Money 360

October 2022

November 4, 2022

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HIGHLIGHTS

- **Government Bond Issuances in 10M2022 have fulfilled only 35% of the annual plan** with 10Y and 15Y tenors attracting the vast majority of interest. We expect that the VST will have to ramp up issuances in upcoming months of 2022 and increase offering rates as current unattractive yields are failing to attract investor interest.

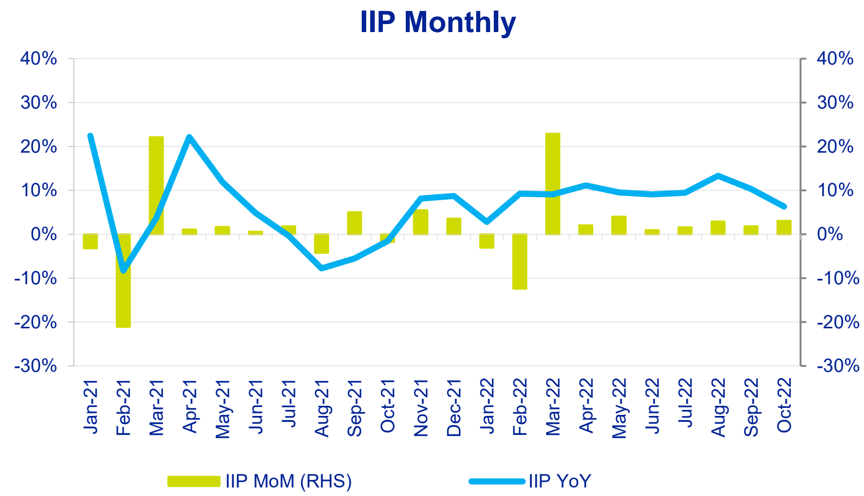
- **Secondary yields stabilized and increased slightly in October after surging on pressures from the FOMC meetings in September.** We also continue to hold expectation that that yields in the secondary market could increase by around 0.5-1.0% yields, as more hawkish view from the FED to set inflation fighting as top priority in the final months of 2022 due to stubbornly high inflation.

- **We expect that maintaining low interbank interest rates will be tough for the SBV** as they need to maintain a gap between the USD and VND interbank interest rates in order to support VND/USD exchange rate and surging credit needs when the SBV approves remaining credit growth quotas in the banking sector.

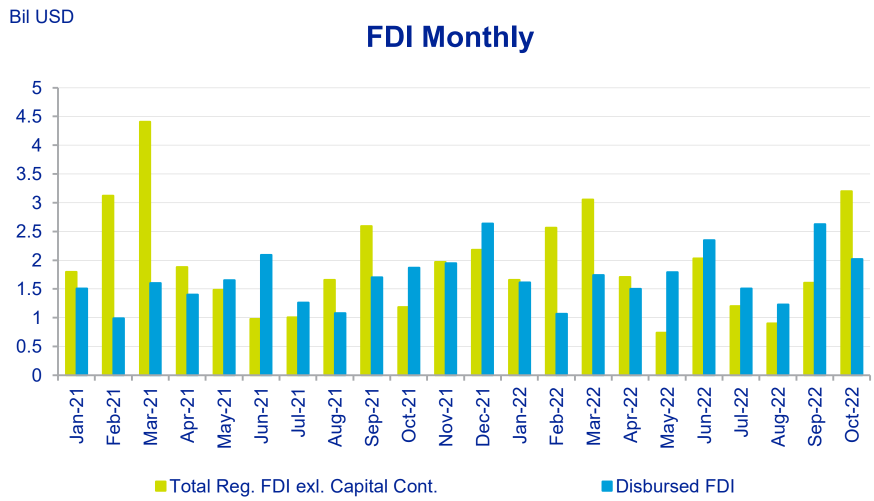
- **The USD/VND rates continued to depreciate in October 2022** compared with last months and last year. Overall, we have **3 scenarios for USD/VND rates** until the end of 2022 which will depend majority in Fed fund rate. And we think **third scenario will be likely** with recent move of SBV to prepare for aggressive FED rate hikes as September 2022's inflation figures in the US were higher than market expectations by 0.1-0.2%, so FED might be more hawkish with their rate hikes while the labour market seems to remain strong**.**

Macro Update

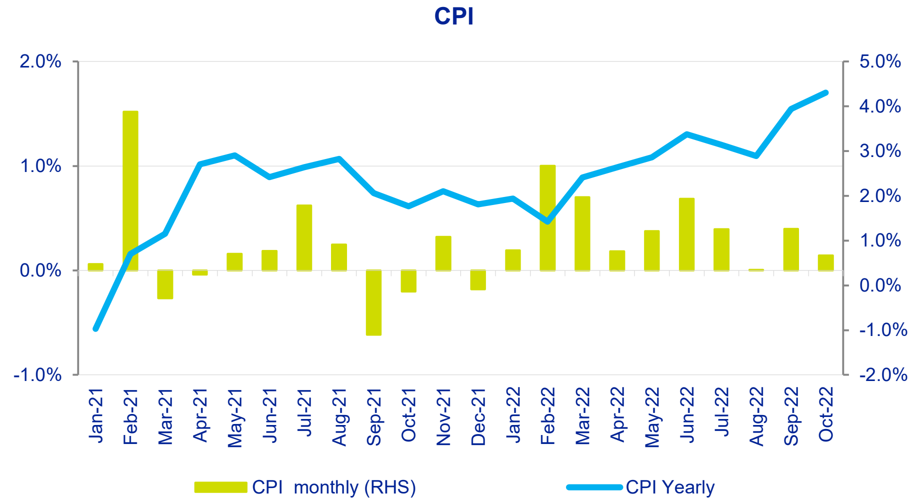
Industrial activities continued to post positive figures but the momentum slowed, in which IIP recorded a positive growth rate of 6.3% YoY in October 2022 and 9.0% YoY in 10M2022 (vs 10.3% in September 2022, -1.6% YoY in October 2021 and +3.3% YoY in 10M21). Furthermore, the October PMI was 50.6, while the PMI continued to be in expansionary territory, there are signs of slowing industrial activities as the PMI decreased from 52.5 in September. According to the PMI report, the Vietnamese manufacturing sector showed the first signs of slowing growth in both new orders and exports which caused by weakness of global economy and reduced business confident.



