Investment Strategy Report

H2 2024 Investment Strategy Update: Obstacles remain on the path to recover

TVS Research revises downward the profit growth forecast for listed companies on HOSE to 16.2% YoY (our previous forecast: 20.5% YoY) due to lower profit forecasts for the Banking and Real Estate sectors.

TVS Research maintains a **POSITIVE** view on long-term investment themes and investment themes for 2024 recommended in the Q1 2024 Investment Strategy Update, including: **Technology, Industrial Parks, Seaports, Retail, Import-Export and Oil and Gas.**

Meanwhile, we downgrade the outlook to **NEUTRAL** for the **Banking** and **Real Estate** sectors:

- For the Banking sector, we have revised our forecast for the banking sector, anticipating a steeper increase in the cost of funds and higher provisioning costs due to rising bad debts. These challenges will likely constrain profit growth for the sector in 2024
- For the Real Estate sector, we perceive that the progress of legal approval of projects after the new Law takes effect will be slower than expected, which will not help solving the problem of supply shortage (especially in the mid-range segment). Therefore, the recovery prospect of Real Estate companies should be till 2025

Regarding tactical strategies, we recommend short-term investment in Hydropower stocks in H2 2024. The likelihood of a La Nina event this fall (September-November) is estimated at 60-70%, which could significantly boost power generation and profitability for hydropower companies. Conversely, we are discontinuing recommendations for tactical strategies mentioned in previous strategy reports due to the realization of previously anticipated favorable factors.

Hanh Nguyen
hanhntk@tvs.vn
+84 24 32484820 Ext. 6412

Long Pham
longpn@tvs.vn
+84 24 32484820 Ext. 6420

Quang Tieu
quangtpt@tvs.vn
+84 24 32484820 Ext. 6417

Nguyen Van Dat
datnv@tvs.vn
+84 24 32484820 Ext. 6431

Table of Contents

Market performance and sector indexes movements in 7M 2024

Foreign investors heavily sell large-cap stocks, while individual investors focus on mid & small-cap stocks.

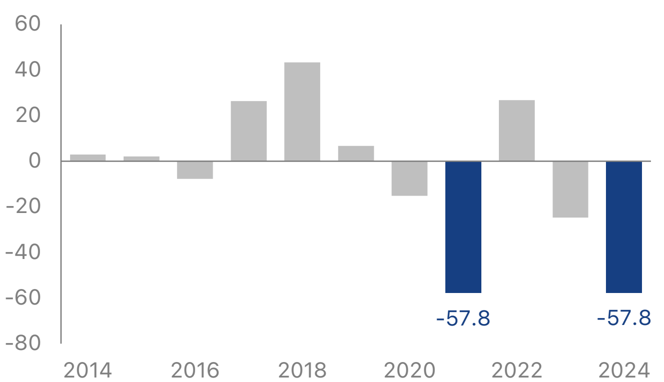
As of July 2024, foreign investors have net sold VND 57.9tn, equivalent to the net selling level in 2021 and higher than that of 2023. We believe this may be due to:

- **The U.S. Federal Reserve's Federal Funds Rate (FFR) remaining high in H1 2024**, maintaining the interest rate differential with emerging markets and causing global capital to flow back to the U.S
- **Political volatility in Vietnam** negatively impacting foreign investor sentiment

Conversely, domestic individual investors have been net buyers and are the primary driving force behind the market's upward trend. We attribute this to individual investors' expectations of:

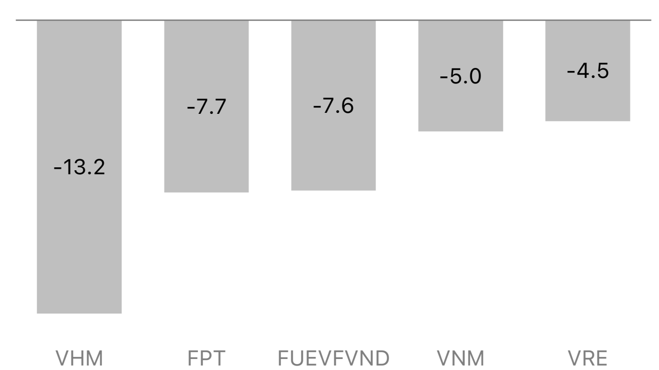
- **The return to positive market-wide net profit growth**, with many sectors having passed their earnings trough
- **The deposit interest rate remaining lower than during the Covid-19 period,** making the stock market more attractive compared to traditional investment channels

Figure 1: Foreign Investors' net selling reaches a 10-year high
Foreign investors' net trading value [VND tn]



Source: FiinPro-X, TVS Research

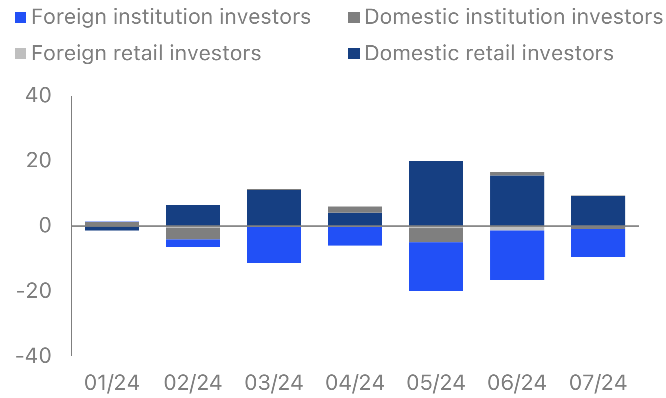
Figure 2: Foreign investors focus on large cap & ETF selling
The top 5 stocks with the largest net selling by foreign investors in 7M 2024 [VND tn]



Source: FiinPro-X, TVS Research

Figure 3: Retail investors have been the net buyers

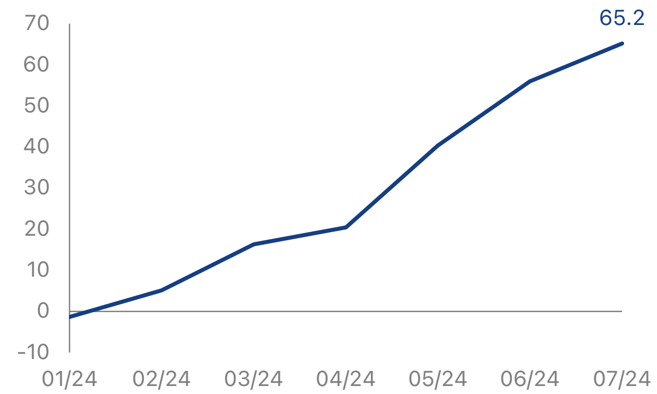
Net trading value breakdown by investor type [VND tn]



Source: FiinPro-X, TVS Research

Figure 4: ...with a cumulative net buying value of VND 65.2tn by the end of July 2024

Cumulative net trading value of retail investors [VND tn]



Source: FiinPro-X, TVS Research

Table 1: Retail investors have increased their exposure to IT, telecommunications, and aviation sectors post market correction in April 2024.

Cumulative performance of sectors and indices [% YTD]

	01/2024	02/2024	03/2024	04/2024	05/2024	06/2024	07/2024
Telecommunications	7.9%	23.6%	57.1%	127.4%	200.8%	266.9%	170.9%
Industrial Goods & Services	7.5%	14.5%	19.9%	17.0%	37.4%	65.1%	57.9%
Information Technology	-0.9%	11.5%	18.7%	25.3%	39.3%	55.0%	52.0%
Retail	6.1%	12.6%	24.5%	29.0%	47.4%	49.2%	51.9%
Chemicals	3.5%	23.3%	39.2%	27.7%	46.3%	44.5%	41.4%
Media	8.7%	11.7%	30.4%	28.4%	37.3%	37.1%	36.3%
Oil & Gas	-0.5%	4.3%	5.8%	1.4%	20.2%	18.6%	26.2%
Consumer Staples	5.5%	7.5%	16.0%	12.6%	22.0%	23.8%	25.9%
Travel & Leisure	-1.0%	-1.4%	1.0%	10.0%	36.1%	46.7%	25.5%
Automobiles & Parts	4.5%	8.2%	12.6%	7.5%	19.5%	28.6%	24.1%
Health Care	0.8%	3.6%	7.1%	7.3%	12.3%	14.2%	22.1%
Food & Beverage	-1.7%	6.1%	8.6%	4.6%	17.8%	21.1%	20.9%
Banks	7.7%	17.7%	18.5%	13.1%	13.3%	11.5%	17.1%
Utilities	1.1%	4.7%	8.2%	2.6%	13.7%	15.3%	16.2%
Insurance	2.4%	6.5%	7.5%	2.0%	15.8%	17.6%	13.6%
Basic Resources	1.3%	9.7%	9.7%	1.8%	14.4%	14.7%	12.1%
Construction & Materials	1.2%	4.4%	9.2%	0.3%	9.3%	11.0%	8.8%
Financial Services	4.1%	11.5%	19.9%	7.8%	14.8%	8.3%	3.5%
Real Estate	-0.4%	4.4%	8.6%	-0.1%	2.6%	-0.2%	-0.9%
VN30	3.1%	11.9%	14.6%	9.6%	12.8%	13.0%	14.8%
VN100	2.7%	10.3%	14.0%	8.2%	13.4%	12.5%	13.0%
VNINDEX	2.9%	10.7%	13.5%	6.9%	11.5%	10.0%	10.6%
VNMID	1.8%	7.0%	12.8%	5.2%	14.7%	11.6%	9.2%
UPCoM	0.1%	3.5%	4.6%	1.3%	9.5%	11.4%	8.6%
VNSML	0.7%	5.9%	11.3%	1.7%	12.0%	9.5%	6.5%
HNX	-0.4%	2.4%	5.5%	-1.4%	5.7%	3.3%	2.3%

Source: FiinPro-X, TVS Research

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Hiệu suất lu

Investment Strategy Performance in 7M 2024

Most of TVS Research's year-round investment themes have outperformed the VN-Index.

The investment strategy outlined in our 2024 Investment Strategy Report, and reiterated in the Q1 2024 Investment Strategy Update, focuses on the following themes:

- **Long-term investment themes**: Technology, Industrial Parks, and Seaports
- **Investment themes for 2024**: Banking, Retail, Import-Export, Oil and Gas, and Real Estate
- **Tactical investment following cash flow trends**: Steel, Securities, High-Dividend, and Thermal Power

As the end of July 2024, the Information Technology and Retail sectors have outperformed the VN-Index. TVS Research attributes the exceptional growth of technology stocks to the market's upward adjustment of the sector's valuations, driven by expectations of advancements in artificial intelligence (AI) and emerging technological trends. Meanwhile, retail stock prices reflect the robust profit growth experienced in 2024, as we have previously highlighted in our published investment strategy reports.

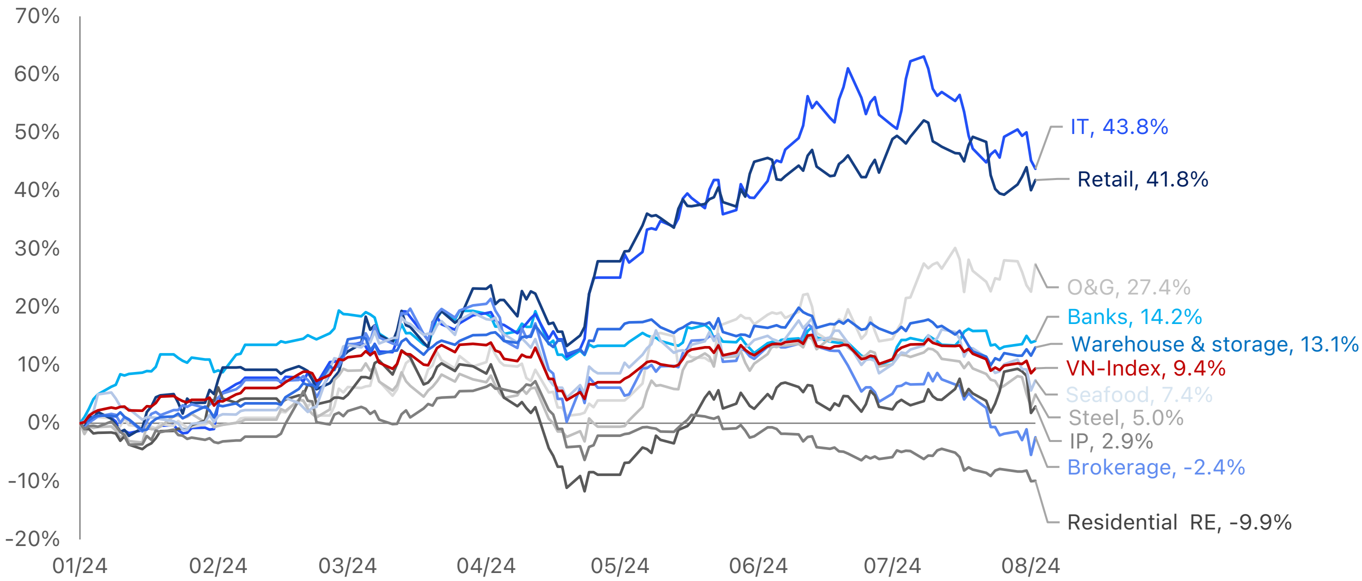
The Oil and Gas sector experienced a significant rally in July 2024, primarily driven by the strong performance of PLX. This surge was underpinned by expectations that the new draft decree on distribution business would benefit large distributors through higher standard operating costs and more flexibility in pricing compared to the previous regulated price framework.

On the contrary, the Brokerage sector's performance decreased in Q2 2024. We expect that the reasons came from the trading value in May and June dropped by about 10% compared to the strong growth period of VN-Index at the end of Q1 2024, reducing market expectations on profit growth of brokerage firms in next quarters. In addition, unfavorable market developments caused the portfolio performance of brokerage houses to decrease and the failure of operate KRX system timely in May also partly caused the withdrawal of cash flow from the Brokerage sector.

Investor sentiment towards the real estate sector remains cautious as market funds continue to withdraw amid the slow recovery of the real estate market and ongoing bad debt pressures on real estate businesses. The net selling of Vingroup shares by foreign investors and challenges faced by mid-sized developers like QCG and

LDG have further fueled this cautiousness.

Figure 5: Technology and Retail sectors have been the strongest performers relative to the VN-Index
Index performance of sectors within TVS's 2024 Investment Strategy and the VN-Index [%YTD]



Source: Bloomberg, TVS Research
Note: Sector performance is calculated based on the percentage change in the total market capitalization of listed companies on HOSE operating in the sector. The performance of the VN-Index is calculated based on the percentage change in the index over the calculation period (from 01/01/2024 to 02/08/2024).

Despite the significant price corrections of many stocks during the recent market downturn, the stocks in our recommended portfolio have outperformed the VN-Index.

As of August 12, 2024, the average performance of stocks in TVS Research's recommended portfolio is 12.8% year-to-date (YTD) and 5.7% since recommendation. These returns outpace the VN-Index, which has gained 7.4% YTD and 3.5% over the same period.

The Technology, Ports, Retail, and Banking sectors were the main drivers of the performance, while Real Estate, Oil & Gas, and short-term tactical plays in Securities and Thermal Power lagged behind.

Table 2: TVS Research's recommendation portfolio has reached an average performance of 12.8% YTD

Performance of the stocks in the recommendation list by TVS Research since the beginning of 2024

Ticker	ICB Industry Level 2	Market Cap 12/08/24	Closing price 12/08/24	% YTD	% sv. 06/02/24	Previous TP*	Remaining upside	Beta 6M	P/E TTM	P/B TTM	NPAT H1 2024	% YoY
		VND bn	VND	%	%	VND	%		x	x	VND bn	%
FPT	IT	189,858	130,000	56.6%	44.6%	127,800	-1.7%	1.3	26.6	6.9	4,443	21.2%
KBC	Real Estate	19,497	25,400	-20.0%	-18.5%	40,300	58.7%	2.0	82.9	1.1	191	-90.8%
MBB	Banking	125,760	23,700	29.9%	5.1%	28,200	19.0%	0.9	5.8	1.3	10,726	5.3%
TCB	Banking	149,707	21,250	37.8%	22.9%	51,700	143.3%	0.7	7.0	1.1	12,547	38.8%
VCB	Banking	490,722	87,800	9.3%	-1.9%	107,200	22.1%	0.6	14.7	2.7	16,711	1.8%
MWG	Retail	97,364	66,600	56.8%	42.8%	68,800	3.3%	1.5	44.2	3.7	2,075	5263.3%
VHC	F&B	15,555	69,300	15.2%	8.9%	84,200	21.5%	1.0	21.4	1.9	525	-23.1%
GMD	Industrial goods & services	24,528	79,000	15.1%	17.6%	81,000	2.5%	1.1	19.7	2.6	1,074	-45.5%
VHM	Real Estate	158,934	36,500	-15.5%	-11.0%	71,400	95.6%	0.7	6.9	0.8	11,513	-46.9%
NLG	Real Estate	14,987	38,950	7.5%	-1.1%	49,000	25.8%	1.9	35.3	1.6	95	-61.7%
PVS	O&G	18,736	39,200	3.2%	4.3%	50,300	28.3%	1.6	20.3	1.4	513	10.8%
PVD	O&G	14,925	26,850	-5.1%	-6.6%	37,500	39.7%	1.6	23.3	1.0	278	32.7%
HPG	Basic materials	165,343	25,850	1.7%	1.4%	34,300	32.7%	1.0	14.8	1.5	6,189	238.0%
SSI	Financial service	48,292	32,000	-2.4%	-8.6%	43,300	35.3%	1.4	16.9	2.0	1,613	50.7%
QTP	Electricity	6,609	14,687	1.7%	-13.7%	20,500	39.6%	1.1	10.9	1.2	387	-1.4%
Average				**12.8%****	**5.7%****							

Source: FiinPro-X, TVS Research
Note: February 6, 2024, is the publication date of the 2024 Investment Strategy Report by TVS Research. QTP was added to our Recommendation list in Q1 2024 Update Investment Strategy Report as of 15/05/2024
*: Target price in our Q1 2024 Update Investment Strategy Report
**: Averaged with equal weighting for the stocks in the portfolio

Sector Outlook 2024

We have downgraded our forecast for the year-on-year NPAT growth of listed companies to 16.2% (previously forecast at 20.5%) due to a reduction in profit forecasts for the Banking and Real Estate sectors.

