VIET CAPITAL SECURITIES

Market Recap

July 2016

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Vietnam Indices	EOM Value	MTD %	YTD%
VNI	652.23	3.16	12.64
VN30	639.2	2.80	7.33
VN Mid	868.8	0.71	17.43
VN Small	828.8	-0.63	20.46
HNI	83.71	-1.19	4.69
HN30	151.43	-0.20	7.04

Trading Activity	Jun	Jul
Daily Val 30day USD mn	100.9	110.0
Foreign Net Inflows USD mn	13.4	57.7

ASEAN 4 Indices % Chg.	MTD	YTD
Vietnam (VNI)	0.47	13.17
Thailand (SET)	0.00	18.33
Philippines (PCOMP)	0.96	15.64
Indonesia (JCI)	1.96	15.79

P/E Valuations	Jun	Jul
Vietnam (VNI)	14.50	15.00
Thailand (SET)	19.81	20.76
Philippines (PSE)	23.15	23.60
Indonesia (JCI)	26.52	27.70

Lofty valuations in July as VNI hit eight-year high

VN-Index began the month by moving strongly through its old barrier. The index registered gains in four of the month's first five trading sessions to blast through resistance at 640 and reach 661. It then went on to peak at 681 on July 14 before retreating back and trading between 650 to 660 for the second half of the month.

Global macro conditions fuelled the early rise. Market sentiment benefited early in the month from the perception that the US economy had entered into a "goldilocks" period for Vietnam, with strong U.S. jobs growth being very positive news for Vietnamese exporters while the Fed was still highly unlikely to raise interest rates any time soon. At the same time, Japan prepared another round of stimulus. This was also perceived as good news for Vietnam because the Japanese have historically been large investors in Vietnam and other Asian markets as they search for higher yields outside their home country.

Hague ruling was viewed positively. The market reacted quite positively to the Hague court's ruling in favor of the Philippines in its suit against China. The VN-Index rose 1% on the day of the ruling and another 2.5% the following day. The East Sea dispute has often weighed on Vietnamese stocks but the Hague ruling was widely viewed as improving Vietnam's bargaining position and, therefore, increasing the likelihood of successful negotiations between Vietnam and China (and other participants) to help resolve the issue peacefully.

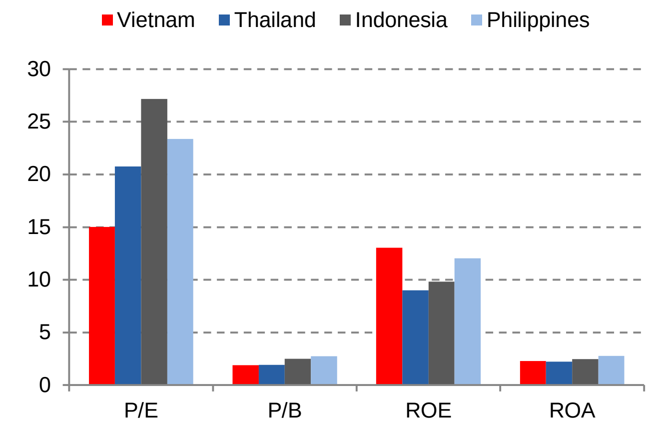
Circular 203 provided a boost domestically. This circular allowed intraday trading for the first time, although still with some restrictions. This was a positive development as Vietnam tries to move from frontier to emerging market status. Daily trading volume increased to average USD184 million over the two weeks following the regulation change, up from USD137 million in June and USD129 million in May. However, as we entered into the heart of the summer vacation season, trading volumes began to drift back down and ended up averaging USD157 million in July. The long-term impact on liquidity is therefore still uncertain.

At its peak, the VNI became expensive but earnings growth may support valuations. As the index soared past 650, its P/E ratio broke through 15x. Over the past five years, the index has been unable to sustain valuations above 14x. We don't see any macro reason to support a re-rating to a higher range of multiples in the short-term. However, Q2 earnings growth seems to be strong, which could bring multiples back to sustainable levels. The 26 companies in our coverage universe that have so far reported Q2 earnings show a 28% market-cap weighted average increase of H1 2016 earnings vs H1 2015.

The VN-Index has become increasingly concentrated in four companies. VNM, VCB, GAS and VIC accounted for 42.5% of the index market cap at the end of July, up from 37.4% at the beginning of the year. By comparison, the four biggest companies in Jakarta's JCI index account for 28.4% of its market cap while the four biggest in Bangkok's SET index account for 18.4%. As a result, one of these four has been the largest contributor to the VN-Index's move every day except one since May 11. These companies have also outperformed the index YTD through the end of July, with VNM up 23%, VCB up 24%, GAS up 67% and VIC up 24%, while the index advanced 12.6%.

Neighboring Market Activity

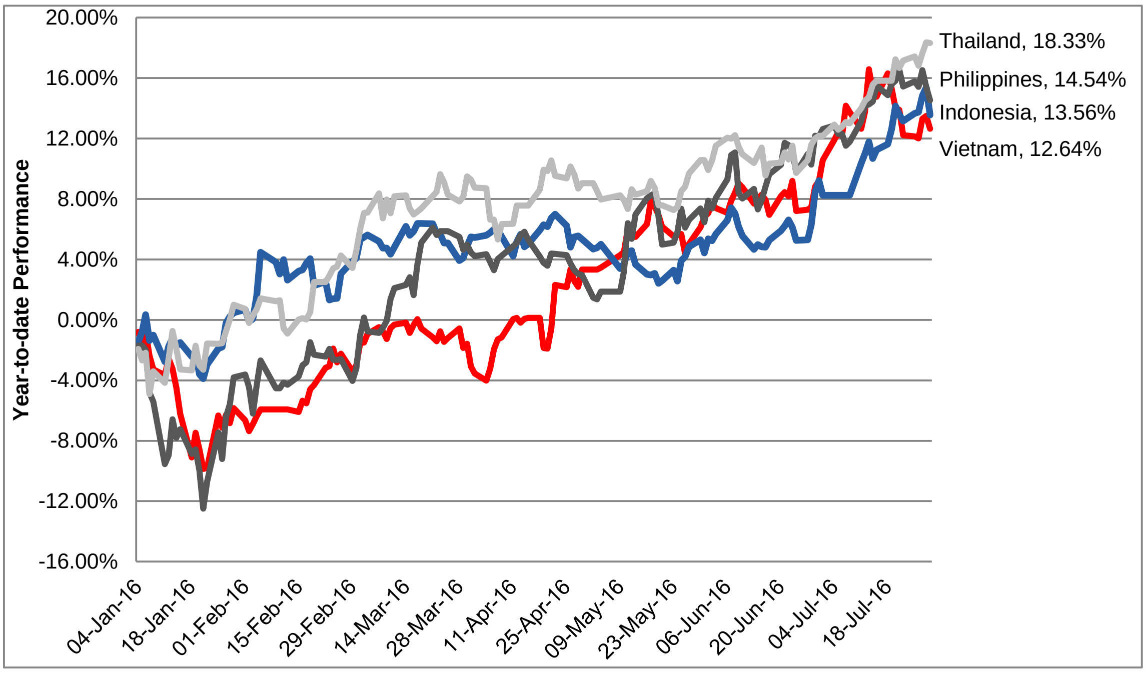
ASEAN 4 Major Indices PER, 12-month trailing



	Thailand	Indonesia	Philippines	Vietnam
	SET Index	JCI Index	PCOMP Index	VN-Index
P/E	20.8	27.2	23.4	15.0
P/B	1.9	2.5	2.7	1.9
ROE (%)	9.0	9.8	12.1	13.0
ROA (%)	2.2	2.5	2.8	2.3
Market cap USD mn	421,938	429,016	197,590	58,858
Foreign net inflow -YTD USD mn	2,304	1,890	1,059	34
Foreign net inflow - MTD USD mn	1,471	1,342	494	57
5-yr Govt bond yield	1.74%	6.72%	3.25%	6.44%

