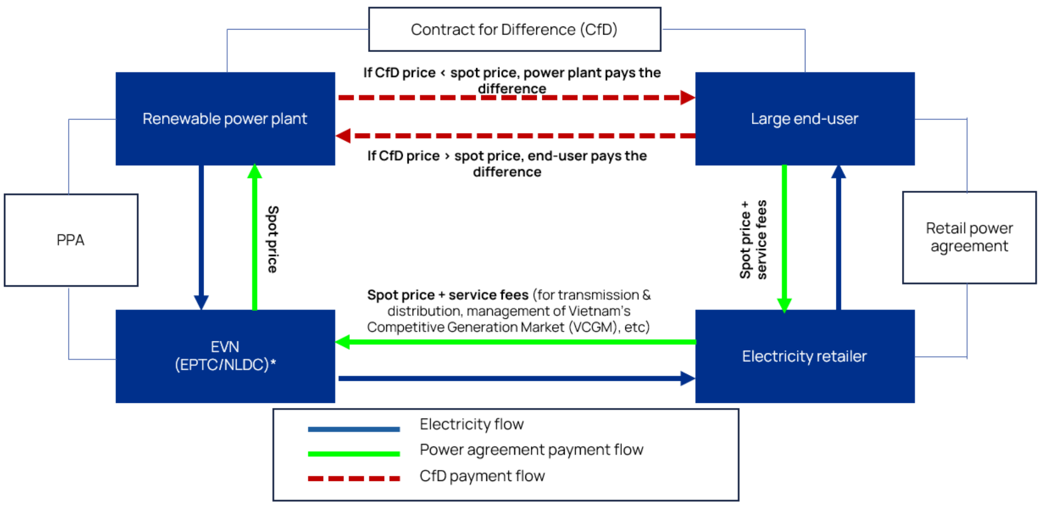
Direct PPA to accelerate investment in renewable energy

The MoIT plans to pilot Direct PPA (DPPA) in 2024-2025. The latest draft DPPA (late October 2023) outlines two cases:

1. Off-grid/zero-export DPPA (i.e., without connection to the national grid): Renewable power plants sell electricity directly to large end-users such as industrial parks and manufacturing plants through their own transmission infrastructure. There is a sufficient legal framework for this case to work.
2. Grid-connected, synthetic DPPA:

- Renewable power plants enter a forward contract, called **a contract for difference (CfD)** with large end-users at a price and volume agreed by the parties ("CfD price and volume"). At the same time, renewable power plants secure a PPA with EPTC to sell electricity in Vietnam's Competitive Generation Market (VCGM) at the **spot price.**
- Large end-users will buy electricity from EVN's power trading companies at the **spot price plus service fees** (for transmission & distribution, management of the competitive generation market (CGM), load dispatch center, etc). We note that EPTC/EVN will need to develop a legal framework for the calculations of the service charges under this draft DPPA mechanism.
- If the CfD price is higher than the spot price, large end-users will make up for the difference at the actual volume consumed by the user. In contrast, renewable plants will pay the difference if the spot price is less than the CfD price.
- Therefore, **the effective price** to large end-users under this DPPA mechanism is the CfD price + service fees, while the effective price to renewable power plants is the CfD price.

Figure 548: Draft DPPA mechanism, case 2



Source: MoIT, Vietcap (*EPTC: EVN's Power Trading Corporation, NLDC: National Load Dispatch Center)

The drawback of draft DDPA mechanism – case 2 is that there is currently no legal framework to calculate the service charges. In addition, there is a debate about how to issue and enforce DPPA case 2, either via (1) the amended Law on Electricity (which is currently under development with planned issuance in 2025 and effective in 2026) or (2) a Decree from the Government. The Office of the Government has recently requested the MoIT to work with relevant ministries on the development of a Government Decree on DPPA in 2023.

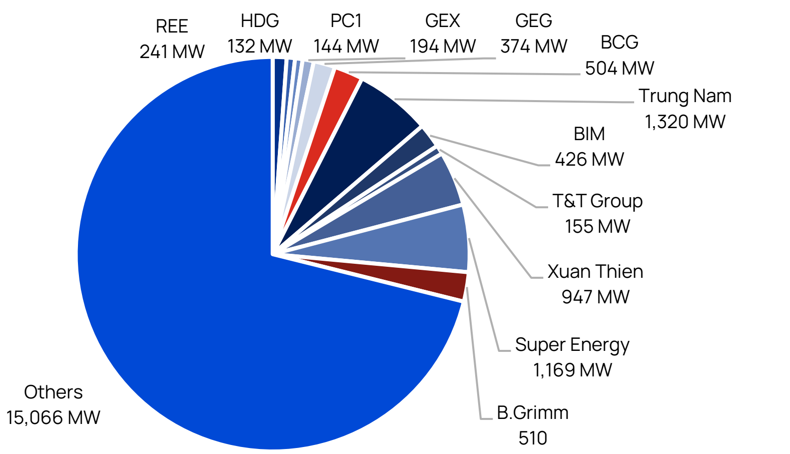
We expect DPPA mechanisms to be issued in 2024 and piloted in 2025. Once it is in place, we believe that DPPA will help to accelerate investments in renewable energy. DPPA brings about numerous benefits to renewable power plants. First, these plants can sell electricity directly to end-users at prices agreed upon by the relevant parties, thus insulating these plants from delays and changes in pricing policies set by the Government. Second, the CfD price or the effective price to renewable power plants might be even higher than the prices issued by the Government (if the CfD price + service fees is less than the prevailing retail electricity price applied to businesses, large end-users still benefit from DPPA). Third, if renewable power plants can secure reputable large end-users, this might enhance the bankability of DPPA, thus enabling power plants to access financing more easily and with potentially more favorable terms.

On the end-user side, DPPA provides power price stability as these users can lock in a CfD price (the main portion of the effective price to end-users) with renewable power plants. Moreover, using clean energy aligns with many manufacturers' goals of reducing greenhouse gas emissions in their operations as well as preparing them for the EU's Carbon Border Adjustment Mechanism (carbon import tariffs) and similar policies.

Renewable power capacity expansion outlook of power companies

Vietnam's renewable power industry is fragmented with most companies coming from the private sector. The two biggest domestic players are Trung Nam Group and Xuan Thien Group with respective operational solar and wind power capacity of 1,320 MW and 947 MW at end-2022. Notable foreign investors include Super Energy (1,169 MW) and B.Grimm (510 MW), both from Thailand.

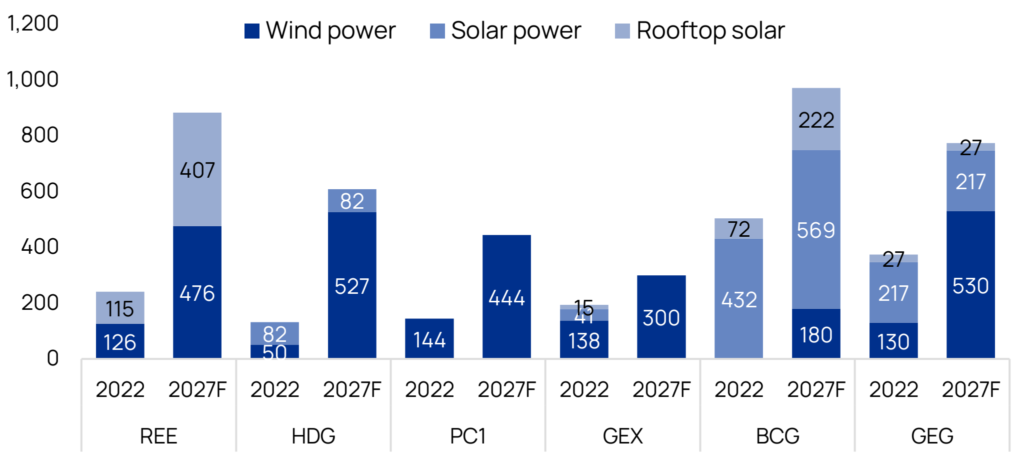
Figure 549: Operating solar and wind power capacity of select companies at end-2022, MW



Source: Companies shown, Vietcap

Most companies under our coverage target large additional renewable power capacity, mainly wind power, via self-development, M&A, and cooperation with partners. For example, we currently forecast REE and HDG to add about 700 MW and 500 MW, respectively, of solar and wind power capacity in 2022-2027. REE, HDG, and PC1 have build-to-operate strategies while GEX has a build-to-sell strategy.

Figure 550: Solar and wind power capacity expansion outlook of selected power companies, MW (*)



Source: Listed companies, Vietcap forecast (*) We factor a portion of GEX's future expansion plan which includes 800MW by 2030.

Vietnam's USD15.5bn action plan for Just Energy Transition Partnership announced at COP 28

In early December 2023, Vietnam's Prime Minister announced the Resource Mobilization Plan (RMP) of the Just Energy Transition Partnership (JETP) at COP 28. In December 2022, the Governments of Vietnam and countries in the International Partners Group (IPG), which includes the EU, UK, Denmark, Norway, Germany, Italy, France, the US, Canada, and Japan, established JETP to assist Vietnam in its transition to clean energy. JETP pledges to mobilize an initial amount of at least USD15.5bn over the next 3-5 years to help Vietnam accelerate this transition.

According to the action plan, IPG members plan to mobilize USD8.08bn (up from the initial commitment of USD7.75bn) of public financing, which should offer more attractive terms than Vietnam could secure in capital markets. This amount of capital will be provided through a mixture of grants (in the form of technical assistance and capital grants), concessional finance at below-market rates, and commercial Development Finance Institution (DFI) instruments (loans, guarantees, and equity), based on risked-based pricing.

Figure 551: Public financing commitments by IPG members to Vietnam's JETP

Type	USD mn
Grants	**321.5**
Concessional loans	**2,712.6**
Sovereign concessional loans	2,184.9
Non-sovereign concessional loans	527.7
Commercial DFI instruments	**5,043.0**
Commercial DFI equity	310.0
Commercial DFI guarantees	240.0
Commercial DFI loans	4,229.0
Commercial DFI to be defined	264.0
Total	**8,077.2**

Source: JETP RMP (December 2023), Vietcap

In addition, the Glasgow Financial Alliance for Net Zero (GFANZ) members – leading financial institutions committed to accelerating the decarbonization of economies – agreed to work to mobilize at least USD7.75bn in private finance.

