Stock Market Outlook 4Q24

Approaching 1,300 points

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We maintain our forecast for the VNIndex reaching 1,320 points at the end of 2024 (unchanged compared to the report on Stock Market Outlook 2H24) as projections on macroeconomic situation, inflation, exchange rates, interest rates and profit growth of listed companies are still developing close to expectations. We slightly lowered the forecast for EPS growth of the VNIndex in 2024 to 13% (from 14% in the previous report), while maintaining a reasonable P/E of the index at 15x.

The market's uptrend in 4Q (focusing on the second half of the quarter) will be mainly driven by a favorable macroeconomic environment (exchange rate and inflationary pressure cooling, the State Bank of Vietnam – SBV returning to the easing monetary policy, public investment being promoted, and many policies to remove obstacles for businesses being issued), combined with a positive 3Q earnings season and high expectations for 4Q. The VNIndex may move sideways and volatile in the first half of the quarter, especially when it approaches the 1,300 resistance amid a market lacking supportive factors. On the other hand, the weakening of the Chinese economy and the US presidential election will be the main risks to the market in the last quarter of the year.

Our investment themes for 4Q include: Economic recovery, market upgrading progress, La Nina, public investment, and FDI attraction.

Regarding the industry outlook in the last quarter of the year, our Department of Equity Analysis gave positive ratings to banking, securities, residential & industrial real estate, logistics, and oil and gas sectors.

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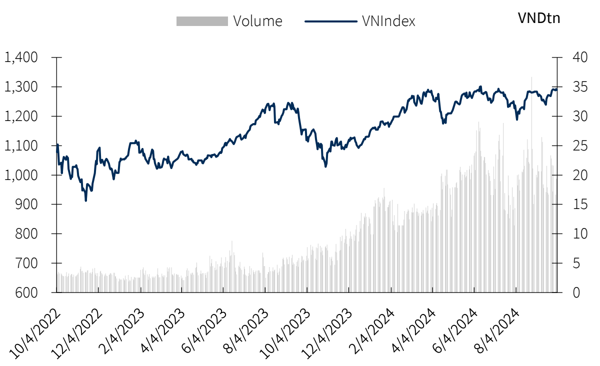
I. Stock market outlook in 4Q24

Vietnam stock market recovered in most of 3Q

After the corrections in 2Q, the main trend of Vietnam stock market in 3Q is recovery, underpinned by cooling exchange rates, a strong uptrend in the global stock market, and promising semi-annual earnings season.

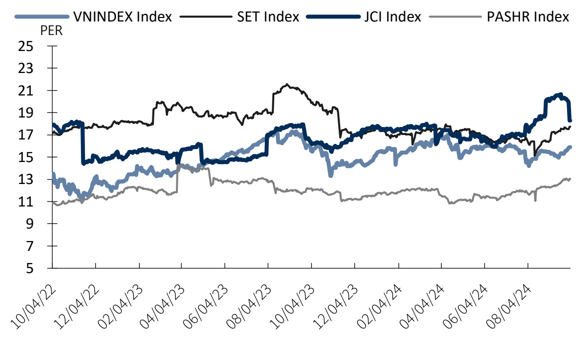
For the whole 3Q, the VNIndex gained 3.4% in points and dropped 21% in total trading value.

Fig 1. Vietnam – VN-Index & trading value (points, VNDtn)



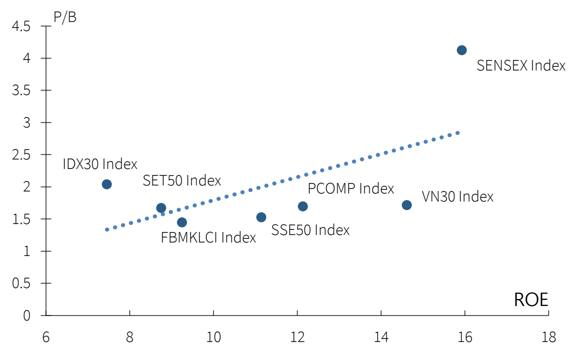
Source: Bloomberg, KB Securities Vietnam

Fig 2. ASEAN4 – P/E movements (x)



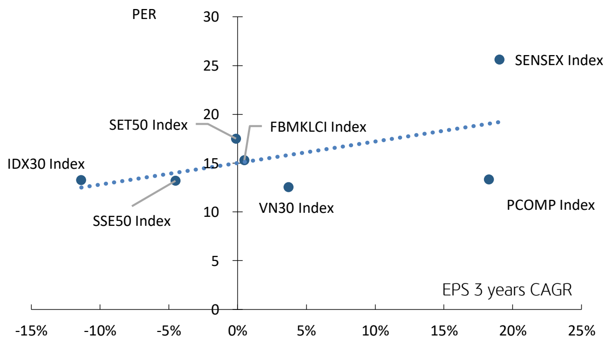
Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – P/E & ROE correlation of stock markets (x, %)



Source: Bloomberg, KB Securities Vietnam

Fig 4. Global – P/E & EPS growth correlation of stock markets (x, %)



Source: Bloomberg, KB Securities Vietnam

we believe that there will be five main factors shaping the trend of the Vietnamese stock market, including:

The profits of listed enterprises continue to recover

We slightly lowered the average EPS growth forecast of enterprises listed on the HSX to 13% (from 14% in the last report – *See also Section II. Business performance*) after further evaluating the data in the semi-annual earnings season with a picture of mixed bright and dark spots. This is still a high growth rate that continues to support the general market trend in 4Q.

The Fed rate cuts boost the global stock market

The Fed's interest rate lowering cycle has started since the 50bps cut at the September meeting. This benefits Vietnam stock market in three ways: (i) The cooling pressure on exchange rates helps the SBV return to the policy of maintaining low interest rates. (ii) The trend of lowering interest rates simultaneously in many central banks facilitates a large amount of low-cost capital to approach emerging markets, including Vietnam. (iii) The US consumption demand is expected to be promoted, which will motivate Vietnam's export sector and the overall economic growth.

Exchange rate pressure is relieved, and interest rates should be maintained at a low level

Given the strong decline of the DXY before the Fed's rate cut and the balance between foreign currency supply and demand in the banking system, the domestic USD/VND exchange rates have plunged and been far from the intervention threshold of the SBV. Accordingly, the bank may stop intervening in the market to protect the VND as it did in 2Q and early 3Q via selling foreign exchange reserves, withdrawing treasury bills, and raising OMO interest rates. The average interest rate in the economy is therefore expected to stabilize at a low level, although there may still be differentiation and slight increases in some small and medium-sized banks due to year-end credit demand.

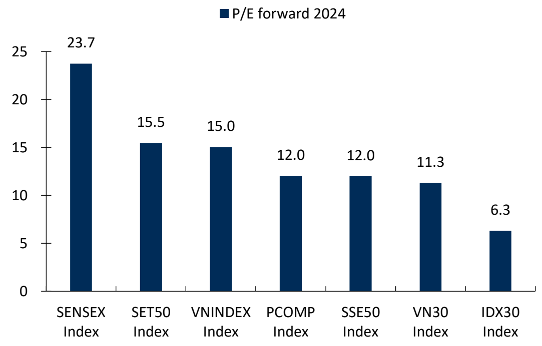
The US presidential election is a notable X factor

The US election between the two candidates Donald Trump and Kalama Harris is taking place fiercely with the probability of winning being 50:50. The scenario of Trump's re-election may bring many risks to the Vietnam stock market as the trade protectionism may strongly return, and our country may be targeted due to its high trade surplus with the US. Fiscal policies under Trump's government may make US inflation difficult to control, hindering the Fed's interest rate cut. Lastly, the unstable political environment under Trump and unpredictable policies will cause risk appetite to drop.

China's economic slowdown may adversely affect Vietnam economy

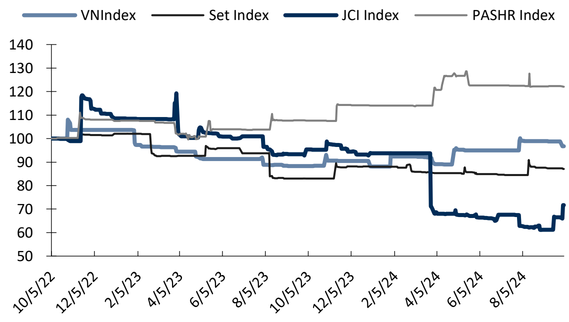
The sagging of the Chinese economy has become increasingly evident in the past quarters. Supportive policies have been introduced and are expected to bring positive impacts in the short term. However, these policies are considered difficult to reverse the downward trend of this country's economic growth in the medium term due to obstacles from structural factors such as population aging, oversupply of real estate in the suburbs, declining consumption demand from export markets, and high corporate and government debt. This is also a risk factor to Vietnam stock market due to the high interconnection between the two economies.

Fig 5. Global – 2024 forward P/E of stock markets (x)



Source: Bloomberg, KB Securities Vietnam

Fig 6. ASEAN4 – EPS growth (%)



Source: Bloomberg, KB Securities Vietnam

The VNIndex should reach 1,320 points by the end of the year

For the market outlook in the last months of 2024, as the macroeconomic situation, exchange and interest rate trends, and profit growth of listed companies are still up to expectations given in the *Report on Stock Market Outlook 2H24*, we keep the forecast for 2024 VNIndex at 1,320 points, corresponding to a market P/E of 15x and EPS growth of HSX enterprises increasing by 13% YoY.

The Middle East war and Trump's re-election are the two main risks that should be noted.

II. Business performance in 8M24

2024F average EPS growth of enterprises on the HSX was decreased from 14% in 2H24 outlook report to 13% YoY

We lowered our forecast for EPS growth in 2024 for the whole market from 14% in the previous report to 13% YoY (Figure 7).

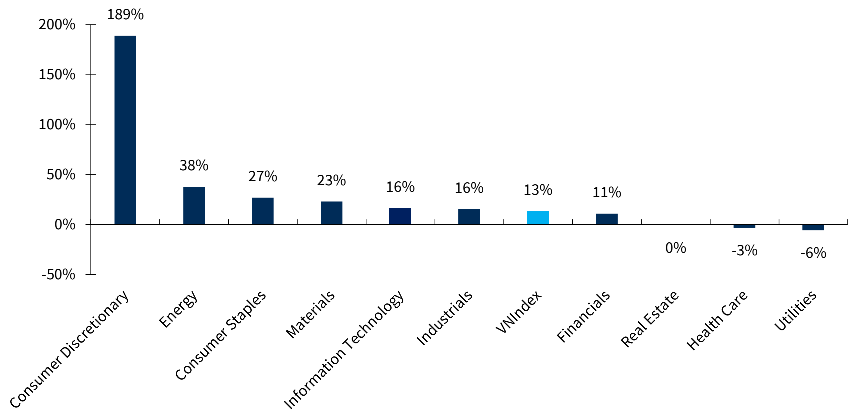
Despite the downgrade, we still believe that the business activities of most enterprises listed on the HSX have bottomed out in 2023 and will recover in 2024.

Supportive factors are quite unchanged compared to the last report, including: (i) Monetary policy with a dominant easing trend and stably low interest rates until the end of 2024; (ii) other support policies of the Government such as promoting public investment, reducing taxes, and attracting FDI capital; (iii) increasing import-export orders and production line capacity thanks to diplomatic and trade agreements signed between Vietnam and countries around the world.

Nevertheless, the lower forecast also reflects our cautious view on the stock outlook after the announcement of 2Q24 business results. The main reason is the lower forecast for four industries including industrial, materials, technology, and utilities with respective declines of -34%, -13%, -1%, and -4% compared to the previous report since the performance of some enterprises was lower than market expectations. On the contrary, the downgrade was undermined by higher growth projections for essential and non-essential consumer goods and energy based on their outperformance in 2Q, especially companies with leading capitalization such as Mobile World Investment (MWG), Phu Nhuan Jewelry (PNJ), Vinamilk (VNM), Masan Group (MSN), and Petrolimex (PLX).

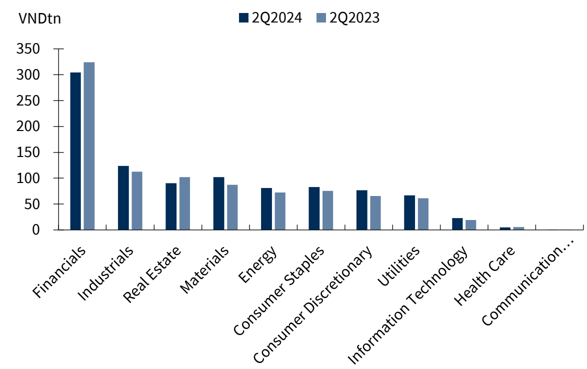
For the two sectors, banking and real estate, after the 2Q results release, we slightly raised our expectations for interest rates and exchange rates. To be more specific, the pressure on exchange rates has significantly declined, supporting the SBV in maintaining low interest rates to boost economic growth, thereby positively affecting banks' NIMs. However, issues related to asset quality still need further monitoring. Meanwhile, real estate developers gained more optimistic views after the new Law on Real Estate Business was issued, but there are still many challenges when supply is limited and high interest costs erode the profits of most companies on the stock exchange. Combining the adjusted factors, KBSV's forecast for VNINDEX's EPS growth decreased slightly by 1% compared to the expectation in the previous report.

Fig 7. Vietnam – 2024F EPS growth (%)



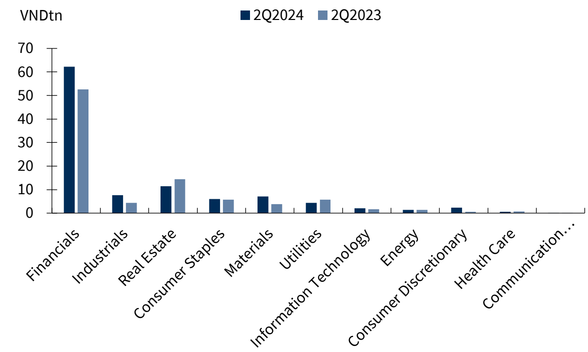
Source: Bloomberg

Fig 8. Vietnam – 2Q24 revenue across sectors (VNDtn)



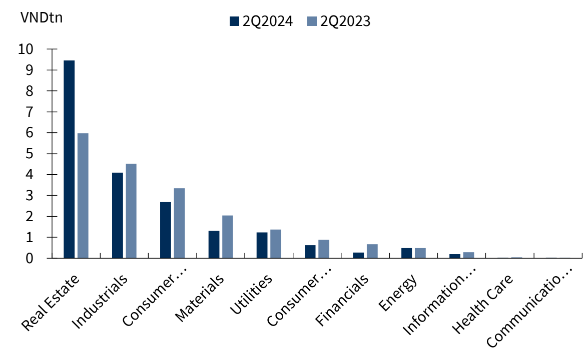
Source: Bloomberg, KB Securities Vietnam

Fig 9. Vietnam – 2Q24 profit across sectors (VNDtn)



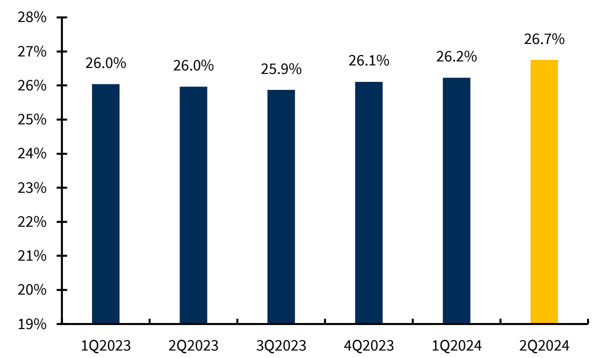
Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – 2Q24 financial expenses (VNDtn)



Source: Bloomberg, KB Securities Vietnam

Fig 11. Vietnam – Average gross margin of the VNIndex (%)



Source: Bloomberg, KB Securities Vietnam

2Q24 revenue of listed companies slightly rose from 2Q23, but profit was more positive

The total revenue of enterprises on the HSX in 2Q24 posted a modest gain of 3% YoY. Most industry groups showed revenue growth compared to the same period last year, typically raw materials (+18% YoY), information technology (+17% YoY) and consumer discretionary (+10% YoY). Most other groups achieved growth rates ranging from 9& to 12% YoY.

However, the market's revenue growth was hindered by the decline in finance (-6% YoY) and real estate industries (-11% YoY).
The financial group was mainly affected by the State-owned banks like Vietcombank (VCB, -19% YoY), ViettinBank (CTG, -11% YoY), and Bank for Investment & Development of Vietnam (BID, -8% YoY). Meanwhile, the revenue of the real estate group continued to decline YoY mostly because of the two giants Vingroup (VIC, -11% YoY) and Vinhomes (VHM, -13% YoY).

In terms of profit, the largest contributor to the profit growth of the whole market (+15.7% YoY) continued to be the financial industry (+18.4% YoY). The recovery trend was also clearly seen in non-financial sectors such as industrial (+76.9% YoY), consumer discretionary (+290.8% YoY), and raw materials (+85.7% YoY) when leading enterprises such as MSN, MWG, VNM, Hoa Phat Group (HPG), and Vietnam Rubber Group (GVR) recorded profit rebound.