Compared to our Q1 2024 Investment Strategy Update, we have revised our earnings forecasts downwards for the Banking and Real Estate sectors, while increasing our forecasts for the Basic Materials and Retail sectors.

Banking Sector – Rising interest rates will gradually be reflected in cost of funds, while elevated non-performing loans will increase pressure on provisioning

TVS Research has lowered its earnings growth forecast for the banking sector due to a downward adjustment in net interest margin (NIM) and an increase in provisions for loan losses. We believe that the pressure on the banking sector's cost of funds (COF) will be higher in H2 2024 compared to our previous forecast due to a sharper-than-expected increase in deposit rates since May 2024. Additionally, lending rates have not been able to adjust accordingly due to weak credit demand, particularly in the retail segment. The shift in loan structure towards wholesale (corporate lending) and short-term loans will also continue to reduce banks' average lending rates. In terms of asset quality, higher-than-expected non-performing loans (NPL) will put pressure on banks' provisioning costs in H2 2024.

Real Estate Sector - Slower-Than-Expected Recovery

We anticipate a slower-than-expected recovery in the real estate market compared to our Q3 2024 forecast in the Q1 2024 Investment Strategy Update, primarily due to the following factors: (1) New regulations have been slower than anticipated in impacting legal approval processes, (2) The market's product mix is skewed towards the high-end segment, limiting accessibility for many homebuyers, and (3) While affordable apartments (priced between VND 3-5 billion per unit) have re-emerged in the mid-range segment, their launch pace in H2 2024 is slower than our previous forecast. TVS Research has downgraded its full-year 2024 net profit growth forecast for the sector to -2.4% YoY, mainly attributed to the slower-than-expected handover and revenue recognition of major real estate developers such as VHM, NLG, and KBC

Retail sector – Demand recovery

We raise our 2024 Retail sector profit forecast to VND5,390bn (+805% YoY, +11.1% vs. previous forecast), mainly due to the positive outlook on business operations after reaching the break-even point of Bach Hoa

Xanh in Q2 2024. For the retail sector, we maintain our expectation of a recovery in business results for retail businesses in H2 2024 when the economy grows more positively.

Basic Resources Sector – Positive view of steel output

We raise our forecast of Basic Resources sector's earning growth to 107.4% in 2024, compared to 48.9% in the previous forecast due to an increase in the earnings forecast for the steel sector, mainly at HPG (+42.8% compared to the previous forecast). Compared to the Q1 2024 Investment Strategy Update, we raise our HPG sales volume assumption in 2024 to 7.9 million tons (+20% YoY, +6.1% compared to the previous forecast) due to a 7.6% higher sales volume in Q2 2024 than our forecast. We also adjust HPG's profit margin upward from 12% to 15% in 2024 based on the assumption that steel prices will decrease less than input material prices.

Table 3: We lower our forecast for HOSE's earnings growth in 2024 to 16.2% YoY

NPAT growth of listed companies on HOSE by sector [% YoY]

Sector - ICB lv 2	% market cap HOSE	% 2023 NPAT HOSE	2020A	2021A	2022A	2023A	2024F [previous]	2024F [updated]
Bank	39.8%	55.5%	16.4%	32.0%	34.7%	4.3%	19.9%	13.0%
Real estate	15.5%	15.1%	-3.7%	1.3%	-9.5%	6.1%	10.1%	-2.4%
Food and beverage	8.7%	5.8%	-11.7%	40.4%	-19.0%	-17.1%	5.9%	6.0%
Utilities	6.4%	5.8%	-20.5%	14.3%	44.1%	-27.5%	-1.3%	-1.3%
Industrial goods and services	2.8%	3.3%	-11.0%	41.7%	20.6%	-12.0%	-1.6%	-1.6%
Financial services	4.6%	2.6%	42.2%	148.2%	-51.5%	41.3%	9.6%	9.6%
Chemical	3.9%	2.9%	36.7%	58.6%	46.8%	-54.8%	-0.2%	-0.2%
Information Technology	2.8%	2.3%	12.1%	22.3%	20.2%	15.2%	18.8%	18.8%
Basic Material	4.4%	2.0%	97.2%	168.9%	-86.3%	12.7%	**48.9%**	**107.4%**
Constructions and material	2.7%	1.7%	0.1%	-18.2%	-6.8%	1.3%	8.7%	8.7%
Household goods and services	1.2%	1.1%	-5.2%	14.4%	26.4%	-20.3%	7.1%	7.1%
Oil & Gas	1.2%	1.0%	-70.4%	120.0%	-44.7%	105.6%	38.1%	39.0%
Insurance	0.9%	0.9%	27.8%	29.0%	-19.8%	19.1%	0.0%	0.0%
Healthcare	0.7%	0.7%	4.5%	7.6%	24.0%	2.2%	1.2%	1.2%
Automobile	0.3%	0.2%	21.5%	1.6%	51.5%	-48.9%	0.0%	0.0%
Retail	2.0%	0.2%	-6.0%	42.3%	-14.2%	-88.9%	**714.7%**	**805.1%**
Media	0.0%	0.0%	58.9%	N/A	69.5%	-32.3%	0.0%	0.0%
Travel & leisure	2.0%	-1.2%	-248.9%	-19.3%	3.6%	65.3%	**N/A (*)**	**N/A (*)**
VN-INDEX	**39.8%**	**100.0%**	**-1.2%**	**36.7%**	**2.9%**	**-1.8%**	**20.5%**	**16.2%**

Source: FiinPro-X, TVS Research
Notes: A: actual; F: forecast. N/A (*): From loss to gain
Updated 2024 NPAT growth forecasts have been calculated on audited 2023 NPAT of listed companies. Significant changes in projected profit growth have been observed in the following sectors: Tourism and entertainment (from loss to profit), retail, and basic resources.

Investment Strategy 2024

TVS Research maintains a POSITIVE outlook on long-term investment themes and sectorial themes for 2024, except for the Banking and Residential Real Estate sectors, which have been downgraded to NEUTRAL. For short-term trading, we have shifted our recommendation to the Hydropower sector and discontinued recommendations for previous tactical strategies.

TVS Research maintains a POSITIVE outlook on long-term investment themes - Technology, Industrial Parks, and Seaports (refer to the 2024 Investment Strategy Report for details).

We maintain a POSITIVE view on the recovery prospects of the Vietnamese economy, especially in H2 2024, and maintain our recommendations for the **Retail, Import-Export, and Oil & Gas sectors.**

Conversely, we downgrade our recommendation from POSITIVE to NEUTRAL for the outlook of the **Banking** and **Real Estate** sectors.

We have lowered our 2024 earnings growth forecast for the Banking sector to 13% due to our assessment of weak credit demand and the need for the banking sector to maintain supportive policies for the economy in the early stages of recovery.

Regarding the real estate sector, we have revised our outlook, now anticipating a slower recovery than previously forecasted in our Q1 2024 Investment Strategy Update. We now expect a slower recovery due to the time needed for new regulations to influence supply and the current lack of affordable housing options.

For tactical investment, we recommend investing in Hydropower stocks for H2 2024. The likelihood of a La Niña event this fall is increasing to 60-70%, which will boost water levels and electricity production of. This will improve the financial performance of hydropower companies, especially compared to the recent El Niño period.

Conversely, we have discontinued our recommendations for short-term investment strategies in our Q1 2024 Investment Strategy Update due to the dissipation of positive factors and the escalation of risks.

- TVS Research perceives that the Steel sector is currently lacking a catalyst to attract cash flow as high profit growth compared to the low base in H1 2023 has gradually passed. Based on our forecast, the net profit of steel companies on HOSE in H2 2024 increased by 8.1% YoY (compared to 229.7% YoY in H1 2024) - this is a profit growth rate that is no longer attractive to cash flow. In addition, we believe that the EU's increased trade defense measures against imported steel products, especially the initiation of an investigation into HRC products originating from Vietnam, may make investors hesitant to invest in steel sector during this period

- For the Brokerage sector, the catalysts of high growth from a low base in H1 2023 and the prospect of market upgrade have boosted the performance of brokerage tickers in the first months in 2024. However, we believe that this catalyst will be tough to maintain in H2 2024 as the trading value in July remained only VND 16,970 bn (-22% compared to the H1 2024 average). In addition, the market upgrade prospect also took place later than our expectations at the early of 2024 due to many reasons, including the inability to deploy the KRX system timely. Therefore, we believe that brokerage firms will not attract market cash flow in H2 2024
- For high-dividend stocks, we believe that the market has already priced in the dividend story around the ex-dividend date. Therefore, we are no longer recommending short-term investments in this group of stocks
- TVS Research anticipates that the speculative interest in thermal power companies has waned as a result of the conclusion of the peak summer season and the transition to a La Nina weather pattern

Table 4: Summary of Investment Strategies by TVS Research

Investment strategies	Recommendation in 2024 Strategy Report	Recommendation in Q1 2024 Strategy Report	Recommendation in Q2 2024 Strategy Report	Reason for changing recommendation
Long-term investment strategy (>12M)				
IT	Positive	Positive	Positive	
Industrial Park	Positive	Positive	Positive	
Seaport	Positive	Positive	Positive	
2024 investment strategy				
Banks	Positive	Positive	Neutral	• Deposit rates in Q2 2024 increased more broadly and strongly than our forecast and will gradually be reflected in capital costs in H2 2024. Meanwhile, lending rates cannot be adjusted accordingly due to weak credit demand, especially in the retail segment • Non-performing loans remain higher than TVS Research's forecast at the beginning of the year, which will put pressure on banks' provision expenses in H2 2024
Retail	Positive	Positive	Positive	
Exporters	Positive	Positive	Positive	
Residential RE	Positive	Positive	Neutral	• New laws will have a delay in increasing market supply • Current supply is scarce and mainly in the high-end segment, not suitable for the housing needs of the majority of homebuyers
Oil & Gas	Positive	Positive	Positive	
Short-term investment strategy (3-6M)				
Hydropower	N/A	N/A	Positive	• High probability (>50%) of weather shifting to La Nina phase in H2 2024 • Increased rainfall will boost power generation and net profit of hydropower companies
Steel	Positive	Positive	Suspend recommendation	• Low net profit growth for steel companies in H2 2024, reaching 8.1% YoY (compared to 229.7% YoY in H1 2024) • EU's initiation of investigation into hot-rolled steel products originating from Vietnam may cause investor concern when investing in the sector
Brokerage	Positive	Positive	Suspend recommendation	• Unfavorable industry outlook and business results in H2 2024 due to low market liquidity • Market upgrade prospects will occur later than our expectations in H1 2024
Coal-fired power	N/A	Positive	Suspend recommendation	• We assess that the period when thermal power companies attracted speculative cash flow in the market has passed as the peak of hot weather ends
High dividend	Positive	Positive	Suspend recommendation	• We believe the story has gradually been reflected in prices around the time of dividend ex-rights for companies, therefore we remove this group of stocks from our short-term investment watchlist

Source: TVS Research
Note: N/A: Investment strategy not recommended in the corresponding time period

Table 5: TVS Research's recommended stock list for H2 2024

Ticker	Closing price at 12/08/24	Old TP	New TP	Upside	Rating	2024F Revenue	% YoY	2024F NPAT	% YoY	2023 ROE	2024F ROE	Current P/E	2024 fw P/E
	VND	VND	VND	%		VND bn	%	VND bn	%	%	%	x	x
KBC	25,400	40,300	▼39,800	56.7%	BUY	▼3,823	-32.3%	▼1,134	-48.9%	11.7%	5.4%	1.1*	0.9*
VHM	36,500	71,400	▼54,400	49.0%	BUY	▼80,212	-22.4%	▼31,305	-6.0%	20.1%	15.8%	0.8*	0.8*
PVD	26,850	37,500	▼36,900	37.4%	BUY	▲ 7,644	31.5%	▼823	52.1%	3.7%	5.4%	23.3	16.9
PVS	39,200	50,300	50,300	28.3%	BUY	26,571	37.3%	1,371	52.5%	6.8%	9.9%	20.3	14.2
NLG	38,950	49,000	▼48,800	23.2%	BUY	▼6,094	91.6%	▼1,064	33.0%	6.0%	7.5%	1.6*	1.5*
MWG	66,600	68,800	▲ 81,400	22.2%	BUY	▲ 129,644	11.3%	▲ 4,186	2362%	0.7%	16.9%	44.2	23.3
HDG	27,100	NA	▲ 33,100	22.1%	BUY	2,668	-7.6%	809	-6.6%	12.6%	10.4%	13.6	14.7
REE	68,900	NA	▲ 83,400	21.0%	BUY	9,452	10.2%	3,515	10.9%	13.3%	13.0%	18.1	10.8
VCB	87,800	107,200	▼106,000	20.7%	BUY	▼73,423	8.4%	▼34,867	5.5%	21.7%	19.0%	2.7*	2.5*
TNG	27,500	NA	▲ 33,200	20.7%	BUY	7,686	8.3%	318	44.7%	12.5%	15.8%	13.3	10.6
TCB	21,250	25,100	25,400	19.5%	BUY	▲ 49,548	23.7%	▲ 23,270	27.9%	14.8%	16.5%	1.1*	1.0*
VHC	69,300	84,200	▼79,000	13.9%	HOLD	▼11,339	13.0%	▼1,133	13.9%	11.7%	12.6%	21.4	13.7
MBB	23,700	28,200	▼26,400	11.4%	HOLD	▼52,771	11.6%	▼23,018	9.3%	23.9%	21.6%	1.3*	1.1*
GMD	79,000	81,000	81,000	2.5%	HOLD	4,456	15.9%	1,668	-33.3%	16.0%	8.0%	19.7	20.0
FPT	130,000	127,800	127,800	-1.7%	HOLD	63,595	20.9%	9,332	19.8%	28.2%	27.4%	26.6	21.4

Source: FiinPro-X, TVS Research forecasts
Note: For banking stocks (VCB, MBB, TCB), 2024F Revenue is equivalent to Total Operating Income (TOI).
* P/E ratio is replaced by P/B ratio
: New stock added compared to the Q1 2024 Investment Strategy Update
▲ : Target price or forecast earnings adjusted upwards or newly added compared to the Q1 2024 Investment Strategy Update report
▼: Target price or forecast earnings adjusted downwards compared to the Q1 2024 Investment Strategy Update report

Investment theme 1: Industry outlook remains positive in the long term

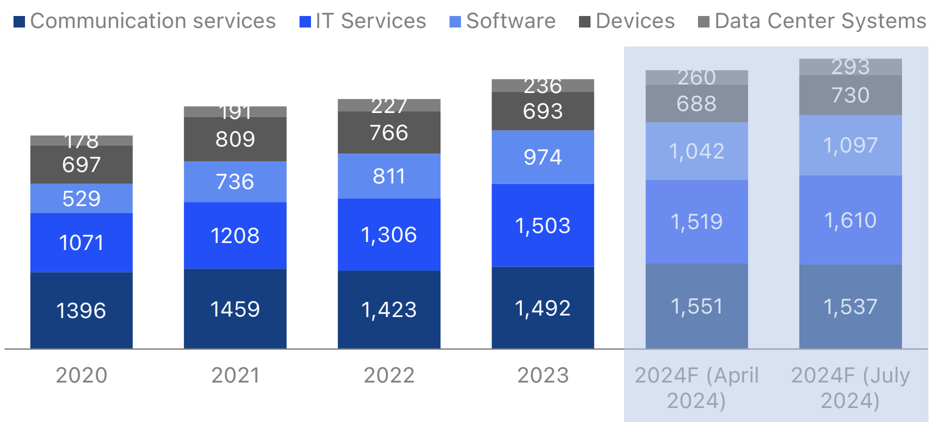
Global spending on IT continues to be forecast positively in 2024.

Gartner, a US-based IT research and consulting firm, increased its forecast for global IT spending in 2024 to $5.3 trillion (+4% from the previous forecast) in its July 2024 forecast. Spending on Data Center Systems and Software is still forecast to grow the most, by 24.1% YoY and 12.6% YoY respectively.

This forecasted growth reflects the need for businesses to invest in technology to improve operational efficiency and prepare for the recovery & IT application trends in the coming time.

Figure 6: Global IT spending is adjusted to increase by 200 billion USD in the July 2024 forecast

Global IT spending forecast in 2024 [billion USD]



Sources: Gartner (July 2024), TVS Research

IT companies are promoting investment in data centers in the coming time.

Gartner forecasts that global investment in data centers in 2024 will increase sharply by 24.1% YoY (2023 +4% YoY) thanks to investment by IT companies in the fields of Digital Transformation and Gen AI. In particular, revenue from Gen AI is forecasted by Bloomberg to continue to increase sharply, reaching more than 1,300 billion USD, the proportion of total spending on technology will increase from 3% (2023) to 12% in 2032.

BlueWeave Consulting forecasts that the market size of Data Center in Vietnam will grow at a CAGR of 10.8% in the next 5 years. Currently, the market is dominated by 4 main suppliers: Viettel IDC, FPT Telecom, VNPT IDC, CMG Telecom. These units are still promoting investment to raise capacity. Some international companies such as Google, Amazon, Microsoft, Alibaba... are also planning to invest in Vietnam to anticipate long-term AI needs (According to JLL Research).

Among listed companies, FPT is more prominent than CMC and VNZ in terms of investment scale in data centers. Currently, FPT owns 4 data centers and plans to open 2 new data centers by the end of 2024, increasing the total capacity to nearly 7,000 racks, accounting for 25% of the whole market capacity.

We expect that, with bright prospects for this new segment in the medium and long term, large companies such as FPT and CMG will likely have positive profit growth, thereby being more highly rated in the future.