The RMP sets three investment priorities: (1) power transmission grid projects, (2) projects on battery storage and pumped storage hydropower plants, and (3) projects on offshore wind power development as detailed in **Figure 552** below. The RMP lists specific project names to be considered for JETP's support, including GEG's TTC Duc Hue 2 solar farm (49 MWp), BCG's Khai Long – Ca Mau wind power project – phase 1, the energy transition of Pha Lai coal-fired power plants (PPC), Quang Ninh coal-fired power plants (QTP), Hai Phong coal-fired power plants (HND), and POW's Vung Ang 1 coal-fired power plant, a pilot green ammonia/hydrogen initiative at a fertilizer producer in Ca Mau Province (which we believe to be DCM), and two solar power and electrolyzer projects of PVN.

Figure 552: JETP scheme's investment priorities

Power transmission grid projects
Support for power grid development: Mobilizing private investment in power grid development, including: (1) determining the scope, priorities, and investment model of the private sector in the power grid, (2) supporting a legal framework to facilitate private sector investment, and (3) supporting the development of cross-border transmission and offshore transmission. **Investment in the transmission grid:** This includes (1) supporting EVNNPT to invest in infrastructure (upgrade and expand 500 kV and 220 kV transmission, monitoring control and data acquisition (SCADA) systems, and energy management systems (EMS), (2) supporting EVNNPT to invest in 110 kV and 22 kV distribution to integrate solar power, wind power, and rooftop solar power systems, and (3) developing transmission lines and substations for offshore wind power.
Projects on battery storage and pumped storage hydropower plants
Support for the Energy Storage System (ESS): To support the upgrading of ESS to meet the objectives of PDP VIII, including: (1) capacity building for staff and technicians on connection requirements, (2) develop a policy framework for the ESS, including electricity market regulations for the provision of ancillary services, and (3) feasibility study support for battery energy storage systems (BESS) and other storage. **Investment in energy storage:** This includes (1) investing in a pilot BESS project of 50 MW/50 MWh of EVN to investigate ancillary services and announce pricing mechanism design and technical standards, (2) piloting a 7 MW/7 MWh BESS project integrated into a 50 MW solar farm and a 105 MW/105 MWh BESS project integrated into a 400 MW solar farm, and (3) completing the 1,200 MW Bac Ai pump storage hydropower plant, including the upper reservoir and the 18.8 km 500 kV transmission line.
Projects on offshore wind power development
Supporting offshore wind power development: Supporting the development of offshore wind power through (1) capacity building and technical assistance to the MoIT, Ministry of Natural Resources and Environment (MONRE), and other organizations, supporting the development of marine spatial planning policies and offshore wind power, (2) financing to reduce the cost of the first offshore wind projects, e.g., wind speed measurement and geophysical survey, supporting 2 GW installed capacity, (3) funding for the continuous collection of wind speed and environmental data in areas of engineering potential, data storage, modelling and data communication, to enable planning, investing, and operating wind power plants and power grids, and (4) survey of offshore wind power planning. **Offshore wind power investment:** Invest in installed capacity up to 6 GW to be connected to the grid by 2030.

Source: JETP RMP (December 2023), Vietcap

The RMP also outlines the priority policy actions to be taken to promote the implementation of JETP. Some notable priorities for 2024 include building the legal framework to facilitate private sector investment in power transmission and distribution, developing a retirement/phase-out roadmap for coal-fired power plants, developing marine spatial planning and offshore wind power policies, finalizing and issuing the direct Power Purchase Agreement (DPPA – to allow large-end users to buy electricity directly from power plants), and making wind power and solar power PPAs bankable for international financiers.

We note that to most foreign banks, Vietnam's current model PPA is considered 'unbankable' because (1) there is no take-or-pay obligation for EVN (the current model PPA allows EVN to curtail production from power plants due to grid overload or other technical issues without paying compensation to power plants), (2) EVN does not have a sovereign guarantee (if EVN defaults, Vietnam's government does not have to pay power plants for their electricity), and (3) refunds for power plants are limited if the PPA is terminated.

The announcement of JETP's RMP reaffirms Vietnam's commitment to achieving net zero emissions by 2050 and is a positive development for the country's power sector, especially renewable energy, in our view. The minimum USD15.5bn scheme represents over 11% of the power sector's capital requirements in 2021-2030 of USD134.7bn according to PDP VIII. We expect supportive policy actions and capital disbursements to start from 2024 to accelerate the implementation of JETP.

Vietnam's offshore wind power needs a clear legal framework and pricing mechanism

Vietnam's offshore wind power industry is in its infancy, with no current operating capacity or established local supply chain. Up to the date of this report, the country does have a handful of near-shore wind farms, such as GEG's Tan Phu Dong 2 (50 MW, total capex of VND2.2tn, commercial operation in late 2021), VPL 1 (30 MW, total capex of VND1.3tn, commercial operation in late 2021), and Tan Phu Dong 1 (100 MW, total capex of VND4.5tn, commercial operation in mid-2023). In addition, PetroVietnam Technical Services (HNX: PVS) – the only Vietnamese provider of technical services for the oil & gas industry – has recently joined the offshore wind mechanical & construction (M&C) field, undertaking construction of tower foundations/jackets and offshore substations for four offshore wind power projects in Taiwan and Poland.

According to Vietnam's Power Development Plan (PDP) VIII, the country's technical potential for offshore wind power is 600 GW – the largest in Southeast Asia. Official targets for total offshore wind power capacity are 6 GW by 2030 and 91.5 GW by 2050. Moreover, PDP VIII encourages renewable power development, mainly offshore wind, without a capacity limit to produce green hydrogen for domestic consumption (in power generation) and exports.

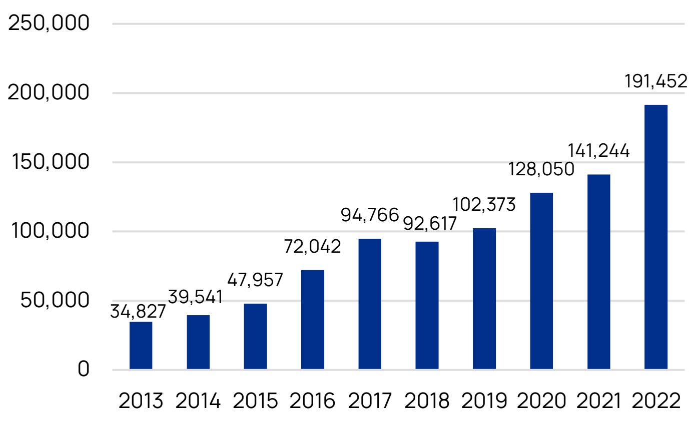
Many investors, both domestic and foreign, have expressed their interest in exploiting Vietnam's massive offshore wind power potential. Copenhagen Infrastructure Partners (CIP) – a Danish investment firm with stakes in 50 GW of offshore wind power capacity worldwide – established an office in Vietnam in 2020 to explore opportunities in renewables, including the La Gan offshore wind project (Binh Thuan Province, total capacity of up to 3.5 GW, total capex of up to USD10.5bn). Additionally, Enterprize Energy (EE) – another major global player in renewable energy – approached the Vietnamese government in 2017 to seek consent to evaluate and develop the Thang Long offshore wind project (Binh Thuan province, total capacity of 3.4 GW, total capex of USD11.9bn). At a meeting with Vietnam's Prime Minister at COP 28 in early December 2023, representatives of CIP and EE expressed their desires to develop offshore wind power projects in Vietnam and expectations for clearer policies from the Government.

To exploit Vietnam's untapped offshore wind potential and achieve PDP's capacity targets, the Government needs to develop a clear legal framework and guidance to accelerate investments in the industry. There remain a few key challenges for the development of offshore wind power in Vietnam. First, the national marine spatial master plan has not been approved. Second, the current Law on Investment does not stipulate which level of government will assess and issue investment licenses to offshore wind power projects. Third, the Ministry of Industry & Trade (MoIT) has not yet issued a new pricing mechanism for offshore wind power projects.

The lack of relevant laws and policies is also the primary reason behind the recently announced withdrawal of Orsted from Vietnam's offshore wind power industry. Prior to its withdrawal, in September 2021, Orsted and T&T Group of Vietnam signed an MOU to work on the development of 10 GW of offshore wind power capacity with a total capex of USD30bn. While we remain optimistic about the long-term growth prospects of Vietnam's offshore wind power industry, it is imperative that the Vietnamese government issues a clear legal framework, guidance, and pricing mechanism to attract investment capital and realize the country's enormous offshore wind power potential.

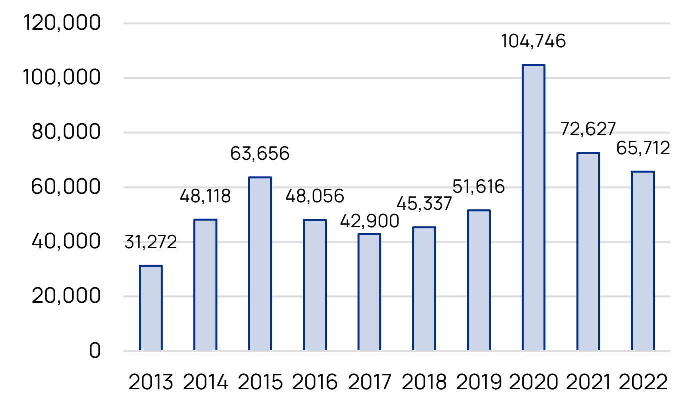
Global solar and wind power capacity to continue increasing in 2024

Figure 553: Global additional solar PV capacity, MW



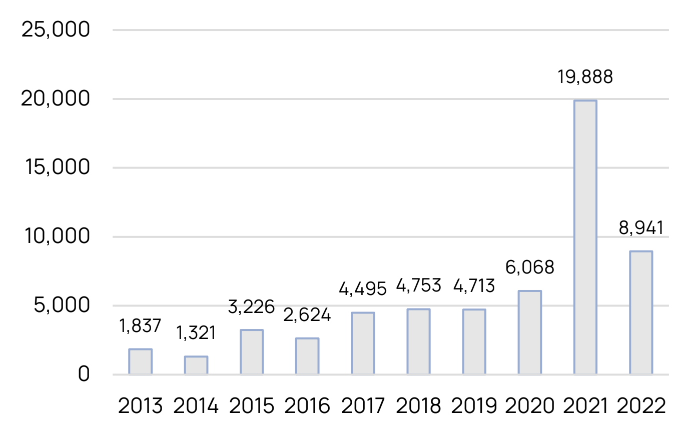
Source: IRENA, Vietcap

Figure 554: Global additional onshore wind capacity*, MW



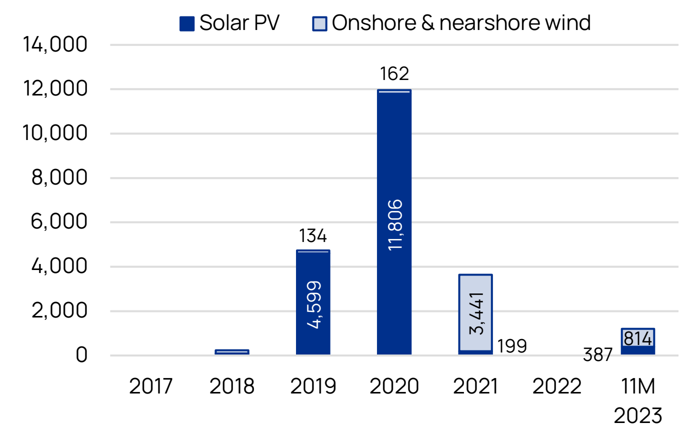
Source: IRENA, Vietcap (* 2020's peak was mainly driven by a 66% contribution from China as 2020 was the last year of the FiT policy for onshore wind in China).