Source: Bloomberg

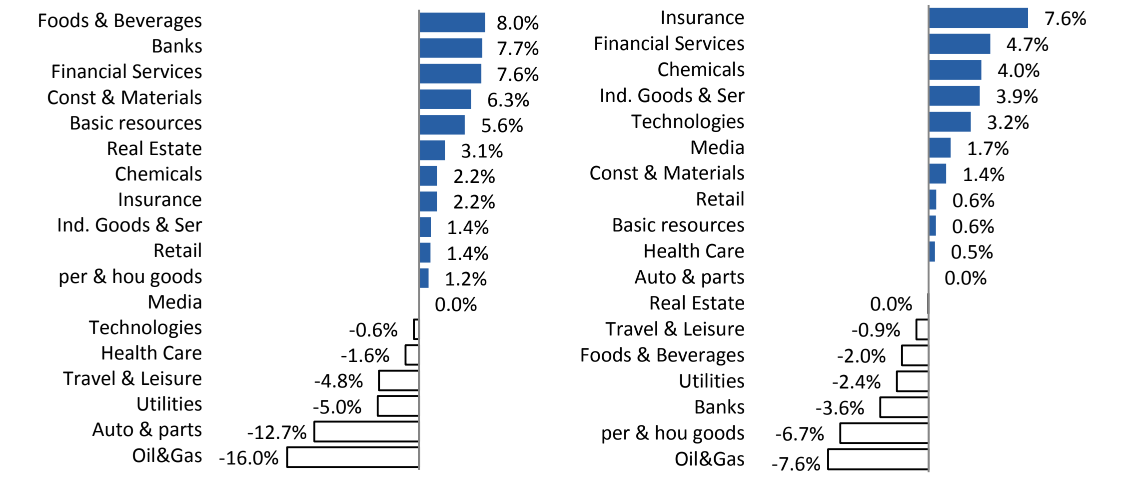
ASEAN 4 Major Indices YTD Performance



Source: Bloomberg

Performance by Sector in July

Ho Chi Minh City Stock Exchange | Hanoi Stock Exchange



Source: Ho Chi Minh City Stock Exchange, Hanoi Stock Exchange.

(*) Note: GAS is classified as belonging to the "Utilities" sector rather than the "Oil & Gas" sector under GICS as it is a gas distribution company

Top Gainers in Month

	Sector	Mkt Cap USD mn	Index Weight	Current Price	1-Month % Δ
HOSE					
DTL	Basic Materials	52	0.09	20,000	41%
DCL	Health Care	57	0.10	32,000	36%
NNC	Industrials	63	0.09	86,500	24%
PGI	Financials	62	0.11	19,600	22%
ELC	Technology	54	0.08	26,000	18%
HANOI					
DXP	Industrials	31	0.15	29,800	40%
BII	Industrials	57	0.85	22,400	33%
AAA	Industrials	82	1.21	35,600	19%
PTI	Financials	118	1.74	33,000	18%
HGM	Industrials	26	0.40	48,800	15%

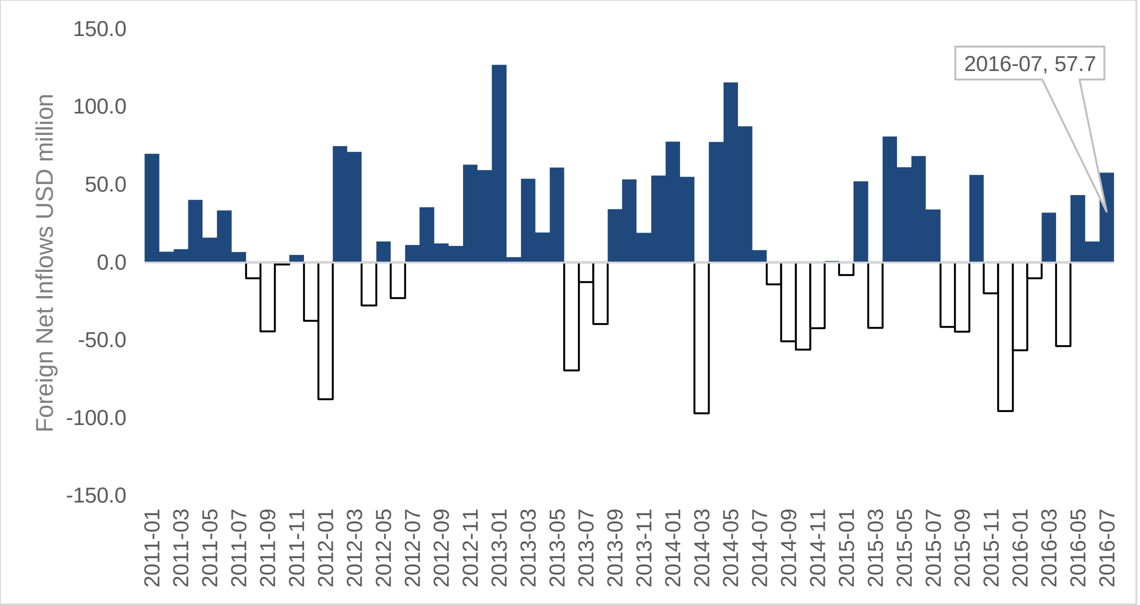
Top Laggards in Month

	Sector	Mkt Cap USD mn	Index Weight	Current Price	1-Month % Δ
HOSE					
TTF	Consumer Goods	144	0.25	23,100	-39%
HHS	Financials	77	0.13	6,400	-28%
TMS	Industrials	69	0.10	51,000	-20%
PVD	Oil & Gas	396	0.68	25,600	-17%
PNJ	Consumer Services	280	0.48	64,000	-17%
HANOI					
DNP	Industrials	29	0.21	24,000	-16%
HKB	Consumer Goods	36	0.53	15,800	-15%
PVC	Oil & Gas	29	0.42	12,900	-14%
NET	Basic Materials	38	0.57	54,000	-11%
PVX	Industrials	36	0.52	2,000	-9%