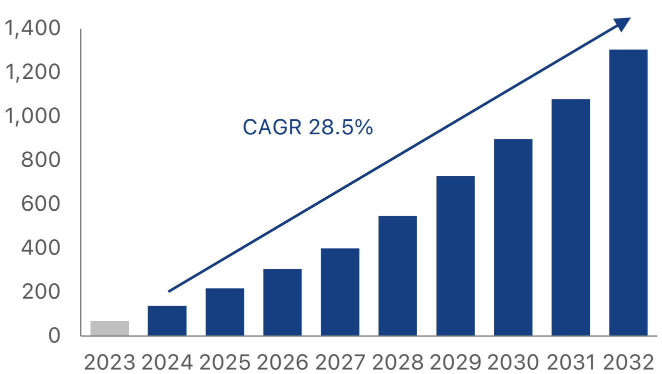
Table 6: Data center capacity of some main providers

	Viettel IDC	FPT Telecom	VNPT IDC	CMC Telecom
Some capacity indicators				
MW/year till 2023	87	20	30	20
Racks	11,500	6,940	3,725	3,800
Till 2023	9,100	3,640	3,725	2,600
New added in 2024	2,400	3,300		1,200
Our estimates				
Average rental (million VND/rack)	30	30	30	30
Standard rack design (kW/rack)	20	20	20	20

Source: TVS Research compilation

Figure 7: Global Gen AI sales is forecast to grow 28.5% CAGR to over USD 1.3 trillion by 2032

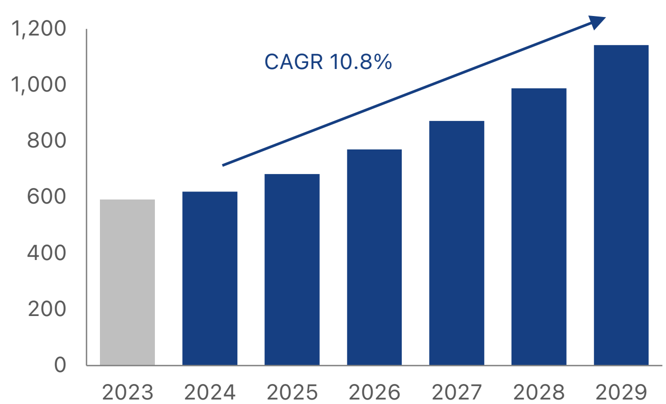
Global Gen AI Market Value from 2023 to 2032 [USD billion]



Source: Bloomberg, TVS Research

Figure 8: Data center market size in Vietnam can achieve a CAGR of 10.8%, reaching USD 1 billion by 2029

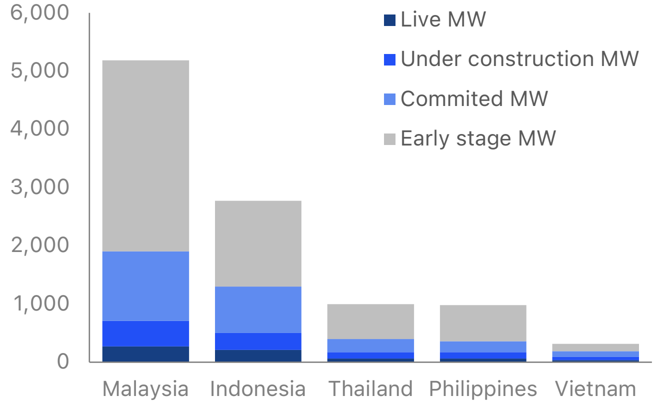
Vietnam data center market value [USD million]



Source: BlueWeave Consulting forecast, TVS Research

Figure 9: Data center capacity of Vietnam is much lower than that of other countries in the region.

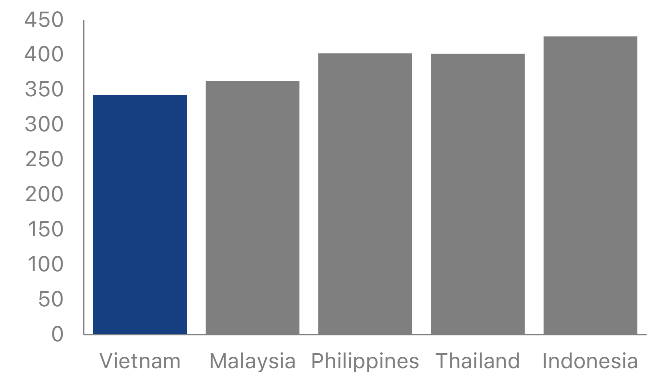
Data center capacity in Southeast Asia region [MW]



Sources: DC Byte, TVS Research

Figure 10: The cost of building data center in Vietnam is 6-20% lower than in other countries in the region.

Cost of building data center in Southeast Asia region [USD/m2]



Sources: JLL Research, TVS Research

TVS Research maintains the target price for FPT (TP 127,800 VND)

We maintain our forecast for FPT's net profit in 2024 as in the Q1 2024 Investment Strategy Update. We also expect that FPT's new large orders signed in H1 2024 will help increase FPT's profit from Q4 2024, thereby creating a better profit base for FPT.

In Q2 2024, FPT also announced plans to cooperate with Nvidia to build an AI factory in Vietnam, aiming to help FPT build and develop AI platforms and applications. In addition, FPT also announced plans to build an AI factory in Japan, expecting potential demand for AI in this market. We consider the AI story to be long-term and still not included in the valuation.

Ticker	Market price at 12/08/24	Target price	Upside	Revenue 2024F	% YoY	NPAT 2024F	% YoY	ROE 2023	ROE 2024F	P/E TTM	P/E FW 2024
	VND	VND	%	Bn VND	%	Bn VND	%	%	%	x	x
FPT	130,000	127,800	-1.7%	63,595	20.9%	9,332	19.8%	28.2%	27.4%	26.6	21.4

Source: FiinPro-X, TVS Research

Investment Theme 2: Vietnam emerges as attractive destination for FDI

We maintain a POSITIVE outlook for the industrial sector, given Vietnam's attractiveness as a destination for FDI in the coming period.

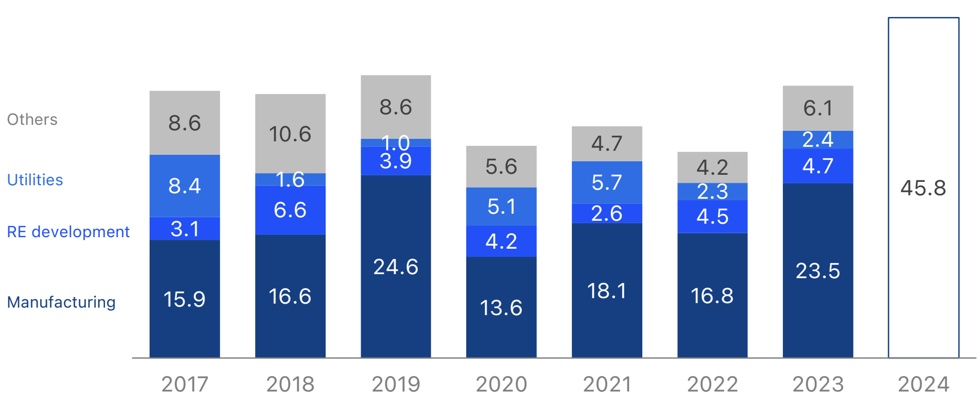
TVS Research maintains POSITIVE for the IPs sector, supported by the continued influx of FDI into Vietnam. We reiterate Vietnam's advantages in attracting FDI, including (for details, please refer to our Q1 2024 Investment Strategy Update):

- A strategic geographic location to capitalize on the shift of investment from the "China+1" strategy"
- Vietnam's high level of trade openness, thanks to strengthened strategic partnerships and deep involvement in numerous Free Trade Agreements (FTAs)
- Competitive production costs (labor, electricity) compared to other countries in the region
- Improved connectivity between economic regions due to increased infrastructure investment

We maintain our view that IP land bank supply will remain tight in the next 1-2 years. Therefore, investment opportunities in IPs stocks will focus on companies possess existing land banks in tier-1 regions such as **KBC** and **IDC.**

Figure 11: We maintain the forecast of a 25% growth in registered FDI in 2024

Registered FDI by sector [USD bn]



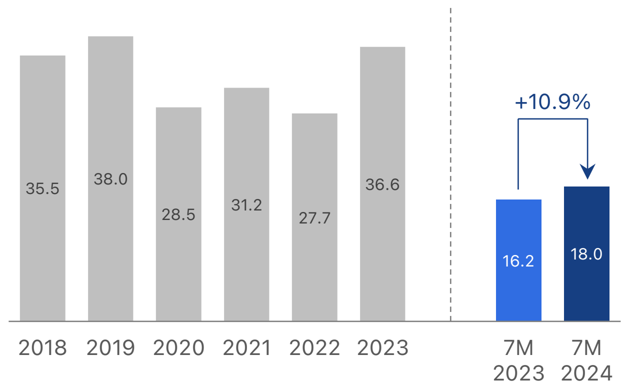
Source: Ministry of Planning and Investment, TVS Research forecast

FDI into Vietnam surged 10.9% YoY in 7M 2024

Registered FDI reached $18 billion, marking a 10.9% year-on-year growth, despite a global economic slowdown. The manufacturing sector remained the primary driver of new registered FDI, expanding by 16.5% YoY and accounting for a substantial 71% of the total. TVS

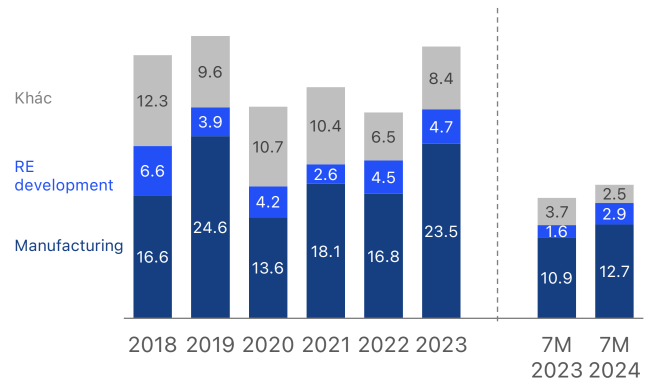
Research forecasts that registered FDI will continue its upward trajectory in H2 2024, meeting our projections, driven by Vietnam's competitive advantages and the ongoing shift of manufacturing out of China.

Figure 12: In 7M 2024, FDI flowing into Vietnam surged by 10.9% YoY
Registered FDI into Vietnam [USD bn]



Source: FiinPro-X, TVS Research

Figure 13: The manufacturing industry is the primary driver of FDI growth in Vietnam
Registered FDI by sectors [USD bn]



Source: FiinPro-X, TVS Research

The government's proactive measures will ensure FDI growth in the coming years.

The Vietnamese government has demonstrated its commitment to attracting foreign direct investment (FDI) through the proposal to establish a separate legal framework for industrial zones in the Law on Industrial Parks and Economic Zones (detailed in Table 7) and by providing financial support to mitigate the impact of the Global Minimum Tax (GMT). These measures are expected to enhance Vietnam's competitiveness in attracting FDI, especially amid global economic uncertainties.

Table 7: Government' policy supports for attracting FDI in the future

Decrees & Laws	Current legal regulations	Goals	Comments
Investment Support Fund for FDI companies	No guiding decrees on the usage of additional income from GMT.	To mitigate the impact of the Global Minimum Tax (GMT) and encourage high-tech investment in Vietnam	We believe the establishment of this Fund demonstrates Vietnam's commitment to attracting FDI and fostering higher value-added investments, aligning with the goal of becoming a new global high-tech manufacturing hub.

Law on Industrial Parks & Economic Zones	No official law yet, currently based on decrees, with the latest being Decree 35/2022/ND-CP on the management of industrial parks and economic zones The Ministry of Planning and Investment is proposing a Law on Industrial Parks and Economic Zones	Provide a clear legal framework for industrial parks through a law instead of relying solely on decrees Focus on establishing and supporting specialized industrial parks to attract higher value-added FDI	The law, once enacted, will streamline administrative procedures for approving industrial parks, encourage investment in specialized or mixed-use industrial parks, and provide more comprehensive support mechanisms for these companies, thereby attracting high-quality FDI sources to Vietnam.

Source: TVS Research compilation

However, we believe that it is necessary to monitor the legal progress risk for IPs developers.

We believe that the biggest risk for industrial real estate developers and stocks is legal risk, including project approval and land use fee calculation. These legal decisions are approved by the Prime Minister, the Ministry of Planning and Investment, and provincial/city People's Committees, depending on the project's scale. Although the government has issued several policies to support industrial zones, such as Decrees 35/2022/ND-CP and 33/NQ-CP, the updating of master plans by many provinces and cities can prolong the approval process, leading to increased costs and limiting the supply of new industrial zones in the next 12-18 months.

We observe that the risk of delayed legal progress can affect many IPs developers, especially those with large-scale projects currently under approval, such as KBC, IDC, and VGC. TVS Research assesses that this risk has varying levels of impact on IPs developers. Companies with large land banks available for lease, such as IDC, VGC, and BCM, will not face pressure on the leasing progress of new industrial zones. However, KBC may face pressure on leasing progress and financial performance due to limited remaining leasable area.

We maintain BUY for KBC but lower our target price to reflect legal progress risks.

TVS Research maintains **BUY** for **KBC** but lowers KBC's target price from **VND 40,300** to **VND 39,800**. We have delayed the sales and revenue recognition of Trang Due 3 IP and Phuc Ninh UA to 2025 due to KBC's legal progress risks related to these two projects. However, we maintain a positive outlook for KBC as the company owns a large land bank in prime locations and benefits from increasing FDI and the expansion of large corporations like LG in Trang Due 3 Industrial Park (For details, please refer to the KBC Q1 2024 Update Report)

Ticker	Price at 12/08/24	TP	Upside	2024F revenue	% YoY	2024F NPAT	% YoY	2023 ROE	2024F ROE	Current P/B	2024 fw P/B
	VND	VND	%	VND bn	%	VND bn	%	%	%	x	x
KBC	25,400	39,800	56.7%	3,823	-32.3%	1,134	-48.9%	11.7%	5.4%	1.1	0.9

Source: FiinPro-X, TVS Research

TVS Research maintains a POSITIVE view on seaport companies in the long term.

We maintain a POSITIVE view on seaport companies thanks to expectations of long-term import-export growth supported by FDI capital flows into Vietnam (H2 2024 Strategy Macro Update). To take advantage of this growth opportunity, seaport companies have promoted investment to increase deep-water port capacity to attract more large-tonnage vessels, with an expected additional capacity of more than 5 million TEUs in 2025.

Table 8: Several major ports to expand capacity by 2025

Ports	Current capacity (TEUs)	Expansion in 2025(TEUs)	Size (DWT)	Support from the Government
Hai Phong port cluster				
Nam Dinh Vu	1,200,000	500,000	48.000	
Ports at Lach Huyen				
No 1&2	1,100,000	300,000	100,000	
No 3&4		1,100,000	100,000	Hai Phong approved the investment in roads for ports No 3 to 6
No 5&6		1,830,000	160,000	
CM-TV Port cluster				
Gemalink	1,500,000	1,500,000	250,000	Ministry of Transport started the investment project to upgrade CM-TV waterway

Source: TVS Research compilation

We perceive that seaport operations will continue to be POSITIVE in H2 2024.

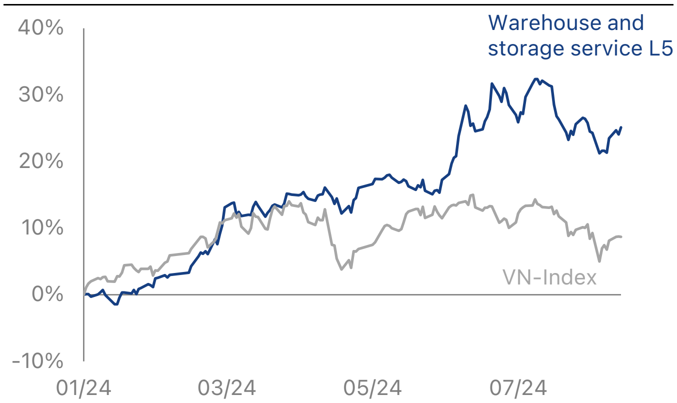
We expect a **POSITIVE** outlook for seaport performance in H2 2024 as (1) we forecast export growth to remain at 15% YoY in H2 2024 (2) port congestion in Singapore and Malaysia is still ongoing in Q3 2024, which will force shipping lines to change their routes and seek Vietnam transit ports in the short term.

TVS Research perceives that the price movement of seaport industry stocks reflected high container volume growth, especially in H1 2024.

The Seaport price index increased by 32% YTD till mid-July 2024 and adjusted down to 26% YTD afterwards, following the general downward trend of the whole market. We perceive that the price increase of seaport stocks since the beginning of the year is supported by the 19.2% YoY growth in container throughput through the port in Q2 2024 (compared to the low base of the same period) and the 29% growth in net profit after tax of seaport companies (excluding the extraordinary profit from port sales of GMD in Q2 2023).

Figure 14: Warehouse and storage service sector index went up by 26% YTD

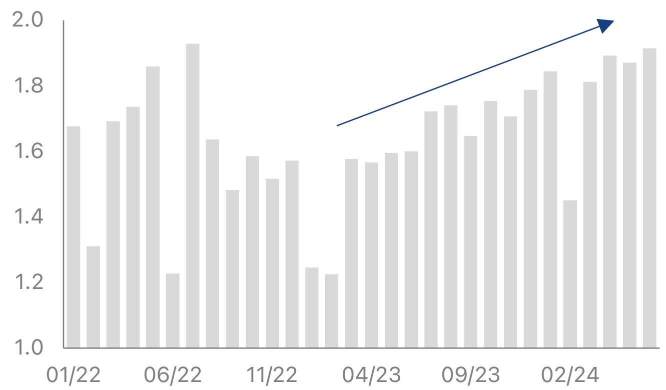
Change in warehouse and storage service sector and VN-Index [%]



Source: Fiinpro-X, TVS Research

Figure 15: Container throughput through Vietnam's seaports maintains good recovery from the bottom in 2023

Container throughput through seaports [million TEU]



Source: VPA, TVS Research

We maintain our HOLD recommendation for GMD with a target price of VND 81,000 (Upside +3.8%).

TVS Research maintains our HOLD recommendation on GMD with a target price of VND 81,000/share for 2024, as the stock price had increased by 15.1% since the beginning of the year. We maintain our assessment that owning seaports in favorable locations and continuing expansion investments will help GMD increase profits in the future. We maintain our forecast for GMD's revenue and after-tax profit in 2024 of VND **4,465 billion (+16% YoY) and VND1,668 billion (-35% YoY) respectively**.

Ticker	Market price at 12/08/24	Target price	Upside	Revenue 2024F	% YoY	NPAT 2024F	% YoY	ROE 2023	ROE 2024F	P/E TTM	P/E FW 2024
	VND	VND	%	Bn VND	%	Bn VND	%	%	%	x	x
GMD	79,000	81,000	2.5%	4,456	16.0%	1,668	-35.0%	16.0%	8.0%	19.7	14.6

Source: FiinPro-X, TVS Research

Investment Theme 3: Positive recovery outlook

Banking Sector – Mounting pressure on net interest margin and rising provisioning

We downgrade our recommendation to NEUTRAL on the Banking sector outlook and lower our 2024 earnings growth forecast for our coverage banks by 14.4%.