Figure 555: Global additional offshore wind power capacity*, MW



Source: IRENA, Vietcap (*87% of the 20 GW offshore wind power capacity added globally in 2021 was from China as FiTs for offshore wind power were completely phased out from 2022).

Figure 556: Vietnam's additional solar PV and wind power capacity, MW



Source: EVN, Vietcap

According to the International Renewable Energy Agency (IRENA), the world added over 191 GW (+36% YoY) of solar photovoltaic (solar PV) capacity in 2022. This increased cumulative global solar PV installations to more than 1,047 GW by end-2022 – 26x the capacity in 2010. We attribute the impressive growth of solar PV capacity to supportive policies from governments (including favorable feed-in-tariffs or FiT schemes) and declining investment costs. Asia has been leading the world in terms of newly installed solar PV capacity. In 2022, the continent contributed about 59% of all new installations, with China taking a 45% share. Global research firm Wood Mackenzie expects a record 270/275 GW of newly installed solar power capacity globally in 2023/24, with China, the US, and Europe maintaining their leading positions.

In contrast, newly installed wind power capacity declined YoY in 2022. New installations of onshore wind power reached 65.7 GW in 2022 (-10% YoY), with China taking a 50% share (data from IRENA). The decrease vs 2021 can be attributed primarily to falling installations in the US as it commissioned only 7.8 GW of onshore wind projects last year (-45% YoY). According to the

Global Wind Energy Council (GWEC), this slowdown was due in part to supply chain constraints and grid interconnection issues in the US.

Meanwhile, global additional offshore wind power capacity plunged by 55% YoY in 2022 to 8.9 GW. China (4.1 GW) and Europe (4.3 GW) together accounted for over 94% of global additions. We attribute the slump vs 2021 mainly to China's additional offshore wind power capacity falling by 77% YoY from 17.4 GW in 2021 to 4.1 GW in 2022. This was because China's FiT scheme for offshore wind power was completely phased out from 2022. In addition, the global average total installed costs of offshore wind power rose by 13% YoY in 2022. In our view, this increase can be attributed partly to higher commodity prices, which impacted transportation costs as well as the cost of materials used in turbines, foundations, transmission cabling, etc.

After a challenging year for wind power in 2022, GWEC predicts that global wind power capacity will rebound in 2023-2024 with respective additional onshore wind power capacity of 97 GW (+48%) and 106 GW (+9% YoY) and additional offshore wind power capacity of 18 GW p.a. (double the capacity added in 2022). Wind power capacity is also expected to increase in the longer term, driven by decreasing investment costs and supportive policies across the globe. In the US, the Inflation Reduction Act, which was passed in August 2022, offers funding and incentives to accelerate the transition to a clean energy economy across multiple sectors. In the EU, the REPowerEU package offers renewable energy a EUR20bn funding package. Additionally, Taiwan continues to offer a favorable FiT policy for renewables in 2023, even inching up the FiT for onshore wind (30 kW and above) by 2% to TWD2.12/kWh (7 US cents/kWh) and for offshore wind by 0.1% to TWD4.51/kWh (15 US cents/kWh).

For **Vietnam** in particular, very limited capacity of solar and wind power has been added since the end of FiT policies in December 2020 for solar and in October 2021 for wind. Previously, solar power witnessed remarkable additions in 2019 and 2020 of 4.6 GW and 11.8 GW, respectively, while 3.4 GW of onshore and nearshore wind power capacity was added in 2021. In 11M 2023, a total of only 1.2 GW of solar and wind power capacity was added to the national grid. All this capacity came from transitional renewable power plants. In our view, a new growth cycle in Vietnam's renewable energy will only happen once a new pricing mechanism is released and we expect this to be forthcoming in 2024.

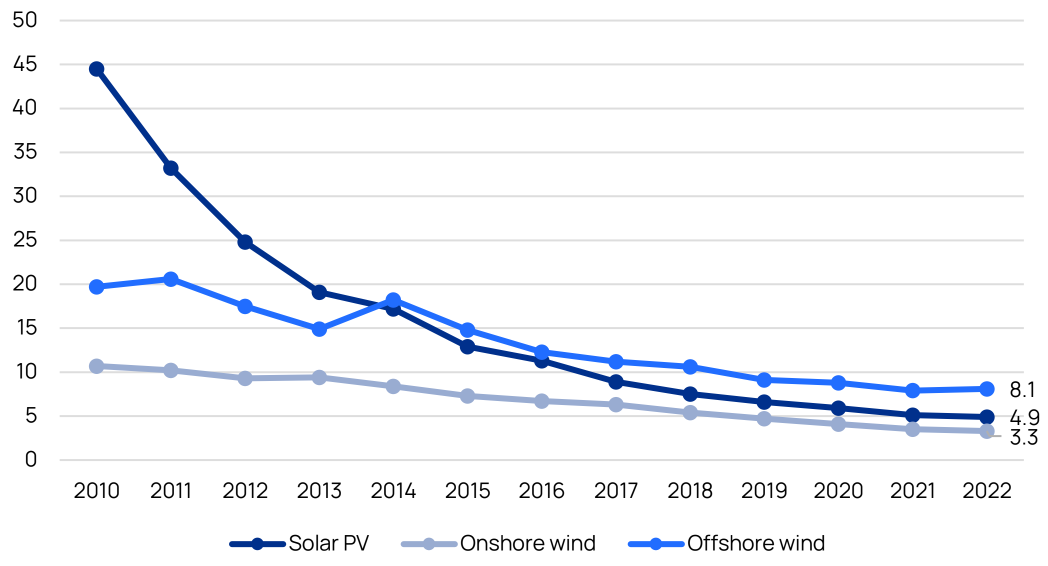
LCOE of solar PV and onshore wind power to continue declining; the near-term trend for offshore wind power is more uncertain

In 2010-2022, global solar and wind power experienced remarkable cost reductions. According to IRENA, the global weighted average levelized cost of energy (LCOE) declined the most for photovoltaic solar (solar PV) by 89% between 2010 and 2022, followed by onshore wind and offshore wind power by 69% and 59%, respectively.

The LCOE of a given project is the ratio of its lifetime costs to the amount of electricity generated over the project's life cycle, both of which are discounted to a common year using the project's discount rate. The total costs of a project include project development costs, equipment, civil engineering, installation, grid connection, operations & maintenance (O&M), and financing. Meanwhile, the lifetime electricity generation of a project is determined by its capacity factor (or utilization rate), which in turn is affected by factors such as the project's siting (solar/wind resource at the site), technology improvements and the quality of engineering design.

$$LCOE = \frac{PV\ of\ lifetime\ costs}{PV\ of\ lifetime\ electricity\ generation}$$

Figure 557: Global weighted average LCOE of solar PV, onshore wind, and offshore wind power (US cents/kWh)



Source: IRENA, Vietcap

IRENA attributes these remarkable declines in LCOE over the past decade to (1) improving economies of scale in solar panels/wind turbine manufacturing and projects which have helped to reduce costs, (2) lower operations & management (O&M) costs stemming from improved O&M technologies and experience, and (3) technology improvements which have led to increased energy yields/capacity factors.

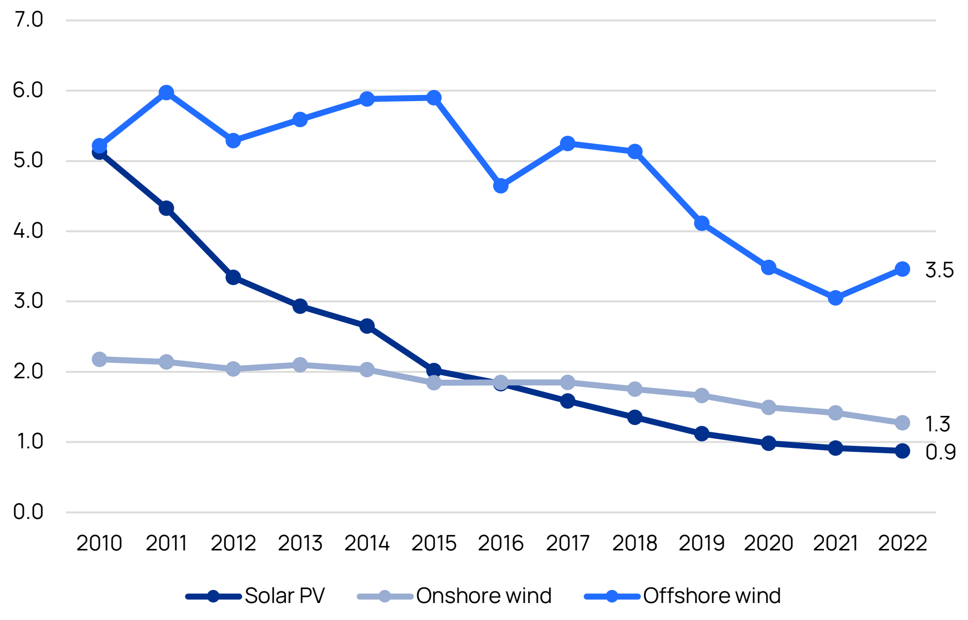
On a year-on-year basis, LCOEs of solar PV and onshore wind power edged down by 4% and 6%, respectively, in 2022. Meanwhile, after a consistent downward trend in 2015-2021, LCOE of offshore wind power inched up by 2% in 2022. We attribute this increase primarily to higher total installed costs of offshore wind power in 2022 (+13% YoY). This could be due to higher commodity prices, which impacted the costs of transportation as well as materials used in turbines, foundations, transmission cabling, etc. In addition, increasing scale and complexity of projects as more projects are built in deeper water and farther offshore have raised project development costs.