Source: Ho Chi Minh City Stock Exchange, Hanoi Stock Exchange

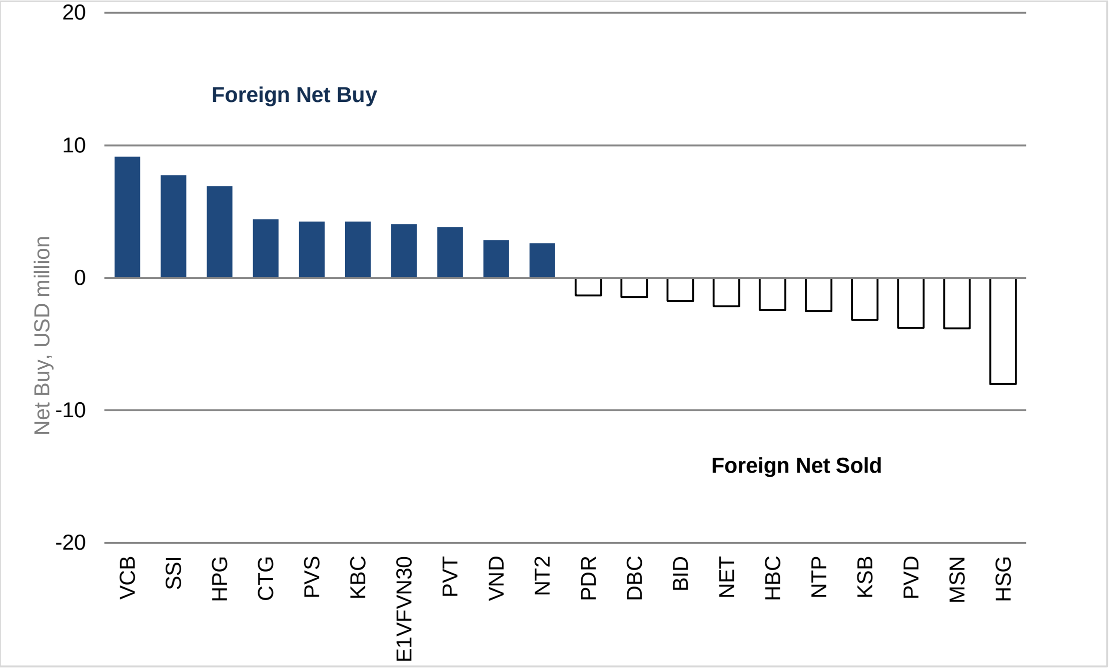
FOREIGN ACTIVITY

Foreign Net Inflows by Month, USD million



Source: Ho Chi Minh City Stock Exchange, Hanoi Stock Exchange

Top Stocks Net Bought and Net Sold by Foreigners



Source: Ho Chi Minh City Stock Exchange, Hanoi Stock Exchange

VCSC COVERAGE UNIVERSE

Ticker	Company	Sector	Mkt Cap USDm	30D ADTV USDm	Foreign Roon USDm	EPS	EPS growth	PE		Dividend per share	Div Yield (%) at current price	Upside to TP (%)	Target Price VND	Rating
Updated	29/07/2016		Current	Current	Current	FY15	FY16	FY15	FY16	FY16	FY16			
ACB	Asia Commercial Bank	Banks	728	0.09	NA	1,172	15%	15.4	13.4	-	0.0%	20.4%	21,800	O-PF
BID	BIDV	Banks	2,701	1.08	0.3	1,110	16%	15.9	13.7	-	0.0%	-3.4%	17,000	M-PF
CTG	Vietinbank	Banks	2,975	0.85	0.0	1,530	-11%	11.6	13.1	500	2.8%	5.1%	18,700	M-PF
MBB	Military Bank	Banks	1,098	0.23	0.0	1,811	-21%	8.3	10.4	500	3.3%	3.3%	15,500	M-PF
STB	Sacombank	Banks	915	0.53	0.2	1,294	-58%	8.7	20.8	-	0.0%	-17.7%	9,300	SELL
VCB	Vietcombank	Banks	6,460	1.62	0.1	1,211	76%	24.6	18.2	1,000	1.9%	-11.5%	47,800	U-PF
FPT	FPT Group	Consumer	845	1.69	0.0	4,229	9%	9.7	8.9	2,300	5.6%	31.7%	54,000	BUY
MWG	Mobile World	Consumer	882	1.32	0.0	7,661	52%	17.5	11.5	1,500	1.1%	19.4%	160,000	BUY
VNM	Vinamilk	Consumer	8,512	6.34	0.5	5,829	25%	27.1	21.7	4,900	3.1%	1.9%	161,000	M-PF
MSN	Masan Group	Consumer	2,172	1.10	0.2	1,965	30%	32.6	25.0	-	0.0%	43.8%	92,000	BUY
DQC	Dien Quang Lamp	Consumer	115	0.15	0.2	6,398	2%	12.5	12.3	3,000	3.8%	-8.1%	73,500	M-PF
GTN	GTN Foods	Agri/Food	148	0.94	0.6	734	-3%	30.0	30.9	-	0.0%	11.4%	24,500	O-PF
DHG	Hau Giang Pharma	Healthcare	361	0.60	0.0	5,976	15%	15.5	13.5	3,500	3.8%	-20.5%	73,500	SELL
HPG	Hoa Phat Steel	Industrials	1,464	8.34	0.1	4,964	-8%	8.7	9.5	2,000	4.6%	7.6%	46,500	O-PF
HT1	Ha Tien 1 Cement	Industrials	434	0.10	0.4	2,323	-4%	13.4	13.9	-	0.0%	28.2%	36,300	O-PF
NT2	Nhon Trach 2	Industrials	449	1.29	0.3	4,168	6%	8.4	7.9	2,600	7.4%	13.7%	39,900	BUY
PPC	Pha Lai Thermal Power	Industrials	220	0.24	0.4	1,721	-26%	8.9	10.4	1,400	9.1%	1.3%	15,600	O-PF
GMD	Gemadept Corporation	Logistic	213	0.39	0.0	2,573	14%	11.8	10.2	1,500	5.7%	19.2%	31,000	BUY
DPM	PV Phu My Fertilizer	Oil&gas	513	0.66	0.2	3,283	-13%	8.7	9.9	3,000	10.6%	6.3%	30,200	O-PF
GAS	PV Gas	Oil&gas	5,024	1.17	0.5	4,414	-14%	13.3	15.4	3,000	5.1%	-3.6%	56,400	M-PF
PLC	PV Petrochemicals	Oil&gas	107	0.03	NA	3,819	-22%	7.7	9.8	3,000	10.2%	12.2%	33,000	O-PF
PVD	PV Drilling	Oil&gas	400	2.28	0.1	4,102	-68%	6.2	19.6	-	0.0%	7.8%	27,600	U-PF
PVS	PV Tech Services	Oil&gas	339	0.78	NA	2,989	-34%	5.7	8.6	1,000	5.9%	17.8%	19,900	O-PF
CTD	Cotecon Construction	Construction	466	0.94	0.1	14,770	68%	15.0	8.9	5,500	2.5%	6.8%	237,000	M-PF
CII	HCMC Infrastructure	Infrastructure	324	1.78	0.0	2,959	-5%	8.8	9.2	2,000	7.7%	10.8%	28,800	O-PF
DXG	Dat Xanh Group	Real estate	82	0.58	0.1	2,590	-16%	6.0	7.1	-	0.0%	49.7%	23,200	BUY
KDH	Khang Dien House	Real estate	187	0.08	0.0	1,802	28%	12.9	10.1	-	0.0%	6.9%	24,800	O-PF
NLG	Nam Long Group	Real estate	137	0.14	0.0	1,428	21%	15.1	12.5	500	2.3%	9.3%	23,600	O-PF
VIC	VinGroup	Real estate	4,929	1.71	0.2	606	60%	84.2	24.6	-	0.0%	-7.3%	47,300	M-PF
SSI	Saigon Securities Inc	Securities	493	3.00	0.4	1,858	-29%	10.8	18.7	1,000	4.4%	-4.8%	21,800	M-PF
TCM	Thanh Cong Textile	Textile	46	0.49	0.0	2,189	-4%	12.2	12.6	1,000	4.8%	31.0%	27,110	M-PF
DRC	Danang Rubber	Tires & Rubber	211	0.51	0.2	3,213	5%	12.3	11.7	2,000	5.1%	-8.1%	36,300	M-PF
CSM	Casumina	Tires & Rubber	103	1.31	0.3	3,230	-8%	6.8	7.4	2,000	9.0%	4.5%	23,100	M-PF

Source: VCSC forecasts, Bloomberg data retrieved on July 29, 2016

Corporate Updates

CSM: The Southern Rubber Industry JSC

Analyst, Nghia Le, nghia.le@vcsc.com.vn

Stock performance MTD –16.3% / YTD 33.1%

Q1 2016 Update: Hard to find excitement amid muted radial tire sales progress

We update CSM with a MARKET PERFORM rating as we forecast single-digit profit growth for the company in the next few years amid muted progress in radial tire sales and competition pressure. The new semi-steel plant, expected to commence in Q1 2017, may provide upside if our current sales and margin projections for it are proven conservative.

Q1 2016 revenues stayed flat vs Q1 2015 as ASP cut entirely offset volume growth. The top line reduced 1% vs Q1 2015 as competition forced CSM to trim its ASP by 5% vs Q1 2015, offsetting overall volume growth of 5%.

Radial tire sales were disappointing. CSM only managed to sell roughly 18,000 radial tires in Q1 2016 (+20% vs Q1 2015) to complete 15% of the full-year guidance, on track to miss its target again after doing the same in 2015. We are pencilling in 100,000 radial tires sold in FY16, corresponding to a mere 29% utilization rate for the radial factory. At this utilization, we estimate CSM's radial factory's GPM at -19% in 2016.

NPAT rose 12% on GPM expansion from lower rubber costs and reduced net financial expenses. GPM widened 300 bps driven by weak input rubber costs. At the same time, CSM recorded a VND3.9 billion (USD175,000) FX gain from its USD debt as VND strengthened against USD in Q1 2016 vs a VND1.1 billion loss in Q1 2015. Moreover, financial expenses shrinking by 17% vs Q1 2015 also boosted the bottom line. These helped offset the 200 bps increase in SG&A expenses to revenues ratio as CSM shored up A&P to prop up sales, especially radial tire sales.

We forecast single-digit growth in CSM's core revenues and earnings in the years ahead. This is similar to our expectation for DRC, CSM's closest comparable. Compared to DRC, CSM's radial tire sales are ramping up at a slower place, understandably so given that DRC has been a more prominent player in the heavy truck tire segment. On the other hand, CSM is going to attain additional growth from its upcoming semi-steel plant, which produces tires for passenger cars. Management has stated that the output will be taken by Tireco, one of the top tire distributors in the US. However, we view this as an OEM type of partnership and hence attribute low margins to CSM with an EBIT margin of 5% against revenues of VND300 billion (USD13.5 million) in FY17.

Q2 earning: Results normalized from H1 2015's one-off profits

CSM's H1 2016 core NPAT rose 9.0%. NPAT declined 22.8% because CSM had booked an extraordinary gain of VND60 billion (USD2.7 million) from real estate divestments in H1 2015. Results came in within our expectations, with flattish business performance.

Core revenues dropped 3.4% vs H1 2015, which implies that ASP cuts forced by competition amid weak rubber prices more than offset volume growth, especially given CSM's slow ramp-up in radial tire sales.

GPM expanded by 0.6 percentage points in H1 2016 vs H1 2015, which is mainly thanks to a lower rubber cost base, curbed by ASP reductions and radial tires' negative GPM.