The focus on restructuring debts and reducing interest expenses has strongly improved the profits of enterprises, except for real estate businesses (Figure 10). In addition, the GPMs of all enterprises on the HSX (excluding financial companies) has been rebounding after bottoming out in 3Q23 (Figure 11), indicating that the production situation is gradually recovering up to expectations. In the context of a stable macroeconomy, KBSV believes that trade and production activities will continue to improve and be about to start a strong growth cycle.

III. Market drivers in 4Q24

1. Exchange pressure & interest rate trend

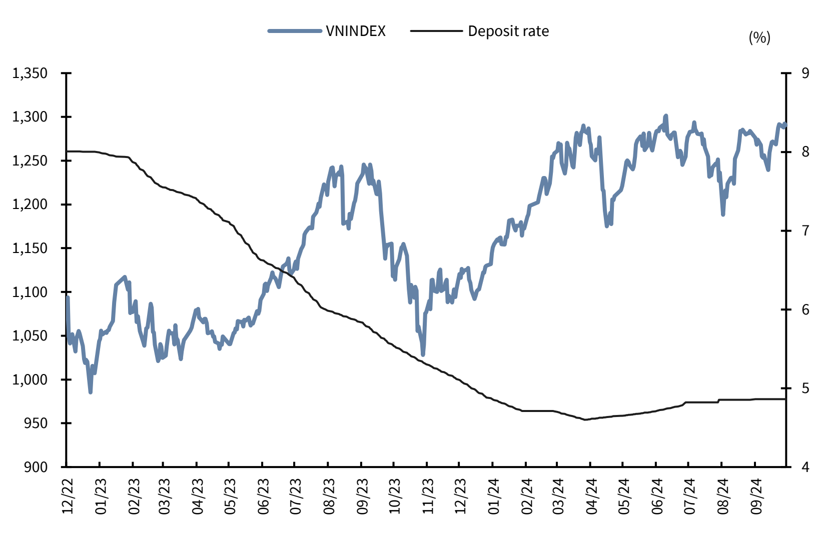
Favorable macro picture supports the market growth

The USD/VND exchange rates in September witnessed a steep fall after the Fed rate cut of 50bps in the last policy meeting. The DXY also plummeted to around 100, which, when combined with the balanced development of foreign currency supply and demand, helped the exchange rate quickly cool down from a high base level. As the exchange rate has fallen far from the SBV's intervention threshold, the DXY is unlikely to make a strong increase, and the peak period of USD demand from enterprises has passed, we believe that the exchange rate risk in 4Q has been undermined.

Domestic inflation is stable (8M24 headline & core CPIs gained 4.04% YoY and 2.71% YoY respectively). With a high comparative level compared to the same period last year (driven by oil prices and the Government's roadmap to raise healthcare and tuition fees at the end of 2023), we believe that the average CPI for the whole year 2024 should be under 4% YoY.

With exchange rate and inflationary pressures no longer a concern, combined with the trend of easing policies of central banks around the world, the SBV will have more room to maintain low interest rates to support economic recovery. More favorable macroeconomic developments play an important role in helping the stock market to recover.

Fig 12. Vietnam – VNIndex & 12M deposit interest rates (point, %)



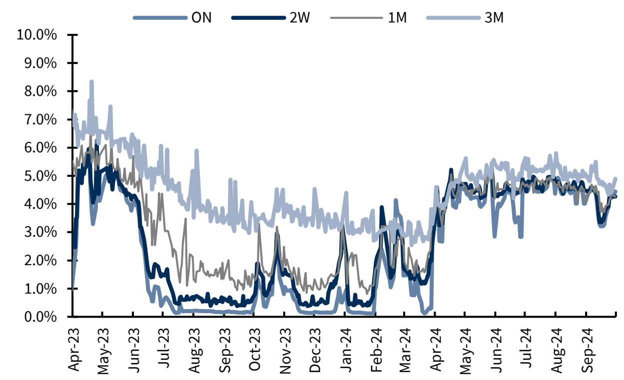
Source: Bloomberg, WiChart, KB Securities Vietnam

Interbank interest rates will be reset to a lower level

The interbank interest rate average has plunged over the past two months with measures taken by the SBV, including two times lowering OMO interest rates and continuing to pump VND68 trillion through the OMO in the last week of the 3Q. The interbank interest rate at times was 3.2-4.6% (depending on the term – down more than 1% compared to the end of August), before recovering slightly in recent sessions due to high demand at the end of the quarter. This is the clearest evidence for the SBV's switch to a supportive monetary policy amid cooling exchange rates and mild inflationary pressure.

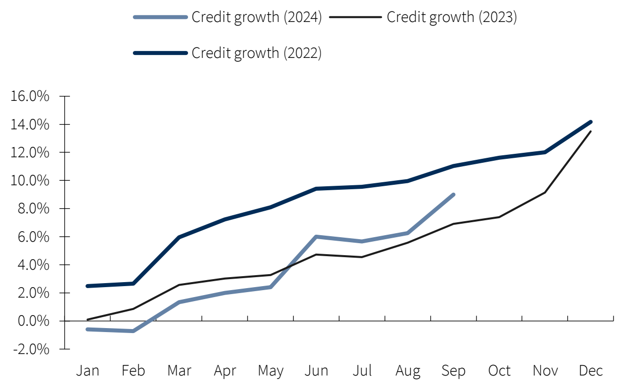
We believe that the interbank interest rate will be reset to a lower level in the coming time (expected to decrease by another 0.5-1% for overnight interest rates) as a measure to maintain low interest rates in the economy, promoting credit growth to achieve the set target of 15% (7.38% YTD as of September 17).

Fig 13. Vietnam – Interbank interest rates (%)



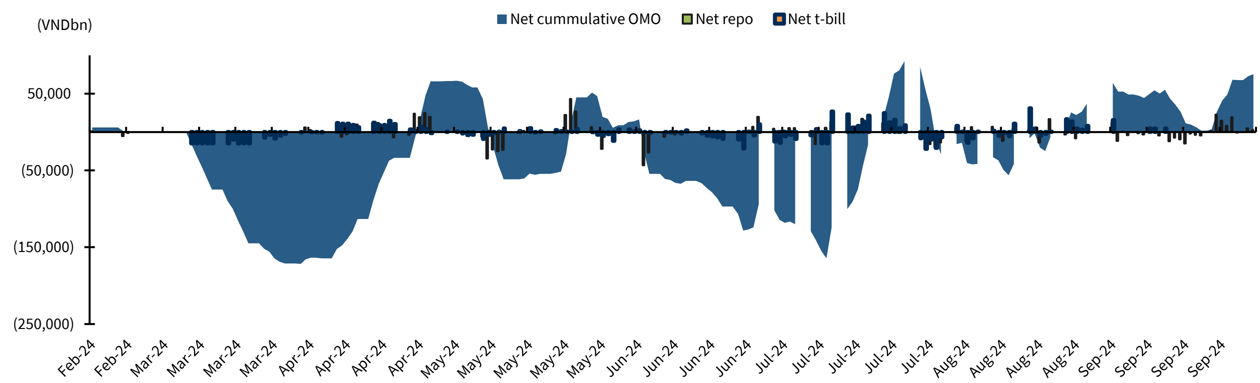
Source: Bloomberg, KB Securities Vietnam

Fig 14. Vietnam – Credit growth at banks (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 15. Vietnam – OMO intervention & interest rate developments (VNDbn)

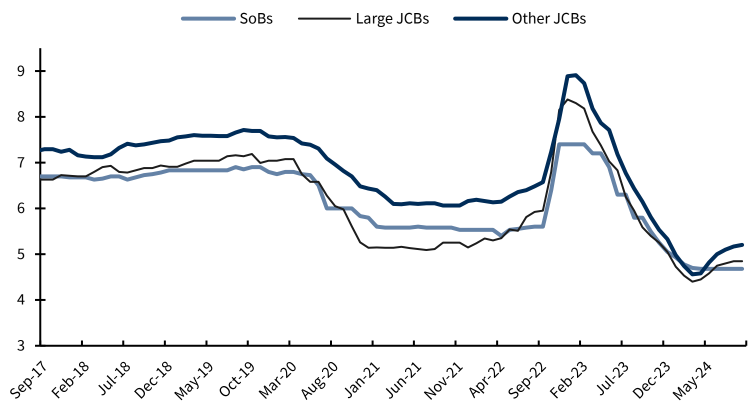


Source: State Bank of Vietnam, KB Securities Vietnam

Deposit interest rates are forecast to be stable in the group of state-owned commercial banks while increasing slightly among private commercial banks

Deposit interest rates are forecast to be stable in the low range thanks to the SBV's return to the direction of loosening monetary policy when the exchange rate pressure cools down through measures to increase liquidity and reduce the OMO interest rates. We believe that the deposit interest rate level in 4Q will be stable in the group of state-owned commercial banks while only increasing slightly by an average of 30bps among private commercial banks (the high increase is concentrated in small-scale banks to balance capital sources to meet year-end credit demand and alleviate pressure on the LDRs).

Fig 16. Vietnam – Deposit interest rates by bank group (%)



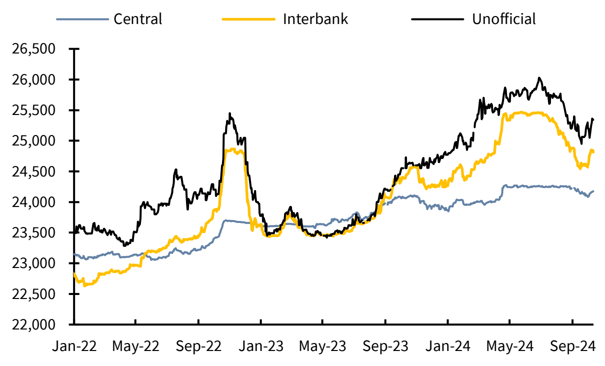
Source: WiChart, KB Securities Vietnam

Low interest rate average is an important growth driver for the VNIndex

Vietnam stock market entered a sideways drift and correction in 2Q and the first half of 3Q as concerns about strong exchange rate pressure and the SBV's pressure to tighten monetary policy caused interest rates to skyrocket (similar to the end of 2022).

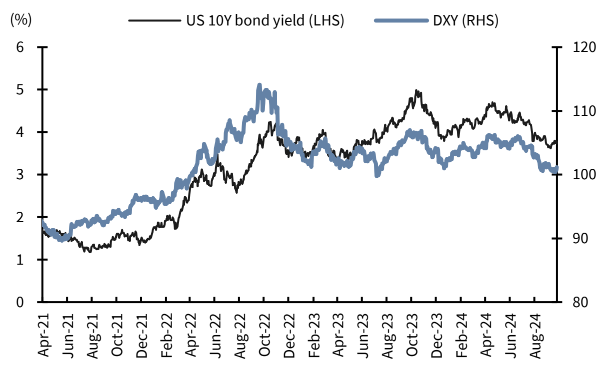
The elimination of this risk will be an important driving force to the market in 4Q. Although the interest rate average has inched up from the bottom at the end of March, it is still fluctuating around a historical low and may post a slight gain in the last three months of the year. This will boost the economy, reducing capital costs for businesses, and promoting investment cash flow into the stock market.

Fig 17. Vietnam – USD/VND exchange rates (%)



Source: Bloomberg, FiinPro, KB Securities Vietnam

Fig 18. US – 10Y bond yield & DXY (%)



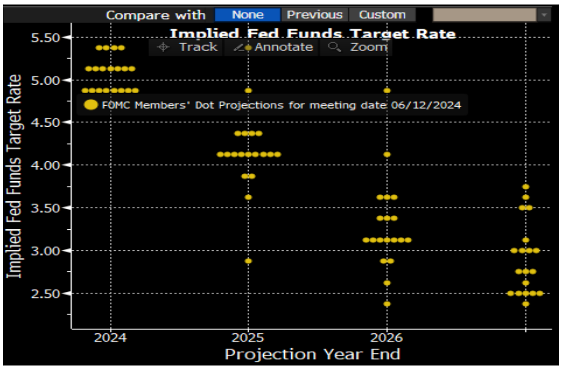
Source: Bloomberg, KB Securities Vietnam

2. Fed's monetary policy & US economic recession risk

The Fed has cut interest rates for the first time after the September meeting

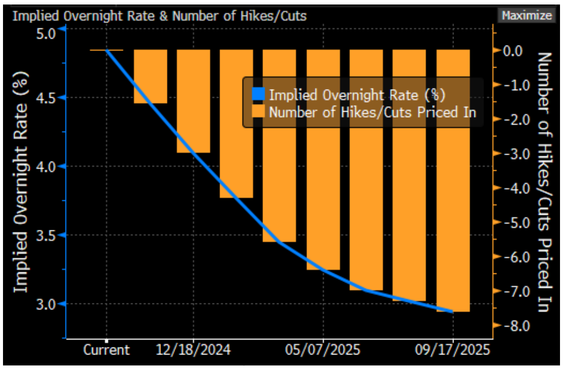
After the meeting at the end of September, the Fed slashed interest rates for the first time with 50bps. The timing is consistent with KBSV's forecast, but the reduction level is beyond our expectations. The Fed's bold action with a 50bps cut for the first time could raise concerns about the deteriorating economic situation. However, Mr. Powell's subsequent messages have reassured market sentiment, and the overall global reaction is relatively positive. Powell mentioned that the Fed would gradually adjust policy to a neutral level, and he was positive that the labor market would remain strong. He added that there were no signs of a recession, but the 50bp-cut was not necessarily fixed, and the policy would depend on the data, outlook and upcoming risks. The dotplot (Figure 19) shows the probability of two more rate cuts this year, each of which is expected to be 25bps. At the beginning of October, the CME FedWatch rate tracker showed that investors were betting on a more than 90% chance (the highest possibility) of a 25bp-cut in November.

Fig 19. US – Fed dot plot



Source: Bloomberg, KB Securities Vietnam

Fig 20. US – Current implied interest rates (%)



Source: Bloomberg, KB Securities Vietnam

The US economy is expected to make a "soft landing", and the Fed will continue to lower interest rates in the upcoming meetings in 2024 to bring interest rates to a neutral level

We believe the US economy can make a "soft landing", and the Fed may further lower interest rates in the upcoming meetings in 2024, based on:

(i) **Inflation has shown a positive cooling trend towards the 2% limit**. The US CPI and core CPI (Figure 21) dropped to 2.5% YoY and 3.2% YoY in August (Figure 21). This trend should be maintained with:

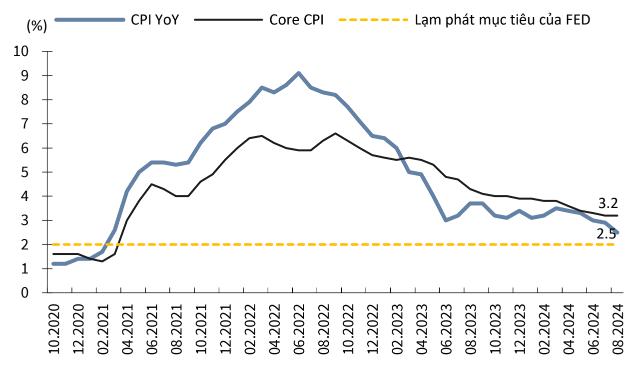
- Oil prices remain at current levels due to slowing demand and OPEC's forecast of a decrease in global oil demand (Figure 23). Furthermore, year-end demand is usually lower (cyclical characteristic), so it is unlikely that oil prices will surge, which facilitates cooling inflation.

- Housing and accommodation costs will continue to slow down as previously forecast as the data reflects the gloom of the real estate market (Figure 24). We maintain the view that this component will continue to decline because the real estate market data in the US has not improved much compared to the situation when we released the report on *Vietnam Stock Market Outlook 2H24* (Figure 29-30). According to research by the San Francisco branch of the Fed, housing price inflation in the US is likely to decrease in 2025 while the gap between housing supply and demand is narrowed.
- Disposable income and wage growth of the US people are declining (Figure 27-33), accompanied by rising unemployment and high credit debt (Figure 28), leading to weakening spending demand and cooling inflation.

(ii) **The US economy is slowing but not showing serious signs**. The US economy grew by 2.8% in 2Q (higher than the 2% expected), which is slow but better than 1Q thanks to improved personal spending. The message of the Fed after the September meeting also pointed out that there were no signs of recession. Members of this agency expected the US economy to grow at a rate of 1.8-2.6% this year (Table 31). In addition, investment in infrastructure, especially high technology, is being strongly promoted in the US, which helps support economic growth. In the context of the Fed lowering interest rates, we believe that US GDP growth has a basis to maintain an average growth rate of 2% as previously projected.

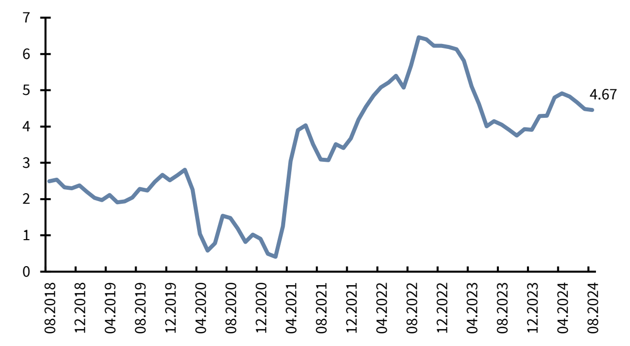
(iii) **The US labor market remains stable**. The US unemployment rate, after unexpectedly increasing to 4.3% in July, fell back to 4.2% in August (in line with market expectations). Concerns about high unemployment rates as a sign of recession have been eased as the main cause comes from temporary factors. Furthermore, the number of applications for benefits has decreased, ruling out the risk of a sharp increase in the unemployment rate. KBSV expects the US unemployment rate to be maintained around 4.2% in the near future.

