

VIETNAM MARKET BULLETIN:

Today's Results, Tomorrow's Trends

Key Takeaways

Stronger-than-expected H1 GDP data: Q2 GDP growth reached 6.9% YoY and 6.4% for 1H24. Consequently, the Government has revised its FY24 GDP growth target to 6.5-7.0%. Other development banks (ADB) and institutions (HSBC) have followed suit.

Stock performances are diverging in line with earnings, a dynamic we expect to see for the rest of the year. The 15-18% NPAT growth for our Top 80 universe is unchanged driven by consistent recovery in manufacturing and domestic consumption.

While global financial markets have been volatile in the past week, we believe the impact on Vietnam will be moderate and temporary. With global rate cuts on the horizon, Vietnam can sustain supportive policies and focus on growth.

Economic Insights

At the start of the year, our Vietnam Market Briefing set out our investment thesis for an economic recovery with a broad-based industry improvement, targeting 15-18% NPAT growth for our Top 80 universe. With this in mind, we will assess the status of key variables, identifying growth drivers and potential risks for the remainder of the year.

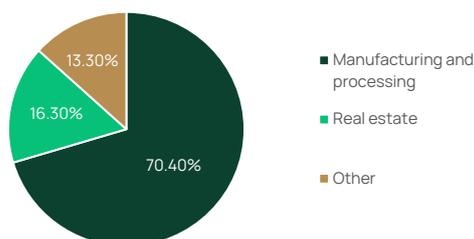
Trade Recovery: We anticipated a 10% growth in exports and imports, driving economic and corporate earnings. This was predicated on the EU emerging from a business cycle trough and the US economy showing resilience, leading both regions to resume the restocking cycle. Export data surpassed expectations, with a total export-import turnover of \$369.6bn in 1H24, up 16.0% YoY. Exports reached \$190.1bn (+14.9% YoY), and the YTD trade surplus remains healthy at \$11.6bn.

Figure 1. 1H24 Trade Balance



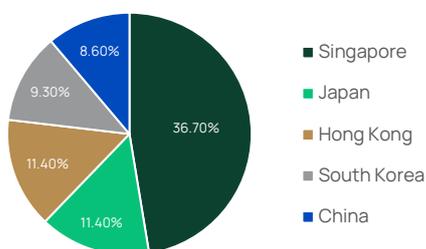
Foreign Direct Investment: Newly registered FDI hit \$15.9bn in 1H24, a 13.1% YoY increase. Disbursed FDI grew by 8.2% to \$10.8bn, the highest level since 2012. Manufacturing and processing sectors led newly registered FDI at 70.4%, followed by real estate at 16.3%.

Figure 2. Newly-registered FDI by Sector



The top five countries by registered FDI in 1H24 were Singapore (36.7%), Japan (11.4%), Hong Kong (11.4%), South Korea (9.3%), and China (8.6%).

Figure 3. Newly-registered FDI by Country



Currency Stability Concerns: Delays in Fed rate cuts, domestic political transition, speculative activities in crypto, drove the VND to depreciate by 4.9% in 6M24, in line with other emerging market trends. At the time of writing, it had recovered to 3.8%, tracking our initial 3.5% forecast thanks to a clearer outlook for Fed cuts. In response, the State Bank of Vietnam (SBV) sold \$6.5bn in reserves but fell short of stabilising the FX market, leading to deposit rate increases of 50-100 bps. Further increases are possible to the end of 2024, though should remain lower than 2017-2019 levels. Our FY24 depreciation forecast is unchanged, contingent on Fed cuts in 2H24.

Political Turbulence and Fiscal Policy: Government personnel changes ahead of the 2026 elections came earlier than anticipated. Initially unsettling retail investor sentiment, they are now viewed as having been largely absorbed by the market. This decelerated public spending and infrastructure projects

due to slowed municipal decision-making, fulfilling just 29.4% of the \$27bn full-year target. This makes fiscal policy a key growth driver for the remainder of the year. Ongoing reductions in taxes and fees (including VAT, CIT, and PIT), a 30% salary increase for state employees, and a 6% hike in the minimum wage are likely to bolster purchasing power. However, this could potentially contribute an additional 0.1-0.2% to headline inflation which has been above 4.0% for most of 1H24, nearing the government's 4.5% target.

Credit Growth is Expected to Surpass 2023, driven by genuine business needs. As of end of June, credit growth was approximately 6.0% YTD, equivalent to YoY growth of 15%. Key drivers of growth include lending for corporates and mortgage loans are slowing down. With the Government revising the GDP growth target from 6.0-6.5% to 6.5-7.0% and credit growth reaching nearly 6% in 1H24, we believe there is a good chance that full-year credit growth could reach 15%.