Disbursed FDI remained strong in 10M2022 (+15.2% YoY vs -4.1% YoY in 10M21) as travel restrictions eased and industrial activities continued to recover and accelerate. Registered FDI in October surged 170% YoY, but the cumulative 10M2022 figure decreased 7.2% YoY (vs +15.8% YoY in 10M21). We remain optimistic that FDI inflows will remain strong as Vietnam continues to be an attractive investment destination for FDI firms despite recent macro-economic headwinds.

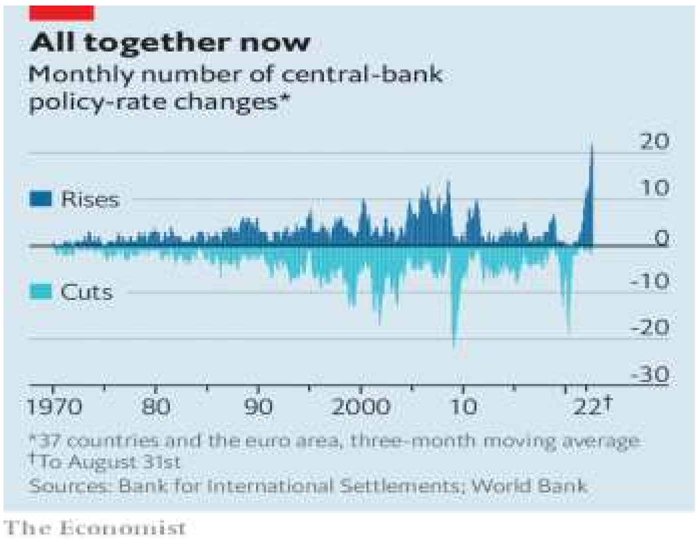


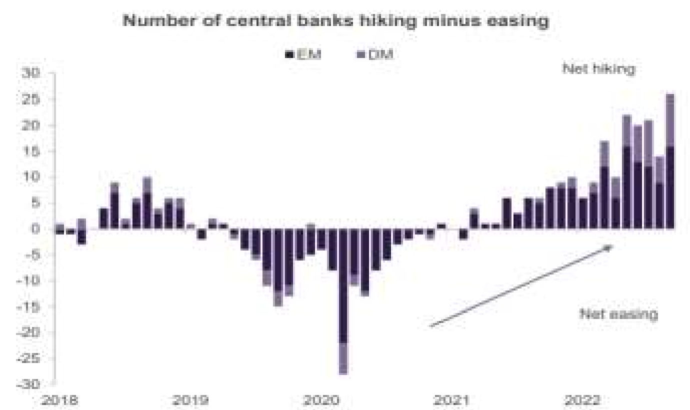
The October Consumer Price Index (CPI) increased 0.15% MoM and 4.30% YoY due to rising foodstuffs and outdoor catering service prices and surging education fee, but the average inflation rate in 10M2022 reached 2.89% YoY and far below government's target 4% and remained under control.



There are several exogenous risk factors which may bring uncertainties to Vietnam's economic growth prospects in last two months of 2022, which include:

1. The FED and other major central banks continue to hike rates aggressively to tame surging inflation which stay stubbornly at high level. Interest rate hikes are expected to continue throughout the end of the year as over 16 major central banks around the world, especially US (FED) and UK (BOE), have indicated. Moving to 2023, we expect that while inflationary pressures will remain in the early parts of the year, if the actions of central banks have the intended effects and inflation is brought under control, we could see easing monetary policies emerging in the second half as encouraging economic growth will return to the forefront of policy makers minds;

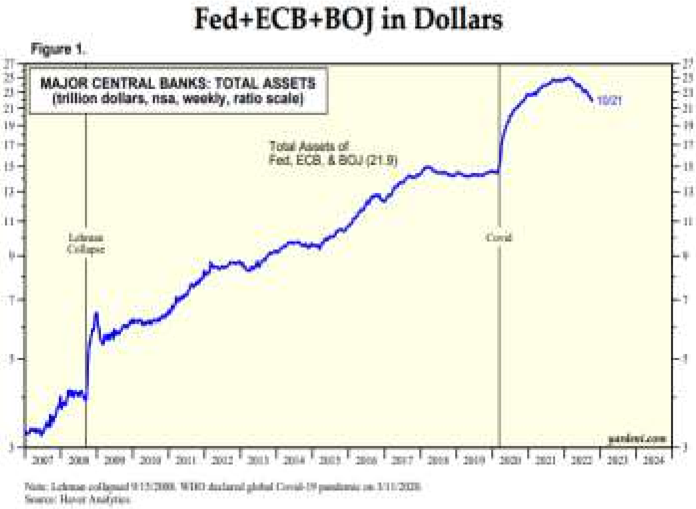


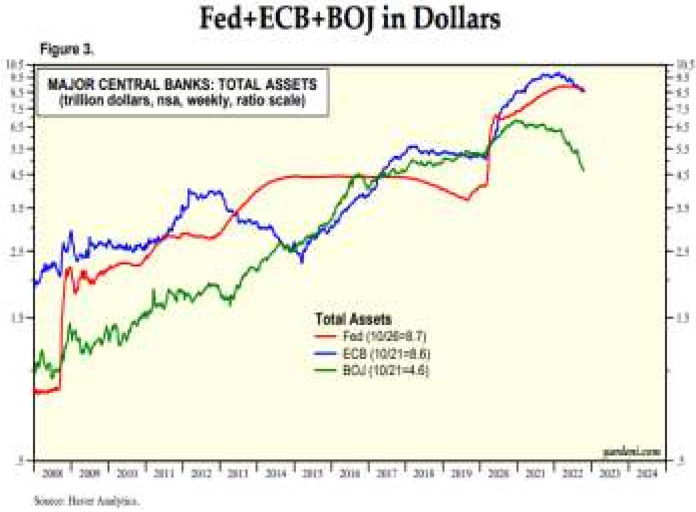


Data source: Truist IAG, Haver. Series constructed using predominantly countries in the MSCI All Country World Index
EM = Emerging markets; DM = Developed markets
Past performance does not guarantee future results.

2. The FED, along with the BOE and ECB are stopping reinvesting maturing assets and starting to sell assets on their balance sheet (also known as Quantitative Tightening program). The FED expected to reduce around USD400bn of its

balance sheet by the end of 2022. ECB and BOE also plans to follow FED. Morgan Stanley estimated that the balance sheets of the heaviest-hitting central banks will shrink by roughly USD4tn by the end of next year. Those events will put upward pressure on rates which could be difficult to lower rates and in turn will badly affect economic growth.