Fig 21. US – Headline & core CPI (% YoY)



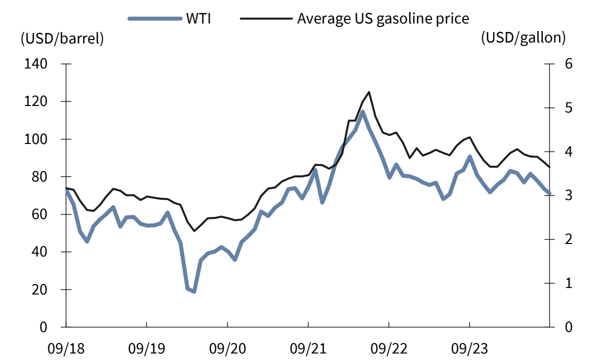
Source: Bloomberg, KB Securities Vietnam

Fig 22. US – Supper core CPI (% YoY)



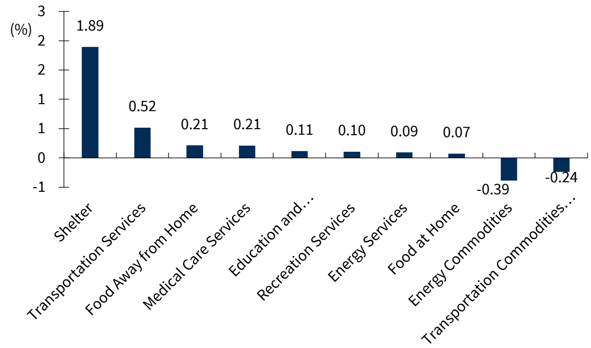
Source: Bloomberg, KB Securities Vietnam

Fig 23. US – Average WTI oil & gas prices (USD/barrel, USD/gallon)



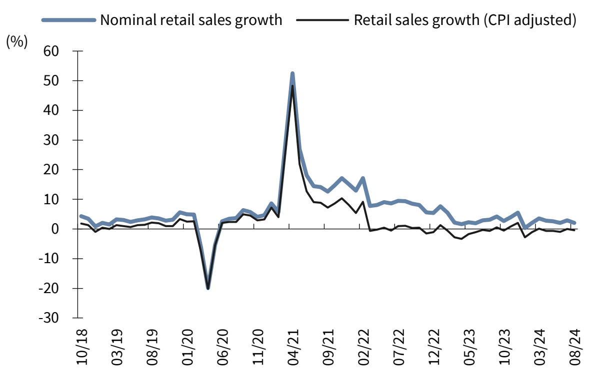
Source: Bloomberg, KB Securities Vietnam

Fig 24. US – CPI components (%)



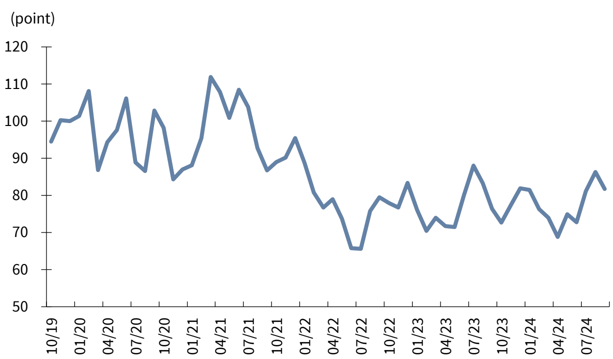
Source: Bloomberg, KB Securities Vietnam

Fig 25. US – Nominal retail sales growth (%)



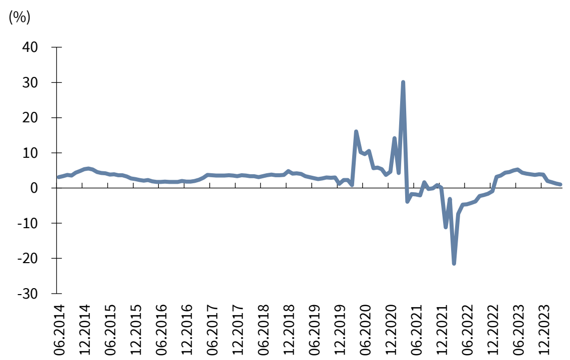
Source: Bloomberg, KB Securities Vietnam

Fig 26. US – Consumer expectation index (point)



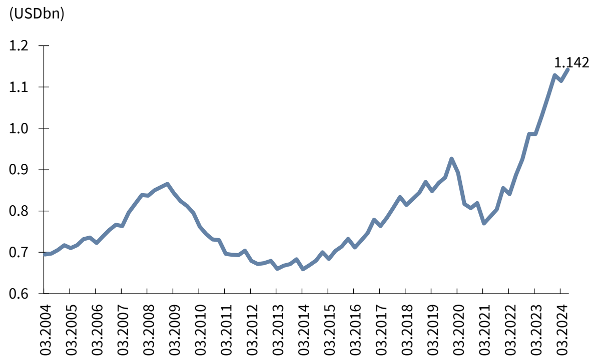
Source: Bloomberg, KB Securities Vietnam

Fig 27. US – Disposable personal income growth (% YoY)



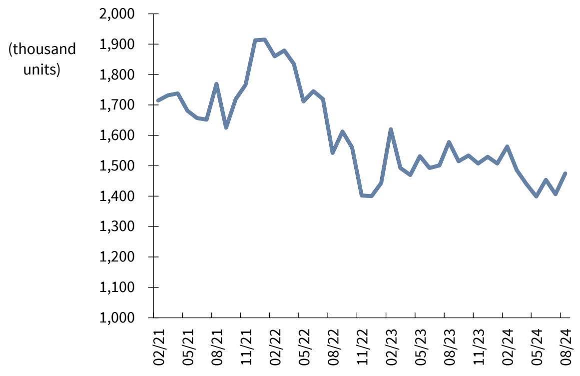
Source: Bloomberg, KB Securities Vietnam

Fig 28. US – Consumer credit outstanding (USDbn)



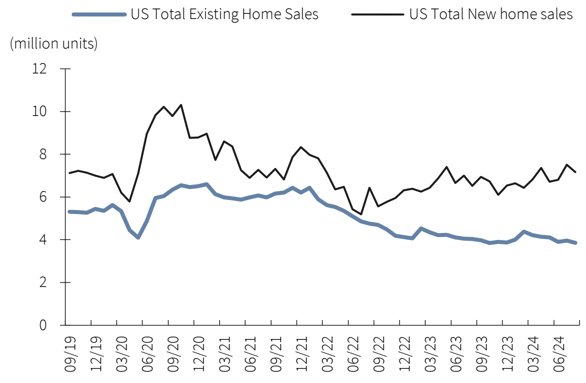
Source: Bloomberg, KB Securities Vietnam

Fig 29. US – New building permits (thousand permits)



Source: Bloomberg, KB Securities Vietnam

Fig 30. US – House sales (million units)



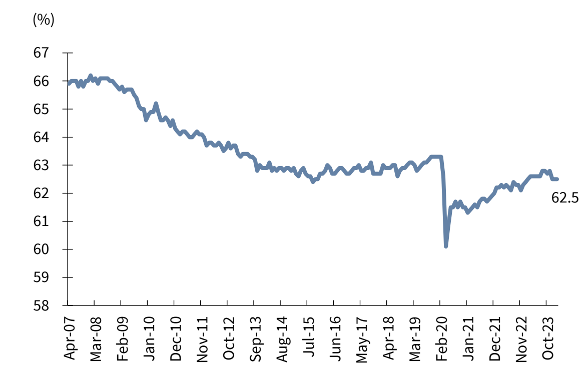
Source: Bloomberg, KB Securities Vietnam

Table 31. US – Economic forecasts by Fed members

Indicator (%)	2024	2025	2026	2027	Long-term
Real GDP change	1.8 – 2.6	1.3 – 2.5	1.7 – 2.5	1.7 – 2.5	1.7 – 2.5
June forecast	1.4 – 2.7	1.5 – 2.5			1.6 – 2.5
Unemployment rate	4.2 – 4.5	1.2 – 4.7	3.8 – 4.5	3.8 – 4.5	3.5 – 4.5
June forecast	3.8 – 4.4	3.8 –4.4			3.5 – 4.5
PCE	2.1 – 2.7	2.1 – 2.4	2.0 –2.1	2.0 – 2.1	2.0
June forecast	2.5 – 3.0	2.2 – 2.5			2.0
Core PCE	2.4 – 2.9	2.1 – 2.5	2.0 – 2.2	2.0 – 2.2	
June forecast	2.7 – 3.2	2.2 – 2.6			

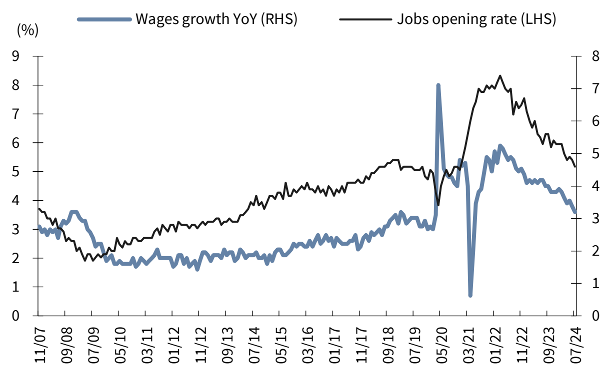
Source: US Federal Reserve, KB Securities Vietnam

Fig 32. US – Labor force participation rate (%)



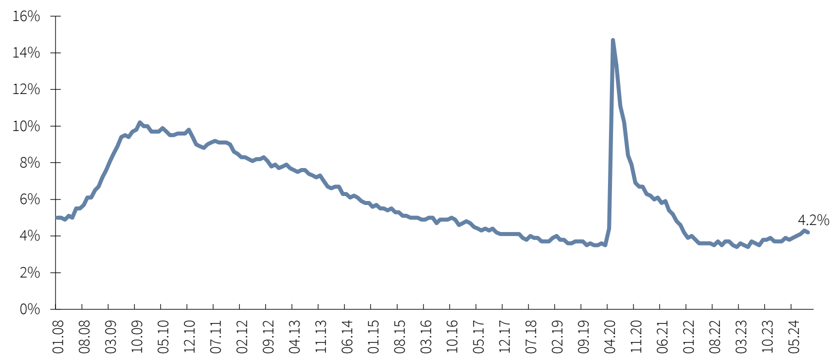
Source: Bloomberg, KB Securities Vietnam

Fig 33. US – Wage growth & job openings rate (%)



Source: Bloomberg, KB Securities Vietnam

Fig 34. US – Unemployment rate (%)



Source: Bloomberg, KB Securities Vietnam

The Fed rate cut has positive impacts on the Vietnam stock market

Vietnam stock market will benefit from the Fed rate cuts in three aspects:

(i) Investor sentiment would be improved. As the Fed reduced interest rates, the US economy has not fallen into recession, and major stock indexes in this country have surpassed their peaks, the positive impacts may spread to Vietnamese investors.

(ii) Foreign capital flows will return. After the Fed's move, central banks around the world may begin to have a more obvious trend of lowering interest rates. The cost of funds gets lower, and a part of the capital will flow into emerging stock markets to benefit from high interest rates and faster economic growth. As a result, the trading activities of foreign investors buying/selling on the Vietnamese stock market may be more active.

(iii) Vietnam's export activities are improving. The US is Vietnam's leading export market (Figure 39), so the rate cut is expected to stimulate long-term consumer demand, thereby benefiting Vietnam's exports and economic growth.

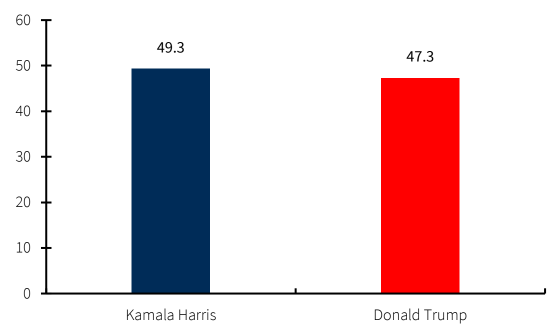
3. The US presidential election

The US election situation has changed a lot compared to the time in the previous report

The US presidential election has changed a lot compared to the assessment in our previous report. Joe Biden, who was expected to represent the Democratic Party, has given up his intention to run for re-election, and the replacement candidate is Kamala Harris. Ms Harris's campaigns focus on continuing to implement the policies introduced by Biden, with a vision for the US that is almost no different from the picture Biden painted in the 2020 election. Therefore, our expectations for the scenario when Joe Biden is elected will be transferred to Harris, but in general, there will not be too many changes.

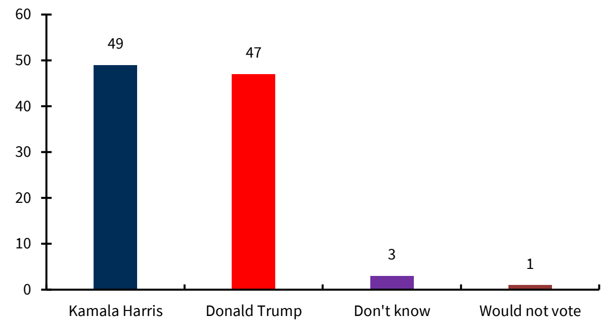
Since Harris became a presidential candidate, Trump's support rate has decreased compared to that when he ran against Biden, making the race to the White House even more competitive. According to a Real Clear Polling survey, the support rate between the two candidates is currently quite close (Figure 35). The deciding factor will be in the swing states and not clearly controlled by any party such as Arizona, Georgia, Michigan, Pennsylvania, or Wisconsin (Figure 36). In general, the race to the White House is still in a stalemate, and there are still two months until the election, so there are many variables that can affect the support rate of both sides.

Fig 35. US – Trump & Harris support rates (%)



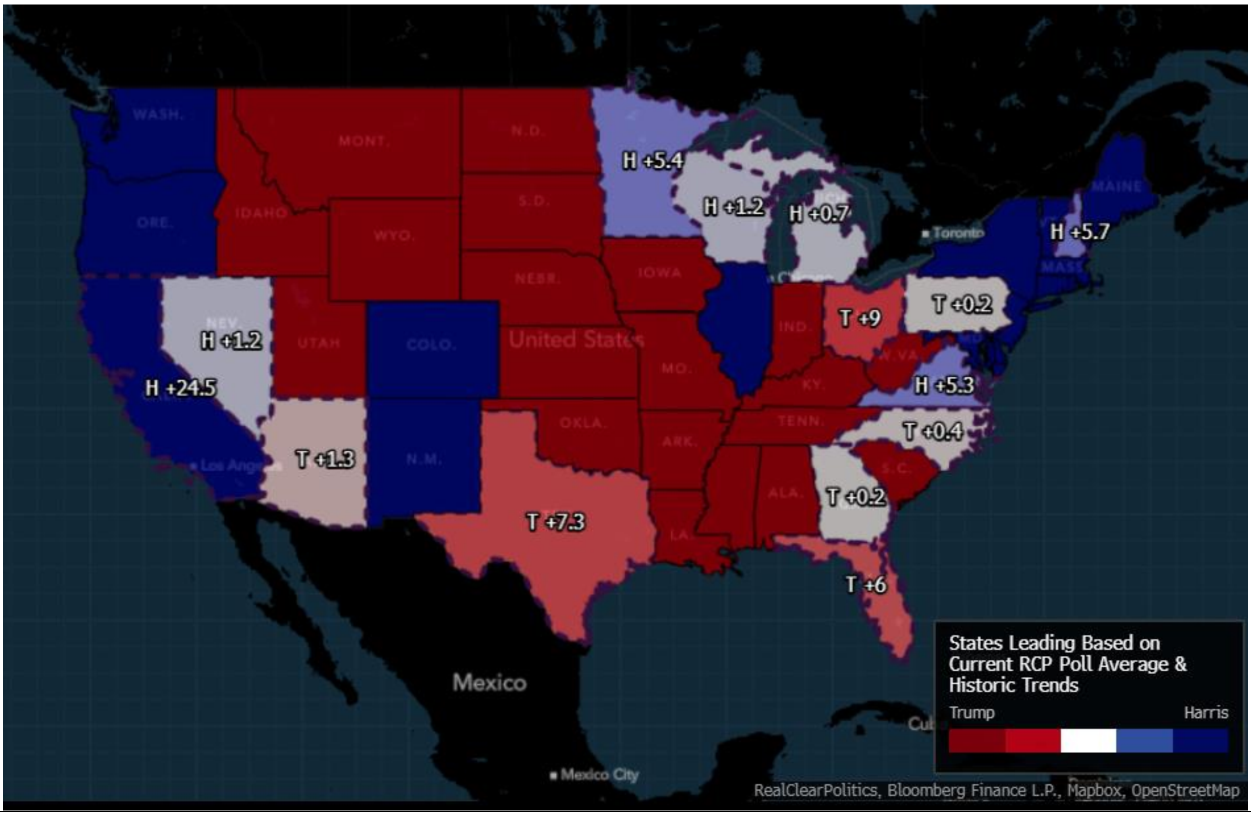
Source: Real Clear Polling, KB Securities Vietnam

Fig 36. US – Support rates in swing states (%)



Source: Real Clear Polling, KB Securities Vietnam

Fig 37. US – Average support rates in the whole country (%)



Source: Real Clear Polling, KB Securities Vietnam

We maintain our view on the two scenarios based on the policies of each presidential candidate

From the perspective of analyzing the impact on the stock market, we mainly focus on the difference between the trade policies of the two presidential candidates (Table 38).