The Bond Market is Improving but not Out of the Woods: Approximately \$9.5bn of corporate bonds will mature in 2024, with around 60% of these maturing in the 2H24. In 1H24, bonds worth approximately \$800mn experienced late payments in principal and interest. However, \$2.5bn in bonds were repurchased before maturity in 1H24, indicating healthy cash flow and a positive sign for the bond market. Importantly, we believe that all troubled corporates have now been identified, reducing overall uncertainty. While Vingroup remains a concern, it is making progress with its scheduled payments. Overall, while the bond market still faces pressure, the risks are diminishing and there is clearer visibility to normalisation.

Risks of Power Shortages are Declining: Electricity production rebounded strongly in 1H24, aiding manufacturing recovery. A positive development is the completion of the 500kV transmission line from central Quang

Binh to northern Hung Yen. This will double transmission capacity and ensure a stable electricity supply for the North.

Geopolitical Risks: Our view remains unchanged on Vietnam's deep integration into the global supply chain exposing it to external vulnerabilities, particularly the possibility of trade protectionism under Trump 2.0, ongoing global conflict, and high energy prices. Vietnam ranks 25th among the world's largest exporting countries and is among the top five countries with the highest trade surplus with the United States, amounting to \$83.3bn in 2023.

Earnings Recovery

In 1H24, our float-adjusted Top 80 universe achieved an impressive NPAT growth of 18.6% YoY on the back of 10.2% YoY growth in revenue, fulfilling 51% of our FY24 target.

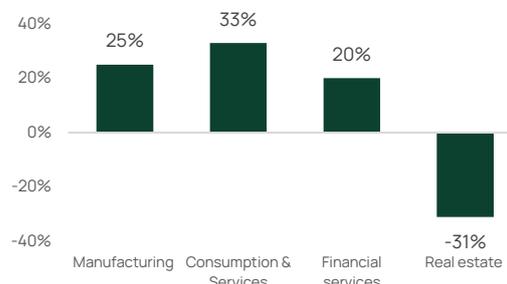
As highlighted in our 2024 outlook, the economy's emergence from its low point has led to a focus on revenue growth momentum, which has indeed accelerated quarter by quarter. Notably, 2Q24 marks the fourth consecutive quarter of accelerating revenue growth, reaching 13.4% compared to 8.3% in 1Q24 and just 1.7% in 1Q23.

We anticipate margin improvements from lower borrowing rates, a completed inventory destocking cycle, and cost optimisation from corporate restructuring efforts. Consistent with our expectations, net margin improved from an average of 6.4% in 2023 to 7.9% in 1H24, driving net profit growth of 18.6% YoY.

A broad-based recovery was observed, with Manufacturing leading the profit recovery with a 25% YoY increase. Consumption and services rebounded from a low base last year, delivering an outstanding 33% net profit growth. Financial services' net profit increased by 20% YoY, providing a solid

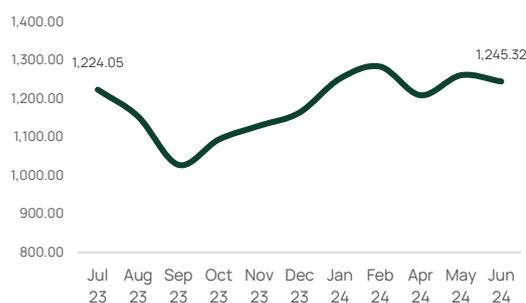
foundation for earnings growth, while real estate saw a decline of 31%.

Figure 4. Net Profit Growth by Sector



The VNI climbed over 10% in 1H24 (6% in TR\$ terms), meeting our expectations of moderate returns in line with earnings growth.

Figure 5. Vietnam Index (July 23 - June 24)



The Banking Sector Performed Well: The banking sector delivered NPAT growth of 19.5% YoY in 1H24, driven by a healthy mix of both interest income and fee income. Credit growth for banks under our coverage increased 8.2% YTD, equivalent to 19% YoY growth, slightly outperforming the sector average growth of 6% YTD and 15% YoY.

Sector fee income increased by 9% YoY. Key operating metrics such as net interest margin and non-performing loans remain unchanged compared to same period in 2023, despite increasing divergence among banks. Notably, state-owned banks are facing more pressure as they fulfil their duties to support economic growth. For the remainder of the year, the formation of new non-performing loans and banks' loan loss coverage will be our focus as

we monitor sector asset quality progress as the economy recovers.