3. Recession risks grow, especially in especially in Vietnam's large trading partners such as the US, EU and China, and could slow trading activities which remain a key growth driver;
4. The global energy crisis is still causing great difficulties for many countries as the EU faces a shortage of energy supplies this winter and OPEC+'s oil production reduction plan could raise prices. Surging oil prices again might directly affect Vietnam's domestic gasoline prices and put upward pressure on transportation fees and will indirectly increase pressures on prices of other raw production materials; and
5. China continues to pursue its zero-COVID-19 strategy with mass testing and lockdowns when cases surge.

However, despite fears that these events could slow Vietnam's growth prospects in the final months of 2022, we maintain our expectation that Vietnam's GDP growth will continue to show positive signs as we close out the year, supported by:

1. The continuing recovery of all industrial activities (IIP slowed in October 2022 but overall 10M22 still increased 9.0% YoY in 10M22), which will push activities from FDI sector in term of investment and export;

2. Vietnam emerged as a substitute manufacturing center to cover output losses caused by the zero-COVID-19 strategy in China; and

3. The strong recovery of the service sector, after relaxing all COVID-19 related restrictions on service businesses, coming from (1) improvement of domestic consumption (total retail sales of goods and services October 22 increased 36.1% YoY and 10M22 increased 20.2% YoY), (2) reopening international tourism (retail sales of travelling services October 22 increased 31x YoY and 10M22 increased 2x YoY); and (3) normalization of transportation of goods help push trading activities especially export from FDI sector.

In addition, the SBV has increased some key interest rates two times on September 23, 2022 and October 25, 2022. With recent aggressive rate hikes of SBV (totaling 200bps), we continue to be positive about controlling inflation in Vietnam and maintain our expectation that Vietnam's CPI for 2022 will increase in the range of 3.2% - 4%, within Government's target of 4%.

Furthermore, the fiscal and monetary stimulus package, worth VND337tn (VND291tn for fiscal package and VND46tn for monetary package), to support the socio-economic recovery and development program after the impact of the COVID-19 pandemic started disbursement in 2Q2022 (according to minister Nguyen Chi Dung, Ministry of Planning and Investment, by September 2nd, disbursement of fiscal and monetary stimulus package reached VND55.5tn, about 16% of total package) along with over VND244tn (of total VND530tn) of Capital under State Budget needed to disbursed toward the year end of 2022, which will push socio-economic recovery in the last months of 2022

We keep expectations that Vietnam's GDP will continue to record strong growth, and will grow in range between 5.4% - 7.6% YoY in 4Q2022 and 7.8% - 8.4% YoY in 2022 as in our lastest 3Q2022 Macro Updated Report.

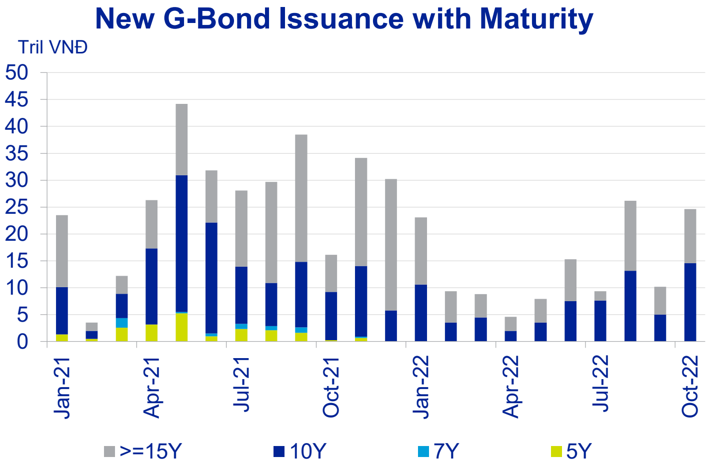
VGB-GGB MARKET

PRIMARY BOND MARKET

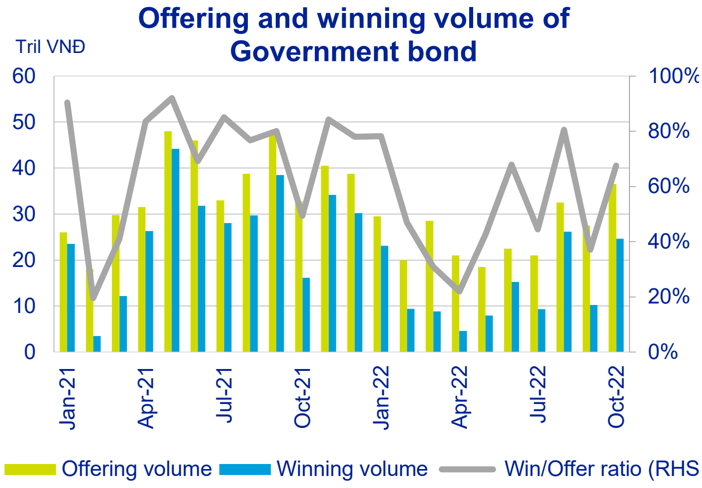
G-Bond issuances increased significantly in October with interest primarily in 10Y and 15Y tenors

Total G-bonds issued in October 2022 reached VND24.7tn (vs VND16.1tn in October 2021). Winning yields of all mid-terms slightly increased during October, but due to high bidding rates and no winning values in October, short- and long-term yield remained the same compared with last month mainly due to low winning value caused by low and unattractive offering rate. The winning rate of all terms reached 67.5% in October 2022 (increased from 37.1% in September 2022). In addition, winning value increase by 53% compared with October 2021.

10Y and 15Y attracted investor's attention in October 2022 which accounted for 59% and 41% of the total issuance amount, and winning rates all reaching over 40%.



Source: HNX, ACBS



Source: HNX, ACBS

Bond Yields in the primary market						
	5Y	7Y	10Y	15Y	20Y	30Y
End of October 2022	0.76%	1.10%	3.30%	3.60%	2.75%	3.01%
vs September 2022	0.76%	1.10%	2.85%	3.23%	2.75%	3.01%
vs October 2021	0.84%	1.17%	2.13%	2.35%	2.80%	2.98%

YTD issuances remain far behind pace to complete annual target

By the end of October, the VST only issued VND24.7tn and VND139.4tn of G-bonds in 4Q2022 and 2022 respectively, fulfilling only 18.3% of 4Q2022's issuance plan (VND135tn) and 34.9% of 2022's issuance plan (VND400tn).