We have reduced our earnings growth forecast for our coverage banks by 14.4% YoY (from 22.1% YoY). Compared to our estimates in the Q1 2024 Investment Strategy Update, deposit interest rates in Q2 2024 have risen more broadly than we expected and will gradually be reflected in banks' cost of funds (COF) in H2 2024. Meanwhile, lending rates have not been able to adjust accordingly due to weak credit demand, especially in the retail segment. The shift in loan mix towards the wholesale segment (corporate lending) and short-term loans will also continue to reduce the average lending rate of banks. In terms of asset quality, higher-than-expected non-performing loans (NPL) forecasted by TVS Research earlier this year will put pressure on banks' provision charges in H2 2024.

However, TVS Research maintains recommendation for a portfolio of banking stocks in 2024, including TCB, VCB, and MBB. These banks differentiate themselves within the sector through their low cost of funds, which helps to mitigate the anticipated decline in net interest margin (NIM) during the second half of 2024. Additionally, their valuations are currently attractive. Compared to the Q1 2024 Investment Strategy Update, we have adjusted downward the target price (TP) of **MBB (TP 26,400 VND, upside 11.4%,** -5% compared to the previous TP) and **VCB (TP 106,000 VND, upside 20.7%**, -2% compared to the previous TP) due to a downward adjustment in our 2024 earnings forecast. Meanwhile, we maintain the target price of TCB **(TP 25,400 VND, upside 19.5%,** after adjusting for the 15% cash dividend and 100% stock dividend in Q2 2024).

TVS Research maintains a forecast of 14% credit growth in 2024, driven by corporate lending while personal loan demand recovers more slowly than expected.

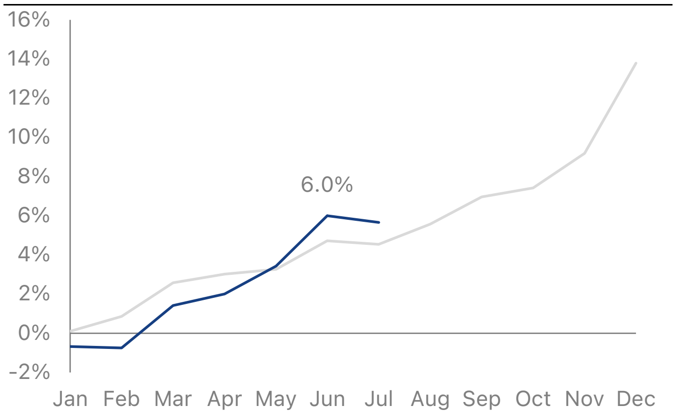
Credit growth in the first six months of 2024 was faster compared to the same period last year; however, the quality of this growth has not improved. Credit growth in the first six months of 2024 reached 6%, driven by a surge in June with nearly 2.6% growth. However, the incremental credit was primarily directed towards corporate clients, while the demand for loans to serve personal consumption and spending has not improved compared to 2023. Furthermore, the proportion of medium and long-term loans in total credit continued to decline, indicating that the demand for capital for business expansion remains limited.

TVS Research maintains its forecast of 14% credit growth for

2024. However, we believe that this growth will still come mainly from corporate lending, while personal credit demand recovers slower than expected.

Figure 16: Credit growth surged in June 2024

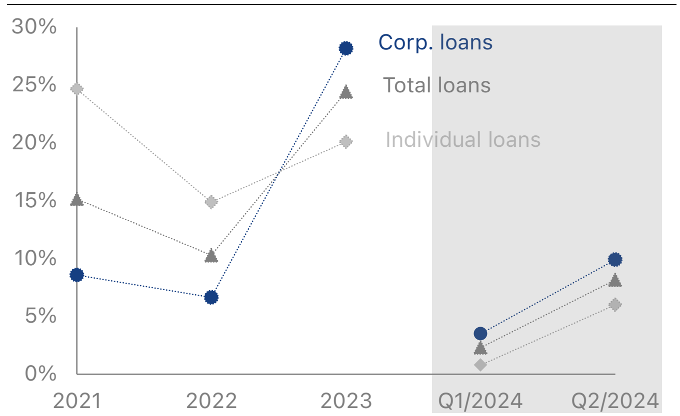
System-wide monthly credit growth [YTD, %]



Source: FiinPro-X, TVS Research

Figure 17: Business lending is the primary driver of credit growth when personal lending is lagging

Loan growth of listed banks by customer segment [% YTD]



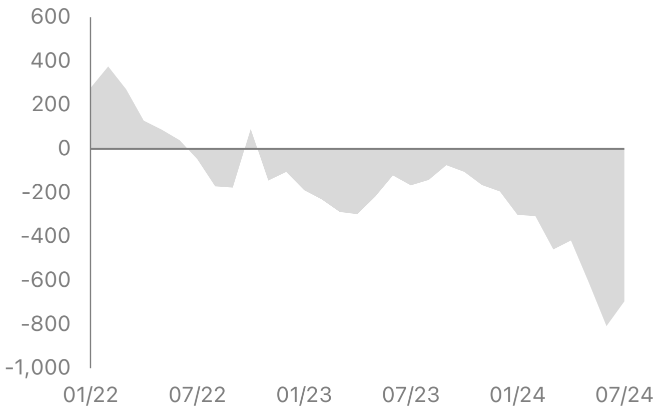
Source: FiinPro-X, Listed banks, TVS Research
Notes: Data for Q1 and Q2 2024 excludes NAB, EIB, NVB, ABB, SGB, BAB

We anticipate a robust growth in deposits in the latter half of 2024 due to the current and projected upward trend in deposit rates.

Contrary to our forecast in the 2024 Investment Strategy Report, deposits grew slowly at +1.5% YTD in H1 2024 due to a decrease in deposit interest rates to a historically low level. As a result, the resurgence of credit growth in May and June exacerbated the existing deposit-credit imbalance, leading to an elevated Loan-to-Deposit Ratio (LDR) within the banking system.

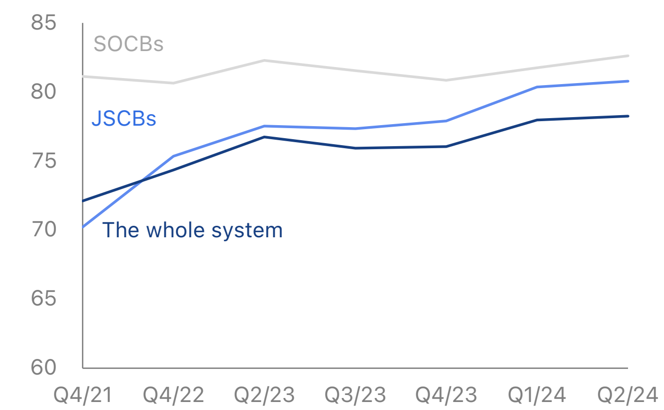
We anticipate a more robust deposit growth trajectory in H2 2024 to align with the anticipated pace of credit expansion. Furthermore, the recent upward adjustment of deposit interest rates by commercial banks is expected to increase deposit.

Figure 18: Widening gap between deposit and credit hints at higher deposit rates
Monthly difference between deposit and loan [VND trillion]



Source: FiinPro-X, TVS Research

Figure 19: The LDR of banking system increased significantly in H1 2024
The banking system's Loan-to-Deposit Ratio LDR [%]



Source: SBV, TVS Research
SOCBs: State-owned commercial banks; JSCBs

We forecast a slight downward pressure on banks' net interest margins (NIMs) in the H2 2024.

The average interbank interest rate has increased by 250 basis points (bps) since May 2024 compared to the average of the first four months due to the SBV's continued net absorption through T-bills. Since the end of April 2024, the overnight interbank market interest rate has been around 4.0-4.5%.

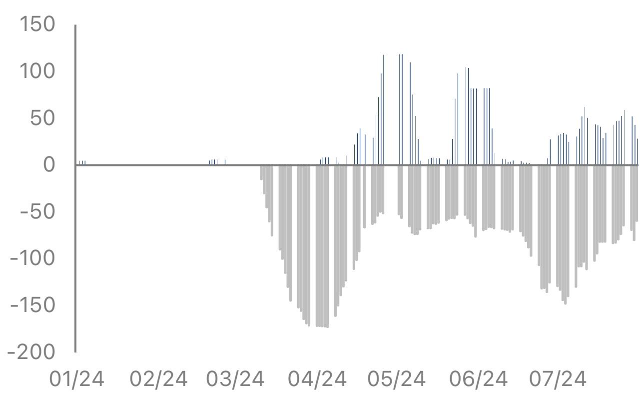
Similarly, deposit interest rates at commercial banks have experienced a significant uptick since mid-Q2 2024. Twelve-month term deposit rates have increased by an average of 30 to 50 basis points, with smaller joint-stock commercial banks reporting even more pronounced hikes of 70 to 100 basis points. TVS Research attributes this trend to the tightening liquidity conditions within the banking system, coupled with elevated interbank lending rates. The pace of savings interest rate increases since May 2024 has surpassed our earlier forecasts presented in the Q1 2024 Investment Strategy Update. As a result, banks should anticipate a gradual increase in their funding costs commencing in Q3 2024.

Meanwhile, average lending rates continued to decline due to increased competition amidst weak credit demand and some banks maintaining supportive policies for customers. This aligns with the government's direction to continue lowering lending rates to support economic growth.

In the last few months of 2024, TVS Research forecasts that deposit rates will increase by approximately 50 basis points to correspond with strong credit growth in the fourth quarter. Lending rates are anticipated to exhibit modest upward pressure to partially offset the rising cost of funds. However, intense competition coupled with government policies aimed at restraining lending rate increases are likely to limit the extent of this adjustment. Consequently, TVS Research forecasts a marginal decline in net interest margins (NIMs) for the banking sector during H2 2024 relative to the preceding six months. The capacity of banks to preserve and enhance NIMs will hinge on their ability to optimize funding sources through increased reliance on lower-cost current and savings accounts (CASA), while concurrently refining loan portfolio composition to sustain adequate returns.

Figure 20: SBV continued net withdrawals through T-bills in the second quarter of 2024

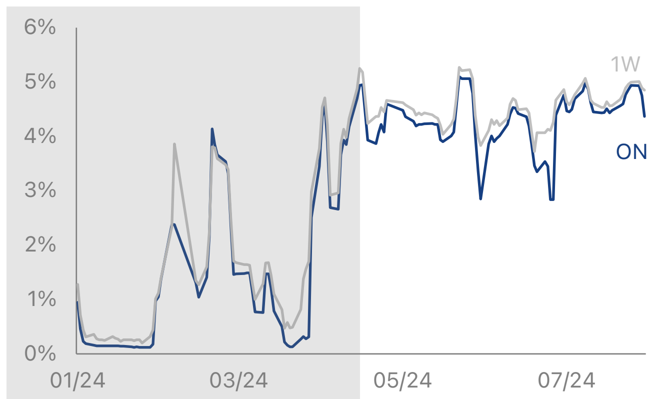
Outstanding balance of T-bills [grey] và Reverse Repo [navy blue] [VND trillion]



Source: FiinPro-X, TVS Research

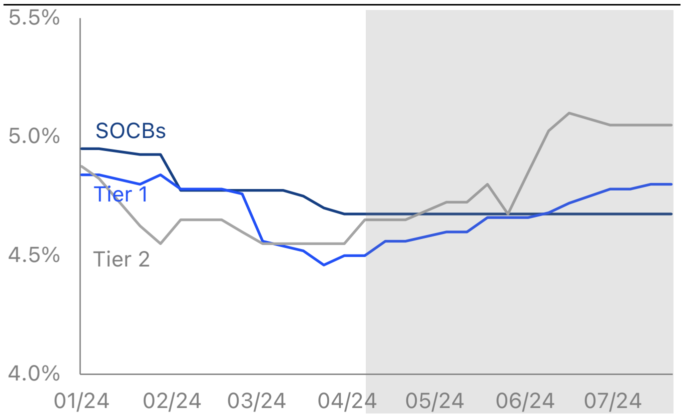
Figure 21: Interbank interest rates have fluctuated around 4.0-4.5% since late Apr 2024

Overnight and 1-week interbank interest rates [%]



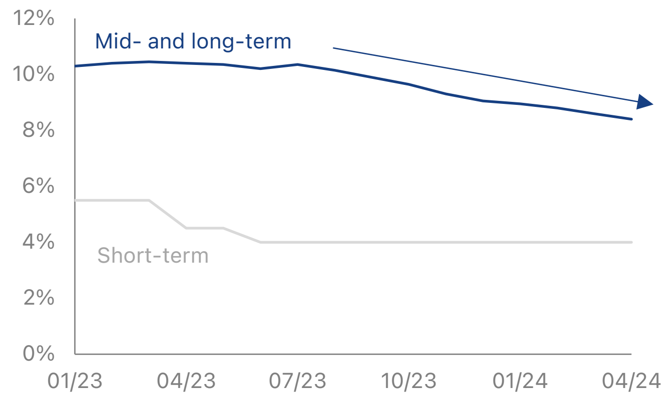
Source: FiinPro-X, TVS Research

Figure 22: JSCBs have increased deposit rate by 30-50 bps since the late of April 2024
12M Deposit rates at some banks [%/year]



Source: Banks' website, TVS Research
Notes: SOCBs: BID, CTG, VCB; Tier 1: MBB, VPB, TCB; Tier 2: HDB, LPB, VIB, MSB

Figure 23: Lending rates dropped, reflecting regulators' determination to boost the economy
Average lending interest rates for ordinary business of JSCBs [%]



Source: FiinPro-X, TVS Research

Non-performing loans (NPLs) within the banking system have reached elevated levels, intensifying the pressure to set aside provisions.

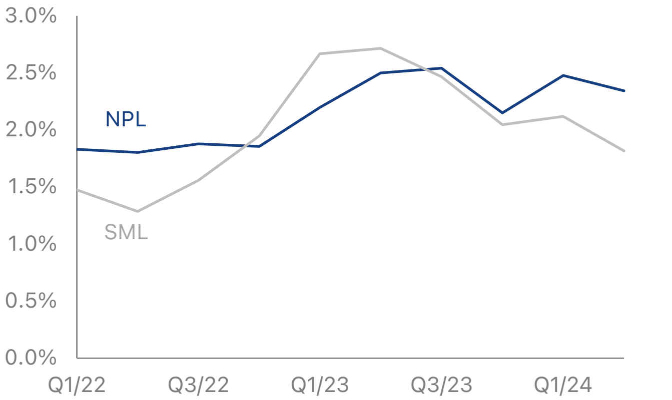
NPLs of listed banks as of the end of Q2 2024 have surged 26% YoY and 24% YTD, with small and retail-oriented banks (such as VIB and ACB) experiencing particularly significant increases. This has compelled banks to substantially augment their bad debts provisions in Q2 2024, exerting downward pressure on the banking sector's profitability.

However, the ratio of special mention loans has shown a downward trend in Q2 2024 after stagnating in Q1 2024. This could be a positive signal for the banking system's NPL situation towards the end of 2024.

We anticipate a slight decline in the NPL ratio by the end of the year, but the level is expected to be high. This will continue to exert upward pressure on provisioning expenses and limit profit growth for banks in H2 2024.

Figure 24: Asset quality in the banking industry has not improved, with a high level of bad debts

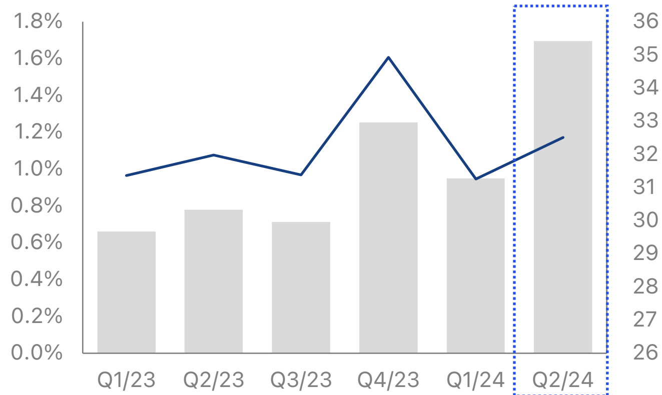
The average non-performing loans ratio - NPL and Special mention loans ratio - SML of listed banks [%]



Source FiinPro-X, listed banks, TVS Research
Notes: Data excludes NVB

Figure 25: Credit cost of banks increased compared to that in H2 2023

Average credit cost [line – LHS - %] and total provision expense each quarter of listed banks [column – RHS – VND bn]



Source: FiinPro-X, listed banks, TVS Research

The 2024 Law on Credit Institutions and its related regulations have come into effect, aiming to enhance transparency in banking systems.

Some of the most notable provisions in the 2024 Law on Credit Institutions (effective July 1, 2024) and related regulations are presented in Table 9. These provisions aim to increase transparency in banking operations and curb market manipulation and disruption. Additionally, the Law and its related regulations provide more detailed provisions for bancassurance activities, letters of credit issuance, etc., to improve operational efficiency and bank management.

In the short term, we believe that the Law and its related regulations will not have a significant impact on the operations of banks as banks have had about two quarters to develop business plans to adapt to changes directly related to business operations and management in the new legislations.

Table 9: The Credit Institutions Law 2024 and related regulations aiming to enhance transparency in banking operations

Key terms and conditions of the Credit Institutions Law 2024 and related by-law documents

Notable changes	Terms and conditions	TVS Research's assessment
Expanding the scope of related parties and individuals required to provide, disclose, and publicize information.	Shareholders owning 1% or more of the charter capital of a credit institution (CI) must provide and disclose information about themselves and related parties (including ownership ratios) to the CI. Members of the Board of Directors, members of the Supervisory Board, members of the Audit Committee, General Director (Director), Deputy General Director (Deputy Director), and equivalent positions, along with their related parties, must also provide information.	This regulation aims to manage cross-ownership, limit cross-holdings among CIs, and restrict manipulation and control by major shareholders in CIs.