According to IRENA, **Vietnam's LCOE of solar PV and onshore wind** have also declined dramatically over the past few years. The country's LCOE of solar PV dropped by 38% between 2019 and 2021 to 4.6 US cents/kWh. If we assume that this cost had the same growth rate as the global weighted average LCOE of solar PV, LCOE of Vietnamese solar PV would be about 4.4 US cents/kWh in 2022 – 10% lower than the global weighted average and 18% higher than China's. Meanwhile, Vietnam's LCOE of onshore wind power plunged by 40% in 2019-2022 to 4.8 US cents/kWh – 45% higher than the global weighted average and 78% higher than China's.

We believe that it will take quite some time for the LCOE of **Vietnam's offshore wind power** to be on par with those of China and Europe (respective LCOEs of 7.7 US cents/kWh and 7.4 US cents/kWh in 2022), given the infancy of the country's offshore wind power industry. According to a World Bank research report in 2021, the estimated LCOE of the first offshore wind projects in Vietnam will be over 15 US cents/kWh given limited use of local suppliers, and assumptions of small project scale and low capacity factors. However, the report predicts that the LCOE of Vietnamese offshore wind power will reduce to around 8-9 US cents/kWh by 2030 and 6-7 US cents/kWh by 2035.

Investment costs for renewable energy to continue declining globally

Figure 558: Global capacity-weighted average total installed cost of solar PV, onshore wind, and offshore wind power (USD mn/MW)



Source: IRENA, Vietcap

The total installed costs of solar PV and onshore wind power have declined consistently over the past decade while that of offshore wind power has experienced many fluctuations. The global capacity-weighted average total installed cost of solar PV decreased by 83% in 2010-2022, to USD0.88mn/MW. Due to higher prices of mainstream solar panels in 2021-2022 as prices of polysilicon surged (+196% YoY in 2021 and +36% YoY in 2022 on average), many countries experienced higher total installed costs of solar PV in 2022, such as China (+6% YoY to USD0.71mn/MW), India (+2% YoY to USD0.64mn/MW), Germany (+34% YoY to USD0.996mn/MW), and the Netherlands (+12% YoY to USD1.22mn/MW). In contrast, major PV markets in the Middle East, South America, and Australia saw dramatic cost reductions ranging from 15% to 62% YoY in 2022. On a global level, the capacity-weighted average total installed cost of solar PV edged down by 4% YoY in 2022. We expect the total installed cost of solar PV to drop further in 2023-2024 as polysilicon prices dropped sharply in 2023. By end-November 2023, average polysilicon prices plunged by 73% YTD to USD8.34/kg.

In 2010-2022, the global weighted average total installed cost of onshore wind fell by 42% to USD1.27mn/MW. On a year-on-year basis, the total installed cost of onshore wind dropped by 10% YoY in 2022. Brazil, China, and India are the three most competitive markets for onshore wind power, with respective 2022 total installed costs of USD1.05/MW (-14% YoY), USD1.103 per MW (-11% YoY) and USD1.122mn/MW (+13% YoY). According to IRENA, **Vietnam's** weighted average total installed costs of onshore wind declined by 36% YoY to USD1.65mn/MW in 2021 (33% higher than China's 2021 total installed costs) but rose by 5% YoY to USD1.72mn/MW in 2022 (56% higher than China's 2022 total installed costs).

In 2010-2022, the global capacity-weighted average total installed cost of offshore wind power declined by 34% to USD3.46mn/MW. However, it has been much more volatile than that of solar PV and onshore wind power. IRENA attributes this volatility to the site-specific nature of offshore wind farms, different levels of market maturity, and the scale of local and regional supply chains. Between 2010 and 2022, China's total installed costs of offshore wind power fell by 43% to USD2.81mn/MW. Another offshore wind powerhouse – the UK – experienced a 23% drop in the total installed costs of offshore wind in the same period, to USD3.89mn/MW in 2022. The much lower total installed costs in China could be attributed to the closer-to-shore nature of Chinese offshore wind projects as well as the country's lower labor costs and competitive wind turbine manufacturing capacity.

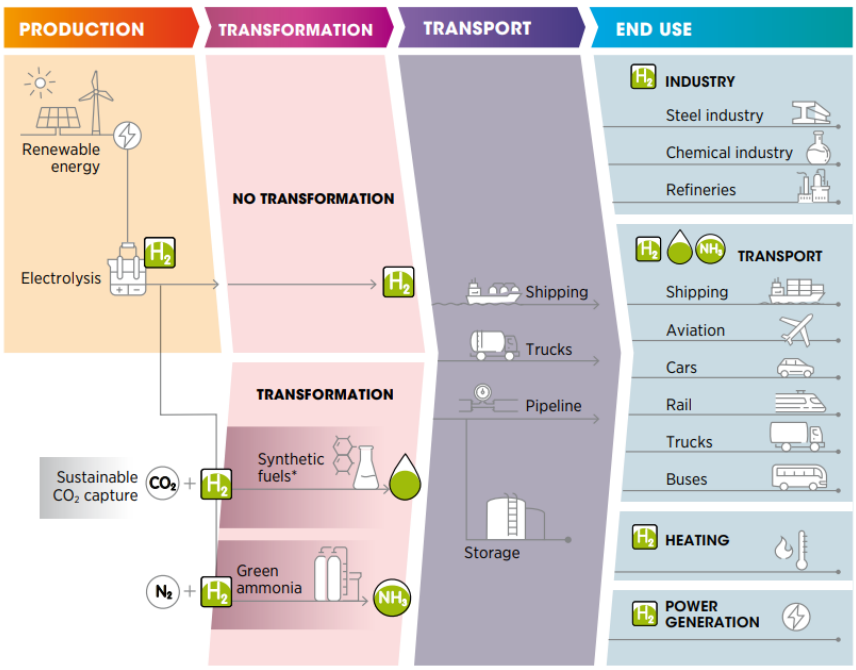
Looking forward, we expect LCOE and total installed costs of solar PV to drop further. According to an IRENA study in 2019, the global weighted average total installed cost of onshore wind power is expected to decline by ~17% to USD1.07mn/MW by 2030 and by ~36% to USD0.82mn/MW by 2050 (compared to 2022). IRENA also forecasts that the global weighted average total installed cost of offshore wind power will drop by ~30% to USD2.45mn/MW by 2030 and by ~40% to USD2.10mn/MW by 2050 (compared to 2022).

Ambitions for green hydrogen production to further boost renewable energy development in the long run

Hydrogen is a type of gas used in oil refining (33% of global hydrogen production in 2019, per IEA), ammonia production (27%), methanol production (11%), and steel production (3%). IRENA estimates that hydrogen demand from G7 members will grow at a CAGR of 7% in 2020-2050, to 192 million tonnes. Apart from the above-mentioned uses, hydrogen has great potential to replace fossil fuels in transportation (shipping, aviation, cars, railways, trucks, and buses), heating in buildings, and power generation.

According to IEA, virtually all hydrogen supplies are currently produced using fossil fuels (thus the term 'grey hydrogen', and 'blue hydrogen' with carbon capture, use, and storage), with natural gas and coal accounting for about 75% and 23% of annual global production, respectively. **Green hydrogen**, which is produced by splitting water into hydrogen and oxygen using renewable electricity, makes up less than 0.1% of overall hydrogen production, per the World Economic Forum. This is primarily due to the current cost advantage of fossil fuels in hydrogen production compared to renewable electricity. For instance, the production cost of grey hydrogen from coal and natural gas is only about one third to one half of that of green hydrogen in China in 2019 (data from IEA).

Figure 559: Green hydrogen production, transformation, transport, and end uses



Source: IRENA, Vietcap

The IEA believes that hydrogen produced from fossil fuels will likely continue to be cost-competitive compared to green hydrogen until 2030. It projects that the average 2030 production cost of hydrogen from natural gas and coal will be about USD2-2.5/kg – well below that of green hydrogen at about USD3/kg. However, experts believe that green hydrogen development has ample growth headroom in the long run with declining costs of renewable energy and governments pushing for green energy transitions to meet 2050 net zero commitments in their respective countries.

Vietnam's PDP VIII also guides for a gradual transition from using gas/LNG/coal to hydrogen/ammonia/biomass from 2035. The Vietnamese government also encourages the development of renewable energy – mainly offshore wind power – and sets no capacity limit on the production of hydrogen. It targets **15 GW** and **240 GW** of offshore wind power capacity by 2035 and 2050, respectively, to produce green hydrogen which can be exported or used domestically in power generation.

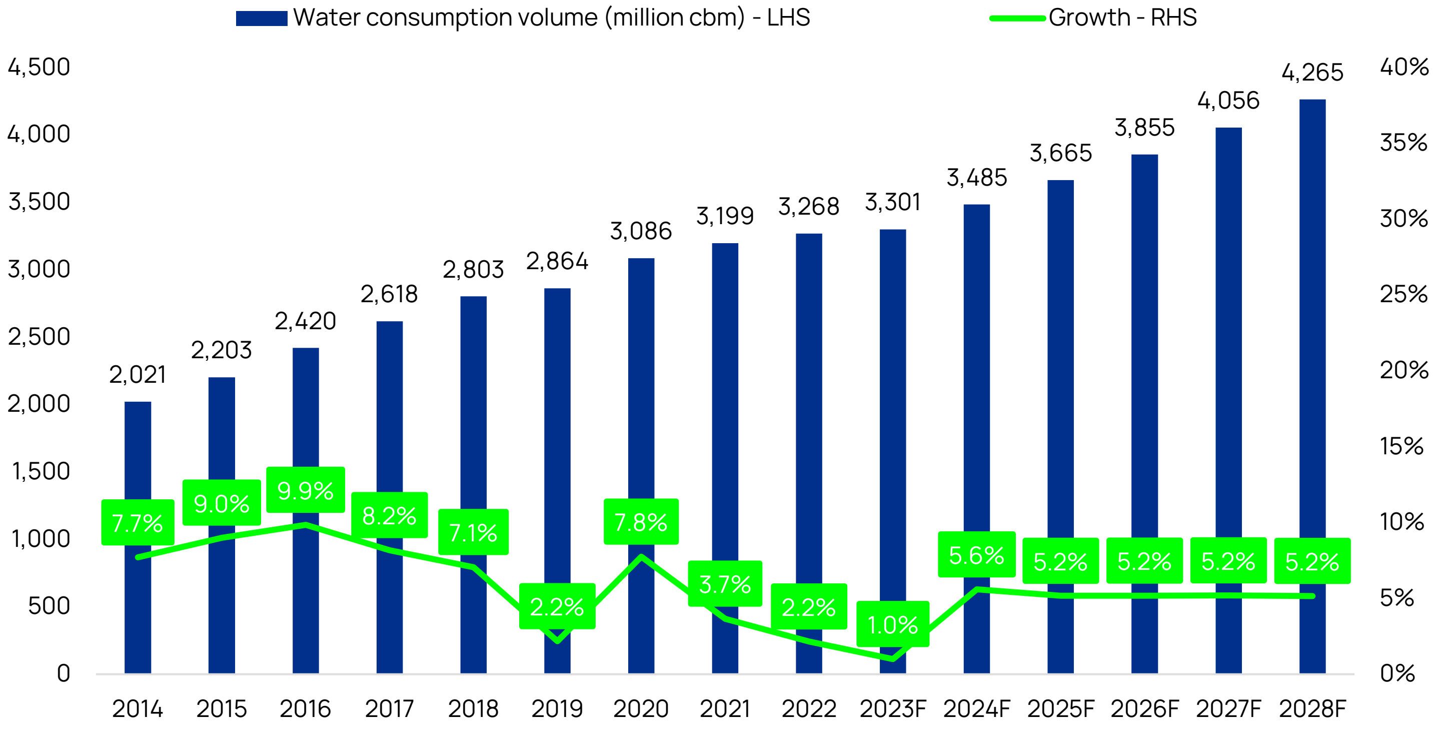
Water: Bright outlook for clean water in Vietnam