We maintained the forecast that the US stock market may witness strong fluctuations under the influence of the election, depending on who will be the next president:

- Kamala Harris being re-elected is considered a positive scenario for the stock market as policy stances will not change much compared to Joe Biden's Government, and trade disputes between countries will be less likely to arise. Ms Harris also appears to pay more attention to the budget deficit. Officials in her campaign said that the revenue sources will be similar to Biden's 2025 budget plan. This could help inflation be more controllable and the Fed more confident in its interest rate decisions.
- On the contrary, the scenario in which Trump becomes the president can cause the US stock market to plummet because: (i) Trump has announced that he will raise tariffs to 10% on all imported goods and 60% tariff on imported goods from China if he wins a second term. The trade war that caused the global stock market to struggle in the 2018-2019 period may return. (ii) It is likely that the US budget deficit will become even more serious if Trump is elected, public spending is boosted, controlling inflation will be more difficult, and the Fed may find it harder to lower interest rates as expected by the market. (iii) The US politics will be more volatile, and new policies will be more unpredictable, which will make investors' risk appetite drop low.

Given the high correlation between Vietnam and the US stock markets (the VNIndex tends to post losses alongside the S&P500 - Figure 40), the re-election of Trump could hide risks as trade activities between the two countries will be watched more closely (Vietnam's trade surplus with the US has increased significantly since 2020-2021, and the US regularly has a trade deficit with Vietnam at a record level, ranking third - Figure 39). The risk of being assessed as a currency manipulator and possible tariff barriers being erected will make it more difficult for Vietnamese goods to enter the US.

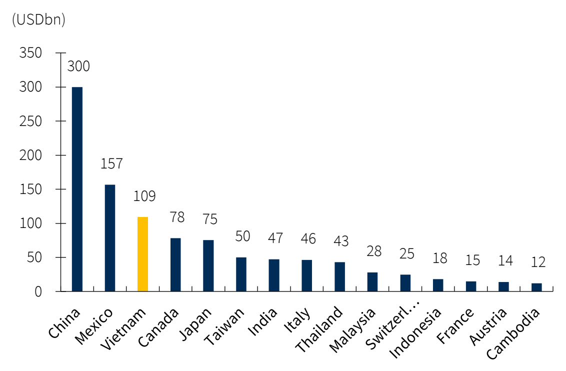
In addition, the uncertainty about fiscal policy after the US presidential election in November 2024 makes US businesses more cautious in placing new orders, leading to a decrease in import demand and slowing down the growth rate of the group of Vietnamese businesses exporting to the US.

Table 38. US – Trade policies proposed by two presidential candidates

	Trumps (Republic)	Harris (Democratic)
Objectives	Reduce US trade deficit, promote domestic businesses	Increase competition with China
Trade-related policies	- Increase import tariffs: 10% of imported goods from other countries; 60% of imported goods from China - Continue to expand domestic AI and increase restrictions on other countries in this field	- Tariff increases not mentioned - Adjust tariffs to align with national security and industrial development goals, likely based on Biden administration policies - Further expand f domestic AI and increased restrictions on other countries in the field
Trade contracts with other countries	- Revise trade contracts in 2026 - Prioritize limiting goods from China going through countries that benefit from trade contracts such as Mexico and Vietnam	Review of trade agreements is unlikely to result in major changes
Conclusion	Both Trump and Harris have expressed views in support of the development of domestic industry. However, for the Democratic Party, the trade policies mentioned by Ms. Harris is more moderate and positive towards countries exporting to the US (including Vietnam).	

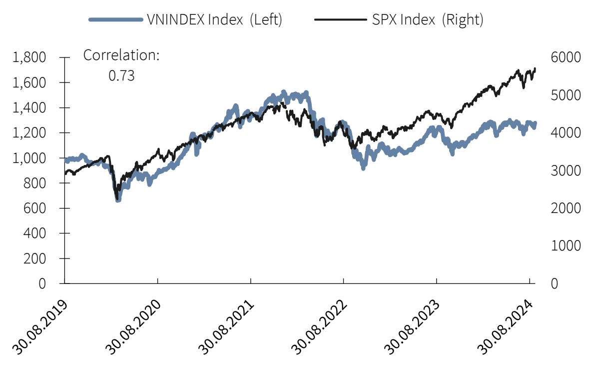
Source: Bloomberg, KB Securities Vietnam

Fig 39. Vietnam – 15 countries with the largest trade surplus with the US in 2023



Source: Bloomberg, KB Securities Vietnam

Fig 40. Vietnam & US – Correlation between the VNIndex and S&P500



Source: Bloomberg, KB Securities Vietnam

4. Chinese economy

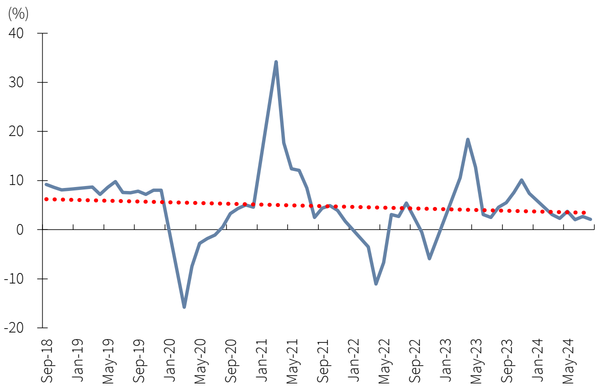
China's economic slowdown has been confirmed with many disappointing macro indicators

The simultaneous downgrading of economic growth forecasts by major financial institutions, the ongoing decline in the real estate market, and the emerging risk of deflation are three factors indicating the China's economic slowdown:

(i) **Financial institutions such as Bank of America, Citigroup, Goldman Sachs have all lowered their forecast for China's GDP growth for 2024** to the lowest level of 4.7%, below the Government's target of 5%. The basis for the above concerns comes from three main reasons:

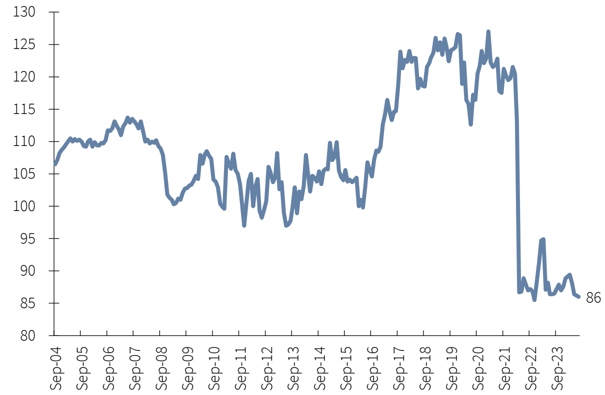
- *Weak domestic consumer demand*: Retail sales in August grew by a mere of 2.1% YoY, lower than the market expectation of 2.5% and far from the 2.7% of July, although it is currently in the peak season for summer tourism. Consumer confidence is reaching all-time lows, reflecting the lack of optimism in spending.

Fig 41. China – Changes in retail sales (%YoY)



Source: Bloomberg

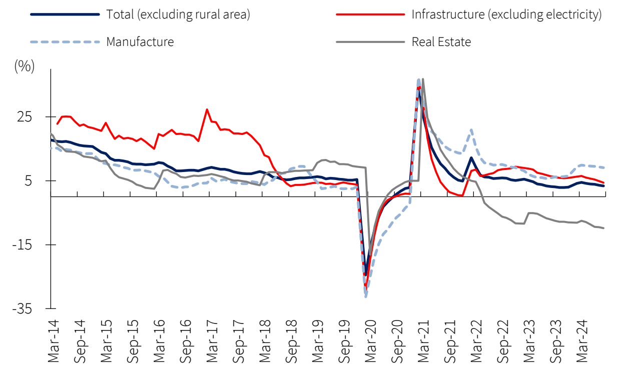
Fig 42. China – Consumer confidence index (point)



Source: Bloomberg

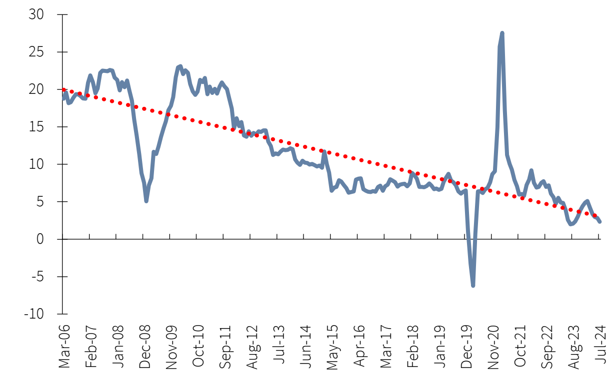
- *Slowing investment activities*: Fixed asset investment (%YoY) in 8M24 decreased to 3.4% from 3.6% in 7M24, which is below the market expectation of 3.5%. Although the Government has actively issued bonds in August, investment in key sectors to GDP growth such as infrastructure, manufacturing, and real estate, has been in a downtrend since the economy reopened after the Covid-19.
- *Limiting export prospects:* Although August's data reached 8.7% YoY, the highest since September 2022, this sector is raising concerns about its sustainable contribution to GDP as export growth is driven by increased output, rather than improved value per goods. Domestic overcapacity has forced manufacturers to dump their inventory at low prices around the world, causing many countries to worry and consider imposing trade defense measures on goods coming from China.

Fig 43. China – Investment in fixed assets by sector (%)



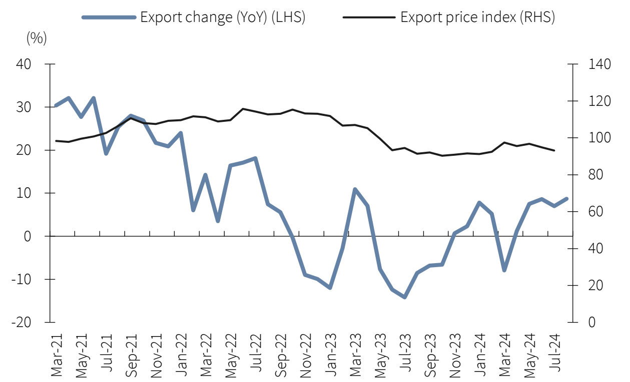
Source: Bloomberg, KB Securities Vietnam

Fig 44. China – Economic activity index (point)



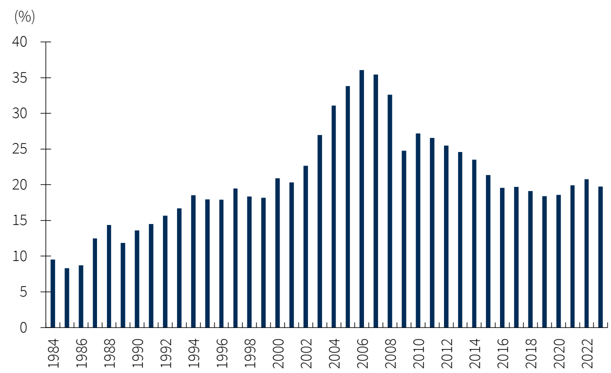
Source: Bloomberg, KB Securities Vietnam

Fig 45. China – Export growth and export price index (%)



Source: Bloomberg, KB Securities Vietnam

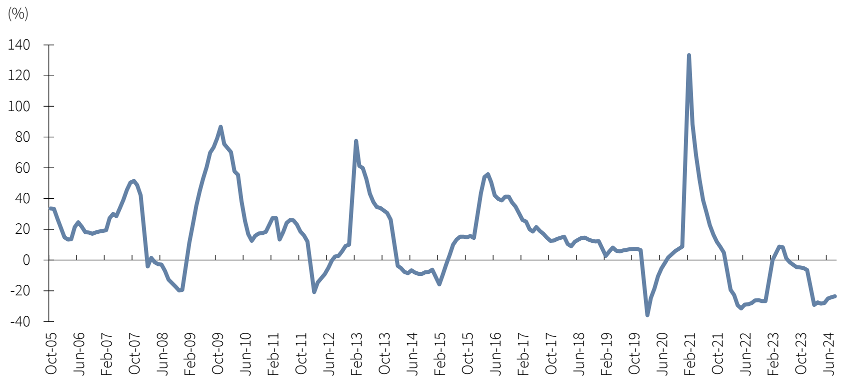
Fig 46. China – Export to GDP ratio (%)



Source: Bloomberg, KB Securities Vietnam

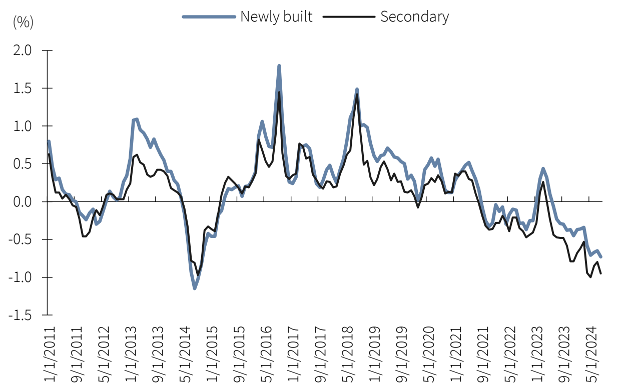
(ii) *Unsolved problems in the real estate market:* According to newly released August data, new and secondary home prices in China fell by 5.5% and 8.6% YoY, respectively, the steepest decline since 2015. The decline could be more negative as the monthly home price data (MoM) are heading down. Although the Chinese government has launched support packages from lowering policy rates to providing capital for cities to buy back unsold inventory properties, the disbursement of capital and its impacts are very sluggish. The problem oversupply but lack of demand in tier 3 markets and high demand vs low supply in in tier 1 markets makes the real estate acquisition policy of localities even more complicated.

Fig 47. China – Home sales growth (% YoY)



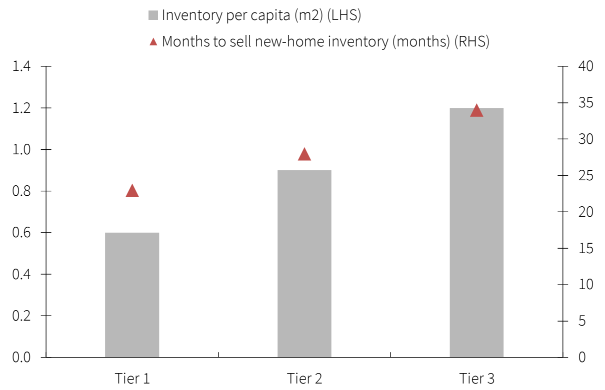
Source: Bloomberg

Fig 48. China – House price growth in 70 big cities (% MoM)



Source: Bloomberg

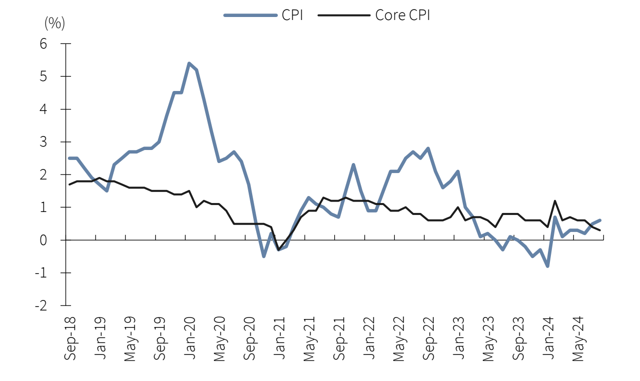
Fig 49. China – Imbalanced supply – demand in real estate markets



Source: Bloomberg

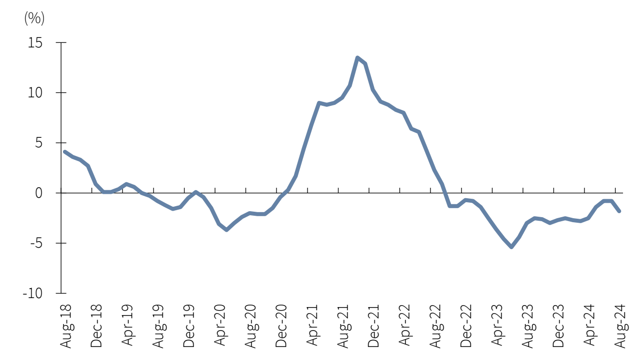
(iii) *Forming deflationary pressure:* According to an NBS report, China's CPI in August grew by a mere of 0.6% YoY, marking the third month of weaker-than-expected growth, while consumer prices remained almost unchanged in most other groups of goods and services. The producer price index (PPI) has also been falling since the end of 2022 with a 1.8% YoY decrease in August, the sharpest fall in the past four months. Concerns about a deflationary spiral are well-founded as domestic consumers are increasingly limiting their spending on non-essential goods. Meanwhile, real estate prices continue to decline, and overcapacity in this country is likely to put pressure on commodity prices and domestic demand.

