

Earnings from the private sector cut through the noise, presenting a possible route to market equilibrium



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Macroeconomics:

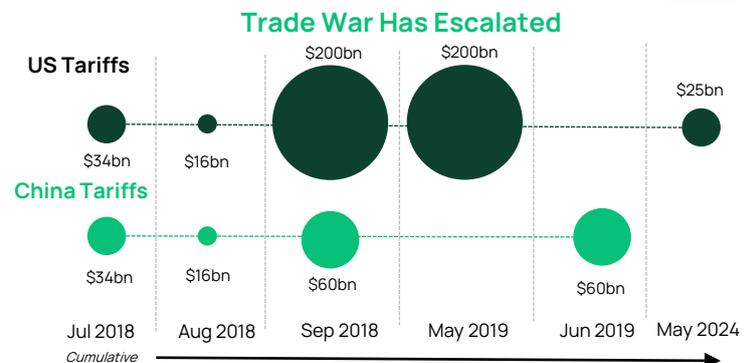
- ▶ The domestic gold price disparity has narrowed from 25% to below 10% after the SBV sells gold to retailers.
- ▶ The VND/USD rates in the official and black markets gradually stabilised, thanks to a drop in domestic gold prices and a cooling DXY in global markets.
- ▶ Domestic interest rates have risen slightly by 30-50bps across tenors, with participation from both SOEs and private banks.

Stock Market:

- ▶ The VNI increased 4.3% as the market found equilibrium after the recent FX volatility was priced in and the top positions of government were restored in early May.
- ▶ Our analysis of investment styles indicates a robust, alpha-driven market which favours high quality companies with strong earnings prospects.
- ▶ Margin lending reached healthy levels as the VNI's risk-reward profile improved on attractive valuations.

CHART OF THE MONTH

- **US-China Trade War 2.0:** Escalation is evident with a new \$25bn tariff package on high-tech items.
- **FDI Exodus:** This is expected to accelerate the shift of production away from China to regions including Vietnam. FDI disbursement in Vietnam has reached \$8.2bn, +7.8% YoY, while newly registered capital has amounted to \$11.7bn, +2.0% YoY.
- **Several prominent projects:** \$740mn bio-BDO factory from Hyosung (SK), \$454mn from Trina Solar (CN), and \$275mn silicon photovoltaic plant from Gokin Solar (CN).



Monthly Insights

The political turbulence that impacted the markets in April has eased after leadership elections were held in May. Mr Tô Lâm was elected as the new President of Vietnam, and Mr Trần Thanh Mẫn was appointed as Chairman of the National Assembly. All four top political positions have now been filled with no indication of change in policy direction. The stability in pro-growth policies should continue to support both fiscal and monetary initiatives. Despite these positive developments, public investment disbursement is anticipated to contract in 5M24 by 4.7% YoY. This decline can be partly attributed to the change in government positions and the turnover of provincial leadership. Additionally, the depreciation in the dong by 4.8% YTD has prompted foreign contractors to delay disbursements. We do not anticipate any significant acceleration in public spending in the short term, but we do believe the major obstacles are now overcome. Our view remains optimistic that disbursement could begin to improve towards year-end, particularly as the SBV has unveiled new guidelines to stimulate credit expansion. Commercial banks are now encouraged to target a system-wide credit growth from 2.5% at the end of May to 5-6%, and work towards a reduction in lending rates by 1-2% by the end of Q2 2024.

Year-to-date market returns demonstrate a robust, alpha-driven market, underscored by a pronounced bias towards stock selection based on earnings and business outlooks. Our analysis of various investment styles, including asset valuation, earnings valuation and growth, quality, stability, and momentum, reveals that the companies with performance in the top decile outshone those in the bottom decile in five out of six categories, indicating a market driven by fundamentals rather than speculation. The most significant performance differential was noted in quality, defined by ROIC, ROE, and cash flow generation, where top companies returned 24.7% compared to 4.9% for the bottom decile. The spread between low and high earnings multiples was the second largest, with companies at the lower end of the P/E and EV/EBITDA spectrum yielding 23.3%, compared to 8.3% by those at the higher end, trailing the index by approximately 4%. Market segmentation by size showed little divergence, as the VN30, mid and small-caps all revealed similar returns, indicating investors are prioritising company prospects over market capitalisation.

At the sector level, there was a sharp divergence in investor sentiment in response to policy impacts. The IT services sector surged over 50%, buoyed by optimism around Vietnam's semiconductor and AI potential, while the real estate sector lagged with a 3.8% return. As investors shift focus to earnings growth and visibility for 2024, some large-cap real estate companies face significant challenges due to their reliance on policy unlocking initiatives, prompting a cautious wait-and-see approach. Additionally, we observed much faster growth momentum in private companies compared to State-Owned Enterprises (SOEs), which are often constrained by political mandates. For example, state-owned banks may offer lower lending rates than their commercial counterparts, or some SOEs may delay projects until they receive clearer political guidance and confirmed government mandates. Despite these disparities, the overall stock market performance remains healthy, underpinned by strong fundamentals with 2024F PE of 11.6x and EPS growth of 18.5%. The private sector, in particular, is showing strong recovery momentum and is expected to continue driving the economy and market forward.