Vietnam's water demand outlook

In 2013-2022, Vietnam's water demand grew at a CAGR of 6.4%, which was slightly higher than the country's real GDP CAGR of 6.1%.

We expect Vietnam's water demand to increase by 5.2%-5.6% p.a. in 2024-2028F based on our real GDP growth assumption of 6.5%/6.8%/7% in 2024/2025/2026F and assumptions for Vietnam's annual GDP growth rate at 6%-6.5% in 2027-2028F (guided by the Ministry of Industry and Trade (MoIT)). In addition, FiinResearch (a market research service provider in Vietnam) forecasts Vietnam's piped-water demand to increase at a 2023-2027F CAGR of 4.3%, driven by a low piped-water penetration rate, favorable demographic factors, and the robust development of the industrial sector in Vietnam.

Figure 560: Vietnam's water demand in 2014-2028F



Source: General Statistics Office of Vietnam (GSO), Vietcap

Water tariff mechanism

As a regulated sector with variable pricing among municipalities and provinces, authorities are tasked with approving water tariffs.

According to Decree 117/2007/ND-CP, issued July 11, 2007, water rates for end users in a province must be approved or determined by provincial authorities. These tariffs also need to fall within the price range that the Ministry of Finance has set. Wholesale and retail water supply firms should come to an agreement on wholesale clean water prices. In the event of a dispute, either party (or both parties) may request the intervention of provincial authorities. Additionally, Circular 44/2021/TT-BTC, dated June 18, 2022, which outlines the guiding principles, procedures, and legal frameworks for establishing clean water rates, was put into effect by the Ministry of Finance. According to this circular, each province shall have its own water tariff, which must be approved by provincial authorities and fall within the regulated range shown in **Figure 561**.

Figure 561: Regulated tariff range for clean water, including VAT

VND/cbm	Minimum	Maximum
Special municipalities and Tier 1 cities	3,500	18,000
Tier 2, 3, 4, & 5 cities	3,000	15,000
Rural areas	2,000	11,000

Source: Circular 44/2021/TT-BTC, Vietcap

We understand that the water tariff is set based on the unit cost of producing clean water plus a predetermined return, as shown below (Circular 44/2021):

$$\textbf{Cost per cbm} = \frac{\textbf{Material cost + Labor cost + Depreciation cost + SG\&A expense + Financial expense + Safety fee - Non water revenue}}{\textbf{Total sales volume (*)}}$$

In which:

(*): Total production volume minus water loss. According to the circular, a maximum water loss ratio of 20% shall be included in the water tariff calculation. In 2025, a maximum water loss ratio of 15% shall be included in water tariff calculations unless otherwise determined by the Prime Minister.

The water tariff is then regulated by the formula below:

Water tariff (VND per cbm) = (Cost per cbm + P) * Hi

P: Regulated profit, which is regulated to range from VND360 to VND1,500 per cbm.

Hi: Coefficient, which is subject to approval by provincial authorities. Hi = 1 for wholesale clients.

Figure 562: Water tariff in Binh Duong Province vs other provinces/municipalities in 2023

VND/cbm	Binh Duong	Binh Phuoc	Ba Ria – Vung Tau	Dong Nai	HCMC	Hanoi	Can Tho	Long An
Residential	10,500	8,047-14,240 on ladder scale basis	4,500-12,500 on ladder scale basis	5,800-12,800 on ladder scale basis	6,700-14,400 on ladder scale basis	7,500-24,000 on ladder scale basis	5,500-8,700 on ladder scale basis	9,196 (wholesale price)
Industrial (wholesale price)	13,100	14,660	11,500	10,300	12,100	15,000	8,900	12,702

Source: BWE, Vietcap. Note: Prices do not include VAT (5%) and environmental protection fee (10%). Water tariff in Hanoi was effective since July 1, 2023. We use the water tariff in Long An Water Supply Sewerage JSC (UPCoM: LAW) to represent the water tariff in Long An Province.

Residential water tariff in Binh Duong Province of VND10,500/cbm in 2023 is close to the average of observed municipalities' ladder-scale tariffs. The water tariff for Binh Duong's residential segment is currently a fixed price policy that differs significantly compared to other provinces. In 2011-2017, the province's residential water tariff was on a ladder scale basis, meaning that end-users would have to pay a higher tariff based on the amount of water they use to encourage economical use. According to Decision 68/2014/QD, dated December 24, 2014, end-users must pay VND6,100/cbm for the first 10 cbm, VND8,600/cbm for 10-20 cbm, VND10,600/cbm for 20-30 cbm, and VND13,000/cbm for 30 cbm onward. However, beginning in 2018, the tariff was converted to a fixed price policy to encourage residents to use processed water. In other provinces, the tariff continues to be based on a ladder scale basis. In addition, the residential tariff is lower than the tariff for the industrial segment, which is in line with the policies of provincial authorities to support Binh Duong's residents.

Industrial water tariff in Binh Duong in 2023 was 3% lower than the average of Hanoi and HCMC. It was 20% higher than the average of Dong Nai and Ba Ria – Vung Tau (key provinces attracting FDI in the southeastern region), however we note that the industrial water tariff in Binh Duong is 17% lower than in neighboring Binh Phuoc Province.

There are two typical patterns of historical changes in residential and industrial water tariffs in Vietnam, as shown in **Figure 563**:

1. Water tariff to be increased steadily by ~5%-10% p.a.

2. Water tariff to be raised substantially (~30%-50%) after being kept flat for several years. We attribute this to capacity expansion to meet robust demand for clean water.

Some recent increases in water tariffs of several provinces/cities are encouraging, despite slower economic growth in 2023. In July 2023, Hanoi raised its water tariff after keeping it unchanged from 2016. Hanoi raised the residential and industrial segment tariffs in H2 2023 by 44% and 29% vs the old tariffs, respectively. In May 2023, Ca Mau approved a new water tariff with the residential tariff increasing 25% and the industrial tariff increasing 12%, respectively, compared to the old tariffs.

We believe BWE & TDM's request to raise the water tariff by 3% p.a. starting on July 1, 2024 for the next five years will be approved because of five main reasons:

1. The request for a 3% increase p.a. in water tariff is reasonable compared to historical increases of 3%-5% as well as the recent substantial water tariff hikes in other cities/provinces.

2. BWE's current water tariff is still 11% lower compared to the maximum price set by the Ministry of Finance.

3. Binh Duong's 2023 industrial water tariff is 17% lower than in neighboring Binh Phuoc Province, which we believe has room to increase.

4. BWE & TDM supported Binh Duong's authority during the COVID-19 pandemic.

5. BWE & TDM expanded their respective capacities by 15% and 63% over the past three years, which should translate into a higher tariff to compensate for higher depreciation and interest expenses.

Figure 563: Historical changes in residential & industrial water tariff of select municipalities

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average
Binh Duong												
Residential	**19%**	0%	0%	0%	0%	**-7%**	6%	6%	5%	5%	0%	**3%**
Industrial	**13%**	0%	8%	0%	0%	**18%**	5%	4%	6%	5%	0%	**5%**
HCMC												
Residential	**6%**	0%	0%	0%	0%	0%	6%	6%	6%	6%	0%	**3%**
Industrial	**17%**	0%	0%	0%	0%	0%	6%	6%	6%	6%	0%	**4%**
Hanoi												
Residential	**27%**	**24%**	**19%**	0%	0%	0%	0%	0%	0%	0%	**44%**	**10%**
Industrial	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	**29%**	**3%**
Binh Phuoc												
Residential	0%	0%	4%	0%	**10%**	6%	5%	6%	5%	6%	4%	**4%**
Industrial	N/A	N/A	N/A	0%	0%	0%	0%	**16%**	**18%**	4%	3%	**5%**
Dong Nai												
Residential	0%	**30%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	**3%**
Industrial	0%	**42%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	**4%**
Ba Ria – Vung Tau												
Residential	10%	0%	**9%**	**12%**	**9%**	**14%**	0%	0%	0%	0%	0%	**5%**
Industrial	10%	0%	**9%**	**10%**	**11%**	**15%**	0%	0%	0%	0%	0%	**5%**
Long An												
Residential	0%	3%	0%	**12%**	0%	4%	0%	**15%**	**8%**	**8%**	**8%**	**5%**
Industrial	0%	**-13%**	0%	34%	0%	1%	0%	**12%**	**8%**	**8%**	**8%**	**5%**
Can Tho												
Residential	**52%**	0%	0%	0%	0%	0%	**14%**	0%	0%	0%	0%	**6%**
Industrial	**34%**	0%	0%	0%	0%	0%	**14%**	0%	0%	0%	0%	**4%**
Vinh Long												
Residential	0%	0%	**14%**	0%	**20%**	0%	**15%**	0%	0%	0%	0%	**4%**
Industrial	0%	0%	**12%**	0%	**23%**	0%	**11%**	0%	0%	0%	0%	**4%**
Ca Mau												
Residential	0%	**35%**	0%	0%	0%	0%	0%	0%	0%	0%	**25%**	**5%**
Industrial	0%	**42%**	0%	0%	0%	0%	0%	0%	0%	0%	**12%**	**5%**
Quang Binh												
Residential	0%	**20%**	0%	0%	**17%**	0%	0%	0%	**24%**	0%	0%	**6%**
Industrial	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	**0%**