H1 2016 bottom line was mostly bolstered by lower financial expenses, including lower interest expense against a lower debt balance and a significant decline in FX losses, as well as a reduction in the corporate tax rate from 22% to 20% in accordance with tax regulations.

CTD: Coteccons Construction JSC

Manager, Hong Luu, hong.luu@vcsc.com.vn

Stock Performance MTD +15.0% / YTD +45.1%

Another strong year ahead for leading private contractor

We initiate CTD with a MARKET PERFORM rating. Although its strong backlog and improving margins will continue to support this year's results, market multiples indicate the stock is fully valued.

Several mega-projects and recent skyscraper The Landmark 81 confirm CTD's leading position. Having executed a series of mega-projects, especially Vingroup's projects (37 projects with total contract value of VND12.5 trillion ~ USD0.6 billion), CTD made another resonant impression by winning The Landmark 81 project with technical support from experts from Obayashi Japan. With its current capacity, good execution and ability to provide services, CTD has advantages to continue winning large-scale construction projects across the country.

Strong backlog will drive 57% 2016 revenue growth. For 2016, we forecast that CTD will continue to distribute strong growth in both revenue and profit, mainly due to current large backlog (June 2016: VND22.5 trillion ~ USD1 billion) and stable gross margins. The company's gross margin reached 8.1% in 2015 and 9.0% in H1 2016 compared with the 2011-2014 average of 7.4%. We expect CTD to maintain high margins this year amid its strong brand name as well as robust demand.

Balance sheet is healthy with strong cash and no debts. Cash and short-term investments (term deposits) have made up an average of 27% of total assets over the past five years, while the company has no debts. The large cash balance has created a solid financial foundation which helps the company to gain advantage in bidding as well as active procurement of construction equipment.

Expansion aims may contain risk. At the recent AGM, management shared that the proportion of revenue from construction services could decline due to their 2016-2020 investment strategy to expand to other business activities to enhance stable growth for the long term. The company aims to increase investments in other fields, including infrastructure projects in the form of BT and BOT, real estate projects, and factory projects that produce construction-related products.

Upcoming share issuance creates disparity between forecasted 2017 EPS and revenue growth. Shareholders approved the company's plans to increase charter capital by 71% compared to current level, through ESOP (5%), share issuance for existing shareholders (stock split with a ratio of 3:1) and for strategic partners (private placement of a maximum 14.43 million shares). The upcoming dilution of 22% for private placement will hurt 2017 EPS growth, although the additional capital should help expand long-term growth.

DHG: Hau Giang Pharma

Senior Analyst, Dao Nguyen, dao.nguyen@vcsc.com.vn

Stock performance MTD –12.1% / YTD +41.8%

Taisho Pharmaceutical becomes strategic investor by acquiring 24.5% stake

According to Vietnam Securities Depository (VSD), on June 30, 2016, Japan's Taisho Pharmaceuticals successfully acquired 21.3 million shares (24.5% stake) of DHG from various foreign investors.

The acquisition price was not disclosed, but rumor has it in the range of VND120,000-VND125,000 per share, a 17% - 21% premium compared to the market price on the transfer date and 19% - 24% above today's closing price. Such price range implies a FY16F PER of 17-18x, which we think is reasonable for a strategic stake, but would be expensive for financial investors.

Taisho Pharmaceutical, based in Tokyo, is among the leading pharmaceutical firms in Japan, specializing in non-prescription and health-related products with recognizable brands. In Southeast Asia, Lipovitan-D (vitamin-based energy drink) is Taisho's most well-known brand. In FY15, its holding company posted USD2.7 billion in revenues and USD210 million in NPAT.

Post-acquisition plans are not visible at the moment. According to DHG, the company and Taisho are planning some cooperative projects, but details are yet to be revealed. In our view, given DHG's strength in distribution but relative weakness in products, Taisho may support DHG through 1) letting DHG distribute its products that are complementary to DHG's existing portfolio and 2) establishing a joint venture with DHG to manufacture new products with technical assistance and know-how sharing from Taisho.

Having said that, we need more visibility into these projects to factor in their potential value creation into our model. Until then, we maintain our view that DHG will face mounting challenges from stiffening competition in the OTC market where domestic players are rushing into and expanding their own distribution network, while the company's dependence on antibiotic products also poses risks to future growth. We believe that the recent rally in DHG's share price has been event-driven, i.e. by this exact transaction, rather than being inspired by fundamental progress.

DHG to sell 222,380 treasury shares within the next six months

DHG announced a plan to sell all of its 222,380 treasury shares (0.26% of total registered shares), of which 221,250 shares were purchased in Q3 2015 at an average price of VND73,800/share based on our estimates.

The execution period is yet to be determined but will be within six months from this announcement. Selling prices will not be lower than VND94,500/share, which is about 28% higher than DHG's cost/share.

This news has no impact on our view and valuation of DHG. Therefore, we reiterate our UNDERPERFORM recommendation as we believe that the share price's recent rally has been event-driven, i.e. the recent strategic stake acquisition by Japan's Taisho Pharmaceutical. We currently have a target price of VND73,500. At the current price, DHG is trading at a FY16 PER of 14x based on our forecast.

Sales recovered from H1 2015's low base

DHG released its H1 2016 results, which are broadly in line with our forecasts. We will be issuing a more detailed update in the future, but we do not foresee material changes to our target price. As such, we reiterate our UNDERPERFORM rating on DHG. (Please refer our earning flash here).

DRC: Danang Rubber JSC

Analyst, Nghia Le, nghia.le@vcsc.com.vn

Stock performance MTD –2.5% / YTD 23.7%

DRC announced that H1 2016 earnings fell 2.1% vs H1 2015, which slightly trailed our full-year forecast. Management has not yet made details on the business performance available, so we will have a more detailed discussion in our follow-up update report. Having said that, we may see a slight reduction in our target price even though we do not expect it to be material and expect to maintain our MARKET PERFORM recommendation.

Revenues dropped 2.6% vs H1 2015 amid the ramp up of radial tire sales, which implies that the magnitude of ASP cuts forced by competition amid weak rubber prices might have been larger than we expected.

GPM contracted by 2.6 percentage points in H1 2016 vs H1 2015, which is likely due to higher revenue contribution from low-margin radial tires, a shortened depreciation period at the radial factory and ASP declines, offset by lower input rubber cost base.

H1 2016 bottom line was helped by lower net financial expenses, including lower interest expense against a lower debt balance and a big slump in payment discount expenses, as well as a reduction in the corporate tax rate from 22% to 20% in accordance with tax regulations.

DPM: PetroVietnam Fertilizer and Chemicals Corporation

Analyst, Tram Ngo, tram.ngo@vcsc.com.vn

Stock Performance MTD +5.4% / YTD +5.4%

Gross margin keeps expanding despite selling price weakness

DPM's H1 2016 revenue decline 13.7% while NPAT edged up 2.2% versus H1 2015, which is owning to blended gross margins expanded by 4ppts in H1 2016 as input gas cost (linked to oil prices) declined with faster pace than selling prices. H1 2015 NPAT completed 60% of our full year forecast, which is in line with our expectation as first half of the year is typically the high season for DPM with roughly a 60%-65% contribution to full year earnings. We note that NPAT of Q2 alone grew 30.5% YoY because DPM was relieved from PVTex provision expenses.

Given no surprises in Q2 earnings, our 2016 forecasts are likely to remain intact, with 2016 revenue declining 7.5% and NPAT dropping 14.3%. The end of drought, continued local supply disruption from Ninh Binh, potential recovery of urea prices and a new NH3-NPK plant ramp-up remain positive catalysts for DPM from 2017 onward.

While we will release a detailed update report in future, we do not foresee any major changes to our target price. We currently have a target price of VND30,200/share, TSR 13.6%. (Refer to our H1 2016 earnings flash here)

DXG: Dat Xanh Group

Analyst, Tho Hoang, tho.hoang@vcsc.com.vn

Stock Performance MTD –1.9%% / YTD –18.0%

Strong revenue growth from property recognition

We reiterate a BUY recommendation on DXG. While DXG's performance in H1 2016 was not as good as expected, we expect performance to accelerate in the second half while good sales progress will carry on from Q2.

Q2 revenue grew 264% vs Q2 2015. Growth was mostly driven by revenue recognition from the Sunview Town project. The brokerage segment witnessed a 4% decline, an encouraging result amid sector difficulties.

Gross profit increased 73%, much lower than revenue growth. This is mostly due to a changing revenue mix with increasing contributions from property development, which delivers lower margins vs the brokerage segment. We also notice a decline in gross margin of the brokerage business in Q2 2016 due to low contributions from the high-margin wholesale segment.