<table>
<tr>
<td>Reduce the ownership limitations</td>
<td>

An individual shareholder cannot own more than 5% of the chartered capital of a credit institution (CI)
An institutional shareholders cannot own more than 10% of a CI's chartered capital, except in cases specified by law
A shareholder and related parties cannot collectively own more than 15% of a CI's chartered capital, except in cases specified by law
A major shareholder of a CI and related parties cannot own 5% or more of the chartered capital of another CI
Foreign ownership in Vietnamese CIs will be subject to government regulations

</td>
<td>These regulations are designed to curb the influence of major shareholders, preventing them from manipulating or controlling the operations of banks.</td>
</tr>
<tr>
<td>Reduce the credit limits for a group of customers and related parties</td>
<td>
The maximum total outstanding credit calculated against equity for an individual customer, a customer and their related parties for commercial banks, credit cooperatives, foreign bank branches, people's credit funds, and microfinance organizations will be gradually reduced according to the following roadmap:
<table>
<tr><th></th><th>For a customer</th><th>For a customer and related parties</th></tr>
<tr><td>1/7/2024-1/1/2026</td><td>14%</td><td>23%</td></tr>
<tr><td>1/1/2026-1/1/2027</td><td>13%</td><td>21%</td></tr>
<tr><td>1/1/2027-1/1/2028</td><td>12%</td><td>19%</td></tr>
<tr><td>1/1/2028-1/1/2029</td><td>11%</td><td>17%</td></tr>
<tr><td>From 1/1/2029</td><td>10%</td><td>15%</td></tr>
</table>
The maximum total outstanding credit for an individual customer shall be ≤ 15% of the non-bank financial institution's equity; the maximum total outstanding credit for a customer and their related parties shall be ≤ 25% of the non-bank financial institution's equity.
</td>
<td>Regulations limit the concentrated lending risk of CIs. The gradual reduction of the maximum outstanding credit limit by 1-2% per year allows CIs time to develop and diversify their customer base.</td>
</tr>
<tr>
<td>Supplementary provisions on credit approval, monitoring of loan usage, and leased assets</td>
<td>Credit institutions must have a minimum amount of information regarding the lawful purpose of using the funds and the customer's financial capacity before deciding to grant credit for small-value loans.</td>
<td>This regulation contributes to simplifying the credit granting procedures for small-value loans, facilitating access to credit for many individuals and organizations.</td>
</tr>
<tr>
<td>Counting letters of credit (L/Cs) into total credit of CIs</td>
<td>Letters of credit (L/Cs) will be counted towards credit granting activities.</td>
<td>This regulation ensures that credit growth figures more accurately reflect the actual credit granted by banks; at the same time, it requires banks to strictly adhere to the credit quotas set by the SBV.</td>
</tr>
<tr>
<td>The sale of non-mandatory insurance products in conjunction with banking services is strictly prohibited</td>
<td>Credit institutions are not permitted to link the sale of non-mandatory insurance products to the provision of any banking products or services.</td>
<td>This regulation demonstrates a commitment to protecting the rights of borrowers in cases where banks have previously required the purchase of accompanying insurance products or other banking services. Additionally, this regulation aims to rectify the practices of insurance sales and consulting through banks, improve the quality of insurance sales, and better meet the actual needs of customers.</td>
</tr>
<tr>
<td>Early intervention for weak credit institutions</td>
<td>The Law has added a chapter specifically regulating early intervention for credit institutions, amending and supplementing an additional case that requires early intervention. Additionally, the Law stipulates specific requirements and plans for credit institutions to apply during the intervention period.</td>
<td>This regulation aims to prevent systemic risks to the credit institution system</td>
</tr>
</table>

Source: TVS Research compilation

The 22.6% profit growth of listed banks in Q2 2024 was driven primarily by mid-sized private joint-stock commercial banks.

Listed banks' profit before tax (PBT) in Q2 2024 reached VND 76,076 billion (+22.6% YoY), mainly contributed by the profit growth of mid-sized private joint-stock commercial banks such as TCB, LPB, VPB, MBB, and HDB. These banks also recorded high credit growth and improved net interest margin (NIM) in H1 2024. In terms of income and expense structure, the PBT growth of listed banks in Q2 2024 was mainly driven by the growth in net interest income (+19.6% YoY) and effective control of operating expenses (+7.1% YoY). (Please refer to the Q2 2024 Earnings Update Report for more details).

We have downgraded our forecast for profit growth of the banks in our coverage from 22.1% YoY to 14.4% YoY.

TVS Research has downgraded its profit growth forecast for the banking sector due to a decline in net interest margin (NIM) and increased provisions for non-performing loans (NPL). Deposit rates have risen more sharply than anticipated since May 2024, elevating banks' cost of funds (COF). Due to weak credit demand, especially in the retail segment, lending rates have been constrained from increasing. The shift towards wholesale lending (to corporate clients) and shorter-term loans will further depress average lending rates. While bad debt levels may decline slightly by year-end, TVS Research anticipates a higher bad debt ratio than previously projected, increasing provision expenses in H2 2024.

We believe that the current valuation of the Banking sector has already partially reflected the negative factors in H2 2024.

The Banking sector is currently trading at a P/B ratio of 1.5x, down 11.4% from its peak in April 2024. TVS Research believes that this decline has partially reflected the headwinds for the sector in H2 2024. The current P/B ratio of the sector has returned to the lows after the sharp adjustment in late 2022. Therefore, we believe that investors may consider monitoring the banking sector in Q3 2024 and potentially re-entering the market towards the end of 2024 if there are clear signs of improved credit growth, net interest margin, and asset quality. A more positive outlook for the sector in 2025 could further support this investment strategy.

Figure 26: The valuation of the banking sector has declined to its lowest level since the sharp correction at the end of 2022

P/B ratio of the banking sector from 2022 to present [x]

Source: Fiinpro-X, TVS Research
Avg and Std: Average and standard deviation of the industry's P/B ratio over the past 5 years

Stock recommendation

We maintain our recommendation for the Banking sector portfolio in 2024, including TCB, VCB, and MBB.

VCB – Target Price: VND 106,000 – Upside: +20.7%

- **VCB's exceptional scale, low funding costs, and robust asset quality** have enabled consistent growth during challenging economic conditions and facilitated a faster recovery amidst periods of strong credit expansion
- **The stock's valuation has become more compelling,** with a P/B ratio of 2.7x, representing a 20% discount to the five-year average of 3.3x and exceeding the five-year low of 2.3x (Oct 2022) by 0.4x
- **Anticipated capital inflows from a 6.5% private placement,** projected for completion in H1 2025, will bolster VCB's resources for future growth
- **Risks:** (1) pressure to maintain low lending rates to support customers and (2) the possibility of delays in private placement

TCB – Target Price: VND 25,400 – Upside: +19.5%

- **TVS Research forecasts TCB's profit growth to reach 27.9% YoY in 2024, significantly outperforming the 14.4% average of other banks in our coverage.** We believe that due to early support for customers in 2023, TCB will have a stronger recovery in 2024 and we forecast the bank's NIM to increase to 4.6% this year (+0.6 ppt compared to 2023)

- **TCB's valuation has decreased to an attractive level with a forward P/B 2024 of 1.0x.** We believe this valuation is still attractive given TCB's scale, business model, and ecosystem
- **Risk**: (1) A significant increase in NPLs related to real estate if the market recovers slower than expected; (2) the need to maintain supportive borrower policies for an extended period, which could negatively impact NIM

MBB - Target Price: VND 26,400 – Upside: +11.4%

- **TVS Research forecasts MBB to maintain its NIM around 4.7% in H2 2024** (-0.06 percentage points compared to Q2 2024) thanks to good control of the cost of funds. This will help net interest income in H2 2024 increase by 18.7% YoY and by 14.9% compared to H1 2024
- **Asset quality is well controlled with** a 2024F NPL ratio of 1.5%, and the NPL coverage ratio is among the highest in the industry (>100%)

Risks: (1) Slow recovery in credit demand (2) Resurgence of NPLs in H2 2024, especially in some large customer groups

Ticker	Close price 12/08/24	Target price	Upside	TOI 2024F	% YoY	NPAT 2024F	% YoY	ROE 2023	ROE 2024F	Current P/B	P/B fw 2024
	VND	VND	%	VND bn	%	VND bn	%	%	%	x	x
VCB	87,800	106,000	20.7%	73,423	8.4%	34,867	5.5%	21.7%	19.0%	2.7	2.5
TCB	21,250	25,400	19.5%	49,548	23.7%	23,270	27.9%	14.8%	16.5%	1.1	1.0
MBB	23,700	26,400	11.4%	52,771	11.6%	23,018	9.3%	23.9%	21.6%	1.3	1.1

Source: FiinPro-X, TVS Research
TOI: Total Operating Income, NPAT: Net Profit After Tax

Retail sector – The recovery trend is on track in 2024

TVS Research maintains a POSITIVE outlook for the Retail sector in 2024.

We expected the Retail sector will continue to recover strongly in 2024 from the 2023 low base thanks to improved domestic consumption demand. For listed discretionary retailers, their completion of restructuring recently will improve their operating efficiency of existing stores, leading to increased profits in 2024.

We revised up the net profits of the retail tickers on TVS Research's watchlist to VND7,246 billion due to an increase in MWG's net profit forecast. MWG's profit growth this year is positively contributed by the Bach Hoa Xanh chain making a profit in Q2 2024. Therefore, we raised MWG's target price from **VND 68,800/share** to **VND 81,400/share** (upside +22.2%).

The growth of retail sector in H1 2024 reached 8.6% YoY.

The total retail sales of goods and services in H1 2024 increased by 8.6% YoY and 5.7% YoY if excluding price factors. This shows that the recovery has been sluggish in H1 2024 compared to the previous periods. We expect that this sluggish recovery came from the fact that labors' income in H1 2024 is flat compared to 2023 because labor intensive sectors such as textiles, seafood, etc. have not recovered strongly in the H1 2024. This directly affects workers' income as well as the demand in general.

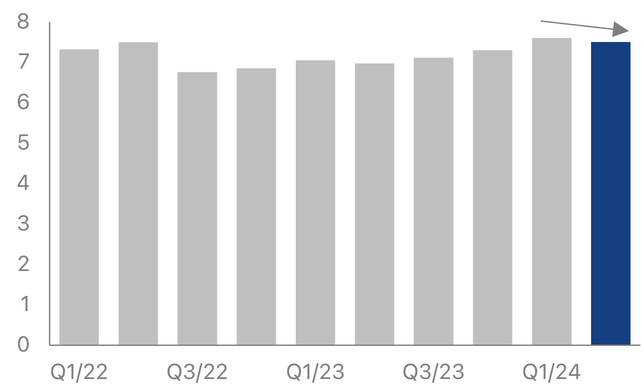
Figure 27: Retails sector's growth in H1 2024 reached 8.6% YoY

Retail sector's growth by month [% YoY]

Source: GSO, TVS Research

Figure 28: The income of workers slightly decreased in Q2

Average labor's income by quarter [VND mn]



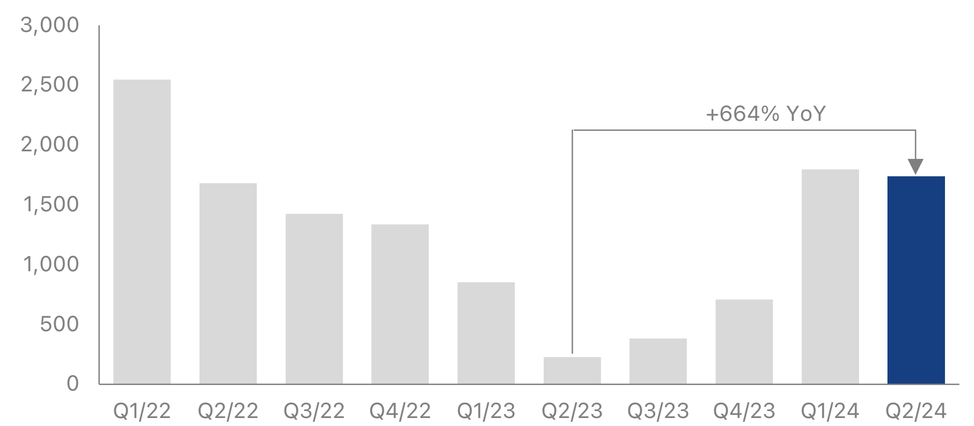
Source: GSO, TVS Research

The business results of leading retail firms was growing strongly in Q2 2024 which was different than the rest.

Business results of the retail sector increased in Q2 2024 mainly due to the recovery of leading firms such as MWG and FRT. The net profit of listed retail firms on HOSE in Q2 2024 reached VND 1,489 billion (+2.957% YoY). This increase was mainly due to the profit growth of MWG and FRT with their profits reaching respectively VND 1,172 billion (+6.632% YoY) and VND 48 billion (compared to a loss of VND 215 billion in Q2 2024). Excluding these above, the profit growth of the retail sector reached 9% YoY in Q2 2024 which was in line with the growth of total retail sales and showing that the recovery retail sector was quite protracted.

Figure 29: Retail sector see a significant resurgence in Q2 2024

Net income of retail sector's firms by quarter [VND bn]



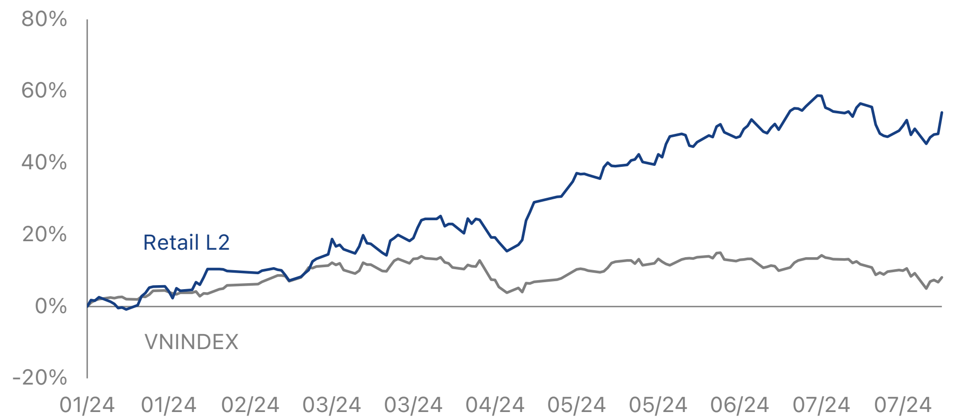
Source: FiinPro-X, TVS Research

The Retail sector's index increased by 54% in 7T 2024.

We expect that the growth in Retail tickers in 7M 2024 came from the market's expectations of a strong recovery in profits of leading firms such as MWG and FRT thanks to the economic recovery outlook and 2023 low base. In addition, expectations on catalysts of each firm also promote the growth of these tickers (MWG: expectation of Bach Hoa Xanh started to record profits in Q2 and FRT: Long Chau's Vaccine center development).

Figure 30: The Retail sector's index increased by 54% in 7M 2024

Growth of Retail L2 vs VN-Index [% YTD]



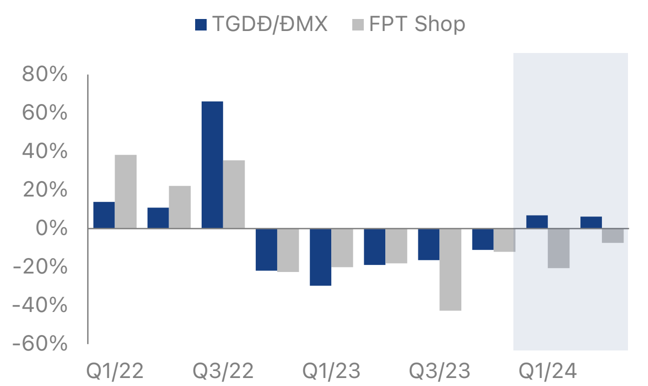
Source: FiinPro-X, TVS Research

Divergent revenue performance and uneven recovery among major retail chains in H1 2024

Retail chains' revenue on TVS Research's watchlist generally rebounded in H1 2024, albeit with significant variations. Non-discretionary retail chains such as Bach Hoa Xanh and Long Chau continued to record positive revenue growth. For discretionary retail chains, the demand for ICT&CE products has slightly recovered after a decline in 2023 but we only saw the revenue recovery from MWG's chains (TGDD & DMX) while FRT's FPT Shop chain continued to decline.

Figure 31: MWG's ICT&CE chains continued their recovery trend in revenue…

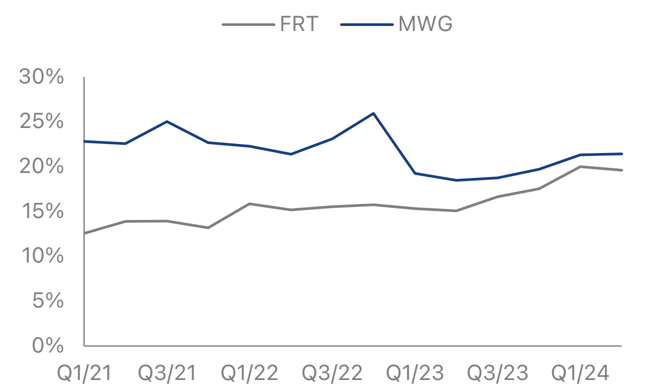
Revenue growth of ICT&CE chains by quarter [% sales]



Source: MWG, FRT, TVS Research

Figure 32: … which helped improve their margins to the rivals

Gross margins of ICT&CE firms in TVS Research's watchlist [% sales]



Source: MWG, FRT, TVS Research

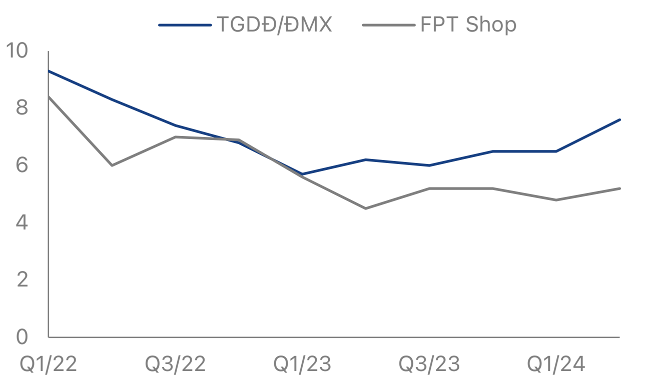
ICT&CE chains continue restructuring process in

In Q2 2024, ICT&CE firms (MWG and FRT) were also actively restructuring and closing ineffective stores. As the industry's overall growth grew slowly in H1 2024, reducing ineffective stores would help

Q2 2024 to improve profit margins.