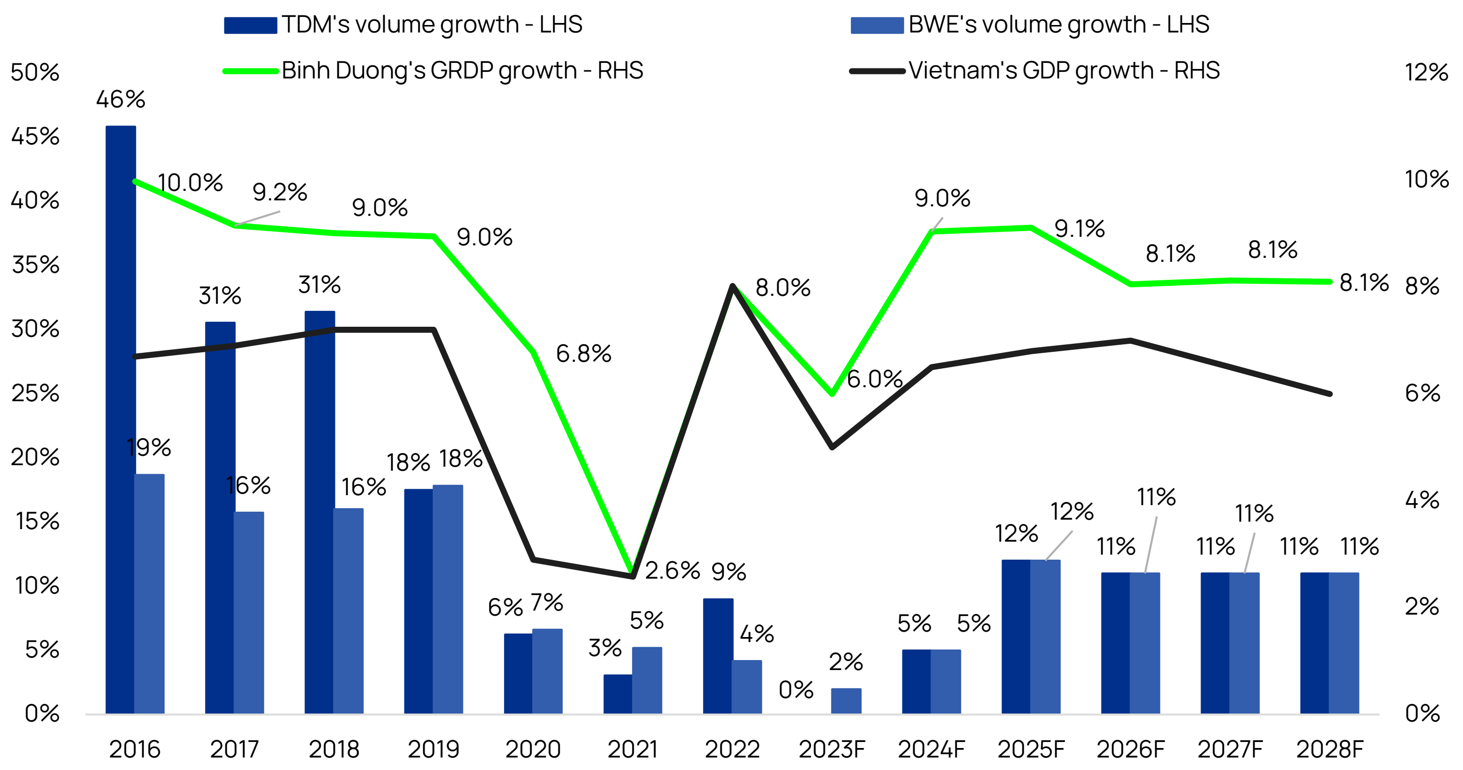
Source: People's Committees of above municipalities, Vietcap. Note: We use the average residential water tariff for municipalities applying residential water tariffs on a ladder scale basis. Industrial water tariffs are wholesale prices. Prices do not include VAT (5%) and the environmental protection fee (10%). We use the water tariff of the major water supplier to represent the water tariff of each municipality (i.e., the water tariff of Long An Water Supply Sewerage JSC (UPCoM: LAW) to represent the water tariff of Long An Province).

Binh Duong Province's water demand outlook

According to Decision 3613/QĐ-UBND of the People's Committee of Binh Duong Province, dated December 26, 2016, Binh Duong's expected 2025G water demand is 294 million cbm with a three-year CAGR of 11.8%. This guidance suggests a daily water supply capacity of 807,000 cbm/day in 2025 compared to Binh Duong's designed capacity of 760,000 cbm/day in 2023. Clearly, this level of capacity would benefit BWE's future capacity expansion.

We forecast water demand in Binh Duong to increase at a CAGR 2023-2027F of 9.7%, which is nearly double that of Vietnam's water demand growth of 5.3% per our forecast, while more than double that of Vietnam's water demand growth of 4.3% per FiinResearch forecasts.

Figure 564: Binh Duong's water demand vs GRDP



Source: BWE, TDM, Binh Duong provincial authorities, Vietcap

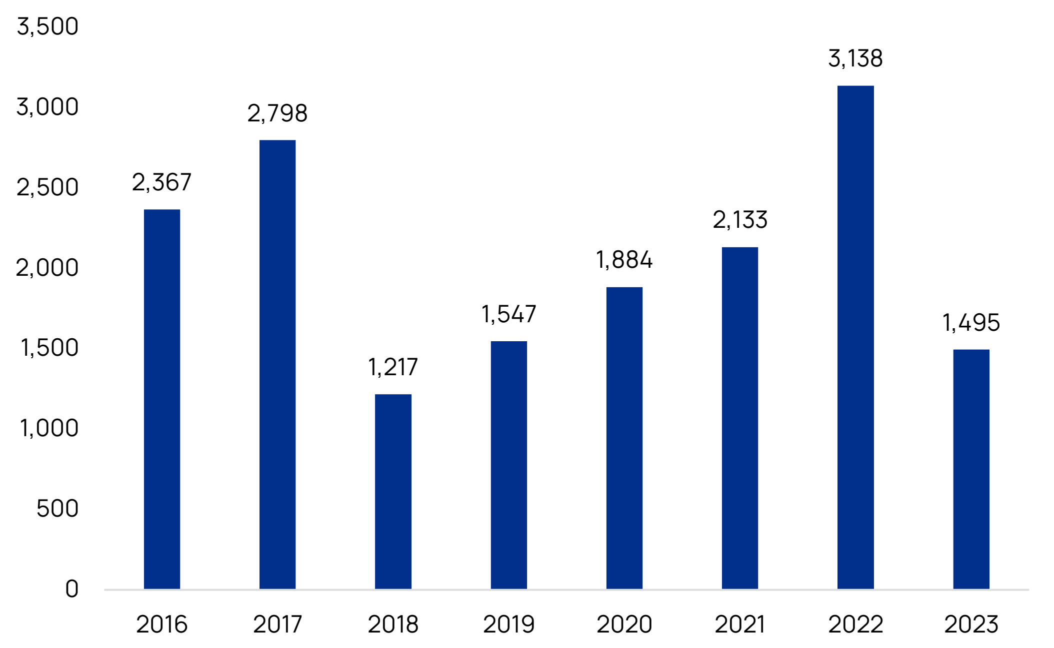
Binh Duong is preparing its master plan for 2021-2030. In this master plan, Binh Duong targets GRDP growth of ~10% p.a. in 2021-2030. In terms of industrial development, the province plans to develop 10,000 ha of industrial area (vs 12,000 ha currently) for industrial-urban-service areas surrounding Ring Road No. 3 and highways in southeastern Vietnam.

In June 2022, the National Congress issued an investment approval for the 76-km Ring Road No. 3 project (total investment of VND75tn) that will connect HCMC with Dong Nai, Long An, and Binh Duong provinces. Binh Duong's responsibility for this project includes 26.6 km with a total capex of VND19tn. Binh Duong Province commenced construction in June 2023 and targets to bring the project to operation in 2026.

Binh Duong is among Vietnam's top provinces for attracting new FDI registrations, which drives robust water demand from industrial parks. Cumulative FDI for the province over the past 30 years is more than USD40bn, ranking second in Vietnam (just behind HCMC). Binh Duong ranked second among provinces in FDI attraction in 2022 with FDI inflows of USD3.1bn (+48.8% YoY) thanks to large-scale investment projects from LEGO (total capital of USD1.3bn) and Pandora Group (capital expenditure of USD100mn). In 2023, the preliminary registered FDI was USD1.5bn, achieving 82% of the annual target of USD1.8bn. This result puts Binh Duong in the top 10 provinces of attracting new FDI registrations in Vietnam in 2023. In the long term, we expect Binh Duong's industrial water demand will increase due to the rapid expansion of industrial production as new industrial parks come into operation in 2022-2025F, including the Vietnam Singapore Industrial Park (VSIP) III in Tan Uyen District (1,000 ha) and Cay Truong Industrial Park (1,000 ha) in Bau Bang District.