NPATMI rose a modest 3% and fulfilled just 33% of our full-year forecast. Gains were limited due to one-off income in Q2 2015 and rising SG&A expenses as DXG is managing more projects at present.

We expect profit from brokerage will accelerate in the second half. H1 results were hit by difficulties in new launches in the wholesale segment. The Company expects to maintain flat growth in the brokerage segment this year while we maintain a 10% decline forecast. At present, we maintain our forecast for DXG at VND446 billion (USD 20 million) of NPATMI, +32% vs 2015.

DXG will accelerate sales launches in Q3 and Q4. In Q2, DXG has launched the Opal Riverside project (630 units) and has sold 75% after two months, an impressive result. The Company aims to launch three projects in Q3 including Opal Garden (Bivi), Kim Khi and Tan Kieng.

The Company expects to complete its 1:1 rights issue in Q3 this year. A specific date is not available at present.

FPT: FPT Corp

Senior Analyst, Dao Nguyen, dao.nguyen@vcsc.com.vn

Stock performance MTD –1.7% / YTD +0.0%

Announcement of record date for FY16's first interim cash dividend

FPT announced FY16's first interim cash dividend of VND1,000/share. This is out of the total VND2,000/share, as approved in the AGM in April 2016.

The record date for the above is August 23, 2016 and the payment date is September 7, 2016.

We expect the remaining cash dividend of VND1,000/share for FY16 to be paid after the 2017 AGM.

We currently have a BUY rating on FPT with a target price of VND54,000 (total return of 35.3% inclusive of 4.8% dividend yield).

Poised for significant improvement in H2

FPT's H1 2016 total revenues and NPAT dropped 7.8% and 2.2% respectively vs H1 2015, in line with our expectation. We expect growth to accelerate in H2 2016 as last-mile cable and modem costs in Telecom Services taper down, more domestic IT projects will be completed and booked while Software Outsourcing maintains its healthy growth. With these results, we do not foresee material changes to our target price and reiterate our BUY rating on FPT. (Please refer our earning flash here)

GAS: PetroVietnam gas JSC

Manager, Duong Dinh, duong.dinh@vcsc.com.vn

Stock Performance MTD –10.7% / YTD +62.0%

Q2 result in line with our expectation, no significant change in TP

GAS's H1 2016 consolidated revenue slid by 5.0% YoY and reported NPAT dropped 41.9% YoY. Mild decline in revenue is owning to sales volume growth of 4.7% YoY despite material decreases in output gas prices across power plant's above take-or-pay, industrial park and LPG segments. The above earnings completed 40.7% of our 2016's forecast. However, we expect that 17% higher oil price in H2 vs. H1 as well as retroactive profit from Phu My-Nhon Trach gas pipeline will boost earnings in the second half. We currently have target price of 56,400 for GAS, TSR 1.4%.

HPG: Hoa Phat

Analyst, Dung Ly, dung.ly@vcsc.com.vn

Stock Performance MTD 10.8% / YTD 35.7%

Deft steel business execution results in soaring Q2 GPM

As we reported previously, MOIT's final decision on the application of an anti-dumping tariff removed the barrier which had kept us conservative regarding our assumptions for HPG. Furthermore, H1 2016 NPAT exceeded our expectations with strong sales volume and higher ASPs that resulted from the MOIT decision. We are therefore likely to increase our target price in the coming update report.

Impressive Q2 2016 results with core NPAT growth of 62.2%. HPG reported impressive Q2 2016 results with revenue of VND8.04 trillion (USD359 million), up 5.2% Y-o-Y and NPAT of VND2.03 trillion (USD90.6 million), up 62.2% Y-o-Y. Core NPAT rose 78.7% Y-o-Y, excluding profit of VND78.7 billion (USD3.51 million) and VND1.7 billion (USD74,966) from real estate and animal feed.

For H1 2016, HPG's revenue reached VND15.2 trillion (USD678 million) and accounts for 46.8% of our FY16 forecast, while NPAT reached VND3.05 trillion (USD136 million) and accounts for 63.9% of our FY16 forecast and equals 95% management's FY16 target.

Steel segment increased its contribution to HPG's revenue and NPAT structure to ~85%. In 2015, the revenue and NPAT of the steel segment contributed about 80% of HPG's overall structure, however, this portion has increased to 85% in 2016, according to Mr. Long, Chairman of HPG. Therefore, strong growth in steel segment profit is the main driver to HPG's overall growth.

Impressive 16.3% construction steel's sale volume in H1 2016 vs H1 2015. In the H1 2016, HPG recorded impressive sales volume of 785,000 tons, up 16.3% relative to H1 2015, but lower than the industry's growth rate of 25%. However, in Q2 2016, HPG's sales volume reached 385,000 tons, flat from Q2 2015 and not too dissimilar to the industry's growth rate of 2% for the same period because of heavy rain last quarter. Q1 2016 was also inflated due to speculation by steel traders expecting steel ASPs to increase after the provisional anti-dumping decision was applied. HPG did well against VSA peer group and saw its market share increase from 19.5% in the first quarter to 20.5% in the second quarter.

Higher ASP of construction steel in Q2 after MOIT's provisional decision from March 2016. In Q2 2016, the ASP of construction steel was about VND10.2 million per ton, up 9.1% relative to Q1 2016, and mainly due to an increase of input material prices and the impact of No.862/QD-BCT. In May 2016, HPG's ASP initially moved up 7%, to reach VND10.3 million per ton relative to March 2016, but has since softened in June to only VND10.0 million per ton, due to market demand beginning to enter seasonal slow-down, and declined 20.7% in June as cited by HPG's BOD.

Sharp decline of key input material price was key swing factor to boost steel segment GPM by 10 ppt. GPM of HPG increased sharply from 22.2% in Q2 2015 to 32.0% in Q2 2016 as the company successfully forward bought key input materials early in the year for the entire year and hence has clarity on input cost for entire 2016.

G&A expense in Q2 2016 declined 35.7% Y-o-Y on lower goodwill amortization. In Q2 2016, the G&A expense of HPG declined 35.7% Y-o-Y, this is because in this quarter, HPG only amortised goodwill of VND5.2 billion (USD232,000), down 83% Y-o-Y. This sharp decline is due to HPG accelerating amortisation of goodwill in 2015, with total goodwill amortization of VND290 billion (USD13 million), leaving a balance of VND91 billion (USD4 million).

Six month NPAT already reached 95% of management's target for FY16, so the Chairman delivered his personal guidance of FY16 NPAT from a previous VND3.2 trillion (USD142.8 million) to VND5 trillion (USD 223.2 million), up 56%. We believe that this NPAT is possible because HPG showed deft management of input materials in 2016 and also the positive sign of higher ASP in H2 2016 thanks to the final decision of MOIT.

Dividend payment this September will provide a 4.8% yield. HPG is going to pay a dividend at a rate of 30% of par value, consisting of 15% cash and 15% shares for FY15 in September 2016. The record date is expected to be August 25, 2016.

Forecast adjustment likely to center on upward margin adjustment rather than capacity expansion. Given HPG has held back on expanding its core long steel capacity for now and is unwilling to give out GPM guidance for its 2018 galvanised steel project, our upcoming Q2 2016 report is more likely to centre on upward margin adjustment to the existing long steel business.

HT1: Ha Tien 1

Analyst, Dung Ly, dung.ly@vcsc.com.vn

Stock Performance MTD –2.7% / YTD 32.1%

2Q volumes impressive despite lack of help from infrastructure

Q2 result were impressive with reported NPAT growth of 64.1% mainly thanks to FX gain. In Q2 2016, HT1's revenue reached VND 2,184 billion (USD 97.5 million), up 5.9% Y-o-Y and NPAT reached VND 240 billion (USD 10.7 million), up 64.1% Y-o-Y. Given 1H 2016, HT1's revenue and NPAT achieved 41.1% and 43.3% respectively of our previous FY forecast.

There were 2 main drivers behind the 64.1% growth in Q2 2016 reported NPAT:

1) Cement sales volume in Q2 tracking below our forecast but we maintain forecast. In 1H 2016, HT1's cement sales volume including export reached 3.1 million tons, up 16% Y-o-Y, higher than industry growth rate of 12.4% and relative to 43.6% our FY forecast. Noting 1H 2016 growth of 16% was achieved in the context of 25.2% lower disbursement by the Ministry of Transportation on public infrastructure works in 1H 2016 leads us to expect a 2H 2016 surge in infrastructure works and faith in our 25% FY forecast. In Q2 2016 only, HT1's cement sales volume reached 1.7 million tons, up 12.3% Y-o-Y, slightly lower than industry's growth rate of 14.2%. According to the Department of Building material (Ministry of Construction-MOC), the industry's cement consumption rose sharply in Q2 2016 over Q1 2016 was due to many property projects were implemented. The disparity between volume growth and top-line growth was due to a 50% drop in outside clinker sales in Q2 2016 vs Q2 2015 while the company reported ASPs held steady relative to Q1 2016.