Fig 50. China – CPI (%)



Source: Bloomberg

Fig 51. China – PPI (%)

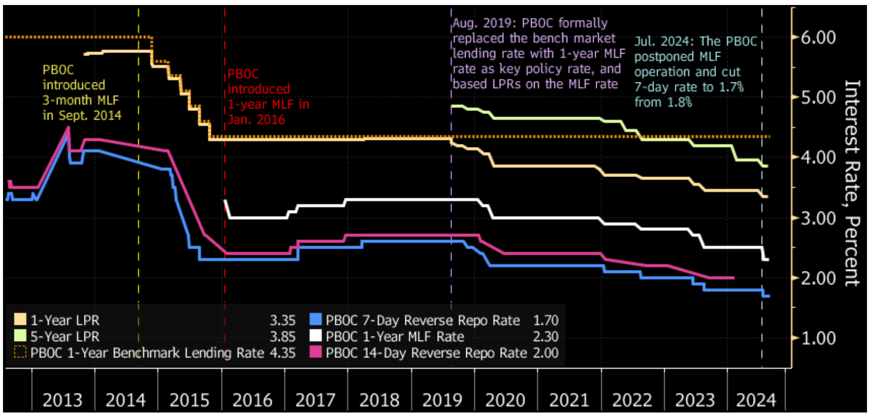


Source: Bloomberg

The Chinese government's moves gradually show more determination in controlling deflation

The Chinese government has quickly launched a series of stimulus policies, ranging from interest rate cuts, supporting the capital and real estate markets to the stock market as the macro data is showing bad signals. Such simultaneous changes by the government as well as the People's Bank of China (PBOC) are considered unprecedented. Only a few times in the past has the PBOC cut its policy rate and the reserve requirement ratio (RRR) in the same month, and 2008 is an example. This shows the urgency in preventing deflation risks and bringing growth to the target of 5%.

Fig 52. China – Policy rate of PBOC (%)



Source: Bloomberg

Table 53. China – Recent supportive policies given by the government

Purpose	Policy
Cut policy rates	PBOC cut reverse repo rate by 20bps to 1.5%. The bank cut medium-term lending facility (MLF) by 30bps. It gave hints for further cuts of 20-25bps to one-year loan prime rate (LPR) and deposit rates.
Increase cash in the banking system	It cut RRR by 50bps and hinted at further cuts of 25-50bps until year-end.
Support the real estate market	Several major cities have eased or removed home-buying criteria, including household registration and marital status. There is a 25-15% down payment for second homebuyers nationwide. Beijing also reduced the rate for first homebuyers from 20% to 15%. A 50bp-cut for mortgage loans is expected in October. PBOC allows commercial banks to use up to 100% (from 60% as before) of CNY300 billion recapitalization package for state-owned entities to buy back unsold real estate and convert it into social housing projects.
Support the stock market	The government commits to improving transaction processes and supporting foreign investors, and investment funds to enter the market. It also supports state-owned investment funds in expanding their investment portfolios. A CNY500 billion capital support package has been launched for investment funds, insurance companies and securities companies to buy stocks. A CNY300 billion low-interest loan package is to help enterprises to buy back treasury shares.
Other policies	The Ministry of Finance plans to mobilize CNY1,000 billion to boost consumption, including CNY800 per child subsidy for families with two or more children.

Source: KB Securities Vietnam

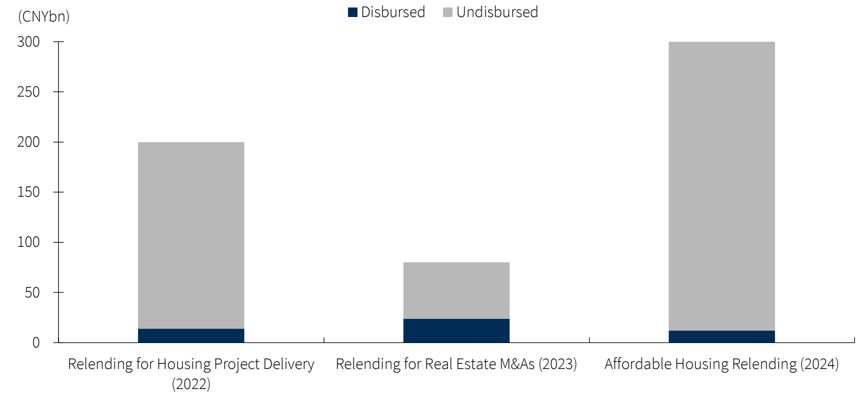
However, the progress of the support measures and their actual impact still need more observation

Although the policies aim to ease pressure on many aspects of the economy, we believe that the risks causing China's current slowdown are more structural, and the Government's stimulus packages are only bringing positive psychological effects to the market in the short term. Meanwhile, the measures are still raising questions about their clear impacts:

- The policy rate cut is unlikely to change the situation. A 0.5% cut in the current mortgage interest rate could help about 50 million households reduce their total annual interest payments by about CNY150 billion, corresponding to an increase in purchasing power of about 0.1% of GDP. However, actual consumption and borrowing demand are posing significant challenges to the effectiveness of the policy since the aging population is more serious, unemployment rates are increasing in large cities, wage growth is slowing down, and the real estate market is not optimistic, which is squeezing the people's spending.
- Public spending is behind schedule. In contrast to the strong monetary policy, public investment is slowing down compared to the budget plan mainly due to implementation in local governments. Support packages to provide funding for cities to buy back inventory real estate to convert into social housing are also facing problems in disbursement. KBSV believes that this comes from the imbalance between risks and yields after converting this type of asset, which, combined with the high debt of local governments, caused the purchase of inventory real estate, especially in tier 3 markets, to be delayed.

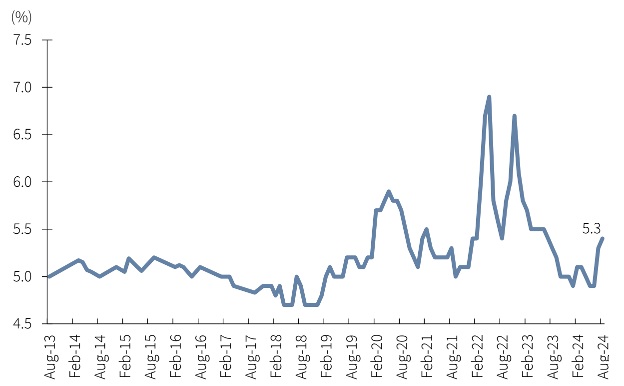
Only 8% capital in the government's support package for house buyback has been disbursed

Fig 54. China – Disbursement progress of real estate support package (CNYbn)



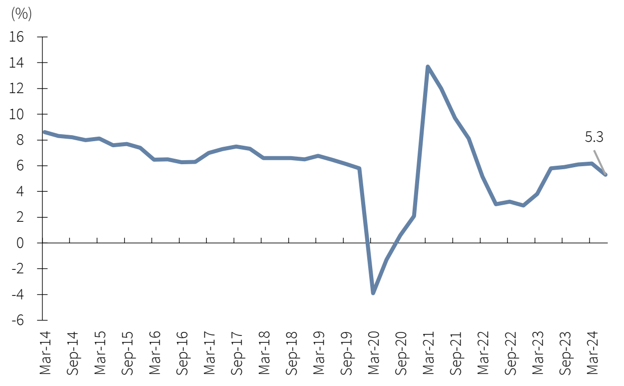
Source: Bloomberg

Fig 55. China – Unemployment rates in 31 major cities (%)



Source: Bloomberg

Fig 56. China – After-tax income of households (%YoY)



Source: Bloomberg

China's economic slowdown is a notable macro risk

We believe these stimulus packages will have positive impacts in the short term, partly improving consumer sentiment and supporting the real estate market. However, the decline in China's economic growth in the medium term is unlikely to be reversed due to its structural risks. Therefore, this is a notable risk for the Vietnam stock market due to the high level of connection between the two economies. The main affected industries include:

- Airlines and services: Chinese tourists always account for a large proportion and spend the most. The economic slowdown affects people's income, causing Chinese people to limit spending on non-essential services, which makes tourist arrivals to Vietnam plunge.
- Export goods: China is the second largest consumer of Vietnamese goods globally (after the US), so the weakening of this economy will reduce the demand for exports of agricultural, fishery, rubber, and wood products.
- Construction materials: Excess capacity and high inventory due to the frozen real estate market will cause Chinese construction materials to flood the market at cheap prices. Furthermore, major economies such as the US and Europe are imposing import taxes, making the competitive pressure on domestic construction material manufactures very large.

IV. Investment themes

Table 4. Vietnam – Top investment themes

Investment themes	Beneficiary groups/industries	Top picks
Economic recovery	Banks, residential real estate, consumer staples	VCB, ACB, TCB, MBB, KDH, NLG, MWG, DGW
Pre-funding application	Securities	SSI, HCM, VCI
FDI	Industrial real estate	GVR, BCM, SIP, KBC, SZC
La Nina	Hydropower, agricultural crops	REE, HDG, VSH
Public investment	Infrastructure construction & construction materials	PC1, HHV, VCG, LCG, HPG, VLB, HT1

Source: KB Securities Vietnam

KBSV maintains investment themes on FDI capital flows and public investment as mentioned in previous reports as we see that these are still medium- and long-term trends, and there have been no new developments that change our views. In addition, in this report, we have identified and updated a number of investment themes such as economic recovery, pre-funding, and La Nina.

1. Economic recovery

Main drivers are stable to help the economy grow in 4Q

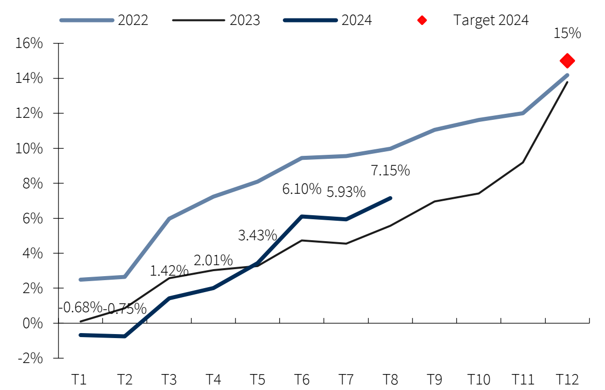
Vietnam's economy is expected to maintain growth in 4Qthanks to favorable macroeconomic conditions. The main growth drivers are: (i) improving export activities (although they may slow down compared to the peak season in late 2Q-first half of 3Q); (ii) positive FDI disbursement flows; (iii) loose monetary policy with low interest rates and controlled inflationary and exchange rate pressure; (iv) accelerating disbursement of public investment capital in the last period of the year; and (v) improved consumption thanks to the government's stimulus policies.

Accordingly, we believe that highly cyclical stock groups, which benefit from economic growth in general, and industry groups that benefit directly from the above growth drivers will have the opportunity to improve their business operations, thereby supporting the upward trend of stock prices in 4Q:

- **Banks**: Credit growth in 4Q is expected to speed up and reach the whole-year target of 15%. In the context of reduced exchange rate pressure, low interest rates, and expectations of credit demand recovery in the last months of the year, we believe that the above target is completely feasible. In addition, the recovery of economic activities, especially in the real estate and consumer sectors, will also help banks improve asset quality and reduce NPL risks.

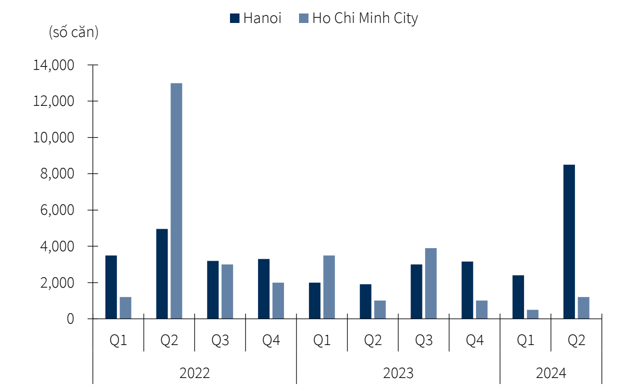
- **Real estate**: In addition to benefiting from a low interest rate environment and high economic growth, the real estate sector is also supported by the promulgation of the revised Land Law, Housing Law and Real Estate Business Law effective from August 1, 2024 (instead of January 1, 2025). Legal barriers of projects are also being actively cleared, while people's demand remains high, we expect the sector to gradually overcome difficulties and record positive results in the following earnings seasons.
- **Consumer goods**: Total retail sales growth in the first nine months of the year was at a low average (under 10% YoY), indicating that domestic consumer demand has not really recovered as expected. However, with the economy returning to growth, people's income improving, and the Government's stimulus policies such as increasing base salary, and reducing VAT, we expect consumer demand to improve in 4Q compared to the first three quarters of the year.
- **Industrial real estate**: Industrial parks continue the impressive growth momentum in 2023. FDI flows into Vietnam in the first eight months of 2024 were stable. In 8M24, 2,247 FDI projects were licensed in Vietnam with newly registered capital reaching USD12 billion (+27% YoY), and USD14.15 billion was disbursed (+8.0% YoY). This trend is expected to continue in 4Q24 and the following quarters when Vietnam's advantages in attracting FDI are solid: favorable geographical location, numerous new FTAs, cheap labor costs, and developing transportation and logistics systems.

Fig 57. Vietnam – Credit growth (%



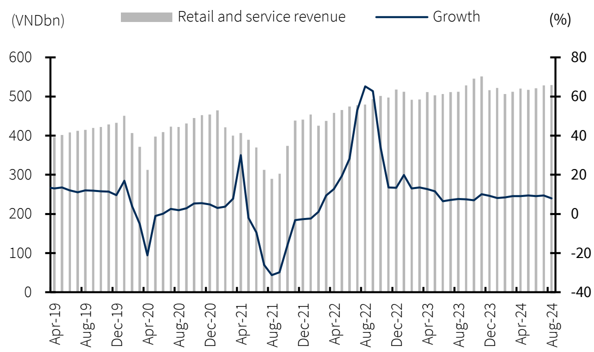
Source: FiinPro, KB Securities Vietnam

Fig 58. Vietnam – New supply of commercial real estate market (unit)



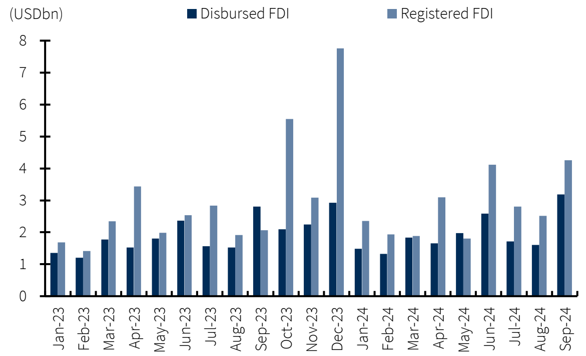
Source: CRBE, KB Securities Vietnam

Fig 59. Vietnam – Total retail sales of goods & services (VNDtn)



Source: General Statistics Office of Vietnam, KB Securities Vietnam

Fig 60. Vietnam – Disbursed & registered FDI (USDbn)



Source: General Statistics Office of Vietnam, KB Securities Vietnam

2. La Nina

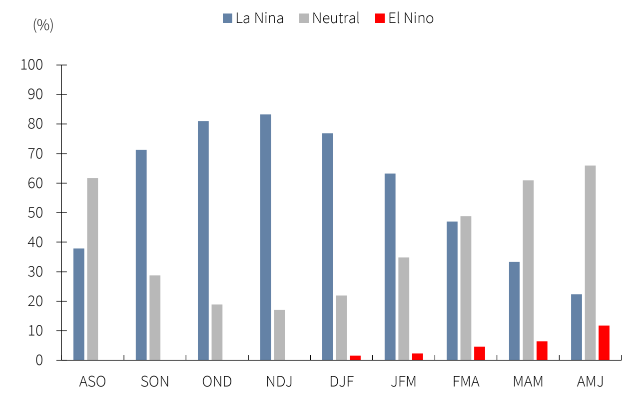
La Nina is likely to strengthen between now and early 2025

The latest report from the National Oceanic and Atmospheric Administration (NOAA) said there was a 71% chance that La Nina will strengthen between September and November 2024 and gradually change to a neutral phase by mid-2025. During this time, La Nina is forecast to increase rainfall and the frequency of tropical storms in Southeast Asia, especially in the Philippines, Indonesia, Vietnam, Malaysia, and Thailand. With such extreme weather, there will be both positive and negative aspects:

- On the positive side, the hydropower industry is expected to benefit the most from La Nina when rainfall increases and more water flows into hydropower reservoirs. In addition, the impacts of climate change, including drier conditions in South America, more frequent rains and floods in India and Southeast Asia, will affect crop yields, leading to higher prices for some agricultural products such as rice, sugarcane, rubber, and animal feed.