Vietcap

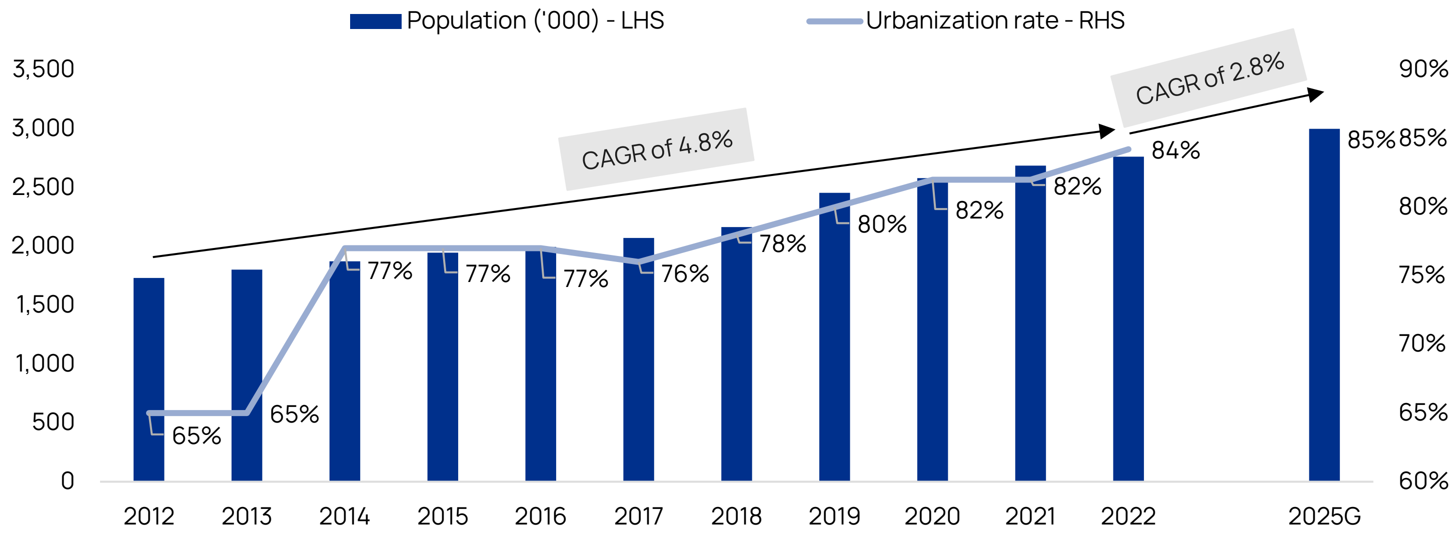
Figure 565: Registered FDI in Binh Duong Province (USD mn)



Source: Ministry of Planning and Investment (MoPI), Vietcap

Binh Duong's population increased at a 10-year CAGR of 4.8% p.a. in 2012-2022, which was more than triple Vietnam's population growth rate over the same period. Rising population and a high urbanization rate will drive Binh Duong's residential water demand, particularly in HCMC's suburbs, such as Di An Ward. The province's growth rate has picked up over the last five years mainly due to the migration of workers from surrounding provinces. Furthermore, Binh Duong has a high urbanization rate with approximately 84% of its population residing in urban areas in 2022. This large urban population leads to higher total water demand because urban areas use more water than rural areas. In addition, the province's population will increase at a CAGR of 3.1% from 2021-2025G while its urbanization rate will be 85% in 2025G, according to provincial authorities.

Figure 566: Population and urbanization rate in Binh Duong Province



Source: Binh Duong Statistical Office, Vietcap

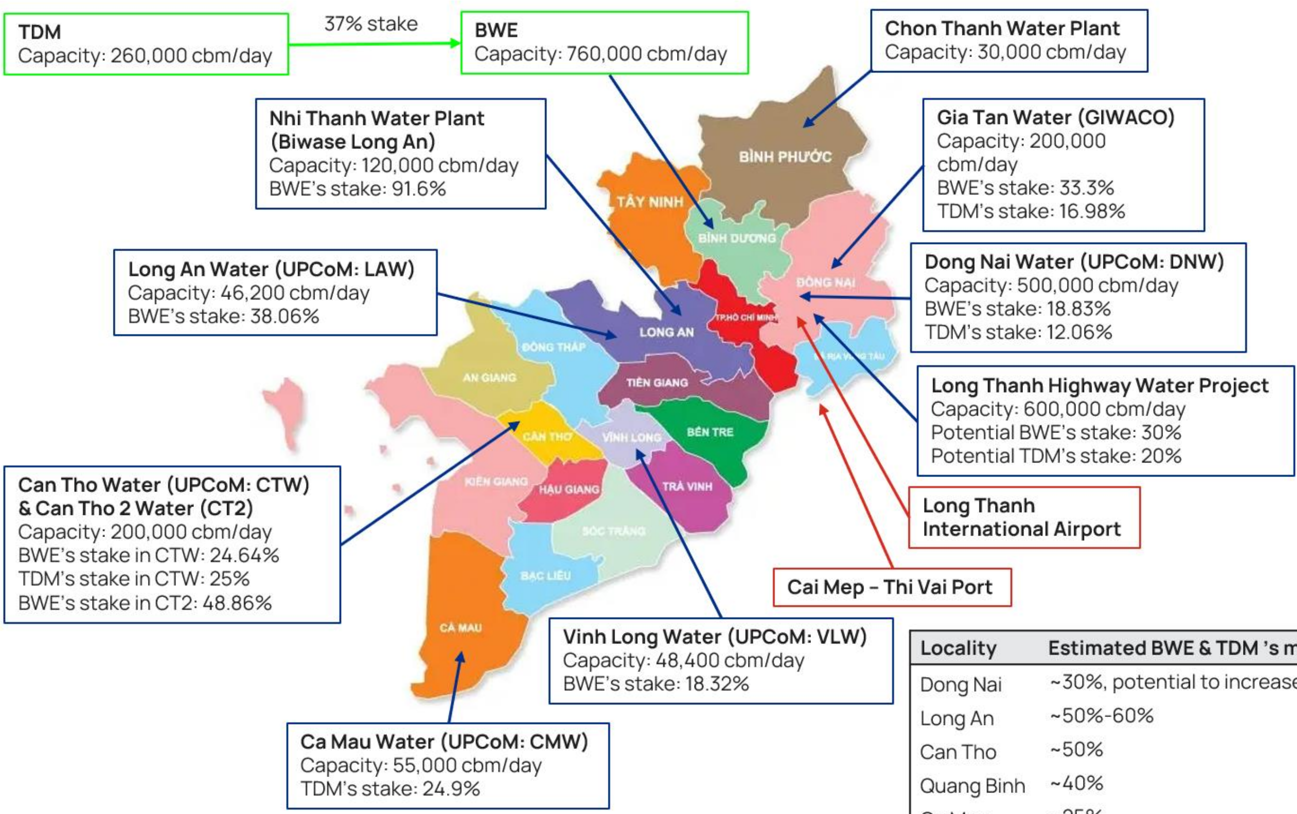
BWE & TDM have expanded beyond Binh Duong

BWE and TDM have established a presence in seven out of Vietnam's 63 provinces/municipalities in what is typically a strictly State-owned business. We estimate BWE to have a ~30%-50% market share in the water business in southwestern Vietnam, 30% in Dong Nai Province (with the potential to increase to 50% market share), and 40% in Quang Binh Province.

Consolidation of Biwase Long An (previously known as DNP Long An Water Infrastructure Investment JSC) marks BWE's biggest M&A success, giving it full control rights. On May 31, 2023, BWE increased its stake in Biwase Long An from 25.4% to 91.6%. BWE has invested a total of VND561bn (USD23.8mn) in Biwase Long An. The estimated acquisition price of VND14,960/share implies an acquisition P/E at 16.3x, which we believe is a good price due to Biwase Long An's huge growth potential.

Biwase Long An is doubling capacity and we project its NPAT to increase 9x from an estimated VND44bn in 2023 to VND225bn in 2027. Biwase Long An received a construction license and is aggressively working to double the capacity of its Nhi Thanh water plant from 60,000 cbm/day to 120,000 cbm/day with a target to come online early in 2025. Management is confident that Biwase Long An can quickly acquire new clients and fully utilize its new capacity in one to two years as demand is two-to-three times higher compared to the current supply. This supports our volume CAGR forecast of 15% over 2023-2028F.

Figure 567: Locations of BWE's & TDM's projects and acquired water companies



Locality	Estimated BWE & TDM 's market share
Dong Nai	~30%, potential to increase to 50%
Long An	~50%-60%
Can Tho	~50%
Quang Binh	~40%
Ca Mau	~25%
Vinh Long	~20%

Source: BWE, TDM, Vietcap. Note: BWE has a 41% stake in Quang Binh Water (UPCoM: NQB) and TDM has a 42.45% stake in DNP Quang Binh Water Infrastructure Investment JSC, which are not illustrated on the map.

More details of the outlook for the water industry in the provinces where BWE has a presence are available in our Water Sector Update, published November 7, 2023.

Stock recommendations for 2024

BUY – REE Corp (HOSE: REE): E-town 6 and additional power capacity to drive earnings growth in 2024

REE remains one of our favorite stocks as it is a leader in Vietnam's green energy sector with strong financial capacity in a capital-intensive sector and profitable projects supported by REE's effective cost management. We are optimistic about REE's potential capacity expansion in Vietnam's promising renewable energy sector via rooftop solar & wind power as well as REE's aggressive target to double its revenue to USD1bn over the next five years vs our forecast of USD615mn by 2027F.

We see solid long-term outlook for REE with forecasted 12% EPS CAGR in 2023-2027F that is driven by the contributions from 350 MW of wind power, 350 MWp of rooftop solar power, and the E-town 6 building entering commercial operation in early 2024F. Furthermore, we believe the ongoing construction of the new Long Thanh International Airport will boost its traditional M&E segment in 2026F.

In our view, REE's valuation is attractive at a 2024F PER of 8.7x, implying a PEG of 0.7 (based on a 2023-2027F EPS CAGR of 12%).

Upside catalyst: Announcement of M&A deals; higher profits from the Light Square real estate project and office leasing.

Downside risk: Lower-than-expected additional wind and rooftop solar power capacity.

OUTPERFORM – GELEX Group (HOSE: GEX): Power divestment gain to boost 2024F reported earnings

We re-initiated coverage of GEX in September 2023. We are optimistic about GEX's long-term earnings growth outlook as we expect (1) its industrial production segments (construction materials and electrical equipment) to rebound given our expectations for gradual recovery in the real estate and power sectors, and (2) its IP leasing & services segment to benefit from global manufacturers' ongoing relocation to Vietnam.

We project a pretax profit of VND950bn from GEX's power divestment, which contributes to our forecasted 177% YoY jump in GEX's 2024F reported earnings. On November 10, 2023, Sembcorp (Singapore) announced that it reached an agreement to acquire majority interests ranging from 73% to 100% in GEX's power plants (total capacity of 245 MW). We expect the deal to be completed in H1 2024.

In our view, GEX's valuations are attractive at a 2024/25F PER of 14.7x/24.4x and implied PEG of 0.6x (based on our average 2024/25F PER and 2023-2027F reported EPS CAGR of 35%).

Upside catalyst: Contributions from TITAN Corp and further VGC residential projects.

Downside risk: Securities investment losses; weaker-than-expected real estate recovery.

OUTPERFORM – PC1 Group (HOSE: PC1): Earnings set to nearly double YoY in 2024

We believe that PC1 is one of the earliest beneficiaries of the implementation of PDP VIII, in particular investments in power transmission infrastructure from 2024 and investments in renewable power projects from 2025. PC1 expects to secure a sizeable power construction contract from the extended national 500 kV line 3 project (total capex of VND22.4tn), which supports our 2024-2025F power construction revenue forecasts of VND5.0tn (+108% YoY) and VND6.0tn (+20% YoY), respectively.