2) FX gain the driving force behind NPAT gains. In Q2 2016, HT1 recoded a FX gain of VND 30 billion (USD 1.35 million) thanks to Euro depreciation due to Brexit related volatility. At the end of Q2, HT1's euro-denominated outstanding debt declined from EUR 62.5 million to EUR 57.5 million and USD-denominated outstanding debt declined from USD 26.2 million to USD 24.2 million. Currently, euro-denominated outstanding debt accounted for 30% and 22% of HT1's long term debt and total debt, respectively.

However, core NPAT was disappointing and declined 11.5% Y-o-Y. Excluding the FX impact in which the Q2 2016 FX gain of VND 30 billion (USD 1.35 million) and Q2 2015 FX loss of VND 91 billion (USD -4.06 million), HT1's core NPAT was only VND 210 billion (USD 9.4 million), down 11.5% Y-o-Y, and constituted 43.7% our FY forecast. This was mainly because:

1) GPM was hurt by increasing cost of goods from buying outsourced raw material. In Q2 2016, HT1's GPM was decreased from 21% to only 19.5%, this was because HT1 had to buy the outsourced clinker from and outsourced cement from Ha Long grinding plants and other Vicem plant to supplement internal capacity because Thu Duc grinding plant was being wound down. This led the input cost of HT1 increase 8% Y-o-Y and led to the GPM decline.

2) Application of Circular 200 shifted SG&A into COGS. In Q2 2016, HT1's SG&A showed a sharp increase of 55.9% Y-o-Y, this is because from Q2 2015, HT1 applied changes in accounting treatment under Circular 200. Accordingly, the discount and promotion expense of VND 32.5 billion (VND 1.45 million) which was recorded in Q1 2015 was reversed out in Q2 2015, leading to an artificially low comparison period.

MWG: Mobile World Investment Corp

Senior Analyst, Dao Nguyen, dao.nguyen@vcsc.com.vn

Stock performance MTD –5.7% / YTD +68.8%

Plan to introduce mini-DienmayXANH concept prompts further upside for the stock

In the event celebrating DienmayXANH's store coverage in 63/63 cities and provinces of Vietnam, MWG's management revealed a plan to open 270 mini-DienmayXANH in 2017. This is on top of the expected total store count of 135 DienmayXANH stores by YE16.

The main differences between the mini-DienmayXANH and DienmayXANH lie in their size and product assortments. In mini-DienmayXANH stores, of which the typical size ranges from 300 to 400 sqm (vs 800-1,000 sqm at DienmayXANH stores), only the most sought-after products suited for a specific geographical area are offered, which will mostly include TVs, household appliances and a narrower range of fridges and air-conditioners. MWG's rationale behind launching this new format for the consumer electronics segment is to penetrate more deeply into rural areas as well as get closer to the consumers, taking advantage of the smaller store size, and thereby, capturing market share from mom-and-pop stores.

We like this move as it will help MWG to further consolidate market share in the consumer electronics segment, in which mom-and-pop stores still constitute more than 60% of the market. MWG targets a 30% market share in the consumer electronics market in 2017.

With the aforementioned target of 270 mini-DienmayXANH stores in 2017, management is targeting VND25 trillion (USD1.1 billion) in revenues for DienmayXANH in FY17, which is 45% higher than our current forecast.

Before deciding to launch mini-Dienmay XANH, we understand that MWG had been testing out this format for several months. This, coupled with its proven execution track record, should give investors confidence regarding MWG's delivery on this guidance. This again demonstrates MWG's high level of entrepreneurship as the company continuously works on ways to win the market and fuel its growth.

We are reviewing our forecasts for MWG and will issue an update report once its H1 2016 financial results are released. In the meantime, we reiterate our BUY recommendation on the stock. MWG is trading at FY16 PER of 11.1x based on our forecast.

Target price poised for upward revision on aggressive store opening and mini-DienmayXANH roll-out in FY17

MWG posted excellent preliminary H1 2016 results with net revenues of VND19.7 trillion (USD873 million, +81% vs H1 2015) and NPAT of VND835 billion (USD37 million, +83% vs H1 2015). Although H1 2016 NPAT has reached 49% of our current forecast, we will likely revise our FY16 and future projections upward given the faster-than-expected pace of store openings as well as contribution from the new mini-DienmayXANH model to be launched in FY17, which we discussed in more detail in our July 21 Vietnam Today report. We reiterate our BUY recommendation on MWG. (Please refer our earning flash here)

NLG: Nam Long Group

Analyst, Tho Hoang, tho.hoang@vcsc.com.vn

Stock Performance MTD –5.7% / YTD -2.3%

Strong revenue growth from recognition in low-end projects
We reiterate our O-PF rating for NLG. H1 2016 results were broadly in line with our forecasts.
Q2 revenue grew 191% vs Q2 2015, mostly driven by revenue recognition from NLG's low-end projects in HCMC. Revenue was 52% of our forecast and in line with our expectation.
NPATMI grew 226%, mostly due to lower SG&A as a percentage of total revenue. This was 51% of our forecast and in line with our expectation.
H2 results may exceed our expectations, due in part to selling stakes in some projects. NLG's financial performance may exceed our expectations in Q3 and Q4 due to possible recognition of sales in tier-two cities and land revaluation since NLG may sell its stakes in some projects to Japanese investors. However, we stay conservative in our financial model.

VND bn	1H 2016	1H 2015	Growth	% of 2016 forecast
Revenue	1,078	413	161.0%	52.0%
Gross profit	325	138	135.5%	45.2%
SG&A	152	97	55.7%	36.6%
EBIT	174	41	326.3%	56.9%
NPATMI	127	61	108.2%	50.9%
Margin	**1H 2016**	**1H 2015**	**2016**	
Gross margin	30.1%	33.4%	34.7%	
SG&A as % of revenue	14.1%	23.6%	20.0%	
EBIT margin	16.1%	9.9%	14.7%	
NPATMI margin	11.8%	14.8%	12.0%	

NT2: PetroVietnam Power Nhon Trach 2 JSC

Manager, Duong Dinh, duong.dinh@vcsc.com.vn

Stock Performance MTD –0.8% / YTD +31.9%

CGM price weakness slightly hit Q2 earnings; slight haircut to TP likely

NT2's Q2 revenue declined by 21.4% YoY mainly due to a drop in input gas prices (which is passed through to PPA price). Recurring NPAT also fell slightly by 2.2% YoY, undershooting our 19% YoY forecast growth as a result of weaker CGM price than expected. However, H1 recurring earnings still grew by 16.9% YoY due to a strong first quarter. We note that NT2 will pay interim dividend at VND1,500 per share for 2016, ex-date 15 August. This supports our cash dividend expectation of VND2,600 for this year. We currently have TP of 39,900 for NT2, TSR 21.1%.

PNJ: Phu Nhuan Jewelry

Senior Analyst, Dao Nguyen, dao.nguyen@vcsc.com.vn

Stock performance MTD -18.1% / YTD +49.2%

On pace to beat guidance thanks to core retailing business

PNJ released official H1 2016 results with net revenues and reported NPAT increasing 2.2% and 124.4%, respectively, vs H1 2015. Strong NPAT growth was thanks to 1) impressive 31% NPAT growth of core business driven by the retailing segment and 2) lower provision expenses related to PNJ's investment in Dong A Bank.

We estimate core earnings growth at 31.4% in H1 2016 vs H1 2015. This is thanks to a combination of 10% SSSG and contribution from new stores opened in 2015 as well as H1 2016. In 2015, PNJ opened 48 stores, of which 31 were opened in the second half. PNJ opened another 13 stores in H1 2016. Store openings are typically concentrated in the second half to prepare for peak season in Q4.

Reported NPAT growth of 124% vs H1 2015 was much higher than core earnings growth due to lower Dong A provisioning and a one-off gain.

In H1 2015, the company incurred a VND131 billion (USD5.8 million) provision related to its investment in Dong A Bank vs VND85 billion (USD3.8 million) in H1 2016. Note that PNJ has now entirely written off its investment in Dong A Bank.

The company booked VND42 billion (USD1.9 million) PBT from the sale of a property located in HCMC's CBD during Q2 2016.