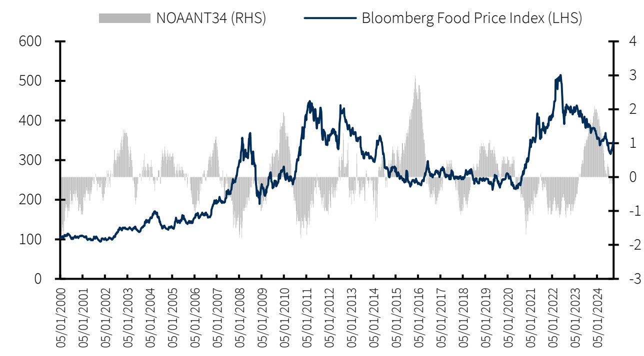
- On the negative side, more frequent storms can disrupt production and business in many sectors, including farming. High animal feed prices may put input pressure on businesses trading in live hogs and fisheries.

Fig 61. Global – ENSO forecast (%)



Source: National Oceanic and Atmospheric Administration

Fig 62. Global – Sea surface temperature difference and Bloomberg food price index



Source: Bloomberg

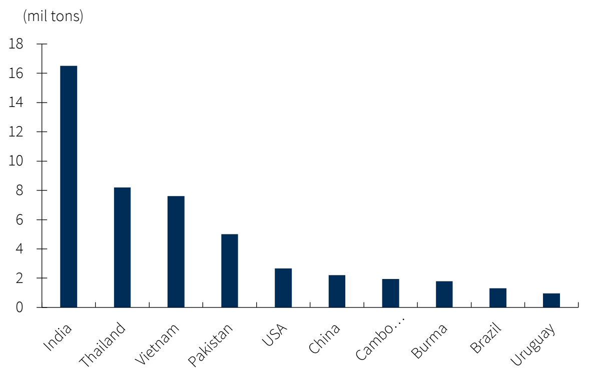
Enterprises in the rice, sugarcane, and rubber sectors are expected to have better performance thanks to increased product prices amid global supply shortages

(i) **Rice**: On the supply side, India, Thailand, and Vietnam are the largest exporters in the world, of which India accounts for about 32% of total global export output. During La Nina, rainfall should increase in Southeast Asian and South Asian countries, affecting the crop from now until mid-2025 in the three countries. Furthermore, extreme weather can hit crops in the Philippines, Indonesia, and China, causing countries to increase rice imports for reserves. All these factors may push rice prices higher.

(ii) **Sugarcane**: La Nina is having negative impacts on sugar harvest output in Brazil, the world's largest sugar producer and exporter with a global market share of more than 40%. This country is expected to enter one of its longest inter-crop breaks in decades under the influence of historic drought and widespread forest fires. Although La Nina may bring better rainfall in the Thai and Indian markets, the increased frequency of tropical storms could pose a risk of crop destruction there. Therefore, according to the Organization for Economic Cooperation and Development (OECD), sugar prices may gain 15-20% in 2025.

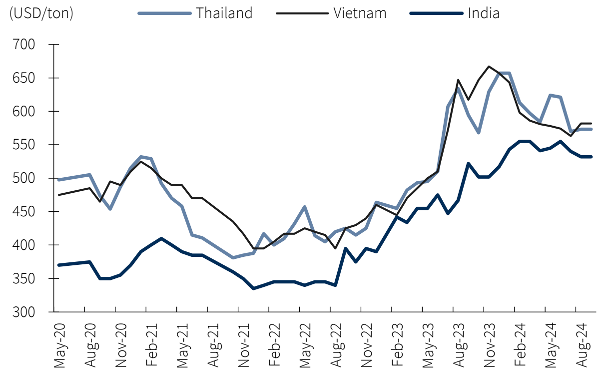
(iii) **Rubber**: Rubber prices continue to rise and hit new highs on major exchanges. The October rubber futures on the Osaka Exchange continued to rise 53.3% YTD to JPY401.8/kg. The transition from El Nino to La Nina disrupted the crop season in leading natural rubber producing countries such as Thailand, Vietnam, Indonesia, and India, causing the market to continue to worry about another supply disruption, which may last until at least 2025.

Fig 63. Global – Top rice exporters in 2023 (million tons)



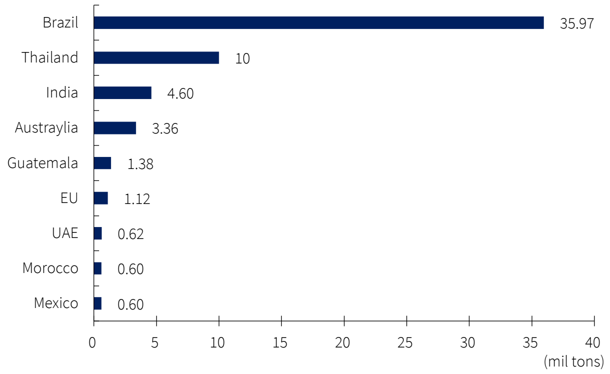
Source: Statista

Fig 64. Thailand, Vietnam, India – Rice 5% broken prices (USD/ton)



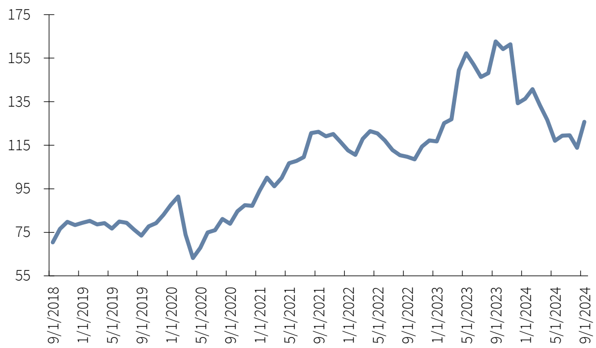
Source: Bloomberg

Fig 65. Global – Top sugar exporters in 2023 (million tons)



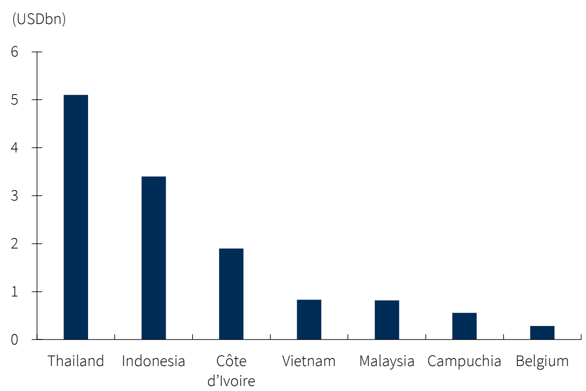
Source: Statista

Fig 66. Global – Sugar price index



Source: Bloomberg

Fig 67. Global – Top rubber exporters in 2023 (USDbn))



Source: Statista

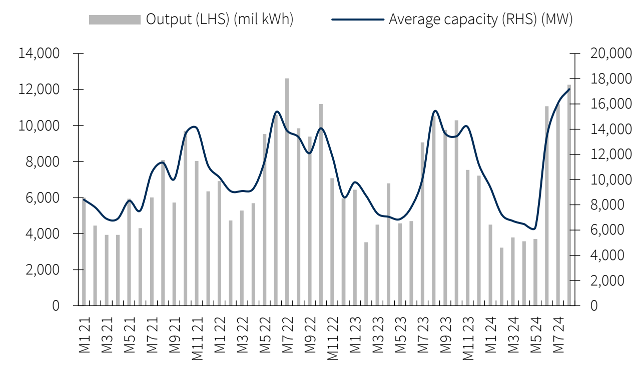
Fig 68. Singapore – RSS3 rubber future prices (USD/ton)

Source: Bloomberg

Hydropower industry is forecast to have positive profit growth from 3Q24

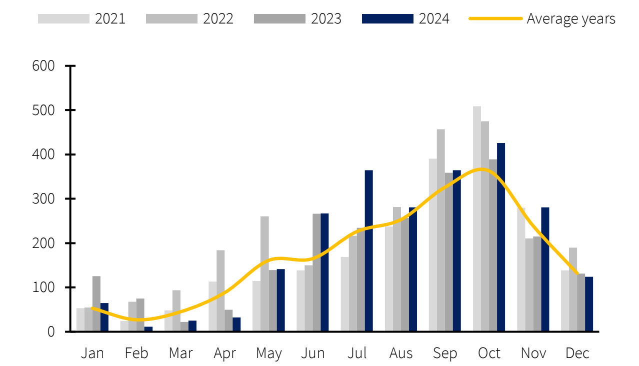
KBSV believes that the business results of hydropower plants will improve from now until the end of 2024 thanks to the expected increase in rainfall during La Nina. According to the Vietnam Institute of Hydrology and Meteorology Science and Climate Change, the amount of water flowing into hydropower lakes is likely to be concentrated at the end of the year with high intensity in the Northern, Central Highlands and Southern regions. In the three-month season of September-November 2024, the total rainfall should be equal to or higher than the many-year average. With abundant water storage, hydropower plants will be mobilized more as this is a low-cost electricity generating type.

Fig 69. Vietnam – Total power output & average hydropower capacity as of August 2024 (million kWh, MW)



Source: NLDC, KB Securities Vietnam

Fig 70. Vietnam – Forecast rainfall in the last months of 2024 (mm)



Source: IMHEN, KB Securities Vietnam

3. Market upgrading progress

Vietnam stock market is making positive progress in meeting FTSE Russell's upgrade criteria

On September 18, 2024, the Ministry of Finance officially issued Circular No. 68/2024/TT-BTC, amending and supplementing a number of articles of Circular 120/2020/TT-BTC on securities transactions. This is a significant step forward in the process of meeting FTSE Russell's upgrade criteria, allowing foreign investors to buy stocks without requiring sufficient funds to place orders and pay on T+1, T+2. At the same time, securities companies will have to ensure the obligation to close transactions in case foreign investors do not have enough funds within the above time limit. Circular 68 also stipulates the limit for receiving orders to buy shares from foreign investors, including:

- In amounts that can be converted into cash, but not exceeding the difference between two times the equity and the outstanding margin
- Amounts that can be converted into cash include cash at the fund, bank deposits, unused deposit certificates, overdraft limits, payment guarantee limits, pending sales proceeds, receivables from sales in advance and money from foreign institutional investors.

However, Vietnam is only likely to be upgraded no sooner than March 2025

Although Circular 68/2024/TT-BTC was issued on September 18, 2024, the new effective date is November 2, 2024, after the announcement of the annual classification results on October 8, 2024. Securities companies need time to develop workflow and deploy products before FTSE can survey and collect opinions from participants. Therefore, we believe that during FTSE Russell's internal review in March 2025, the Vietnamese market will have official information about the upgrade, and the effective date will be a year later.

Upgrading brings positive potential to the stock market

The stock market's performance tends to be positive when there is information related to the upgrade watchlist or an official upgrade. Typical cases include Pakistan, Kuwait, and Qatar. Most markets in the Secondary Emerging group also have more positive valuations with an average P/E of about 16x, about 18% higher than frontier markets.

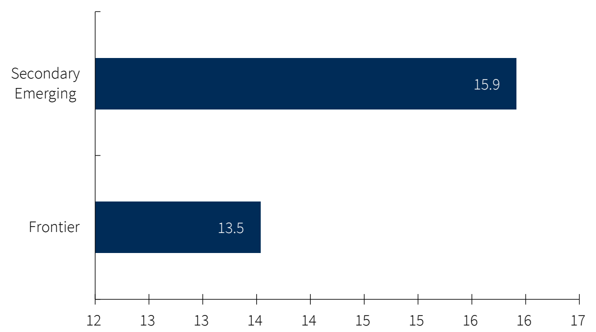
Large-cap stocks have potential to be added to the index

If approved by FTSE Russell to the Secondary Emerging market group, we believe that the proportion of the Vietnamese market will be about 0.6-1.1% in the FTSE Emerging Index basket, thereby attracting from USD800 million to USD1 billion of new investment capital from ETF funds, not to mention direct and indirect capital flows from foreign investors and index reference funds.

One of the FTSE's emerging market screening criteria is size and liquidity, with at least five tickers meeting the FTSE Emerging All Cap criteria and at least three tickers meeting the FTSE Emerging. In addition, the total capitalization of eligible stocks must be larger than 0.1% of the FTSE Emerging All Cap index (about USD8.14 billion). Therefore, VCB, MSN, VNM, HPG, VHM, and VIC will meet all these criteria with a total capitalization value of USD51.6 billion.

In addition to the stocks expected to be added to the reference index, a successful upgrade process can increase profits and transaction fees for securities companies, especially SSI Securities (SSI), Ho Chi Minh Securities (HCM), and Vietcap Securities (VCI), which have the largest market share of foreign institutional customers.

Fig 71. Global – Average P/E of stock markets (x)



Source: Bloomberg

Fig 72. Vietnam – Stock market's weight when being added to the FTSE Emerging All Cap (%)

	Philippines	Kuwait	Qatar	Vietnam
Proportion	0.69%	0.75%	0.86%	0.6 - 1%
Market cap (USDbn)	351	150	146	210

Source: Bloomberg,

V. KBSV model portfolio

No.	Ticker	Target price (VND)	Closing price (September 30, 2024)	Expected return (%)	2024 forward PE (x)	2024F NPAT growth	Investment catalysts
1	**VCB**	105,200	92,000	14%	14.39	5%	- Credit is expected to recover in the second half of 2024 - NIM should remain stable thanks to improved CoF, lowest pressure to increase deposit interest rates in the system - VCB has solid buffer and low NPL ratio
2	**FPT**	142,800	134,500	6%	19.10	23%	- The foreign IT services continue to win bids for many large-scale projects, especially in the Japanese market - The group's business results have grown steadily and remained high, with long-term momentum coming from the AI sector
3	**TCB**	29,600	24,200	22%	7.46	27%	- The 2024 credit room has been expanded to 18.5% with positive credit growth prospects thanks to the benefits from the Vin Co Loa launching event - NIM will improve well compared to other banks in 2024 due to: (1) good control of CoF and (2) no strategy to reduce lending interest rates to compete - NPL is expected to remain low at <1.4% although in the medium/long term, it is necessary to pay attention to the risks for credits related to Vin & Masterise
4	**KBC**	35,900	28,200	27%	24.96	-57%	- Trang Due 3 has completed site clearance of more than 200ha (of which, an MOU has been signed for more than 100ha of land) and is ready to lease as soon as legal procedures are completed (the enterprise said it has submitted related papers to the Prime Minister) - KBC's industrial park land rents are expected to gain by an average of 5-8%/year in the next three years thanks to high demand
5	**HPG**	31,000	26,350	18%	50.00	506%	- Domestic steel prices decrease slower than input material prices, supporting gross profit margins in the medium term - Expected domestic consumption output to continue to improve in the coming time. - Dung Quat 2 will be put into operation and commercial operation from 1Q25
6	**VNM**	76,000	70,100	8%	16.99	5%	- Revenue from overseas business activities is expected to make double-digit growth in 2024 - Domestic segment maintains growth at 4-6%
7	**SZC**	46,000	37,650	22%	18.00	65%	- Tight supply in the Southern region, newly registered FDI in Ba Ria - Vung Tau is largest nationwide - Large land bank, good location and much room for development - Expected increase in rents in the future
8	**KDH**	41,800	38,900	7%	43.00	11%	- KDH has the advantage of owning a land fund of more than 600ha in Ho Chi Minh City, especially when the inner-city land fund is becoming scarce - Opening sale of Clarita and Emeria projects in 4Q24 - Handing over The Privia project ensures profit growth in 2024

VI. Sector outlook

Banks

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October 8, 2024

Positive maintain

Recommendations	
VCB	**Neutral**
Price target	VND103,300
Upside	+13%
CTG	**Buy**
Price target	VND39,000
Upside	+9%
ACB	**Buy**
Price target	VND30,900
Upside	+21%
TCB	**Buy**
Price target	VND29,600
Upside	+21%
MBB	**Buy**
Price target	VND29,100
Upside	+16%
VPB	**Buy**
Price target	VND25,400
Upside	+26%

Credit growth is expected to accelerate in the final months of 2024. Credit growth of the banking system as of September 17, 2024 reached 7.38% YTD – better than 9M23 (5.92%), in which the private banking group had a positive growth rate (8.6% YTD). Banks with outstanding credit growth in 8M24 include Lien Viet Post Bank (LPB, +15.97% YTD), HCM Development Bank (HDB, +15% YTD), Asia Commercial Bank (ACB, +12% YTD), and Military Bank (MBB, + 11.15% YTD). Although system growth is still far from the SBV's target of 15%, we believe that the disbursement plan is likely to reach the 2024 target. The fundamental factors supporting credit growth in the last period of the year include (i) accelerating public investment disbursement along with the recovery of personal consumption and import-export activities of enterprises; (ii) favorable macroeconomic conditions with a dovish policy orientation after the exchange rate stabilizes, there is more room to keep interest rates at a low level; and (iii) the SBV's further expansion of credit limits for several credit institutions (which may include TCB, ACB, MBB, VPB, HDB, and LPB). In addition, credit usually accelerates in the last months of the year (in 2023, many banks recorded growth in the 4Q double that of the previous three quarters, including technical processing factors).