We project PC1's 2024F reported NPAT-MI to nearly double YoY compared to 2023F's low base, driven by a doubling in power construction segment revenue, a VND107bn profit contribution from Western Pacific JSC, full-year operation of PC1's nickel plant, and no forex losses.

In our view, PC1's valuation looks attractive at a 2024F PER of 14.3x and implied 5Y PEG of 0.3x (based on our 2023-2027F EPS CAGR of 51%).

Upside catalysts: Higher-than-expected profit from nickel mining and power generation.

Downside risk: Higher-than-expected FX losses in 2023-2024.

OUTPERFORM – Ha Do Group (HOSE: HDG): Earnings growth to resume in 2024 on real estate recovery

HDG is a play on Vietnam's real estate and green energy sectors with VND5.3tn of projected NPAT from real estate handovers, and contributions from five new wind power projects (total capacity of 480 MW) entering commercial operation in 2025-2027F. HDG is a small but reputable real estate developer with a 121-ha land bank and is looking to quadruple its land bank. It also possesses sizable renewable energy with highly profitable projects (project IRRs range from 10% to 30%).

We project HDG's 2024F earnings to rebound by 20% compared to 2023's low base, mainly due to real estate earnings nearly tripling. HDG expects to launch sales of Charm Villas Phase 3 in 2024. Management is positive about the prospects of the sales launch due to low supply in western Hanoi and signs that the real estate market is picking up.

We find HDG's valuation attractive at a 2024F PER of 10.1x and implied PEG of 0.3x (based on our 2022-2027F EPS CAGR of 29%).

Upside catalyst: Higher-than-expected selling price for Charm Villas; commercial operation of the 7A wind farm Phase 2 (21 MW), and the Son Linh & Son Nham hydropower plants (25 MW).

Downside risk: Slower-than-expected operation/launch of new projects.

OUTPERFORM – PetroVietnam Power (HOSE: POW): Earnings set to recover in 2024 and jump in 2025

POW is the largest non-EVN electricity producer in Vietnam. We view POW as a solid play on growth in Vietnam's power consumption and structural transition to LNG with its upcoming Nhon Trach 3 & 4 LNG-fired power plants targeted to come online in late 2024/mid 2025 (6-12 months earlier than our forecasts).

We forecast POW's 2024F NPAT -MI to increase by 25% YoY, which is mainly driven by higher YoY earnings from its Ca Mau and Vung Ang plants (as these are expected to run at full capacity for the entire year). We project 2025F NPAT-MI to surge by 153% YoY, which is mainly due to 33% YoY sales volume growth, stronger profit from Ca Mau with a 10% lower estimated gas price than that of power plants in the southeast region, as well as 71% YoY higher profit from Vung Ang, which benefits from robust power consumption growth in the North and lower maintenance expense.

POW looks attractive at a 2024F EV/EBITDA of 6.0x, ~40% lower vs regional peers and a 2024F P/E of 20.6x with implied PEG of 0.3x based on our projected 2023-2025 EPS CAGR of 78%.

Upside potential: Further FX loss compensation from EVN; higher-than-expected insurance compensation for the Vung Ang plant vs our estimate of VND300bn for 2023.

Downside risks: Sudden technical shut-down; higher-than-expected maintenance costs; FX losses; cost overrun/delay of NT3 &4.

MARKET PERFORM – Nhon Trach 2 Thermal Power (HOSE: NT2): Earnings set to remain weak in Q4 before rebounding in 2024F

NT2 is one of the most modern and efficient gas thermal power plants in Vietnam and has a gas consumption per unit of power produced that is ~3% lower than other plants.

While we expect 2024F reported NPAT to recover by 20% YoY from 2023's low base, this is mainly driven by VND155bn of FX loss compensation. We forecast NT2's 2024F recurring NPAT to decline by 16% YoY due to: (1) 12% YoY lower contracted volume, which is partly driven by a 12% higher gas price YoY and EVN's losses in 2022/23 which restrain mobilization from gas-fired power plants, and (2) a 20% decrease in price spread which outweigh (3) projected volume growth of 22%.

NT2's valuation looks fair at a 2024 projected P/E of 16.0x vs an average four-year median P/E of selected single power plants of 16.8x.

Upside risk: Higher-than-expected dividends.

Downside risk: Lower-than-expected contracted volume and CGM price.

OUTPERFORM – Pha Lai Thermal Power (HOSE: PPC): NPAT jump on generator reoperation, higher dividend income

PPC owns and operates the Pha Lai Thermal Power Plant, a coal-fired power plant in Vietnam with a total capacity of 1,040 MW. PPC also has stakes in two other power plants, Hai Duong Thermal Power Plant (HND – 1,200 MW) and Quang Ninh Thermal Power Plant (QTP – 1,200 MW), which are well-positioned to capture strong expected growth in electricity demand in northern Vietnam driven by the fast-growing manufacturing sector.

We expect PPC's 2024F NPAT-MI to jump by 116% YoY to VND774bn, recovering from a low base of VND358bn (-27% YoY) in 2023. The key underlying drivers of growth in NPAT-MI in 2024 are (1) (1) a 32% YoY increase in sales volume from the full-year operation of its S6 generator, (2) a 7% YoY decrease in average materials costs, and (3) a 24% YoY increase in dividend income.

We view PPC's valuations as attractive on a 2023/24F P/B of 0.9x/1.1x and rising dividend yield.

Upside potential: Higher-than-expected cash dividends; removal from the exchange's warning list.

Downside risks: Technical issues with its generators; suspension for environmental pollution.

NOT RATED: Quang Ninh Thermal Power (UPCOM: QTP): High availability factor to benefit from northern Vietnam's high-power capacity utilization

QTP (a 16%-stake associate company of PPC) owns and operates two coal-fired power plants in Quang Ninh province with a total capacity of 1,200 MW. These coal-fired power plants are young, with Quang Ninh 1 (2x300 MW, 14 years old) and Quang Ninh 2 (2x300 MW, 10 years old) both utilizing high-quality Chinese turbines. Thanks to its young coal-fired power plants, coupled with a sufficient coal supply from the largest coal mine in Vietnam in Quang Ninh province we believe QTP will benefit from high power capacity utilization in Northern Vietnam.

We anticipate QTP's 2024F NPAT-MI to rebound by 54% to VND902bn, recovering from a low base of VND586bn (-23% YoY) in 2023. The projected increase in 2024F NPAT-MI is primarily supported by (1) a 1% YoY increase in sales volume, (2) a 6% YoY reduction in coal costs, and (3) an estimated decline of VND300bn in depreciation expenses.

QTP looks attractive as it is currently trading at a 2024F PER of 7.8x, which is ~45% lower compared to the average P/E of thermal power stocks under our coverage while its projected dividend yield is three times higher.

Upside potential: Previous years' FX loss compensation of ~VND500bn to be received over the next few years; SCIC divestment; IPO by EVNGENCO1; moving to HOSE in the long term.

Downside risks: Higher-than-expected heat rate (coal consumption per kWh)/coal price/technical issues.

BUY – BIWASE (HOSE: BWE): Earnings to rebound in 2024; cash dividend payments to resume

BWE is the second largest water distribution company in Vietnam and had a capacity of 760,000 cbm per day as of 2023. The company claimed to have a water loss ratio — or non-revenue water ratio (NRW) — of 5.0% in 2023, making it the third most efficient water plant in the Asia-Pacific region.

We are optimistic about BWE's growth outlook as a leading player in Vietnam's water sector due to the following reasons: (1) the company is poised to benefit from robust water demand growth in Binh Duong Province with projected water volume growth of 11-12% p.a in 2025-2028F; (2) BWE has a favorable water tariff in Binh Duong Province with an expected increase of 3% p.a. for the next five years starting on July 1, 2024; (3) the company has a significant market share in the water industry in other provinces in Vietnam.

We forecast NPAT-MI to grow 21% YoY in 2024, which will be driven by 18% YoY and 5x YoY growth in NPAT of the water supply and waste treatment segments, respectively, and lower financial expenses YoY.

Upside potential: Stronger-than-expected growth in water demand.

Downside risks: Delays to increases in water tariffs, higher-than-expected operating costs.

OUTPERFORM – Thu Dau Mot Water (HOSE: TDM): NPAT from water generation to improve in 2024F

TDM is a private water supply company in Binh Duong Province with a designed capacity of 260,000 cbm/day.

We expect TDM to benefit from robust water demand growth in Binh Duong Province along with a favorable water tariff that is expected to increase 3% p.a. for the next five years starting on July 1, 2024. In addition, TDM has a 37% stake in Vietnam's second biggest water player, BWE, as well as an ample land bank to expand capacity. Over the long term, the company targets to expand its Di An plant's capacity from 200,000 cbm/day to 500,000 cbm/day with a secured land bank and increase its Bau Bang plant's capacity from 60,000 cbm/day to 160,000 cbm/day.

We forecast NPAT from water generation to grow 15.8% YoY in 2024, driven by a 3% YoY higher water tariff from July 1, 2024, following BWE's higher tariff and sales volume growth of 5% YoY. Meanwhile, we expect 2024F reported NPAT to decrease 24.0% YoY mainly due to TDM not receiving a cash dividend from BWE (we expect a 14% stock dividend instead).

We project 2022-2025F CAGRs of 8% for revenue and 20% for reported NPAT-MI and forecast DPS of VND1,400/1,500 in 2023/2024F. TDM looks attractive on a projected consolidated 2024F P/E of 9.4x, ~50% lower vs regional peers' four-year median P/E.

Upside potential: Stronger-than-expected growth in water demand.

Downside risks: Delays to increases in water tariffs.

Company names and tickers

Code	Company name
BCG	Bamboo Capital Group JSC
BWE	Binh Duong Water Environment JSC
GEG	Gia Lai Electricity
GEX	GELEX Group JSC
HDG	Ha Do Group
HND	Hai Phong Thermal Power JSC
NT2	PetroVietnam Nhon Trach 2 JSC
PC1	Power Construction No.1 JSC
POW	PetroVietnam Power JSC
PPC	Pha Lai Thermal Power JSC
QTP	Quang Ninh Thermal Power JSC
REE	Refrigeration Electrical Engineering Corporation JSC
TDM	Thu Dau Mot Water
TV2	Power Engineering Consulting JSC 2

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OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
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Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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