

Q1 results suggest recovery, but currency pressures and short-term volatility warrant continued caution



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Macroeconomics:

- ▶ Total 4M24 import-export turnover rose by 15.2% YoY with an estimated YTD trade balance of \$8.4bn
- ▶ Tourism is undoubtedly recovering: overseas visitors totalled 6.2 million YTD, +68.3% YoY and +3.9% compared to pre-pandemic levels of FY 2019
- ▶ Public investment in 4M24 climbed modestly by 5.5% YoY with signs of a slowdown in March and April

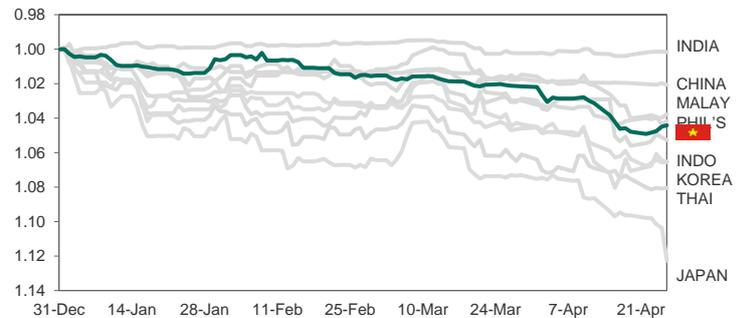
Stock Market:

- ▶ The VNI declined 7.8% due to FX volatility, policy rate hike speculation, and government personnel changes.
- ▶ It rebounded by month-end based on strong Q1 2024 results, with NPAT up 22.1% YoY for our top-80 universe, marking the most profitable quarter since Q1 2022.
- ▶ Market risk-reward profile improved on attractive valuations and margin lending reached healthy levels

CHART OF THE MONTH

- Asian currencies had the worst month since September 2023 after the negative impact of delayed Fed cuts and central banks' monetary policy direction diverged
- Gold arbitrage and crypto outflow were internal factors along with corporate repatriation season, large VND/USD yield disadvantages, and strong USD hoarding activities
- This resulted in the VND depreciating 2.2% in April and 4.4% YTD, prompting the SBV to take action by narrowing interest rate differences and intervening in the gold market

Asian Currencies Slide



Monthly Insights

April proved to be a challenging period for the VNI, unfolding against a backdrop of ongoing economic recovery juxtaposed with waning local sentiment amid a slew of negative news. The month began with indications that the Fed might maintain its rates longer than anticipated, exerting strong pressure on Asian currencies. In response, regional central banks have taken countermeasures; notably, the SBV increased the OMO rate by 25bps with the dong having depreciated by 4.4% YTD. Additionally, the resignation of the National Assembly Chairman left half of the top four positions unfilled, potentially hindering short-term policy implementation and weakening investor confidence. This sentiment was reflected in the VNI's 4.7% drop on 15 April, following rumours of the resignation which was confirmed on 26 April

Despite these challenges, the market downturn gradually subsided as investors shifted focus to more optimistic developments. As the VNI reached a low of 1,174 from its 2024 peak of 1,290, the risk-reward ratio became favourable, particularly in sectors such as IT, retail, industrial property, materials, and banking, where valuations became increasingly attractive. This renewed interest was supported by first-quarter results that exceeded expectations, showcasing consistent sales growth, improved gross margins, and reduced interest expenses. Last but not least, the rationale for bottom-fishing activities was strengthened by the restoration of healthier margin lending levels at brokers, compared to the elevated levels seen at the end of March.

Net profit growth for our Top-80 universe increased by an encouraging 22.1% YoY (15.4% on a non-float adjusted basis). The uplift was broad-based, with the most significant recoveries observed in materials (increasing 5x), transportation (3.5x), and retail (2x). These turnarounds were built into our expectations, which assumed an improved business environment, completed inventory clearance, and successful restructuring efforts.

The banking sector performance was in line with our expectations, with a 16% YoY profit increase. Although state-owned banks reported rather flat profit growth, private commercial banks achieved an average rise of 17%. In contrast, the real estate recovery is yet to be reflected in numbers, with a subdued performance primarily due to delays in product handover impacting revenue recognition. Average NPAT across residential property declined 66% YoY and industrial property by 53% YoY.

As the market seeks equilibrium, we expect some short-term volatility to persist. Nonetheless, we remain confident that the earnings rebound will serve as the primary catalyst for market growth. Early developments in May support this outlook as we observe a divergence in performance between companies reporting strong earnings and those delivering disappointing results.