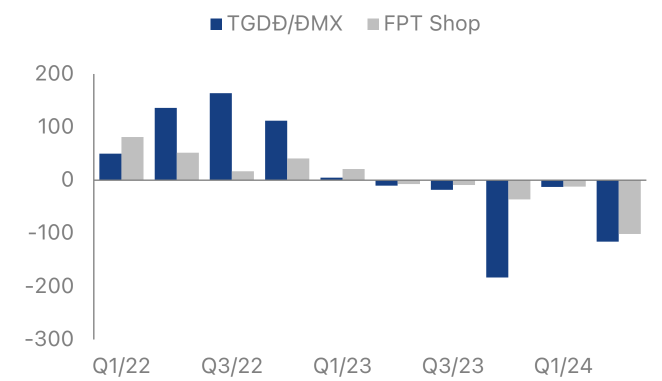
firms reduce costs as well as improve revenue/store of ICT&CE chains. In the coming quarters, we expect revenue/store and profit margin of ICT&CE chains to continue to improve as consumer demand will recover along with more positive consumer sentiment about the economy.

Figure 33: Sales per store of ICT&CE chains have improved significantly YoY
Sales per store/month of ICT&CE chains [VND bn/store/quarter]



Source: Firms' FS, TVS Research

Figure 34: ICT&CE chains' number of stores decreased after restructure process
ICT&CE chains' number of new stores [store]



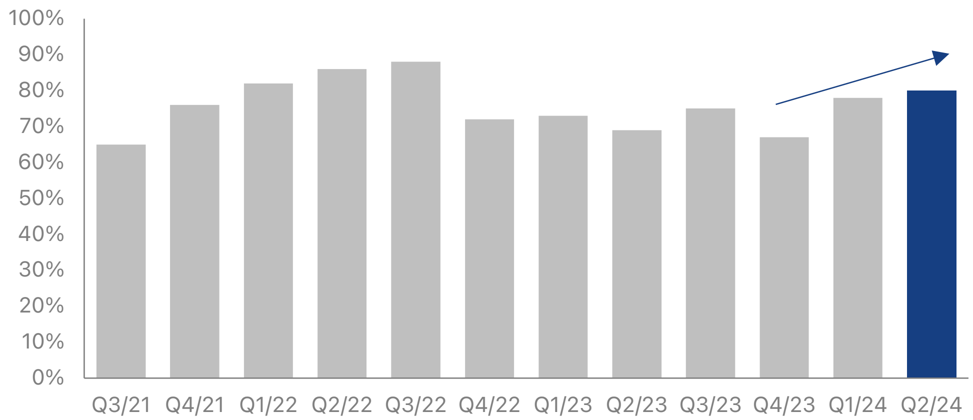
Source: MWG, FRT, TVS Research

TVS Research expects the retail demand to improve in H2 2024

In H2 2024, we maintain our expectation of a stronger recovery in the retail sector compared to H1 2024. The recovery trend of the manufacturing sector will be stronger as demand and the number of new orders continue to increase sharply in the past 2 months. Meanwhile, last months of the year is also the peak period of exports. Therefore, we believe that the increase in jobs will help labor's income and consumer spending gradually improve from now until the end of 2024. In addition, the Government also maintains policies to promote consumption such as reducing VAT by 2% until the end of 2024 and implementing salary reform from the beginning of July 2024 with a total value to be spent in the period of 2024-2026 of VND 470,000 billion.

Figure 35: Consumer sentiment is positive regarding economic prospects in the next 12M

Survey results on optimism about the economic situation in the next 12 months [% agree]



Source: Kantar, TVS Research

Improved demand will contribute to improving business results of ICT&CE firms in H2 2024.

In H2 2024, we maintain a **POSITIVE** view on the prospects for recovery in the business results of ICT&CE firms. In addition to improved demand, TVS Research believes that the back-to-school season in September, along with the trend of upgrading phones according to the replacement cycle and the 2G shutdown process taking place at the end of this year, can boost sales of ICT&CE chains.

We revise our forecast for the retail sector in our watchlist to increase by 11.3% compared to the old forecast, equivalent to 188% YoY growth in 2024.

We raise our forecast of retail sector's firms net income in TVS Research's watchlist in 2024 to VND 7,246 billion (+233% YoY, +11.4% vs. our previous forecast) thanks to (1) the prospect of business performance growth due to the return of consumer demand, especially from H2 2024 when the economy recovers and (2) the profit margin of retail companies is improved after the restructuring process is completed.

Regarding the recommended stock portfolio, TVS Research raises the target price of MWG shares to VND 81,400/share (upside 22.2% vs. the closing price on August 12, 2024)

- **TVS Research forecasts MWG's net profit in 2024 to reach VND4,186 billion (+2,362% YoY)**, up 13% vs. our previous forecast. We revise up our MWG earnings forecasts based on our expectation that the ICT&CE chain will perform better in H2 2024 based on the results in H1 2024

- For the Bach Hoa Xanh chain, we maintain our view on the positive growth outlook of this chain and Bach Hoa Xanh will record profits in 2024 at a net profit margin of around 1.0% of revenue
- **Risk**: Slower-than-expected economic recovery in 2024

Ticker	Market price at 12/08/24	Target price	Upside	Revenue 2024F	% YoY	NPAT 2024F	% YoY	ROE 2023	ROE 2024F	P/E TTM	P/E FW 2024
	VND	VND	%	VND bn	%	VND bn	%	%	%	x	x
MWG	66,600	81,400	22.2%	129,644	11.3%	4,186	2,397%	0.7%	16.9%	44.2	23.3

Source: FiinPro-X, TVS Research forecast

Exports-imports sector – Prospects of recovery are differentiated among subsectors in H2 2024

TVS Research maintains a POSITIVE view on export-import activities but lowers outlook for wood and seafood export in H2 2024.

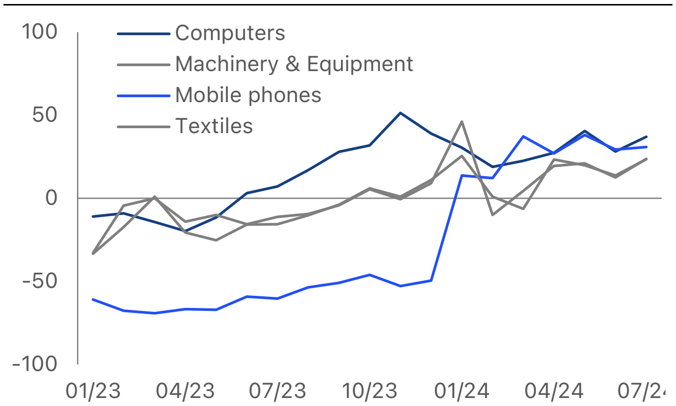
As mentioned in our H2 2024 Strategy Macro Update, we still expect export and import to be the driving force for Vietnam's economic growth in H2 2024. The main drivers for import and export activities in H2 2024 come from:

- Import value of machinery & equipment, and computers & components has increased sharply since the beginning of the year, showing positive demand for production and export in the coming time
- Index of Industrial production of some fields is showing strong recovery month by month, especially export manufacturing such as food processing, textiles, and bed, wardrobe, table and chair production

However, we perceive that the import-export outlook in H2 2024 will be differentiated among subsectors. In particular, we rate **POSITIVE** for the textile and garment subsector due to the shortage of global supply sources, while lowering the recovery outlook for the wood and seafood export subsectors due to the consumption demand has not yet recovered significantly due to the weak global economy and might be adversely impacted by escalating geopolitical risks and high freight rates. **We open a new BUY recommendation for TNG (TP 33,200 VND, Upside 20.7%) thanks to positive sale order growth.**

Figure 36: Import value of some items maintained good growth in H1 2024, showing a positive outlook for exports in the coming time

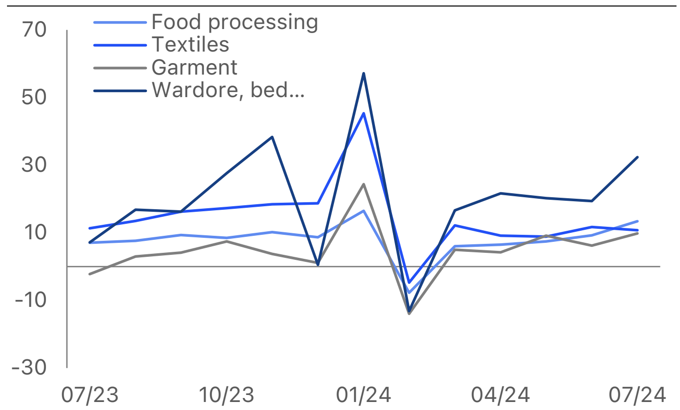
Import growth of some items compared to the same period [% YoY]



Source: Fiinpro-X, TVS Research

Figure 37: IIP of some subsectors showed positive recovery since the beginning of the year

IIP growth of some manufacturing subsectors [% YoY]



Source: FiinPro-X, TVS Research

Figure 38: Goldman Sachs raised the probability of a US recession from 15% to 25% in August 2024 after weak US labor data

Forecast of the probability of a US recession in the next 12 months [%]

Source: Goldman Sachs, TVS Research

Figure 39: High freight rates might adversely affect import and export activities of some goods

Drewry's World Container [points]

Source: Bloomberg, TVS Research

TVS Research expects apparel exports to recover more positively in H2 2024-2025 due to risk of global supply shortages.

We express a positive view for Vietnam's apparel export in H2 2024 and 2025 in the expectation that Vietnam's textile exports will benefit from gaining market share from major competitors Bangladesh and China:

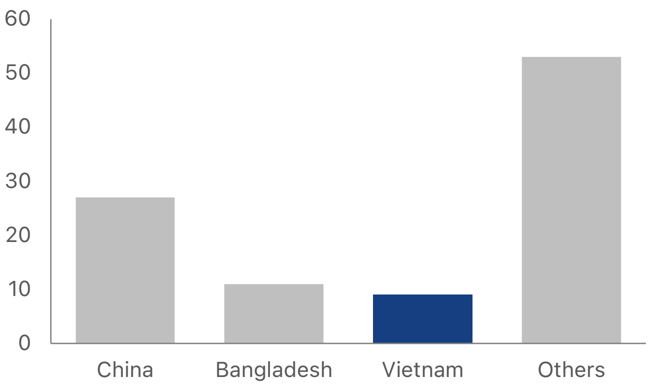
- We expect Vietnam's textile and garment industry to gain more market share from Bangladesh as their traditional competitive advantages such as political stability and cheap labor costs might be fading away
- We also expect Vietnam's textile and garment industry to gain more market share from China thanks to the trend of shifting low value-added orders such as CMT and FOB from China. In H1 2024, Vietnam surpassed China for the first time to lead the market share of garment exports to the US

We perceive that positive signals for export output in H2 2024 include (1) Q3 is usually the peak quarter for Vietnam's textile and garment exports, (2) textile and garment raw material imports increased by 18.6% YoY in H1 2024.

We believe that textile and garment companies that produce under CMT and FOB methods, similar to orders from Bangladesh, will benefit from the shift of orders from this country to Vietnam. Our favorite textile stock is TNG because (1) the company has plans to expand its capacity to welcome new orders, (2) has experience and reputation in the European market, which is the main textile and garment export market of Bangladesh.

Figure 40: Vietnam's textiles & garment export ranks third in the world after China and Bangladesh

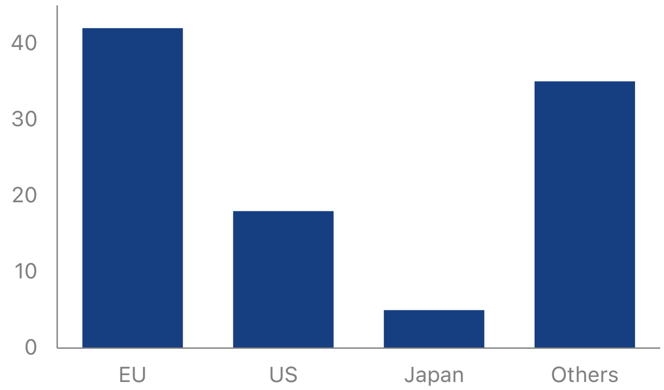
Textiles & garment export market share in 2023 [%]



Source: UN Comtrade, TVS Research

Figure 41: EU and US are leading markets of textiles & garment import

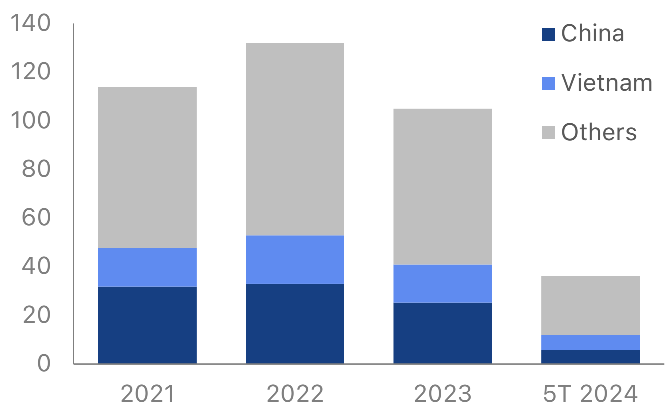
Textiles & garment import market share in 2023 [%]



Source: UN Comtrade, TVS Research

Figure 42: 5T 2024 Vietnam surpassed China in export value to the US in 5M 2024

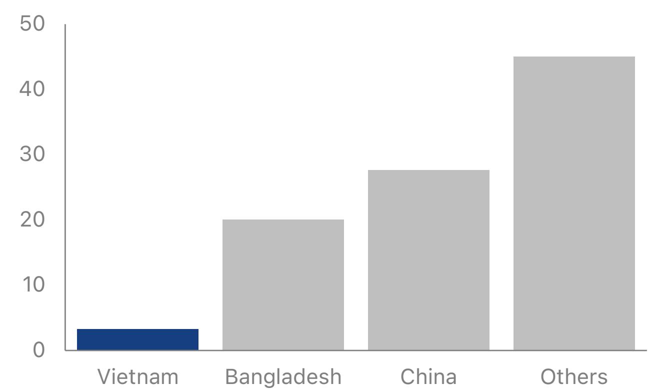
Apparel import Value in the US [billion USD]



Source: UN Comtrade, TVS Research

Figure 43: The proportion of Vietnam's textile and garment exports to the EU remains low

Apparel import value in the EU in 2023 [billion USD]



Source: UN Comtrade, TVS Research

We recommend BUY for TNG in H2 2024.

TNG – Target price: VND 33,200 – Upside: + 20.3%

We expect 2024 revenue to reach VND 7,686 billion (+8.3% YoY), with H2 2024 revenue likely to reach VND 4,158 billion (+11% YoY) thanks to:

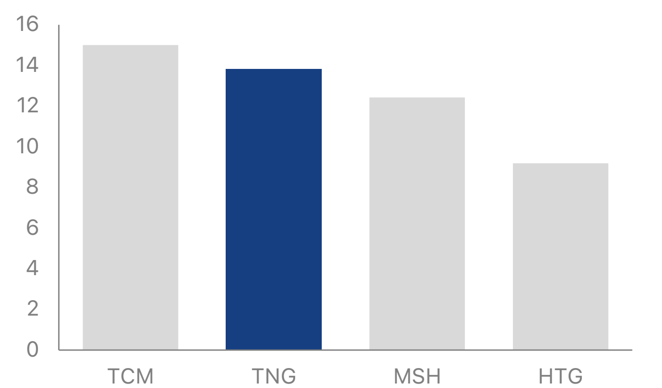
- We expect orders from the US and EU (accounting for 80% of revenue structure) to grow by 7% and 13% YoY respectively. Besides key brands such as Abercrombie & Fitch, Decathlon..., we believe that many major brands from the US such as Nike, Adidas or from the EU such as H&M, Zara, will gradually shift to countries like Vietnam in the coming time. TNG will benefit from this trend as they have a diverse structure of tailor-made products and customers, and CMT and FOB level 1 production methods similar to orders of Bangladesh

- TNG has superior production capacity compared to peers. TNG has a large production scale with 319 sewing lines with a capacity of 60 million products/year, compared to the second-ranked business with 155 lines. TNG also plans to add 45 more sewing lines in H2 2024 to serve year-end production

We forecast TNG's net profit in 2024 is VND318 billion (+44.7% YoY). We also expect TNG's export gross margin to remain at 15-16%, similar to H1 2024, supported by (1) autumn-winter orders that usually bring higher margin in the H2, (2) TNG can negotiate higher value orders when supply sources from Bangladesh might decrease. However, the increase in minimum wage by 6% from July 2024 will increase TNG's labor costs (35% of production costs).

Figure 44: TNG's profit margin is higher than their peers because they mainly produce sportswear and jackets.

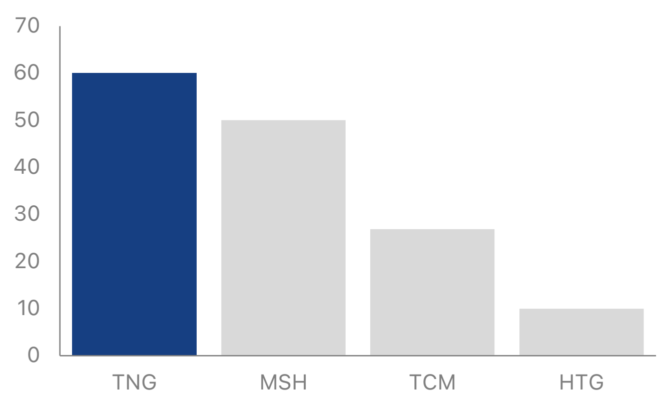
Gross profit margin of some textile and garment companies [%]



Source: TVS Research compilation

Figure 45: TNG's production capacity is superior to their peers.

Production capacity [million products/year]



Source: TVS Research compilation

For the seafood sector, TVS Research has a less optimistic view for pangasius exporting companies in H2 2024.