Government Bond Issuance Plan						
VND Bn	4Q2022 Target	QTD Issuance	QTD Issuance/Target	2022 Target	2022 YTD Issuance	2022 YTD Issuance/ Target
5-year	15,000	-	0.0%	30,000	0	0.0%
7-year	5,000	-	0.0%	15,000	0	0.0%

10-year	37,000	14,600	39.5%	140,000	72,072	51.5%
15-year	50,000	10,050	20.1%	150,000	56,470	37.6%
20-year	13,000	-	0.0%	30,000	2,265	7.6%
30-year	15,000	-	0.0%	35,000	8,625	24.6%
Total	**135,000**	**24,650**	**18.3%**	**400,000**	**139,432**	**34.9%**

Issuances and yields expected to increase in last two months

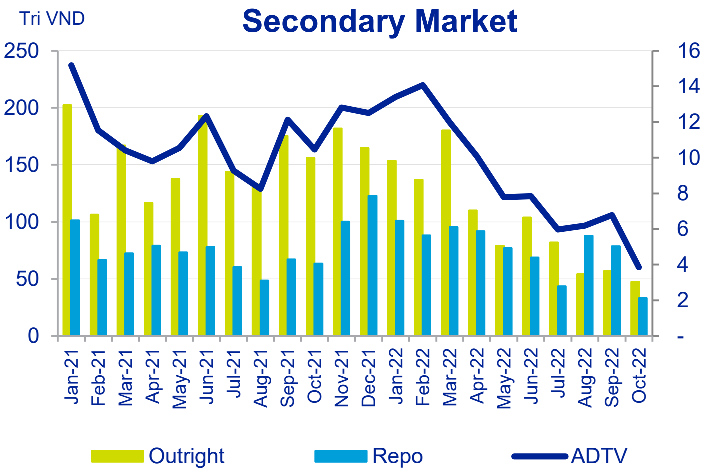
ANALYST COMMENT: We expect that the VST will have to continue to speed up issuances in last two months of 2022 as the government needs to push disbursement of public investment and finance their fiscal and monetary stimulus package, which was planned to disburse in 2022, and have already been disbursed 16% by September 2nd, in order to boost economic development after end of COVID-19 outbreak. In addition, VST also needs to increase offering rates especially short-term rates to increase winning rate of issuance which was currently low due to unattractive low yields and also prepare capital for disbursement plan in 2023.

SECONDARY BOND MARKET

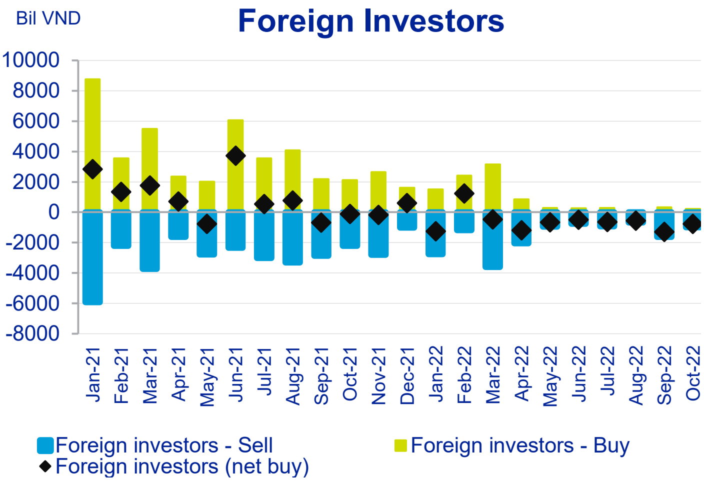
Secondary trading values decreased over 40.4% MoM and 63.2% YoY, and foreign investors continued to be set sellers

Total trading value of outrights and repos in the secondary market in October 2022 decreased 40.4% compared with last month and down 63.2% compared with last year, reaching VND80.8tn and with the average daily trading value (ADTV) reaching VND3.8tn (-63.2% YoY). Of the total trading value in the secondary market, outright transactions accounted for 59% and ADTV of outright decreased 70% YoY to VND2.3tn. Of the total trading volume in the secondary market, repo transactions accounted for 41%.

Foreign investors trading position recorded a net sell of VND777bn in October 2022, the cumulative net sell since start of 2022 increased to VND6.1tn.