Even though we have ceased our regular coverage on PNJ, we believe that its 13.5x core PER does not reflect its good growth potential. The company is in a sweet spot to benefit from Vietnam's young and growing middle-income class, which will fuel its ongoing high growth. Our estimated FY16 NPAT is 35% higher than the company's guidance. At the same time, PNJ is trading at a FY16 core PER of 13.5x in our rough estimates, in line with that of the VN-Index.

PLC: Petrolimex Petrochemical Corporation

Analyst, Tram Ngo, tram.ngo@vcsc.com.vn

Stock Performance MTD -3.9% / YTD -18.6%

Waiting for the recovery in infrastructure spending

H1 2016 revenue and NPAT declined 35.9% and 41.6% YoY, respectively. Asphalt revenues plunged 67% while margins fell due to infrastructure spending delays. Meanwhile, despite a 14% drop in lubricant revenue on selling price declines, H1 2016 lubricant gross profit rose 24.5% YoY on an 11 percentage points expansion in lubricant gross profit margin. The results are in line with our expectation as we already anticipated weak Q2 earnings and a higher contribution to earnings in H2 when asphalt demand resumes.

Given that the ending cash balance fell to VND484 billion (USD21.5 million) at the end of H1 2016 and also given that we forecast a 21.8% decline in 2016 earnings, the 2016 cash dividend is likely to be lowered to VND2,500/share (yield 8.5%) from our previous expectation of VND3000/share (yield 10.2%).

We do not foresee any significant change to our earnings forecast and current target price of VND33,000/share but might revise down our dividend assumptions in our upcoming Update Report. (Refer to our H1 2016 earnings flash here)

PPC: Pha Lai Thermal Power JSC

Manager, Duong Dinh, duong.dinh@vcsc.com.vn

Stock Performance MTD +6.9% / YTD -3.1%

Q2 result weaker than expected, lower target price

PPC's H1 revenue and recurring NPAT dropped by 24.4% YoY and 54.7% YoY, respectively. However, if PPC succeeds in getting the VND250 billion (USD11.2 million) retroactive profit for Pha Lai 1 that it is asking EVN for, then this would bring H1 recurring NPAT to ~ VND416 billion, completing 40% of our 2016 forecast. Therefore, we will revise down our earnings forecast and TP for PPC in the coming note. JPY is still strong which is continuing to weigh on PPC's share price. We currently have TP of VND15,600 for PPC, TSR 7.8%.

PVS: PetroVietnam Technical Services

Analyst, Tram Ngo, tram.ngo@vcsc.com.vn

Stock Performance MTD -0.6% / YTD +8.3%

H1 2016 earnings beat our forecast on provision reversals

Although PVS's H1 2016 revenue and NPAT dropped 26% and 23% YoY, respectively, H1 NPAT was far better than we expected, completing 67.9% of our full year forecast, thanks mainly to one-off profit from provision reversals.

In H1 2016, Mechanics & Construction segment was the star contributor to profits while Supply Base performed badly. Seismic Survey & ROV segments signalled improving conditions with contribution from 2D, 3D ship contracts won from mid-March. Income from FPSO/FSO JVs, as expected, continued to be shielded from oil price volatility.

We might therefore revise up our 2016 earnings forecast in our upcoming update report. However, given that our outlook for 2017 and beyond remains unchanged, we do not foresee a significant change to our target price of VND19,900/share, TSR 23.7%. (Refer to our H1 2016 earnings flash here)

SKG: Superdong Kien Giang

Analyst, Hai Hoang, hai.hoang@vcsc.com.vn

Stock Performance MTD -5.6% / YTD +46.5%

Newly deployed Superdong 9 and Superdong 10 were the growth engines in the first half.

In 1H2016, SKG posted VND 189.1 billion in revenue (+22% YoY) and VND 118.9 billion in NPAT (+33.4% YoY), which completed 56% and 55% of Revenue and NPAT guidance, respectively. In Feb 2016, the company put S9 and S10 into operation on the Ha Tien- Phu Quoc and Rach Gia – Phu Quoc routes to meet the huge demand for travel during the lunar new year. After adding S9 and S10 to the speed-boat fleet, the seat capacity of SKG on Ha Tien – Phu Quoc and Rach Gia – Phu Quoc rose by 50% and 24%, respectively, which helped to lift the number of passengers transported in the first 6 months of this year by 23% YoY.

High utilization on Rach Gia – Phu Quoc route and continuing low oil prices spurred the GPM expansion. In 1H2016, SKG's GPM continued to expand by 300 bps to reach 70%, on the back of: (1) High utilization rate across the main routes: during the first 6M 2016, Phu Quoc recorded 997,716 visitors, up 22% YoY and helped SKG maintain high utilization rate of 80-85%

on Rach Gia – Phu Quoc route and about 75% on Ha Tien – Phu Quoc route, (2) The average Brent oil price in 1H2016 was about 20-25% lower than the average level of USD 53/barrel during 2015 (USD 59/barrel during 1H2015), which helped to keep diesel oil prices low. It is worth noting that diesel oil costs account for 42-45% of SKG's COGS.

The company re-scheduled the commencement date for Ferry 1 to mid-2017. The company announced that Ferry 1's (F1) commissioning date will be delayed slightly to the middle of 2017, whereas the Superdong 11 (S11) speedboat will be put into operation from Q32016 instead of Q12017 as per original plan; management attributed these changes to their continuous efforts to optimize fleet utilization. In our last report, we expected F1 to contribute VND 16 billion of revenue in 2016. However, if S11 operates in 2H at 80-85% utilization, this will add VND 18-20 billion of revenue to 2016, thereby offsetting the F1 commissioning delay.

These earning results will likely raise our target price a little bit, but the strong price rally during 1H2016 should trigger a downward rating to our current BUY recommendation. We currently have a TP of VND89,000 for SKG, but will revisit this in our upcoming detailed update. The price increased 27% from our last report and closed at VND 94,500 per share on 29 July 2016.

SSI: Saigon Securities Incorporation

Senior Analyst, Hoa Trinh, hoa.trinh@vcsc.com.vn

Stock Performance MTD +10.1% / YTD +3.2%

Unconsolidated financial performance acts as a drag. Plan to issue bonds at lower interest rate

SSI has just published its unreviewed unconsolidated financial statement for Q2/2016 and serves as useful window to forthcoming consolidated result. PBT and PAT of the second quarter dropped by 18% and 15%, respectively; while PBT and PAT of the 1H/2016 dropped by 26% and 37%, respectively, regardless the increase in revenue, namely increases in revenue from brokerage commission and interest income from margin activities. The decrease of unconsolidated profit mainly resulted from the one-off transactions related to sales of associates in 2015 (2016: there is no sales of associates). In our brief recalculation, if we excluded those one-off transactions, there would be no significant change in 2 comparable periods.

We prefer not to have opinion about its performance until the consolidated one come out. While waiting for the consolidated result, we would like to mention about a receivable balance of VND229 billion related to sale transactions of HNG shares to a customer of SSI that took place in 2nd quarter of 2015 when HNG price was more than 4 times higher than that at the end of Q2/2016 (VND33,000 vs VND8,100). Despite reassurances from SSI this will soon come down it has not done so in the past 3 quarters.

SSI also announced their plan to issue VND200 billion (USD9 million) of bonds in 2016. These are two-year-bonds with interest rate to be no more than 7% in the first year and floating rate in the second year. The bonds will be issued through private place to financial institutions in Vietnam. However, detailed information like which institutions will be the buyers or what will be the collateral has not been disclosed yet. SSI explained that the bonds will be used to fund their underwriting business, investment in listed bonds and other activities (but not the equity investment).

SSI has not decided when the bonds are going to be issued. However, SSI's financial statements for Q2/2016 shows that the company has VND687 billion (USD31 million) of bonds in their liabilities, of which, VND387 billion (from SSIBOND012015 bonds) will come due in January 2017. This makes us believe that the bonds might be issued at the end of 2016 or January 2017 to support the repayment of the currently outstanding bonds. We note that interest rate for SSIBOND012015 in 2016 is 8.325% p.a. while interest for the to-be-issued bonds is maximum 7% in the first year. Thus, if SSI can issue successfully, the company can reduce its financial cost from 2017.