NIM 2024F remains stable at current level. NIM has shown more positive signs since 2Q after recording an increase in some banks, or a slower decrease than the previous quarter in others. The average NIM of the banks we monitor increased slightly by 6bps QoQ, and the interest on earning assets (IEA) and the cost of funds (CoF) both decreased sharply. KBSV forecasts that the impact of increasing deposit interest rates in 1Q24 will gradually be reflected in CoF in 4Q24-1Q25. With the downtrend of policy interest rates of many major central banks worldwide, the SBV will be more flexible in maintaining the easing monetary policy. From now until the end of the year, there will be times when deposit interest rates will be raised again (especially at small banks) to balance sources of funding for year-end credit growth. However, if the macro context continues to develop favorably, in the medium term, the SBV may consider increasing liquidity for the market and the interest rate level will generally be maintained at a low level. Meanwhile, IEA will recover thanks to credit shifting to the individual group, lending rates have bottomed out and may rebound at some private banks. Overall, we lower our 2024F NIM to remain stable at the current level with differentiation among banks, but it will recover in the medium term.

Asset quality recovered slightly towards year-end. The average non-performing loan (NPL) ratio of banks in the monitoring portfolio decreased by 25bps QoQ, and special mention also decreased sharply by 9% QoQ. The recorded decrease in the NPL ratio in many banks signaled that the asset quality of the whole industry has improved compared to the period of late 2023 – early 2024. We expect the NPL ratio and NPL formation to maintain a downtrend from now until the end of the year along with the economic recovery. The pressure for provisions will exist after the loan loss coverage ratio (LLCR) of the whole industry fell to 69% from 83% in 2Q23 while banks still promote the use of capital buffers to handle NPLs.

We gave a positive rating to the banking sector. Recently, bank stocks have shown positive developments again after the macro outlook (interest rates and exchange rates) is favorable, while the difficulties due to disappointed business results and weak credit growth were reflected in the previous sideways movement. KBSV assesses that the banks in the monitoring portfolio are still trading at relatively attractive prices (below the average P/B of five years) with short-term and long-term prospects. We picked VCB, CTG, ACB, TCB, MBB, and VPB, of which VCB, CTG, and ACB have sustainable reputations, while TCB, MBB, and VPB are superior in terms of growing profits but have more potential risks.

Securities

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October 8, 2024

Positive change

The market recorded a decent growth in terms of both price and liquidity in 9M24, supporting the performance of the stock brokerage firms. As of September 24, 2024, VNindex reached 1,277 points, up 13.1% YTD. The average trading value hit VND19,942 billion, up 32.9% YoY. Favorable market developments and improved liquidity are the main drivers for securities companies' better results. Profits of 21 largest securities companies in 1H24 surged 80% YoY to VND10,803 billion, and ROE strongly improved by 3.6ppts YoY, averaging 9.6%.

Growth came from all business segments, especially in the investment segment. In 1H24, the investment segment contributed the largest proportion of gross profit with 46%. Gross profit of the investment segment rose 32.1% YoY in 1H24 thanks to (i) enterprises' increased capital from 2022 to 2023 and allocated a large part to the investment portfolio and (ii) positive market developments. Meanwhile, the margin and brokerage segments also had impressive growth, with gross profit increasing by 50% and 110% YoY, respectively, thanks to improved market liquidity.

Market expectations remain positive in terms of price and liquidity in 4Q24 and 2025. KBSV maintains a positive view on market prices and liquidity, thereby positively impacting the business results of the securities industry in 2024-2025 based on: (i) Market valuation is still at a reasonable level with 2024 forward PE reaching 14.8x, 11% lower than the 10-year average PE of VN-index at 16.6x; and (ii) market liquidity is forecast to improve in the rest of 2024 and 2025 thanks to low interest rates environment. Global interest rate cuts help relieve exchange rate pressure along with the target of high credit growth, supporting the economy, which is the driving force for the Vietnamese banking system to continue to maintain low deposit interest rates, thereby increasing demand for securities investment when the deposit channel does not bring attractive enough profits.

The new regulation on no-prefunding for foreign institutional investors in the revised Circular 68/2024 has a positive impact on the market upgrading process. According to KBSV's assessment, in the short term, the application of no-prefunding will help increase transaction turnover and flexibility in the investment activities of foreign institutional investors. However, the contribution of foreign transaction fees is only more than 2% to the total profit of securities companies, leading to the impact of no-prefunding on the profits of securities companies in the short term being insignificant.

In the long term, the application of no-prefunding helps Vietnamese securities take an important step forward in FTSE Rusell's Market Upgrade Review, satisfying the two missing conditions of transferring payment counterparties and handling failed transactions. In case of being upgraded in the review in March 2025, the official effective time is about six to 12 months from the date of announcement, Vietnam will be officially upgraded to an emerging market from September 2025 to March 2026. Upgrading the market will help attract more foreign capital to the Vietnamese market as the portfolios of global investment funds will be reallocated with a higher proportion to Vietnam after the upgrade.

We assigned a positive outlook to the securities sector. Investors can consider investing in leading securities stocks such as VCI, SSI, and HCM, which are the companies that benefit most from the positive developments of the market and the story of market reclassification thanks to large capital and experience in the institutional customer segment. Furthermore, this group of stocks is still being traded at a reasonable price range, within the average P/B of five years. For the group of stocks of mid-sized securities companies that have had a strong increase and are trading at the upper range of std+1 of the average P/B of five years, investors should prioritize disbursement at deep corrections and need to closely monitor the portfolio performance of these stocks.

Residential real estate

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October 8, 2024

Positive maintain

Recommendations	
VHM	**Buy**
Target price	VND56,800
KDH	**Neutral**
Target price	VND41,800
NLG	**Buy**
Target price	VND46,100
DXG	**Buy**
Target price	VND19,100

The number of apartments launched in 1H24 in the Hanoi market showed a clear recovery while the Ho Chi Minh City (HCMC) market remained relatively quiet. In Hanoi, 10,841 new apartments were first introduced to the market (+176%YoY), recording the highest supply in the past five years, and 12,208 apartments were successfully opened for sale (+185%YoY), contributed by projects from reputable contractors such as Vinhomes (VHM), CapitaLand, MIK, and Masterise. The HCMC market was less positive with 1,676 new apartments introduced (-59%YoY) and 1,741 apartments successfully launched (-31%YoY), contributed by contractors Khang Dien House (KDH) and Gamuda Land. Projects for sale recorded high absorption rates thanks to (i) scarce new supplies, projects for sale coming from reputable developers and (ii) investors offering many preferential sales policies and large discounts. The average price in the Hanoi market skyrocketed 25% YoY to VND60 million/m^2, approaching the price of the HCM market at VND63 million/m^2 (+6% YoY).

The townhouse/villa segment continued to be subdued. The HCM market recorded 47 new units for sale in 1H24, of which only 33 units sold. In Hanoi, the number of units for sale was 300 (-80% YoY) and the number sold was 370 (-61% YoY), both sharply lower than the high comparative levels last year.

We expect both supply and absorption in Hanoi and HCM and some neighboring areas to continue to recover thanks to: (i) Interest rates on home loans remain low, and contractors are offering many new, more preferential and flexible sales policies. (ii) Market sentiment is improving, and contractors such as KDH, VHM, and Nam Long Investment (NLG) would boldly open new projects or develop the next phases of existing projects in the coming quarters, brokerage activities are bustling again. (ii) The revised Land Law, Housing Law and Real Estate Business Law (effective from August 1, 2024) help improve homebuyers' sentiment and shorten the time for investors to complete legal procedures, helping to improve supply. Finally, (iv) boosting public investment with large projects, traffic routes connecting the center of Hanoi and HCMC with neighboring areas and provinces will boost real estate prices, thereby stimulating real estate investment demand.

However, the recovery will happen slowly due to the difficulties that have not been really resolved: (i) In addition to the apartment segment with a clear recovery, the remaining segments, especially those with high speculative nature, will need more time to rebound. (ii) Investors will also face more difficulties in accessing capital sources when credit to the real estate sector is restricted by banks, and bond issuance activities are closely monitored. (iii) It will take more time for new policies to take effect, and some legal issues still need more specific guidance.

We see that many real estate stocks are currently trading at a lower P/B 2024 forward than the average P/B over the past five years. With the positive outlook of the real estate sector in the short term, KBSV believes that investors can consider real estate stocks when stock prices decrease and choose businesses with good prospects and large clean land bank, full legal documents, ongoing and launched projects, and safe financial status. Notable investment opportunities are VHM, KDH, NLG, and Dat Xanh Group (DXG).

Industrial real estate

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October 8, 2024

Positive maintain

Recommendations	
GVR	Buy
Target price	VND40,200
KBC	Buy
Target price	VND35,900

FDI flows have been strongly pouring into Vietnam, showing the big potential of industrial parks. In 8M24, the total newly registered capital, adjusted capital and capital contribution to buy shares of foreign investors reached more than USD20.5 billion (+7% YoY). The number of new projects granted investment registration certificates was 2,247 projects (+8.5% YoY) with USD12 billion (+27% YoY) in total registered capital. Provinces receiving the largest capital are Bac Ninh, Quang Ninh, HCMC, Ba Ria – Vung Tau, and Hai Phong.

Industrial park rents slowly grew in both the North and the South, while the occupancy rates remained high. According to CBRE's 2Q24 report, the average industrial land rent in tier 1 provinces in the North inched up to USD134/m²/remaining lease term (+4.5% YoY), while the price in the South was flat QoQ at USD173/m²/remaining lease term (+1% YoY). The absorbed land areas in 1H24 in tier 1 provinces in the North and South were 220ha and 259 ha, respectively, with occupancy rates recorded at 83% and 89%. Industrial park rents in the North are projected to maintain an increase of 4-8%/year in the next three years, while the comparative figures in the South will slow down as the recent booming growth made businesses switch to renting land in tier 2 provinces where there is a lot of land available for lease at lower prices.

Vietnam's industrial real estate has benefited from many factors. (i) FDI should maintain sustainable growth as Vietnam is a direct beneficiary of the relocation of the production bases from China to neighboring countries with low labor and electricity costs and has signed many FTAs. (ii) The planning of most provinces, especially provinces with large industrial land area such as Binh Duong, Binh Phuoc, Bac Ninh, and Ba Ria – Vung Tau, has been approved. Decision 227/QD-TTG on land use indicators has been passed, which bodes well for the progress of industrial park projects while also showing the great growth potential of Vietnam's industrial park land bank from now to 2030. (iii) The draft on the Investment Support Fund on new investment incentive policies is being finalized and is expected to be approved by the end of 2024 or early 2025, which will raise the competitiveness of industrial park developers in Vietnam.

However, industrial parks also face many obstacles from: (i) Vietnam still lacks many qualified workers who can work at large high-tech corporations. (ii) Legal procedures and land acquisition and clearance processes are complicated, delaying the progress of many projects and affecting the supply of industrial park land. (iii) Industrial park rents in our country are gradually no longer a competitive advantage to attract foreign enterprises as the prices in areas with many large industrial parks are gaining rapidly, narrowing the gap with other countries in the region. (iv) Concerns about the risk of a global economic recession have caused many companies to narrow or postpone production expansion. These difficulties may hinder the growth of industrial real estate enterprises.

We have positive assessment about stocks of enterprises with large existing industrial park land available for lease such as Kinh Bac City Development (KBC), IDICO Corporation (IDC), and Sonadezi (SZC) **and enterprises with good potential from converting rubber plantation to leasable land** such as Vietnam Rubber Group (GVR) and Phuoc Hoa Rubber (PHR). Currently, the prices of most industrial real estate stocks have increased by 30-80% YTD, which partly reflects the positive outlook of the sector. Investors can consider stocks with attractive investment catalysts such as KBC or tickers mentioned above at deep correcting sessions.

KB Securities VIETNAM

Port operators & maritime shippers

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October 8, 2024

Positive & neutral change

Recommendations	
GMD	Buy
Target price	VND93,900

Cargo throughput has maintained a positive growth momentum since the beginning of the year. According to statistics from the Vietnam Maritime Administration, the cumulative cargo throughput through the Vietnamese seaport system in 7M24 reached 501 million tons (+16% YoY). Of that, exports weighed 118 million tons (+17% YoY), and imports hit more than 155 million tons (+22% YoY). Container cargo alone recorded an output of 16.9 million TEUs (+21% YoY), 13% higher than the same period in 2021 and 2022.

Ports in the Southern region posted higher growth than those in the North. Meanwhile, in Hai Phong, the total volume of cargo throughput in 7M24 grew 11.3% YoY to 92 million tons, while the volume in Ba Ria – Vung Tau increased 28% YoY to 53 million tons thanks to the low figures in 7M23 and the trend of stockpiling inventories in the US and Europe, the two main partner markets of the Southern port.

The business performance of seaport enterprises until the end of the year should be positive thanks to higher freight rates and output. (i) Circular 12/2024/TT-BGTVT has increased the ceiling and floor rates of many port services, expanding the room for rate increases for port operating firms as the average port service rate in Vietnam is still lower than many countries in the region. (ii) The year-end import-export prospects are bright since the number of new orders is still high. (iii) Investment in transport infrastructure and seaports is being promoted to increase the operational efficiency of the port system. However, the port operating industry still faces certain risks, including (i) concerns about recession, slowing trade activities leading to a decrease in the volume of cargo throughput and (ii) fierce competition in the Hai Phong port area when Lach Huyen 3 & 4 starts operating from next year, which could affect the service rates in this area.

Ocean shipping recovered from 2023 bases, but there are some medium-term risks. We expect the business results of shipping enterprises to continue their rebounds, based on (i) positive growth in transport output with more import-export activities and (ii) peaking ship charter rates since October 2022. However, we assess that the positive outlook for the shipping industry will only be maintained in the short term because (i) global shipping rates are trending down and may experience steep falls when tensions in the Red Sea are eased; and (ii) concerns about the oversupply of vessels in the medium and long term are becoming increasingly evident as the number of new ship orders is outpacing the rate of demolition of old ships.

We maintain a positive view on seaports and a neutral rating for the maritime shippers. However, we believe that the current prices of port and ocean shipping stocks have fully reflected the growth potential of the sector. Investors can choose port and shipping companies with obvious catalysts and healthy financial structures when their stock prices adjust to attractive valuations such as Gemadept (GMD) and Hai An Transport & Stevedoring (HAH).

KB Securities VIETNAM

Steel

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October 8, 2024

Neutral change

Recommendations	
HPG	**Buy**
Target price	VND31,000
HSG	**Neutral**
Target price	VND22,600
NKG	**Neutral**
Target price	VND23,800

Total industry consumption output in 8M24 reached 17.8 million tons (+14% YoY). Of that, consumption of construction steel, HRC, and galvanized steel gained 12%/10%/34% YoY. As mentioned in the previous report, the consumption was underpinned by the recovery in demand in the domestic market with steel consumption in the domestic and export channels in 8M24 increasing by 17%/9% YoY, respectively. Notably, domestic HRC consumption gained 28% YoY.

High steel inventories in China put pressure on steel prices. Prices of rebar and HRC in China have dropped 9%/13% since the beginning of 3Q. In the context of industrial activities declining and real estate market facing difficulties, domestic steel consumption demand in China is forecast to continue to be subdued, causing iron ore and coke prices to fall 14%/19% respectively in the period. KBSV believes that GPMs of steel enterprises will decline in 3Q24 due to the pressure to make inventory provisions when steel prices and input material prices decline. However, domestic steel prices decline more slowly than input costs (construction steel, HRC, and galvanized steel prices decrease by an average of 3%/4%/5% from the beginning of 3Q to present), which will help steel producers such as Hoa Phat Group (HPG), Hoa Sen Group (HSG), and Nam Kim Steel (NKG) maintain a stable GPM in the medium term. In the short term, falling steel prices due to high inventories in China will erode the steel industry's revenue.

Export prospects are less positive in the short term due to anti-dumping measures on steel from the US and EU. However, in the medium and long term, KBSV believes that the steel exportation will still maintain its competitive advantage in target markets since (i) the import tax rate applied to steel imported from Vietnam is lower than the tax rate applied to Chinese peers; and (ii) local companies will maintain price competitiveness thanks to lower labor costs, electricity, and environmental protection taxes compared to developed countries.

The domestic market is the growth driver for medium-term consumption. We expect the recovery in domestic demand to be the mainstay for the steel industry's consumption in the medium term, based on: (i) The recovery of the residential real estate sector, the increase in the supply of new projects, and the approval of the amended Real Estate Law will help shorten the time for legal completion of projects, creating conditions for the real estate market to develop more sustainably. In addition, (ii) KBSV expects the anti-dumping tax on galvanized steel to be approved and applied from the end of 2024, thereby improving domestic consumption output from 2025.

For anti-dumping duties on HRC, we believe the approval probability is 50-60% due to the domestic production capacity (estimated to reach 14 million tons/year by 2026, mainly from HPG and Formosa Ha Tinh Steel, being lower than the average annual domestic consumption demand (15-16 million tons/year, according to VSA).

The Chinese government announced a stimulus package to promote the recovery of the real estate market. Some stimulus measures include (i) reducing the reserve requirement by 50bps for banks, which may be reduced by another 20-25bps by the end of the year, (ii) decreasing interest rates for existing mortgage loans, and (ii) lowering the minimum down payment ratio for second home purchases to 15%. We expect this will facilitate the gradual recovery of the real estate market and boost steel consumption in China.