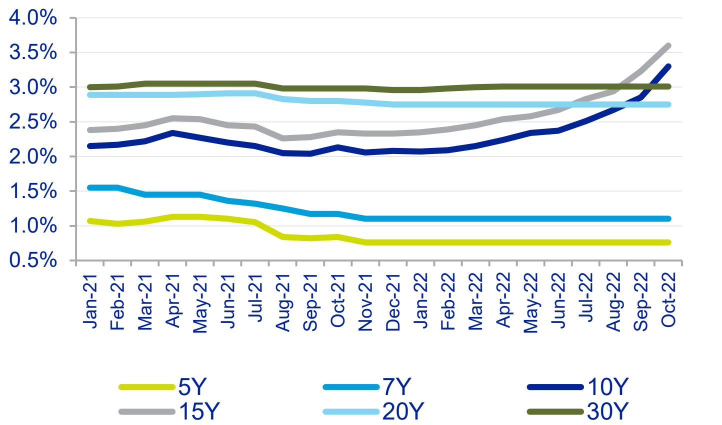
Source: HNX, ACBS



Source: HNX, ACBS

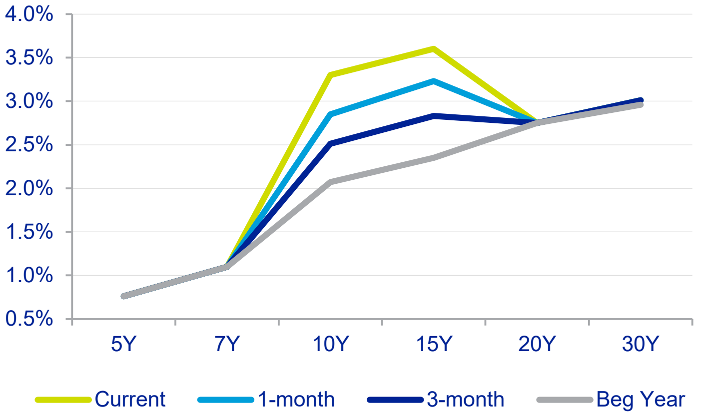
Yield Curve

G-Bond Issuance Winning Interest Rate



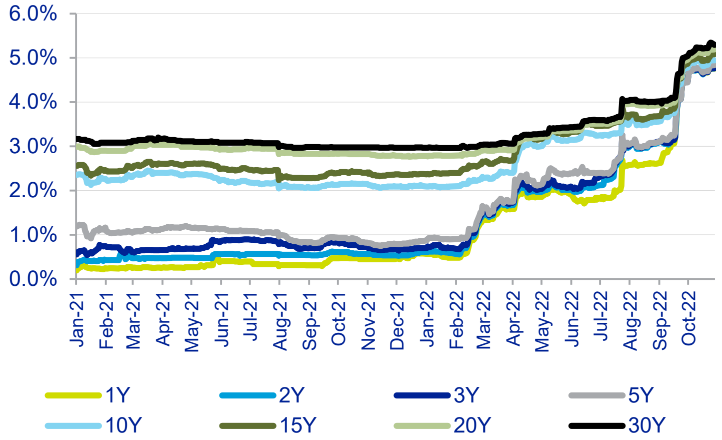
Source: HNX, VBMA, ACBS

Yield Curve Primary Market



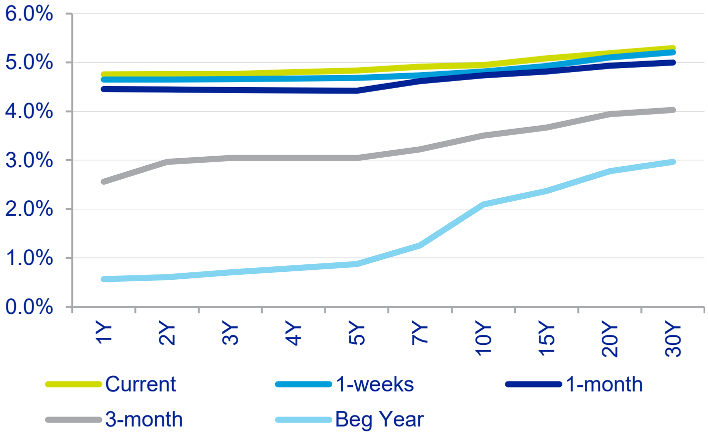
Source: HNX, VBMA, ACBS

Bond Yield Secondary Market



Source: HNX, VBMA, ACBS

Yield Curve Secondary Market



Source: HNX, VBMA, ACBS

Secondary yields stabilized and increased slightly in October after surged on pressures from the FOMC meetings in September

Primary bond yields (except 10Y and 15Y) remained almost the same during October 2022 compared with same period last year mainly due to low winning value caused by low and unattractive offering rate.

Besides that, bond yields in the secondary market during October stabilized and increased slightly after surged on pressures from the FOMC meetings in September.

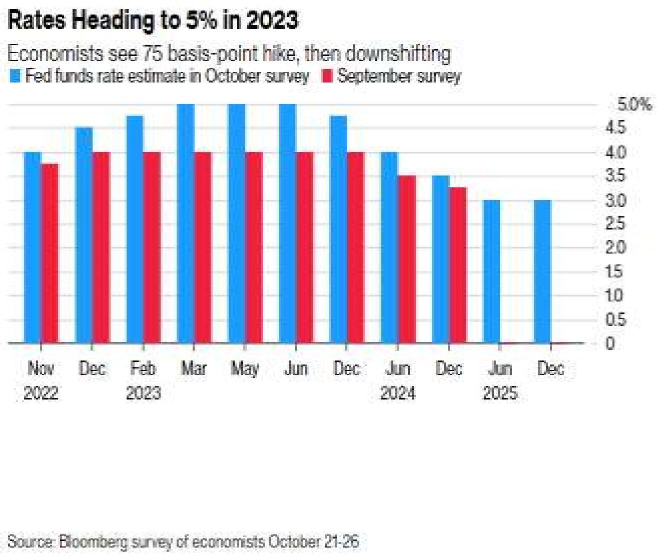
Bond Yields in the primary market						
	5Y	7Y	10Y	15Y	20Y	30Y
End of October 2022	0.76%	1.10%	3.30%	3.60%	2.75%	3.01%
+/- YoY (bps)	-8	-7	117	125	-5	3

Bond Yields in the secondary market										
	1Y	2Y	3Y	4Y	5Y	7Y	10Y	15Y	20Y	30Y
End of October 2022	4.76%	4.76%	4.76%	4.80%	4.83%	4.91%	4.95%	5.08%	5.19%	5.29%
+/- YoY (bps)	431	419	404	402	400	369	279	268	237	232

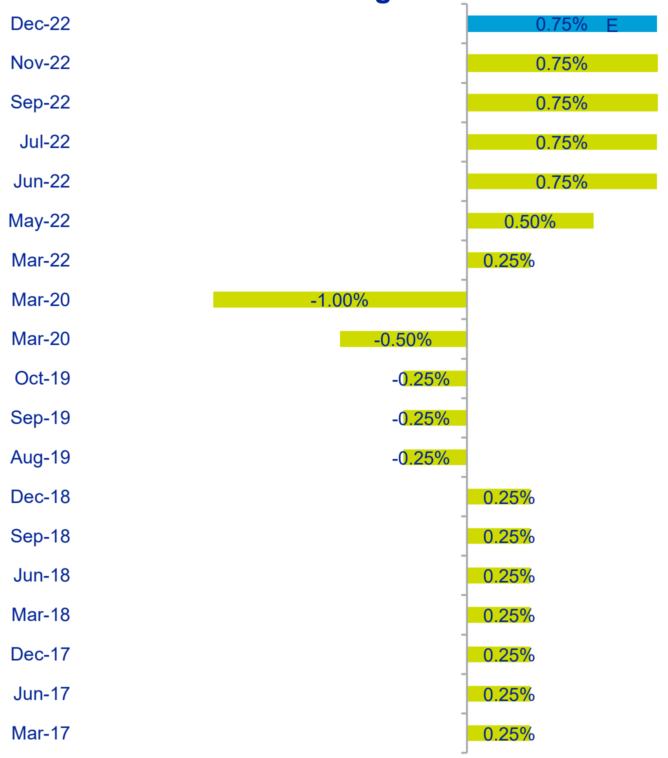
Expectations are for yields in the secondary market to increase in the upcoming months of 2022

ANALYST COMMENT: In our opinion, the VST will need ramp up issuances in upcoming quarters of 2022 if the VST wants to fulfill their 2022's issuance plan. In addition, VST need to increase their offering yield in order to be more attractive to investors as current interest rates are high globally. Furthermore, the VST has issued just 34.9% of 2022's issuance plan (VND400tn), so VST are under pressure to carry out remaining plan (around VND260tn) in the last two months especially when government needs to push disbursement of remaining public investment of 2022 and preparing capital for 2023. Given the large shortfall amount required to meet the annual plans, its seemingly unlikely that the full year target will be reached.