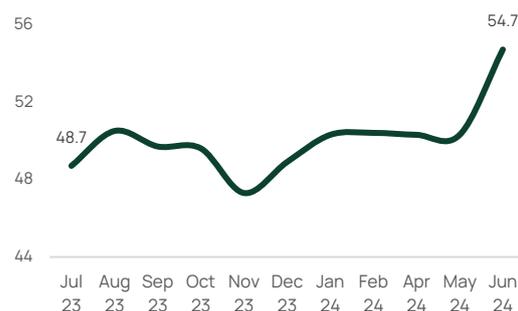
Real Estate Underperformed in 1H24 but is Gradually Recovering: The Real Estate sector underperformed with a 31% YoY profit decline, with similar trends for both residential and industrial property developers. These results stem from government personnel changes that delayed project handovers and new launches. However, the sector is gradually recovering, with profits more than doubling compared to the previous quarter. Our full-year growth forecast remains modest at 7%, pending project handovers and several bulk sales transactions in 2H24.

The low-rate environment should boost homebuyer confidence with attractive mortgage terms, and the new Land Laws are expected to address legal issues over time. The new legal framework will favour larger developers with existing land banks, likely making the sector recovery selective. Notably, real estate transactions have slowly recovered, with higher volume in the secondary market. Primary market data shows approximately 12,500 new apartments were launched in 1H24 (up 65% YoY), with nearly 10,000 launched in 2Q24. Demand is also higher, with approximately 14,000 units sold in 1H24 versus 7,000 in 1H23.

The Manufacturing and Consumer Sectors: At the beginning of the year, we anticipated manufacturing to lead the recovery, with consumer and services sectors gaining momentum in the later half as the low-rate environment gradually impacts consumer spending. By 1H24, both sectors exceeded our expectations, especially with faster margin improvements.

The manufacturing sector delivered 25% NPAT growth in 1H24, mirroring Vietnam's PMI surge from sub-50 levels last year to 54.7 by June 2024. Export-related companies thrived with robust growth, while domestic-focused firms showed steady, consistent gains.

Figure 7. S&P Global Vietnam Manufacturing PMI



In the consumption sector, total retail sales of goods and consumer services revenue reached \$121.7bn, up 11.3% YoY. Consumer and services companies under our Top-80 coverage recorded impressive profit growth of 32%, spanning sub-sectors such as retail, aviation, and IT services.

Among consumer and services players, some interesting trends emerged. Leading retailers like Mobile World Group (MWG) and FPT Retail (FRT) not only consolidated the customer base but also enjoyed better-than-expected margin improvements. Their significant market share gains and strong bargaining power enabled swift profit turnarounds through operational leverage.

IT services were a standout, consistently growing above 20%. FPT Corporation (FPT), the sector leader, recorded an impressive 27% revenue growth in 1H24 for their technology segments, securing 27 major contracts valued at over \$5mn each within just six months. We expect continued progress and new developments for this sector.

Aggressive Foreign Selling: Foreign net selling across emerging markets has resulted in over \$2bn in net outflows from the VNI YTD. As global markets navigate mixed economic signals and investors continuously adjust their positions, volatility may continue to impact the VNI. However, a cooling dollar index is creating a more stable macroeconomic setting for Vietnam's equity market, and with one of the highest growth outlooks globally, we anticipate that foreign selling will subside.

Connecting the Dots

While global financial markets have been volatile in the past week, we believe the impact on Vietnam will be moderate and temporary. With global rate cuts on the horizon, Vietnam can sustain supportive policies and focus on growth. We have revised our projected GDP growth from ~6.5% to ~6.8%, driven by strong trade recovery, resilient FDI inflows, and an increase in consumption through supportive policies. The economic fundamentals are solid, with a healthy trade surplus, sound power consumption metrics, and positive industrial production indices. The worst of currency volatility and domestic uncertainties may now be behind us.

Our forecast at the beginning of the year of 15-18% NPAT growth for our Top-80 universe is unchanged. Year-to-date market returns demonstrate a robust, alpha-driven market, underscored by a pronounced bias towards stock selection based on earnings and corporate outlooks. We therefore maintain our focus on high-quality companies with clear earnings visibility, which will be key in driving stock price returns. Beyond 2024, as global growth becomes more challenging, we anticipate a shift from a broad-based earnings recovery to a more selective one, with intensified divergence in stock performance. Investors will be rewarded for identifying companies with sustained or even accelerating growth momentum. Despite the challenge, recent corrections have brought market PE and PB ratios down to one standard deviation below the 5-year mean, creating a highly favourable risk-reward scenario with robust downside protection.



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