TCM: Thanh Cong Textile

Analyst, Nga Nguyen, nga.nguyenthanh@vcsc.com.vn

Stock performance MTD -18% / YTD -32%

Weak earnings due to increasing labor expenses; revise down TP likely

H1 2016 consolidated revenue increased by 13% vs. H1 2015, in line with our expectations. However, the revenue of Q 2 standalone only edged up 7% due to the lower-than-expected apparel export orders. Raw material and labor expenses rose by 23% and 35% respectively vs. 1H15 dragged down GPM by 4 percent points to 12.2%. H1 2016 NPAT plunged by 43%, trailing our full year forecast. The main reason was attributed to a 26% surge in SG&A expenses given the compliance to the new labor law. This will most likely lead to a downward revision in our full year forecasts when we release our detailed update report.

VCB: Bank for Foreign Trade of Vietnam

Analyst, Thuy Le, thuy.le@vcsc.com.vn

Stock Performance MTD +14.2% / YTD +23.0%

Strong loan growth and active bad debt management in Q2 2016

VCB recently released financial statements for H1 2016 with positive results and continued improvement of asset quality. We will be issuing a detailed update report in the coming time and expect to raise our TP due to high loan growth and lower NPLs. However, as the share price has run up quickly recently, we view that VCB is fairly valued and reiterate our MARKETPERFORM rating for this bank.

VCB reported good profit growth for H1 2016 thanks to strong loan growth, reduction of provision expense and improved NIMs vs H1 2015. PBT and NPAT grew 35.6% and 39.2% Y-o-y, and reached 40% of our forecast. Both interest income and non-interest income recorded faster growth in H1 2016 vs H1 2015, but growth of profit derived mostly from interest income, which increased by 29.5% Y-o-Y (vs 26.5% for equivalent comparison in H1 2015). Non-interest income grew 16.6% with signs of higher debt recovery (vs 2.3% for equivalent comparison in H1 2015).

One remarkable feature was robust loan growth of 10.4% vs 5.4% for the same period last year. Deposit growth was 6.9% and is lagging the 8.9% growth of H1 2015.

NIM stayed at 2.7% as in Q1 2016, but is higher than 2.5% in FY15. Asset yield remained stable and cost of funds moved up by 8bps during the first half. Robust loan growth that outperformed deposit growth kept NIM stable.

NPLs declined from 1.8% in Q1 to 1.7% and there was large drop of loans in groups 2, 3, 5. The increase of group 4 loans suggests the deterioration of some loans, but as a totality, we appreciate the bank’s active bad debt clearing in Q2, even more so as there were no new sales to VAMC and loans were written off using a specific provision account. Interestingly, group 2 loans ended Q2 2016 at 1.7%, the lowest level since we started our tracking in 2005.

Assessment of the financial statement showed that bad debt clearing was pushed into Q2, evidenced by zero write-offs in Q1 vs VND1.4 trillion in Q2 (or 0.3% of total loan). Due to more bad debt clearing, provision expense is higher than Q1 but it was a 10.2% reduction vs H1 2015. Regarding VAMC related provision, VCB has booked around 80% of our estimated compulsory provision in H1 2016, therefore, the required provision in the second half will be small.

Moody's initiates ratings on Vietcombank

Moody's Investors Service recently assigned B1 foreign and local currency debt issuer ratings to Vietcombank and B2 ratings for its foreign currency deposits. Local currency deposits were given B1 ratings, a one-notch uplift from the B2 baseline credit assessment (BCA) rating due to expected support from the government in case of stress. Moody's assumed strong support from the government due to its important role in the domestic economy and the domestic payment system, as well as the large ownership of the state at this bank (at 77%). Outlook was rated as stable. Compared to CTG and BID, three SOE banks have the same local/foreign currency debt issuer ratings (B1) and local/foreign currency deposits (B1/B2), but VCB has a higher rating on BCA at B2, while those of CTG and BID are B3 and Caa1, respectively.

VNM: Vinamilk

Senior Analyst, Dao Nguyen, dao.nguyen@vcsc.com.vn

Stock performance MTD +9.9% / YTD +22.8%

Poised for historic moment as company gets approval from SSC to remove FOL

The State Securities Commission of Vietnam has officially approved the removal Vinamilk's FOL. This marks a historic moment for VNM as well as Vietnam's stock market in general.

The next step for VNM is to lodge documents to notify the Vietnam Securities Depository (VSD) of the change in FOL. FOL will be 100% once the VSD updates this information on its portal, which we understand should take about one to two business days.

VNM jumped 3.3% on the news, closing at VND158,000, corresponding to a MARKET PERFORM rating given our current target price of VND161,000. VNM is currently trading at FY16 PER of 21.7x and FY17 PER of 20.1x, which are quite reasonable in our viewpoint. Having said that, short-term momentum in the stock may continue to be driven by investor anticipation of freer and greater foreign inflows into VNM.

Announcement of record date for FY16's first interim cash dividend and 5:1 bonus issuance

VNM announced FY16's first interim cash dividend of VND4,000/share and a bonus issuance at the ratio of 5:1 (one new share for five existing shares), as approved at the AGM in May 2016.

The record date for both of the above is August 22, 2016.

We currently have a MARKET PERFORM rating for VNM with a target price of VND161,000 (total stock return of 5.7% including a 3.1% dividend yield). At the current price, VNM is trading at FY16 PER of 21.6x based on our forecast.

Research Reports Issued this Month

Date	Report Name
1-Jul-16	NT2 [BUY +20%] - Visibility on third plant, the possibility of a fourth plant and operation of Wholesale Competitive Market raises valuation - Update
4-Jul-16	Monthly Recap June 2016 - Brexit created bumps on the way to 640
5-Jul-16	Macro Update - Reductions in agricultural and mining outputs hurt GDP growth
6-Jul-16	PPC [O-PF +18%] - Poor output and surging JPY might pressure dividends - Update
6-Jul-16	HPG [M-PF -4.2%] - Still facing gritty competition despite strong demand for steel - Update
7-Jul-16	CSM [M-PF -2.3%] - Hard to find excitement amid muted radial tire sales progress - Update
8-Jul-16	Vietnam Mid Year Strategy 2016 - What will drive the market to 700?
11-Jul-16	SVC [Non-rated] - Healthy auto sales and divestment will bring another good year - Small Cap Research
18-Jul-16	GAS [M-PF -7.9%] - Improved earnings prospects but stock now fully valued - Update
18-Jul-16	HPG [O-PF +14.8%] - Four-year pricing shelter evens steel playing field - Update
20-Jul-16	DRC - ASP cuts offset volume growth - Earnings Flash
20-Jul-16	PLC [O-PF +17.6%] - Temporary lull in asphalt demand but recovery is imminent - Update
20-Jul-16	NT2 - CGM price weakness slightly hit Q2 result - Earnings Flash
20-Jul-16	SKG - New S9 and S10 boats are key growth drivers in H1 2016 - Earnings Flash
20-Jul-16	NLG [O-PF +12.1%] - Time for NLG to prove its sales capabilities - Re-Initiation
21-Jul-16	DHG - Sales recovered from H1 2015's low base - Earnings Flash
21-Jul-16	HT1 - Q2 volumes impressive despite lack of help from infrastructure - Earnings Flash
22-Jul-16	CSM - Results normalized from H1 2015's one-off profits - Earnings Flash
22-Jul-16	DPM - Gross margin keeps expanding despite selling price weakness - Earnings Flash
22-Jul-16	Fixed Income Report - Banks still flush with liquidity despite surge in June credit creation
22-Jul-16	FPT - Poised for significant improvement in H2 - Earnings Flash
22-Jul-16	VCB - Strong loan growth and active bad debt management in Q2 2016 - Earnings Flash
25-Jul-16	GAS - Dramatic first half declines should be pared back in second half - Earnings Flash
25-Jul-16	DXG - Strong revenue growth from property recognition - Earnings Flash
25-Jul-16	NLG - Strong revenue growth from recognition in low-end projects - Earnings Flash
25-Jul-16	PNJ - On pace to beat guidance thanks to core retailing business - Earnings Flash
26-Jul-16	TCM - Weak earnings due to high material costs and labor expenses - Earnings Flash
28-Jul-16	PPC - Retroactive profit of Pha Lai 1 to boost earnings in H2 - Earnings Flash
28-Jul-16	HPG - Deft steel business execution results in soaring Q2 GPM - Earnings Flash
28-Jul-16	PVS - H1 2016 earnings beat our forecast on provision reversals - Earnings Flash
29-Jul-16	PLC - Waiting for the recovery in infrastructure spending - Earnings Flash
29-Jul-16	MWG - Target price poised for upward revision on aggressive store opening and mini-DienmayXANH roll-out in FY17 - Earnings Flash
29-Jul-16	CTD [M-PF +9%] - Another strong year ahead for leading private contractor - Initiation

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