In the secondary market yields stabilized and increased slightly in October after surging on pressures from the FOMC meetings on 20-21 September. However, rising interest rate globally caused by surging inflation and pressure of expected rate hikes of 75bps towards the year end 2022 and continued to increase in range of 50-75bps in 1H2023 before continued to put upward pressure on our bond yields. Furthermore, we also continue to hold expectation that yields in the secondary market could increase by around 0.5-1.0%, as more hawkish view from the FED to set inflation fighting as top priority in upcoming months of 2022 due to stubbornly high inflation.



The Fed's changes to FFR since 2017



Source: CME, FED, ACBS

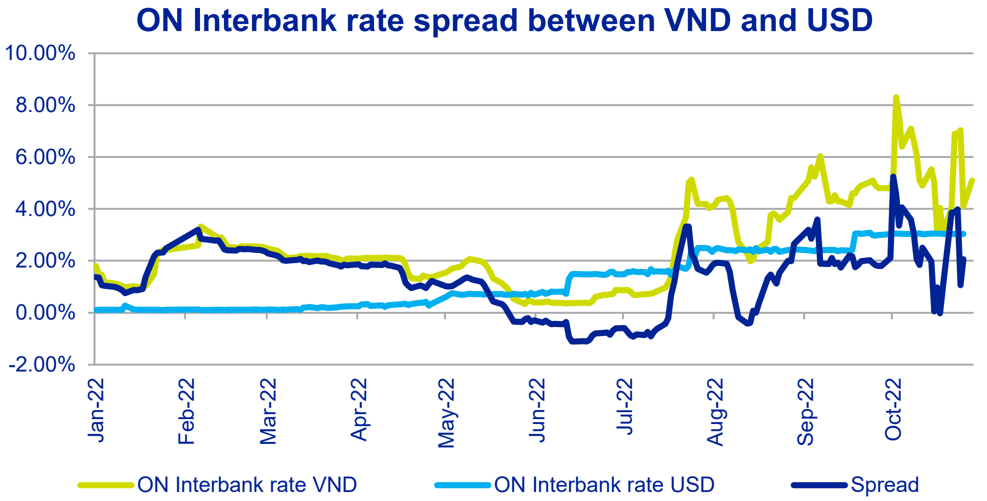
MONEY MARKET

Reengaging the T-bills channel helped closing the interest rate gap between the USD and VND interbank interest rate and in turn helped reduced depreciation pressure and stabilize the exchange rate and the foreign exchange market as a whole

In October, SBV continued to issue over VND207tn, while over VND172tn come due through T-bills channel. In addition, VND165bn of reverse repos OMO issued in October combined with over VND93tn coming due during the month through reverse repo OMO. As a result, the SBV injected over VND37tn net via T-bills, reverse repos OMO and selling USD.

The interbank rate was volatile across all tenors throughout October due to unstable liquidity of banking system caused by volatility of interbank activities due to negative sentiment surrounding the Saigon Joint Stock Commercial Bank (SCB). As of the end of October, the average interbank rates of ON (5.82%, +91 bps MoM), 1-week, (6.32%, +119 bps MoM), 2-weeks (6.60%, +144 bps MoM), 1-month (7.24%, +175 bps MoM), 3-months (8.19%, +199 bps MoM), 6-months (8.45%, +106 bps MoM) and 9-months (9.51%, +169 bps MoM) all increased dramatically.

As we expected in our last report, the recent SBV moves are likely aimed at closing the negative interest rate gap between the VND and USD interbank interest rate on the interbank market, helped reduced depreciation pressure and stabilize the exchange rate and the foreign exchange market as a whole.

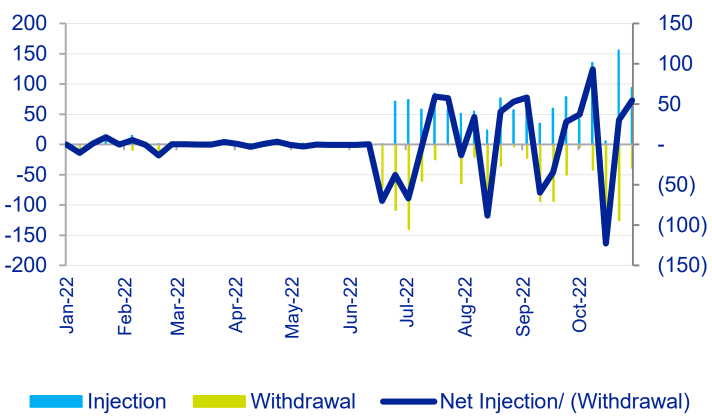


Source: SBV, ACBS

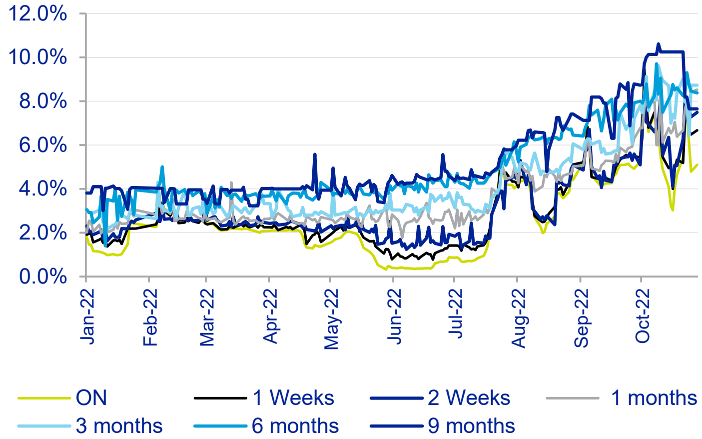
Interbank Rate							
	ON	1 Weeks	2 Weeks	1 months	3 months	6 months	9 months
Average of October 2022	5.82%	6.32%	6.60%	7.24%	8.19%	8.45%	9.51%
+/- MoM (bps)	91	119	144	175	199	106	169
End of October 2022	4.42%	5.11%	5.09%	5.03%	6.07%	6.46%	7.42%
+/- MoM (bps)	23	36	70	58	35	138	163