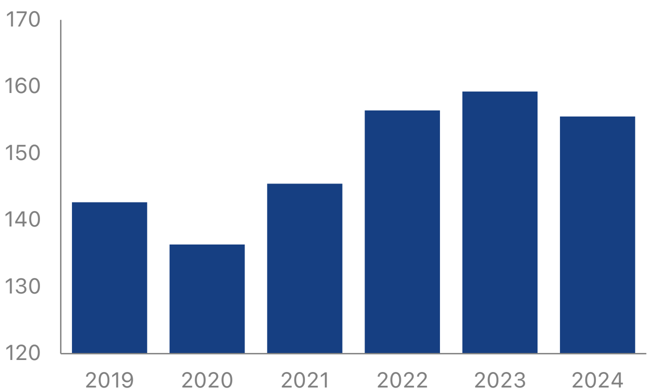
TVS Research lowered its forecast for Vietnam's pangasius output and export value from 10% and 5% YoY to 6% and 3% respectively in H2 2024 due to vague export recovery signals:

- Pangasius export output is unlikely to increase sharply due to weak demand in the main export market, the US. Slow growth in US restaurant sales along with falling retail sales in H1 2024 shows that consumer spending has not recovered. Recent negative labor data shows that consumer spending might not recover well in Q3 2024. In addition, high inventories of catfish in the US might also reduce the demand for pangasius imports

- We perceive that export prices of Pangasius are unlikely to improve in Q3 2024 due to weak demand. Prices of raw fish and fingerlings also stay low, indicating that purchasing demand from export companies is still weak

Figure 46: US catfish inventories remain high (>155 million lbs)

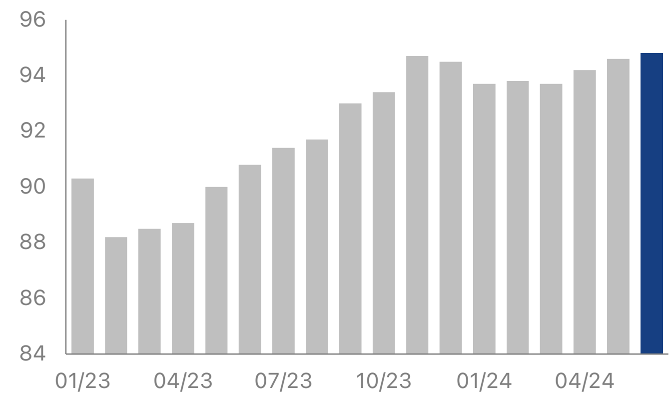
Catfish inventories in some major US states [million lbs]



Source: TVS Research

Figure 47: US restaurant sales grew slowly by 5.2% in H1 2024

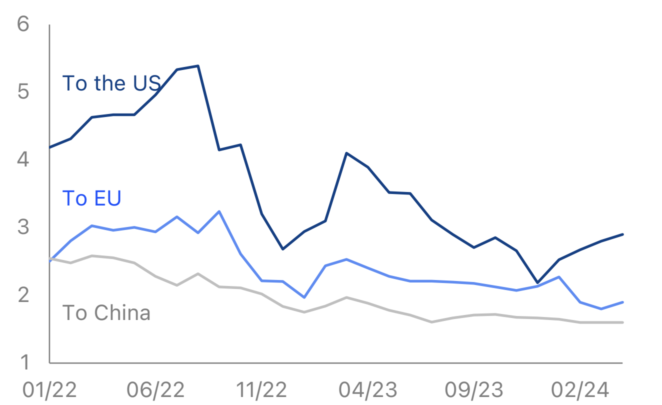
US Restaurant Sales (Seasonally Adjusted) [billion USD]



Source: Fred, TVS Research

Figure 48: Fish export prices have not improved

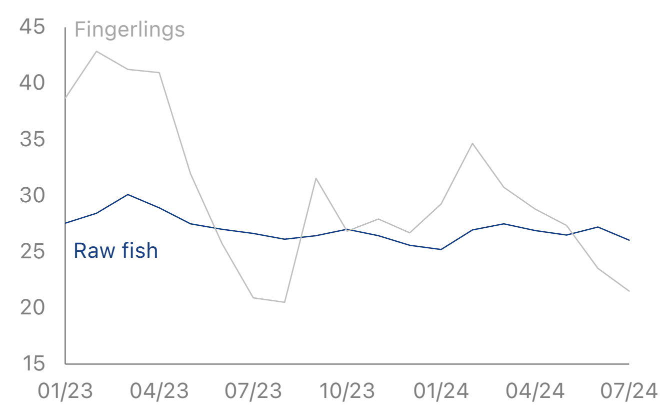
Price of frozen pangasius fillet [USD/kg]



Source: TVS Research compilation

Figure 49: Prices of fingerlings and raw fish continued to decline in Q2 2024

Price of raw pangasius fish [Thousand VND/Kg] and Price of sample fingerlings 30 fish/kg [Thousand VND/Kg]



Source: Agromonitor, TVS Research

We maintain our HOLD recommendation for VHC and lower our target price to VND 79,000.

We maintain our HOLD recommendation on VHC and lower our target price to VND 79,000 due to our revised forecast of VHC's net profit in 2024 to VND 1,133 billion (+19.3% YoY). We revise down VHC's export volume growth from 7.6% YoY to 5.6% YoY due to weak demand for fish imports in some of VHC's key markets such as the US, China and the EU.

TVS Research lowers our outlook for wood and wood product export companies in H2 2024.

Although the positive point for Vietnam's wood industry is that the US Trade Remedies Authority has dropped the entire anti-dumping/anti-subsidy case against wooden cabinets imported from Vietnam, we lower our view of wood product export expectations in H2 2024 compared to our previous forecast due to:

- We perceive that positive wood exports in H1 2024 did not come from consumer demand but mainly from importers actively purchasing goods due to concerns about continued high freight rates
- We perceive that wood exports in Q3 2024 will be adversely impacted by (1) the more complicated global economic and political situation that may weaken demand for non-essential goods, (2) the high cost of raw wood due to China's increased purchasing of container flooring, affecting the production of wood companies. Additionally, wood exporters said that they are still having difficulty finding orders at the end of 2024

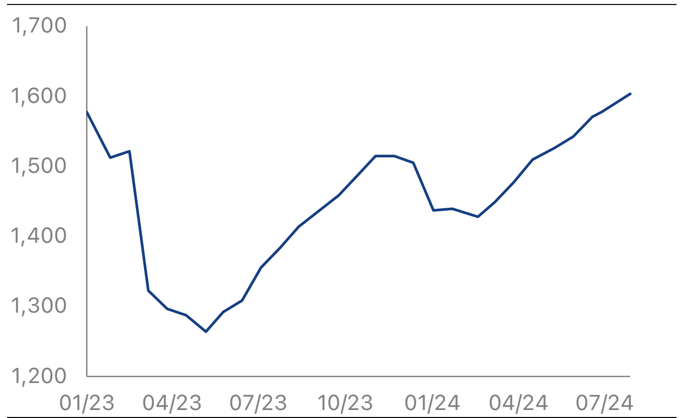
Figure 50: Growth of new housing permits and construction starts remains low, indicating a weak real estate market.

Monthly growth in U.S. Housing Permits, Starts, and Under Construction [% YoY]

Source: FRED, TVS Research

Figure 51: Rising raw wood prices affect production of wood companies

Price of raw wood [thousand VND/ton]



Source: FRED, TVS Research

Ticker	Market price at 12/08/24	Target price	Upside	Revenue 2024F	% YoY	NPAT 2024F	% YoY	ROE 2023	ROE 2024F	P/E TTM	P/E FW 2024
	VND	VND	%	VND bn	%	VND bn	%	%	%	x	x
TNG	27,500	33,200	20.9%	7,686	8.3%	318	44.7%	12.5%	15.8%	13.3	10.6
VHC	69,300	79,000	13.9%	11,339	13.0%	1,133	19.3%	11.7%	12.6%	21.4	13.7

Source: FiinPro-X, TVS Research forecast

Investment Theme 4: Slow rebound for residential RE sector in H2 2024

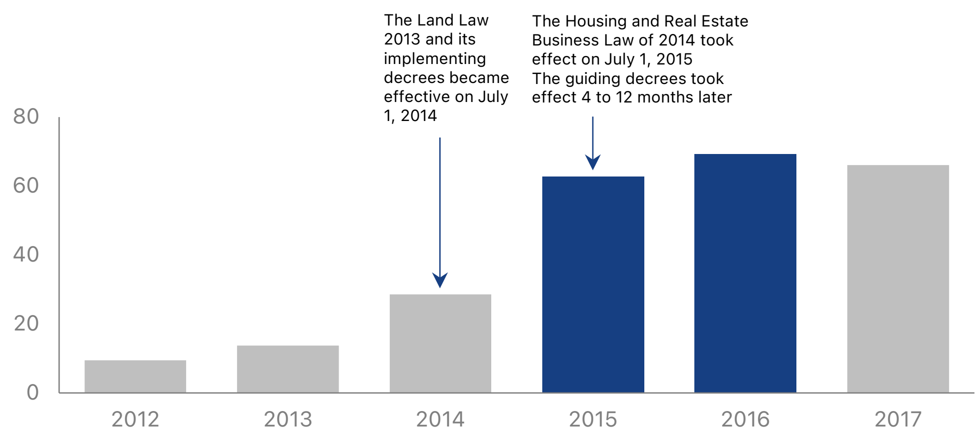
We downgrade Residential RE sector to NEUTRAL for H2 2024.

We downgrade our rating to Neutral for the residential real estate sector in H2 2024 due to the following reasons:

- **We believe that the new laws will have a delay in expediting the legal approval process for real estate projects, rather than taking effect immediately as we previously expected.** As mentioned in the Q1 2024 Investment Strategy Update report, we expected project legal procedures to be expedited in the second half of 2024. However, looking back at the previous cycle (2014-2015), the impact of new regulations on the market will take effect several months to a year after the laws come into effect. Therefore, combined with the observation of current projects, we change our view from our previous report that the approval process for new projects in the near future will be slower as real estate companies need time to adapt to the new legal framework, resulting in a slower supply of new products to the market.

Figure 52: Time lag between new law enactment and impact on new condos supply

Primary condos supply in Hanoi and HCMC [thousand units]

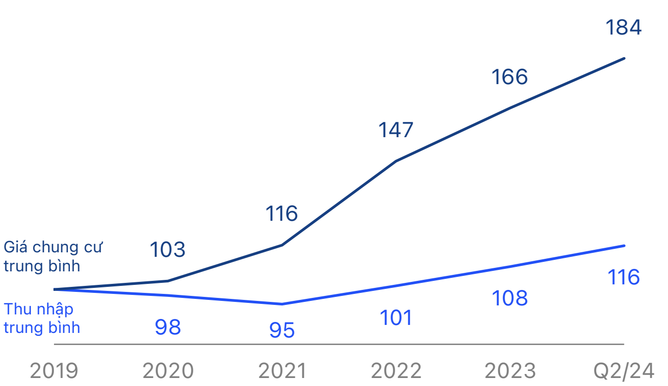


Source: CBRE, TVS Research compilation

- **The high price of primary housing is due to the dominance of high-end products in the supply, hindering market recovery.** CBRE data shows that the average selling price of primary condos in Hanoi and HCMC has recorded a growth of 15% and 8% p.a, respectively, from 2019 to Q2 2024. TVS Research attributes this rapid price growth to: (1) a surge in the proportion of high-end products since 2019, and (2) the premium pricing of these high-end products, which has elevated the overall average price. This has made homeownership increasingly challenging, as the pace of price growth outpaces the average annual income growth of recent years (~1.5%). Consequently, we anticipate continued price increases due to: (1) limited supply, and (2) the higher proportion of high-end products, which will further strain affordability for homebuyers with stagnant incomes.

Figure 53: Income growth fails to keep pace with rising housing prices in Hanoi...

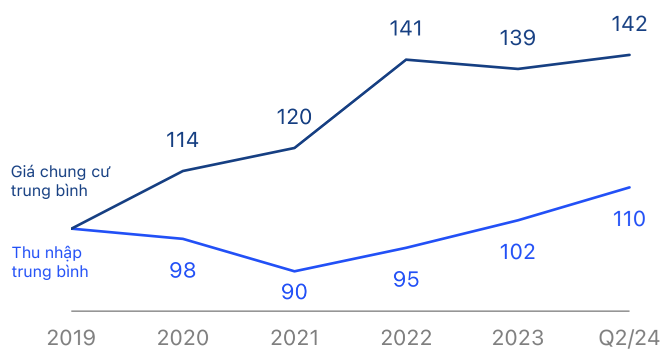
Average Income and primary apartment prices in Hanoi (Index, 2019 = 100)



Source: GSO, CBRE, TVS Research estimates

Figure 54: ...and the similar trend happens in HCMC

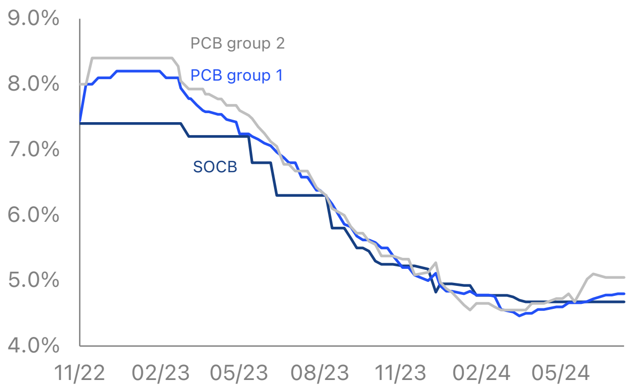
Average Income and Primary Apartment Prices in HCMC (Index, 2019 = 100)



Source: GSO, CBRE, TVS Research estimates

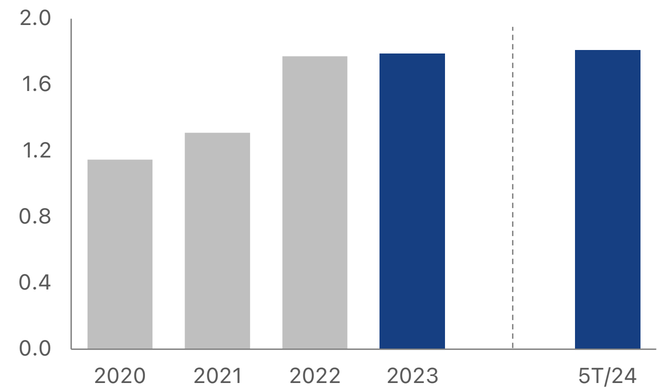
- **Limited property supply and high housing prices have deterred homebuyers from increasing mortgage borrowing despite low-interest rates.** While lending rates in H1 2024 remained as low as during the COVID-19 pandemic, growth in mortgage credit among banks has shown no significant improvement. We believe the primary reasons are limited supply and high property prices, exceeding the affordability of most potential buyers. TVS Research forecasts that limited supply in H2 2024, high property prices, and increased borrowing costs for homebuyers (due to rising interest rates - refer to the Banking sector for details) could slow down the recovery of the real estate market in H2 2024

Figure 55: Interest rates decrease in 2023 and remain low…
Deposit interest rates at commercial banks [%]



Source: Commercial banks, TVS Research compilation
Notes: SOCB (State-owned commercial banks), including VCB, BID, CTG, Agribank
PCB (Private commercial banks) group 1, including TCB, MBB, VPB, STB, ACB, SHB
PCB group 2 contain HDB, VIB, TPB, LPB

Figure 56: …but demand for mortgage loans has not improved since early 2023
Outstanding balance of mortgage loans [VND quadrillion]



Source: SBV, TVS Research compilation

The looming maturity of corporate bonds in 2024-2026, combined with slow sales, is exerting significant pressure on developers.

We maintain our view that RE developers will face financial pressure in 2024 due to: (1) The highest volume of corporate bonds maturing in 2024, concentrated in H2 2024, and (2) Weak business performance as the ratio of advance payments to total assets for property developers excluding VIC and VHM has not improved in H1 2024. We believe most developers will struggle to launch new projects in 2024-2025 due to: (1) Financial pressure from maturing bonds and weak business operations, and (2) Tighter regulations on project development from new laws compared to the past

Figure 57: A large volume of corporate bonds mature during the 2024-2026 period
Maturing RE corp. bonds by year [VND bn]

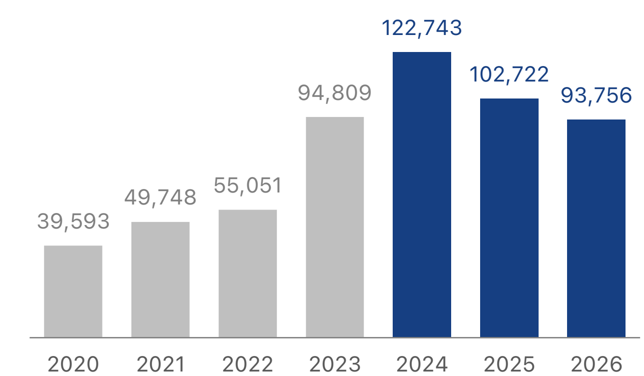
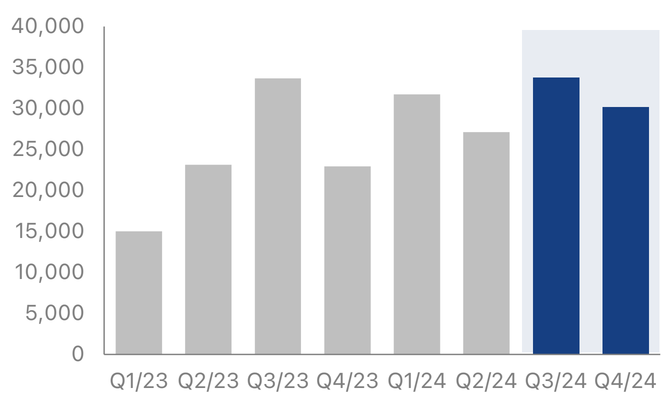


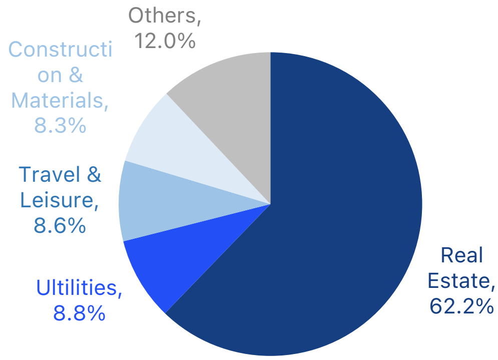
Figure 58: Maturing real estate corporate bonds in 2024 are concentrated in H2 2024
Maturing RE corp. bonds by quarter [VND bn]



Source: Fiinpro-X, TVS Research

Source: Fiinpro-X, TVS Research

Figure 59: Real estate stands out as the sector with the highest default rate
Corp. bond principal and interest payment default rate by ICB sector level 2 as of Q2 2024



Source: Fiinpro-X, TVS Research

Figure 60: Buyer prepayments stagnant despite market recovery
Advance payments from buyers as a percentage of Total assets for RE developers excluding VIC & VHM [%]

Source: Fiinpro-X, TVS Research

Affordable condos re-appear in HCMC, but supply remains limited.