The outlook for the steel sector is neutral. Stock prices of leading steel companies have decreased by an average of 11% since the beginning of 3Q24, partly reflecting the adverse impacts from falling steel prices on the revenue of steel producers. Currently, the average P/B of the whole industry is 1.2x (lower than the five-year average of 1.3x), suitable for partial disbursement and long-term investment thanks to the prospect of domestic consumption recovering, the expectation of steel prices gradually recovering and entering a new growth cycle after the supply-demand of steel consumption in China reaches equilibrium. Some notable stocks include HPG, HSG, NKG, and Ton Dong A Corporation (GDA).

KB Securities VIETNAM

Oil & gas

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October 8, 2024

Positive maintain

Recommendations	
GAS	Neutral
Target price	VND87,100
BSR	Neutral
Target price	VND24,400

Crude oil prices witnessed strong fluctuations in 9M24. Brent crude oil prices reached a high level, fluctuating between USD80 and USD90/barrel in 1H24 due to (i) disputes in the Middle East and Red Sea causing disruptions in the global crude oil supply chain; (ii) OPEC+ decision to maintain production cuts; and (iii) positive US economic outlook raising expectations for crude oil demand. In 3Q24, Brent oil prices fell sharply and at times hit USD70/barrel. The reasons were (i) gloomy economic data from the two largest consumers, the US and China, which increased the probability of a recession and undermined the expectations for crude oil demand and (ii) political instability in Libya gradually improving, making crude oil supply in this country stabilize soon.

Crude oil prices may weaken in late 2024. All three organizations, OPEC, EIA and IEA, have lowered their forecasts for crude oil demand in 2024 due to unfavorable economic data from the US and China. In late September, both countries have taken steps to loosen monetary or fiscal policies to boost their economies. In late 2024, we believe that crude oil prices will likely remain around current levels because (i) economic data from the US and China will likely remain weak before support measures are reflected in the actual economic situation, while (ii) the OPEC+ group has clearly expressed its intention to tighten production to support oil prices. By 2025, crude oil demand is expected to improve thanks to economic stimulus measures, but global crude oil supply may face pressure to increase as OPEC+ begins to ease production. We temporarily maintain our base case with average Brent oil price assumption of USD83 and USD80/barrel for 2024 and 2025, respectively, but do not rule out the possibility of having to downside risk of the market situation continuing to be weak in the first half of 4Q24.

The O Mon Block B project has made some progress. In early September, PetroVietnam (PVN) awarded the international EPCI 1 package with full conditions to the consortium of general contractors McDermott and PV Technical Services (PVS). Also in the last month, PVN announced that it had officially started construction of the Block B project and awarded the EPCI 2 package with full conditions to PVS. Thus, the parties have been able to implement the two EPCI packages 1 and 2 (total value of about USD1.5 billion) with full work items without being limited as in the previous limited letter of agreement. However, the progress of granting FID for the entire project has not made much progress since our last report. The key problem still lies in the negotiation of the power purchase agreement (PPA) with factors such as the electricity purchase price or the total annual electricity purchase volume (Qc) not yet agreed upon. Continued delays in FID will be a risk for the project in the long term.

The prospects for oil & gas stocks are mixed. Our favorite oil & gas stocks will be PVS and PV Drilling & Well Services (PVD) after their market prices have adjusted to attractive levels. The outlook for the upstream group (PVD & PVS) is relatively bright thanks to the growth in investment in the global E&P segment and the large backlog generated by large domestic E&P projects from 2024. For PVD alone, the exchange rate burden is expected to significantly alleviate in 2H24, but there is a risk of delay in the new rig investment project. For the midstream group, we have a neutral view on the outlook for PV Transportation (PVT) due to the risk of price correction for the LPG vessel segment. The decline in crude oil prices will be a risk for the downstream group in late 2024 and early 2025. We believe that PV Gas (GAS) may post growth (but only at a low level) in 2024-2025 thanks to the addition of LNG, but it may hardly maintain a high dividend yield after entering the investment phase of the Block B O Mon project. Meanwhile, Binh Son Refining's (BSR) 2024 business results will be hit by the large maintenance period and sagging refining margins. However, in 2025, we expect BSR to achieve strong growth from a low base when Dung Quat Refinery operates stably, and the stock price will also be supported in the short term thanks to the change of listing from Upcom to HSX.

Power

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October 8, 2024

Neutral change

Recommendations	
GEG	Buy
Target price	VND16,200
REE	Buy
Target price	VND77,600
POW	Neutral
Target price	VND13,300
NT2	Neutral
Target price	VND21,000

Electricity consumption nationwide reached 207.6 billion kWh in 8M24 (+4.7% YoY). Of that, hydropower, coal power, gas power, and renewable energy reached 53.3 billion kWh, 106.8 billion kWh, 16.7 billion kWh, 25.9 billion kWh, respectively (+ 6.4%/+11.6%/-21.2%/-5.1% YoY). Hydropower output in 1H24 decreased 2.13% YoY due to less water flowing into hydropower reservoirs. However, the large amount of water reserves in the North in July and August helped hydropower plants increase their capacity to an average of 83%, compared to only 56% in 1H24. Electricity recorded negative growth in the first eight months of the year with output recovering slightly from March to June, the peak period of electricity consumption, and quickly falling to an average mobilization level of 1.4 – 1.5 billion kWh/month.

Economic activities returning to recovery will be the main driver for electricity consumption growth. Accounting for 60% of total electricity consumption, industrial production activities in 8M24 grew 15.6% YoY, enhancing electricity consumption nationwide. This, and the PMI recording three straight months of over 50 points, signaled that industrial production activities would be more vibrant at the end of the year, thereby supporting power consumption. Household electricity consumption maintained a stable growth rate of 11.3% in 8M24.

Hydropower enjoyed favorable weather conditions, providing abundant water for power generation. We expect the advantages from La Nina will strongly improve the capacity of hydropower plants. The National Centre for Hydro – Meteorological Forecasting said that the shortage of water into rivers in the Central and Central Highlands regions in the first half of the year will end as rainfall concentrates at the end of the year with high intensity. From September to December 2024, the total rainfall is likely to be equal to or higher than the average in the North, Central Highlands, and South and higher than the average in the Central region. By 2025, hydropower will become the pillar contributing the largest proportion to the total power generation capacity nationwide as this is the power source with the lowest mobilization price and emissions.

Gas power mobilization is reduced in the short term due to domestic fuel shortage. Accordingly, domestic gas supply is expected to decrease from the average gas supply in August 2024 – 9 million m^3/day to about 7.2 million m^3/day in 2025 (according to EVN), forcing LNG to become an alternative solution in the future. With Nhon Trach 2 and Phu My 1 continuing to allocate the remaining domestic gas source, we assessed that this would be an advantage to help these plants increase mobilization thanks to lower production costs than LNG-powered plants, maintaining stable operations in the next two years.

Renewable energy should benefit from additional legal adjustments related to PPAs. After a two-year period of supplementing legal regulations that led to a freeze in renewable energy capacity, the Ministry of Industry and Trade has directed the issuance of policies to help remove obstacles in developing future projects:

(i) Circular 07/2024 – BCT on determining the price of transitional renewable energy projects in PPAs: It creates a legal corridor for the signing of PPAs between the transitional renewable energy project owner and EVN, which is the basis for the two parties to negotiate final electricity prices.

(ii) Circular 11/2023 – BCT on determining the renewable energy price framework for future development projects: The Circular promulgates the calculation method and stipulates the time for issuing the future renewable energy price framework. The price framework will help investors calculate the economic efficiency of the project, thereby developing an investment implementation plan.

(iii) Decree 80/2024/ND-CP regulating the direct electricity trading regime between energy producers and large electricity users: The Circular is the basis for transitional renewable energy projects to continue to be implemented and new renewable energy projects to continue to be invested without depending entirely on negotiations with EVN.

We rated the power sector outlook as neutral. The stock prices of large energy companies such as REE Corporation (REE) and PV Power (POW) have entered a period of decline since July 2024 after a period of strong rallies to reflect the positive outlook for the entire sector and the catalysts of each stock. In contrast, mid and small caps have seen corrections. Currently, although the average P/B of the whole sector is 1.35x, higher than the five-year average of 1.2x, it is still suitable for monitoring and disbursing long-term investment thanks to the prospect of positive growth in electricity consumption output, expecting a recovery story when entering a favorable cycle such as REE or businesses with new plants coming into operation like POW and Gia Lai Electricity (GEG). Our top picks are REE, POW, NT2, and GEG.

KB Securities VIETNAM

Retailing

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October 8, 2024

Neutral change

Recommendations	
MWG	**Neutral**
Target price	VND78,000
FRT	**Buy**
Target price	VND231,100
PNJ	**Neutral**
Target price	VND109,800

The retail sector continues to slightly rebound. Total retail sales of goods and services in 8M24 rose 8.5% YoY to VND4,149 trillion thanks to the recovery of domestic consumption and production demand, along with the strong growth of tourism, which has contributed positively to the growth of the trade and service industry since the beginning of the year. In August alone, total retail sales reached VND526.9 trillion (+7.9% YoY), of which food and foodstuffs increased by 8.2%; household appliances, tools and equipment +6.5%; apparel +8.2%; accommodation and catering services +9.7%; and travel and tourism +7.1%.

2Q business performance of retailers was positive. The business results of most retail businesses showed a recovery and growth, but the growth rate depends on the strategy and competitiveness of each company. Mobile World Investment's (MWG) net revenue gained 15.8% YoY to VND34,134 billion, and NPAT achieved VND1,172 billion, equal to a 66-time increase compared to the low base last year thanks to the strategy of increasing quality and reducing quantity of the TGDD and DMX chains and the strategy of converting the business model to mini market of the BHX chain. As for FPT Digital Retail (FRT), the main growth driver still comes from the Long Chau chain with a coverage of 1,706 pharmacies nationwide in 2Q24, helping FRT's revenue & NPAT reach VND9,272 billion and VND48.5 billion, a sharp increase compared to the loss of VND215 billion in 2Q23, although the FPTShop chain still recorded losses due to slow restructuring compared to competitors. A jewelry retailer, Phu Nhuan Jewelry (PNJ), also recorded impressive results with NPAT reaching VND428 billion (+26.9% YoY) on revenue of VND9,605 billion (+42.6% YoY).

The recovery momentum in the second half of the year was supported by macroeconomic factors: (i) Vietnam PMI has remained above 50 points despite a decline in August (52.4 points) compared to 54.7 points in July, but this is still a positive signal showing that output and the number of new orders is rising. (ii) Consumer demand is high thanks to a 30% increase in minimum wage from VND1.8 million/month to VND2.34 million/month from July 1, 2024 and a 2% reduction in value-added tax for goods and services until December 31, 2024. (iii) The recovery of FDI enterprises helps increase income as well as create more jobs for workers. Total registered FDI in 8M24 was about USD20.5 billion (+7% YoY), of which newly registered FDI was nearly USD12 billion (+27% YoY) and USD14.15 billion was disbursed (+8% YoY).

Each retail industry has its own growth catalysts. (i) The ICT&CE industry is expected to see the cycle of replacing phones, laptops and tablets return by the end of 2024. The most recent cycle occurred in 4Q21, and the average replacement cycle is three years. Furthermore, the iPhone 16 should be launched by the end of 2024, emphasizing AI features and discontinuing 2G subscription services in September 2024, which would stimulate new purchases of phones. (ii) For the essential consumer goods retail industry, chains such as Long Chau, BHX and Winmart are still expected to maintain opening new stores to gain more market share from traditional models, especially when all three chains have reported profits from business operations. (iii) The jewelry retail industry is expected to face challenges in managing input materials in the context of the world gold price continuing to skyrocket due to the Middle East conflict and less optimistic data on the US economy.

We gave a neutral rating to the whole retail sector as the recovery momentum has been partly reflected in prices. Many retailers have P/S valuations exceeding the five-year average, reflecting expectations of recovery in consumer purchasing power. However, each retail business has its own expectations, and we believe the recovery of the entire sector will last until 2025. Investors can consider buying retail stocks at more attractive price ranges during market corrections. Some outperformers are MWG, PNJ, and FRT.

KB Securities VIETNAM

Fisheries

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October 8, 2024

Neutral maintain

Recommendations	
VHC	Neutral
Target price	73,300

Vietnam pangasius exports posted a considerable recovery in 8M24 (+9% YoY to reach USD1.3 billion). According to VASEP, pangasius exports of our country hit USD502 million 2Q, gaining 22% QoQ/11% YoY. The average export price in the quarter dropped 10% YoY but modestly increased compared to 1Q. The figures in July and August continued to make double-digit increases, and cumulative sales to the US in 8M24 surged (+23% YoY). According to AgroMonitor data, the average price of pangasius fillets exported to the US market gained USD3.2/kg in July-August 2024 (+7% YoY/+7% QoQ). The gloomy Chinese economy caused a sharp decline in sales in 1Q24, but the data in the next months are improving, helping to undermine the fall in 8M24 cumulative sales to only 3% YoY. The average export price to China in the first half of this year lost 7% - 18% YoY, which was partly offset by a 34% YoY increase in output. Exports to the EU market remained flat compared to the same period in 2023.

We expect the business results of pangasius processing companies to continue to improve in the rest of 2024 thanks to: (i) The price of raw pangasius is stable at VND26,000-26,5000/kg (unchanged YoY), and the price of soybean meal (the main ingredient for fish feed) has decreased by 20-25% YTD. (ii) The newly initiated and maintained monetary easing policy in major export markets such as the US, EU and China will be a help for consumer sentiment. (iii) The number of orders should keep its uptrend during the festive and holiday seasons, helping to improve sales and prices at the end of the year.

Vinh Hoan Corporation (VHC) and Nam Viet Corporation (ANV) have competitive advantages of large scale and circular economy. With a self-sufficiency rate of 80-100% of raw fish, these two can proactively control the source of fish fry, fish feed and living environment that meet international standards. Therefore, they will gain significant benefits when the demand in major markets improves.

The outlook for the fisheries sector is neutral as stock prices have partly reflected the recovery prospects. Both VHC and ANV have made 21% and 8% rallies, reflecting a positive recovery in business results and approaching the +1std of five-year P/E averages. However, investors can consider buying during corrections when prices return to the average P/E to gain an attractive return.

KB Securities VIETNAM

Construction

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October 8, 2024

Neutral change

Recommendations	
PC1	**Buy**
Target price	VND33,100
LCG	**Buy**
Target price	VND13,900

Public investment disbursement in 8M24 reached 50.4% of the full-year plan. According to data from the General Statistics Office, disbursed public investment in the first eight months of the year was VND364 trillion (+4% YoY), which may continue to improve strongly in the final months of the year.

After a quiet 2024, we believe that the companies that benefit from public investment will be worth watching in 2025 when many key projects reach the completion and acceptance deadline. According to the Ministry of Finance, by the end of August 2024, the disbursement progress for the key projects only reached 35% of the plan. In particular, the series of component projects of the North-South Expressway in the East (phase 2) has a disbursement rate of 56%, most notably the two projects of Bai Vot - Ham Nghi Expressway and Vung Ang - Bung Expressway, reaching 89% and 87% respectively. Regarding Long Thanh Airport, Dong Nai Provincial People's Committee has completed the handover and clearance of 99% of the plan, the construction progress of the Long Thanh Airport passenger terminal construction package is estimated to reach more than 30%. Currently, most of the packages are being accelerated with positive progress, closely following the target of putting phase 1 into operation from 2026 (in the positive scenario, the Prime Minister proposed to complete major items of the project in 2025). In the context of the disbursement progress of projects in 2024 being slower than planned, enterprises with large backlogs, ensuring implementation progress and quality as required can record large revenues in the next year.

Demand for power transmission lines and transformer stations is forecast to increase in 2025-2026. Recently, the 500kV line 3 Quang Trach - Pho Noi has been completed and energized into the system, helping to double the power transmission capacity from the Central region to the North in the coming time. However, based on updated data from EVN, the overload situation on the national power transmission system and equipment remains high (this rate in the North, Central and South reached an average of 21%/9%/19% in 8M24), which will require improvements and increases in transmission lines and transformer stations in the coming time when the growth in electricity demand in the period 2026-2030 may reach 7% per year. KBSV expects that power transmission projects will be accelerated in the coming time thanks to (i) urgent demand to meet the power source for living and production in the future in line with the plan set out in the National Power Development Plan 8 and (ii) the direct power purchase mechanism that has been issued and applied in the coming time, which will stimulate the demand for construction of transmission lines from the private sector.

We gave a positive rating to the prospects of construction companies. For infrastructure construction enterprises in KBSV's watchlist, we believe that the average PBR valuation is in a relatively attractive range (-0.5std compared to the five-year average) with good revenue and profit growth prospects in the period 2025-2026 thanks to the backlog accounting from public investment projects. Investors can consider disbursing in the coming time, some of our favorite stocks include VINACONEX (VCG), Licogi (LCG), Deo Ca Traffic Infrastructure Investment (HHV), and PC1 Group (PC1).

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Investment ratings & definitions

Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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