Source: SBV, ACBS

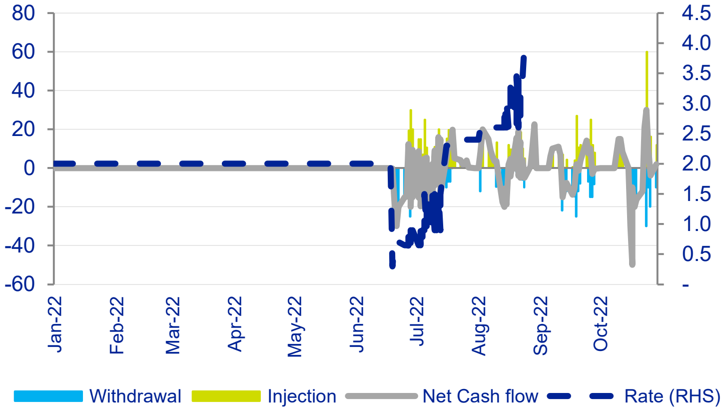
Tn VND **Net Injection/ (Withdrawal) from OMO**



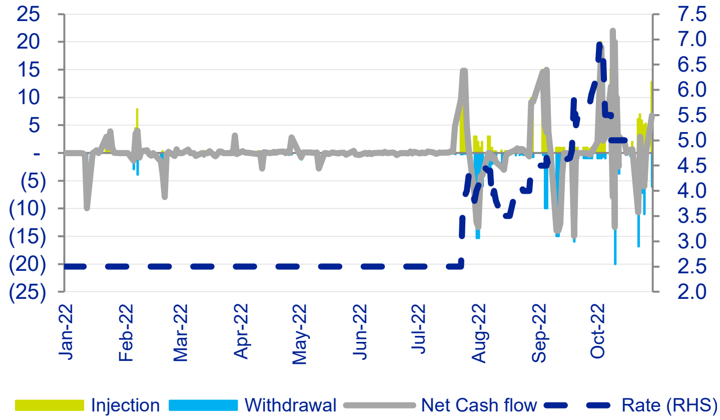
Interbank Rate



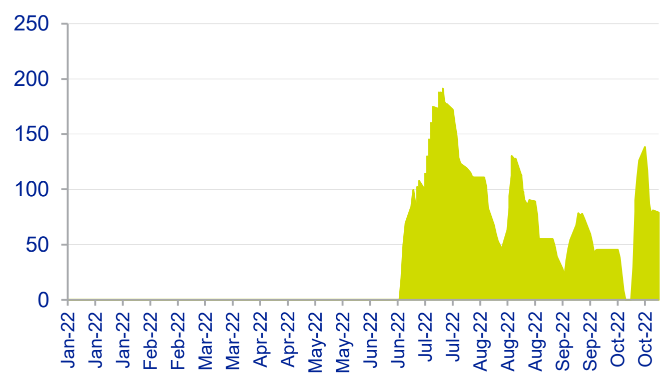
Tn VND **T-bill- In and Out** %



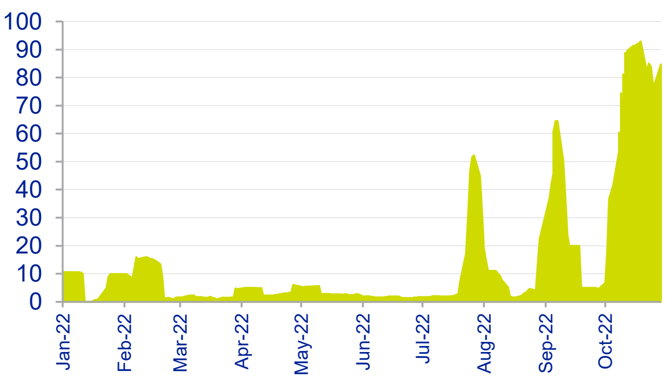
Tn VND **OMO- In and Out** %



Tn VND **SBV Bills outstanding**



Tn VND **OMO Outstanding**



Source: SBV, ACBS

ANALYST COMMENT:

Keeping interbank interest rates low would be tough for the SBV as they have to keep gap between the USD and VND interbank interest rate positive in order to support VND/USD exchange rate

We expect that maintaining low interest rates would be tough for the SBV as the FED is expected to continue to increase interest rates in the final meeting of 2022 in December and during 1H2023, which will put pressure on VND/USD exchange rate and the SBV will have to keep gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate.

We expect banking system liquidity might remain tight at this current level as support for VND from the SBV, and interbank rates may increase in the range of 100-200bps in the final months of 2022

In addition, as most banks have reached their credit growth quota, we might not expect commercial banks to push credit growth toward yearend and put upward pressure on interest rates. However, we expect that new credit growth quota granted at the start of 2023 in conjunction with high demand for cash due to several big holiday might drain liquidity and put upward pressure on interest rates in early 2023.

As a result, we expect banking system liquidity might remain tight at this current level as a support for VND from SBV. So, we expect that **interbank rates may increase further in range of 100-200bps from this current level** in the upcoming months of 2022 due to:

Expected further rate hikes at central banks throughout the world to put pressure on the SBV to increase key policy rates before year end by another 50-75bps

(1) Interest rate hikes are expected to continue throughout the end of the year as over 16 major central banks around the world, especially US (FED) and UK (BOE), have indicated. Moving to 2023, we expect that while inflationary pressures will remain in the early parts of the year, if the actions of central banks have the intended effects and inflation is brought under control, we could see easing monetary policies emerging in the second half as encouraging economic growth will return to the forefront of policy makers minds. However, toward yearend 2022, those pressure will continue to put upward pressure on our interbank rate and policy interest rate; and

Maintaining positive gap between VND and USD interbank rate could keep VND interbank rate high

(2) SBV intended to keep gap between the VND and USD interbank interest rate positive in order to support VND/USD exchange rate, so with Fed Fund Rates continuing to be high and higher toward the year end, we don't expect SBV will lower interbank rates much in upcoming months.

In addition, we maintain our expectation that our **key policy interest rates** might gradually **increase between 50bps – 75bps** toward year-end **2022** and another **100-200bps in 2023**.

OTHER MARKETS

FOREX MARKET

The SBV has increased the spot reference asking exchange rate (for the fifth time in 2022) on October 17th, 2022 by 455VND (increased from 23,925 to 24,380 VND/USD

The State Bank of Vietnam (SBV) decided to adjust the USD/VND spot exchange rate band from ±3% to ±5%; effective from 17/10/2002 under heavy selling pressure of USD to banks recently as the growing pressure from the strengthening US Dollar (US Dollar index was up 3.1% MoM) after the recent Fed interest rate hikes. We estimate that from the beginning of the year to the October 14th 2022, the SBV sold up to USD22bn, resulting the foreign reserves sliding to approximately USD87bn.