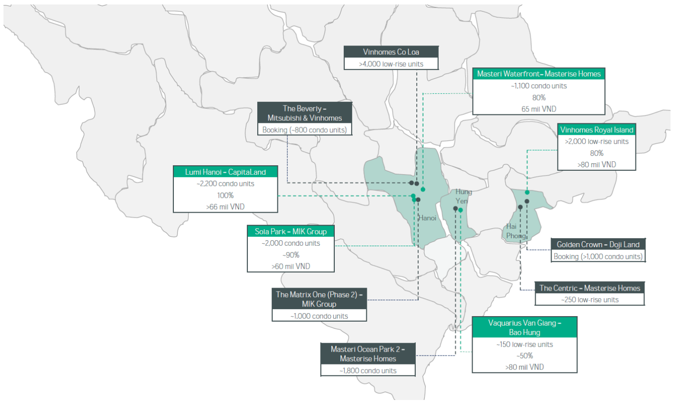
We maintain our view that the recovery of the real estate market will primarily be driven by mid-range apartment projects with affordable prices (averaging VND 45-55mn/m², equivalent to VND 3-5bn/unit) compared to current market prices, especially in Ho Chi Minh City. However, the launch progress of these projects is slower than our expectations due to developers adapting to the new legal framework. Therefore, TVS Research believes that the real estate market will recover at a slower pace, led by mid-range apartments for residential demand in the second half of 2024 and the first half of 2025 until there are clear measures to accelerate the legal process from new legal documents. We believe that projects from real estate developers with stable cash flow, ensuring construction progress and handover such as VHM, KDH, and NLG will attract homebuyers.

Figure 61: Upcoming supply in Hanoi is dominated by high-end products

Real estate projects are scheduled for launch in Hanoi in 2024

Scheduled for launch in Q2 2024

Expected to be launched in H2 2024



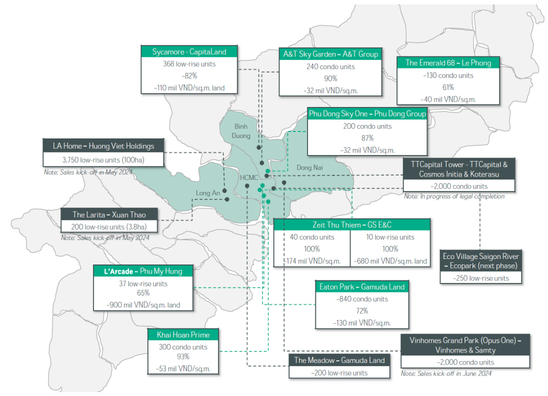
Source: CBRE, TVS Research compilation
Notes: The percentage below the number of products in the project is the absorption rate.

Figure 62: Mid-range projects are expected to return to HCMC market in the near future

Real estate projects are scheduled for launch in HCMC in 2024

Scheduled for launch in Q2 2024

Expected to be launched in H2 2024



Source: CBRE, TVS Research compilation
Notes: The percentage below the number of products in the project is the absorption rate.

RE stocks declines amidst developer concerns and sluggish sales

Real estate stocks have declined by 6.7% year-to-date through July 2024, primarily driven by concerns over the financial health of major property developers and weak sales performance across the industry. The underperformance of the residential real estate index relative to the VN-Index in the second quarter of 2024 can be attributed to several factors: (1) Significant foreign selling of VHM shares due to concerns about Vingroup's cash flow, (2) Sluggish sales performance of developers other than VHM, attributed to a lack of new projects and challenges faced by homebuyers as previously discussed, and (3) Declining core operating performance of developers (excluding VHM), (as detailed in our [Q2 2024 Earnings Update Report]).

Historic low valuations reflect sector challenges and slow recovery prospects

Due to the negative performance of real estate stocks in the first half of 2024, valuations have dropped to a five-year low, 38% below the five-year average.

We believe the deep discount on real estate stocks is driven by (1) slower-than-expected recovery of the real estate market, (2) investor concerns over continuous foreign selling of VHM shares, and (3) a pessimistic outlook for real estate companies. While the outlook for the second half of 2024 remains challenging, investors may consider stocks of companies with (1) attractive valuations (below the five-year average), (2) established track records, and (3) projects with completed legal procedures ready for launch, such as NLG, KDH, and

VHM.

Figure 63: Residential RE Stocks' valuation hit 5-year low

Price-to-book ratio of the residential RE sector [x]

Source: Fiinpro-X, TVS Research

We maintain our BUY rating for VHM and NLG, but have lowered our target prices to reflect increased risks

We maintain our BUY rating for VHM and NLG. We have reduced VHM's target price to VND 54,400 (from VND 71,400) and NLG's target price to VND 48,800 (from VND 49,000) due to: (1) adjustments to reflect the impact of increased land costs on future projects for both companies, and (2) an additional 10% discount to account for liquidity risks within the Vingroup. TVS Research favors NLG over VHM due to: (1) NLG's pipeline of upcoming mid-range apartment projects, which are currently in high demand, and (2) the potential for continued foreign selling of VHM shares amid concerns over Vingroup-related risks.

Ticker	Price at 12/08/24	TP	Upside	2024F revenue	% YoY	2024F NPAT	% YoY	2023 ROE	2024F ROE	Current P/B	2024 fw P/B
	VND	VND	%	VND bn	%	VND bn	%	%	%	x	x
VHM	36,500	54,400	49.0%	80,212	-22.4%	31,305	-6.0%	20.1%	15.8%	0.8	0.8
NLG	38,950	49,000	25.8%	6,094	91.6%	1,064	33.0%	6.0%	7.5%	1.6	1.5

Source: FiinPro-X, TVS Research

Investment Theme 5: Vietnam's O&G sector' new investment cycle

We maintain a POSITIVE outlook the Oil & Gas sector in 2024

We maintain our POSITIVE outlook on the Oil & Gas sector in 2024. We expect Brent crude oil prices to move around USD 85-87 per barrel in the H2 2024, higher than the H1 2024 average of USD 83 per barrel, which should support oil and gas stock prices given the strong correlation between the two. Additionally, the resumption of upstream investments globally and in Vietnam after years of stagnation due to low oil prices will ensure growth potential for upstream companies such as PVS and PVD.

We maintain a BUY rating for PVS (TP: VND 50,300) and PVD (TP: VND 36,900). We believe the recent short-term adjustment is due to the weak performance of Brent crude oil prices and the overall market. Therefore, we view this as a good buying opportunity.

We maintain our forecast for average Brent crude oil prices at $85 per barrel in 2024. This outlook is driven by ongoing supply tightness due to OPEC+ production cuts and geopolitical tensions.

Our forecast for the average Brent crude oil price in 2024 remains at $85 per barrel (+3.4% YoY), as outlined in our Q1 2024 Investment Strategy Update. This is based on the following factors:

- **OPEC+ production cuts.** OPEC+ has announced production cuts of 5.9 million barrels per day until Q3 2024, and then 3.7 million barrels per day until the end of 2025. This decision aims to support oil prices and counteract global energy market uncertainties. However, the effectiveness of this measure will largely depend on the evolution of crude oil demand, particularly in China, the world's largest oil consumer. While we expect Chinese crude oil demand to improve in the second half of 2024 due to government stimulus policies, we believe China's economic recovery is slower than expected. A frozen real estate market and stagnant industrial production are putting pressure on the country's crude oil demand. If this situation persists, global crude oil demand may not grow as strongly as forecast, putting downward pressure on oil prices. In response, OPEC+ may need to adjust its production cut plan or increase production cuts to support oil prices around the $83-85 per barrel level
- **Geopolitical tensions.** Escalating geopolitical conflicts such as the Israel-Hamas and Israel-Iran wars are hindering oil transportation through the Red Sea and Suez Canal and increasing concerns about crude oil supply shortages (the Middle East accounts for about 30% of global supply). We assess that the risks emanating from these conflicts have escalated compared to H1 2024 and will influence

commodity investors' sentiment, driving up risk premiums for oil in global markets.

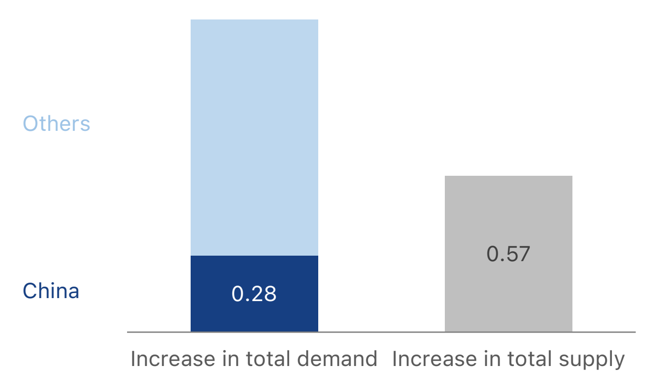
Figure 64: OPEC to maintain above-average production cuts over the next two years

OPEC's spare crude oil production capacity [million barrels per day]

Source: EIA, TVS Research

Figure 65: EIA forecasts China as the primary driver of oil demand in 2024

Increase in total crude oil demand and supply in 2024 [million barrels per day]



Source: EIA, TVS Research

Figure 66: Oil supply to fall short of demand in 2024 due to OPEC+ production cuts

Total Demand and Supply of Crude Oil and Petroleum Products [million barrels per day]

Source: EIA, TVS Research

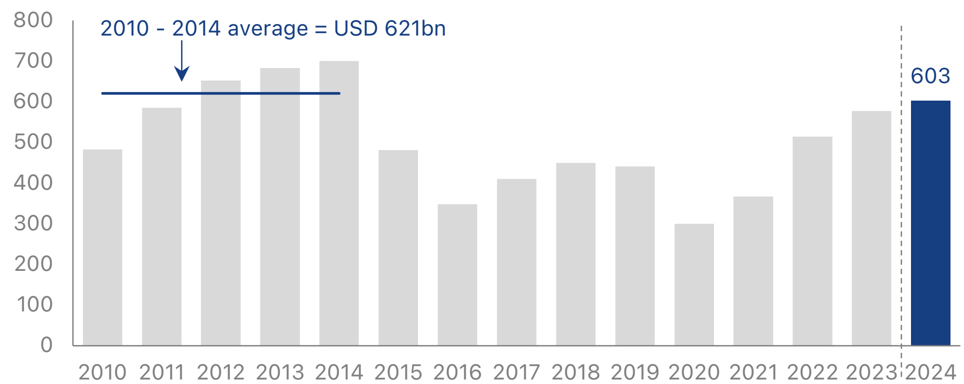
We maintain our positive view on growing upstream investment globally and in Vietnam

We maintain our outlook on growing upstream investment globally and in Vietnam as outlined in our Q1 2024 Investment Strategy Update. Specifically:

- **Global upstream investment**. Global oil and gas upstream investment is expected to continue growing, driven by strong demand from the Middle East in the next 1-2 years. Saudi Arabia has delayed plans to expand its oil production capacity by 1 million barrels per day. Without new investments, the company's crude oil production capacity is expected to decline by 13% by the end of 2027. Therefore, we believe Saudi Arabia will resume this investment plan in the next 1-2 years to ensure energy security and fiscal balance, thereby continuing to drive strong demand for upstream investment

- **Vietnam's largest oil and gas project, Block B - O Mon, is expected to reach a final investment decision (FID) in Q4 2024.** In our view, the commencement of large-scale oil and gas projects in Vietnam such as Block B - O Mon, Lac Da Vang, Su Tu Trang 2B, and significant upstream investments in the future will ensure growth for companies providing construction and upstream/midstream services, including GAS, PVS, PVD, PVC, PVB, and PXS (as detailed in our Q1 2024 Investment Strategy Update).

Figure 67: 2024 upstream investment approaches the 2010-2014 growth cycle average
Global upstream oil and Gas Investment [USD bn]



Source: IEF, S&P Global Commodity Insights, TVS Research

We maintain our Buy recommendations for PVS and PVD.

Our positive outlook is driven by the anticipated expansion of global and domestic upstream oil and gas activities in the next 1-2 years, ensuring a robust order book and revenue growth for both companies. Additionally, we expect Brent crude oil prices to rebound in the second half of 2024, providing further upside potential for PVS and PVD. This is due to investor expectations that sustained high oil prices will improve the financial performance of oil and gas companies, particularly upstream players, given their direct exposure to crude oil prices.

Ticker	Price at 12/08/24	TP	Upside	2024F revenue	% YoY	2024F NPAT	% YoY	2023 ROE	2024F ROE	Current P/E	2024 fw P/E
	VND	VND	%	VND bn	%	VND bn	%	%	%	x	x
PVS	39,200	50,300	28.3%	26,571	37.3%	1,371	52.5%	6.8%	9.9%	20.3	14.2
PVD	26,850	36,900	37.4%	7,644	31.5%	823	52.1%	3.7%	5.4%	23.3	16.9

Source: FiinPro-X, TVS Research forecasts

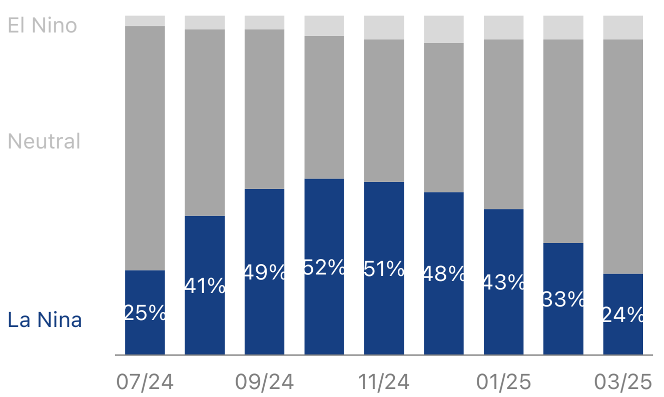
Short-term Strategy: Hydropower Stocks - Benefiting from La Nina

Short-Term Investment Recommendation Shift: From Thermal Power to Hydropower in H2 2024

TVS Research recommends shifting short-term investment focus from thermal power to hydropower companies in H2 2024. This strategy aligns with the expectation of a potential La Nina phase during the autumn months (September-November 2024) with a probability of 60-70%. A La Nina event would increase water levels in reservoirs and boost power generation for hydropower companies, positively impacting their financial performance, especially compared to the recent El Nino period.

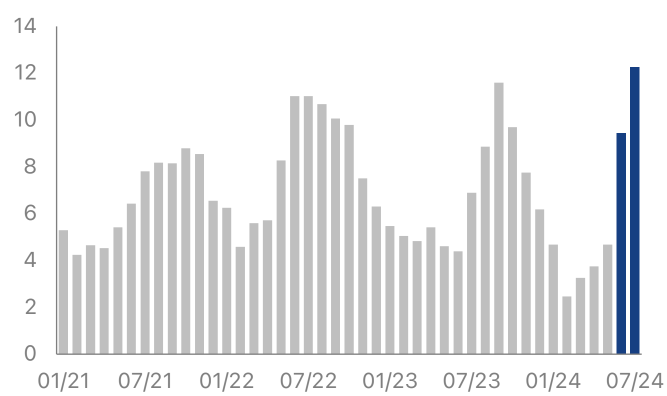
Consequently, we are focusing on listed companies with large hydropower systems and anticipate that this will be a catalyst for price increases in these stocks, particularly **REE, HDG, GEG, and PC1.**

Figure 68: High probability of La Nina return in H2 2024
Percentage of ENSO weather patterns [%]



Source: IRI, TVS Research

Figure 69: EVN increases hydropower generation due to favorable hydrological conditions
Monthly hydropower generation [billion kWh]



Source: EVN, TVS Research

We recommend BUY for HDG and REE

HDG - Target Price: VND 33,100 - Upside: +22.1%

- **Hydropower generation is expected to recover in H2 2024** due to the return of La Nina, driving a 23% YoY increase in H2 2024 electricity revenue (which accounts for 63% of total revenue in 2024)
- **We expect the company to resolve legal issues related to its real estate segment in 2025-2026**. We expect that the pilot program through receiving land use rights with land for other purposes will legally resolve two key projects in HCMC, Ha Do Minh Long & Green

Lane, in 2025 and possibly open for sale in 2025-2026

REE - Target Price: VND 83,400 - Upside: +21.0%

- **Electricity generation performance is expected to improve in H2 2024** due to the return of La Nina, leading to a 13% YoY increase in H2 2024 electricity revenue (which accounts for 47% of total revenue in 2024)
- **The commencement of E-town 6 and the real estate project in Thai Binh will ensure revenue growth for the leasing and real estate segments in 2024**. We expect the operationalization of E-town 6 from Q3 2024 and the recognition of the remaining portion of the Light Square real estate project (which began recognition in Q2 2024) to help REE record an additional net profit of approximately VND 170 bn in H2 2024 and a total of VND 350 bn for the entire year 2024. This will be the main contributor to REE's 10.9% YoY growth in 2024, according to our forecast

Ticker	Price at 12/08/24	TP	Upside	2024F revenue	% YoY	2024F NPAT	% YoY	2023 ROE	2024F ROE	Current P/E	2024 fw P/E
	VND	VND	%	VND bn	%	VND bn	%	%	%	x	x
HDG	27,100	33,100	22.1%	2,668	-7.6%	809	-6.6%	12.6%	10.4%	13.6	14.7
REE	69,800	83,400	21.0%	9,452	10.2%	3,091	10.9%	13.3%	13.0%	13.6	14.7

Source: FiinPro-X, TVS Research forecasts

Disclaimer

Rating system

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield. Definitions of equity rating key:

Equity rating key	Definition
BUY	If the projected TSR is higher than 20%
HOLD	If the projected TSR is between -10% and 20%
SELL	If the projected TSR is lower than -10%

Thien Viet Securities – www.tvs.vn

Hanoi

15th floor, Harec Tower

4A Lang Ha, Ba Dinh Dict, Ha Noi

Phone: +84 (24) 7300 6588

Fax: +84 (24) 3248 4821

HCMC

9th floor, Bitexco Nam Long Tower

63A Vo Van Tan, Dict. 3, Ho Chi Minh

Phone: +84 (28) 7300 6588

Fax: +84 (28) 299 2088

Thông tin liên hệ

RESEARCH DEPARTMENT

Vuong Chi Tam, CFA, FRM

Deputy Director of Research

tamvc@tvs.vn

Nguyen Thi Kieu Hanh

Senior Analyst

hanhntk@tvs.vn

Pham Nguyen Long

Senior Analyst

longpn@tvs.vn

Nguyen Duc Anh

Analyst

anhnd@tvs.vn

Tieu Phan Thanh Quang

Analyst

quangtpt@tvs.vn

Nguyen Van Dat

Analyst

datnv@tvs.vn