The VND under pressure from central bank rate hikes globally

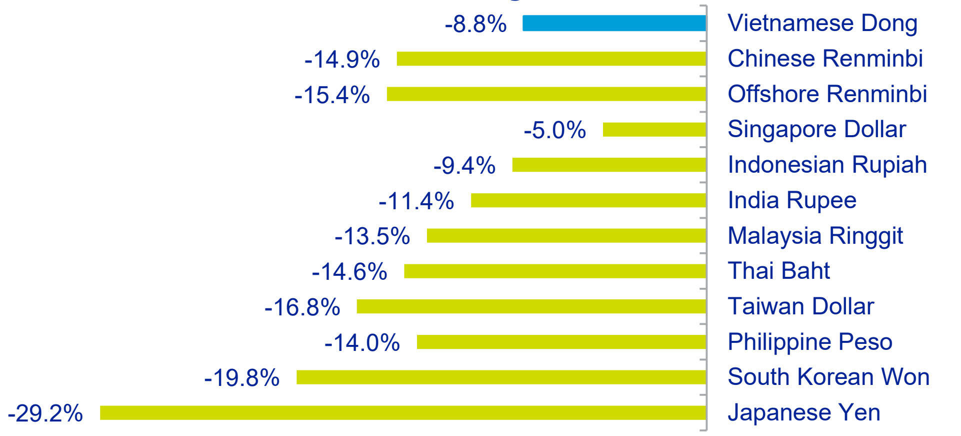
The SBV has increased the spot reference asking exchange rate (for the seventh time in 2022) on October 24th, 2022 (which is the rate offering to commercial banks to buy USD from SBV) by 490VND (increased from 24,380 to 24,870 VND/USD).

The USD/VND exchange rate of banking system has depreciated since the beginning of April 2022 due in part to upward pressure from rate hikes by major central banks. As of the end of October 2022, average USD/VND exchange rate of banks stood at VND24,838 (+8.81% YTD). In addition, USD/VND exchange rate in black market also depreciated to VND25,230 (+7.42% YoY).

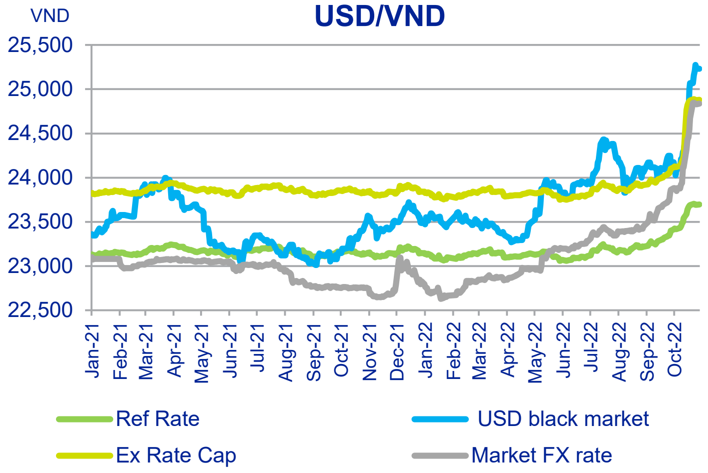
The strong USD put depreciation pressure on various currencies not just Vietnamese Dong

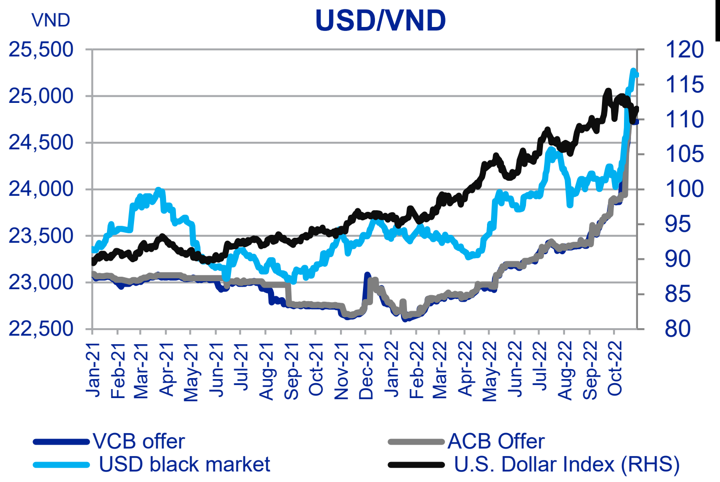
In general, the USD has been on a strong run with the Dollar Index (DYX) surpassing the 110 level, reaching a two-decade high, and appreciating just under 15% YTD. The strong dollar has been contributed to by several factors including the aggressive interest rate hikes by the US Fed and weaknesses seen in the Pound Sterling and Euro as those economies are facing the fallout of surging energy costs and the weaponization of the gas markets by Russia in response to economic sanctions placed upon them by many Western nations. The VND has historically been under pressure when the DXY is strengthening, which is contributing to the actions from the SBV.

Year-to-date against the US dollar



Sources: Bloomberg, ACBS





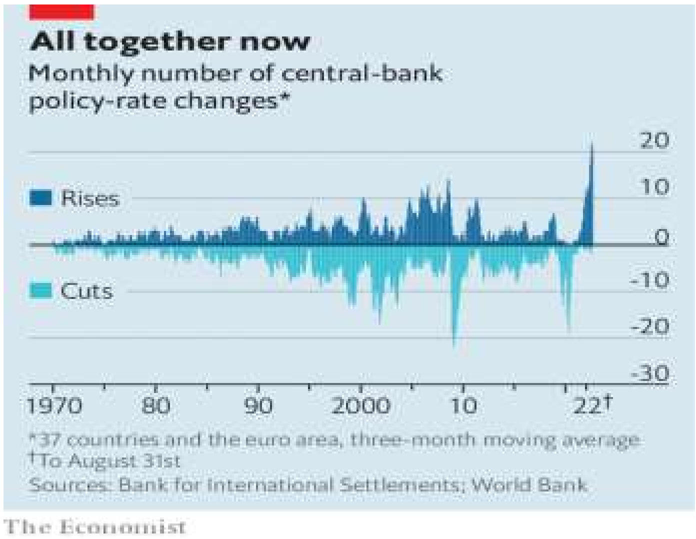
Source: SBV, Bloomberg, ACBS

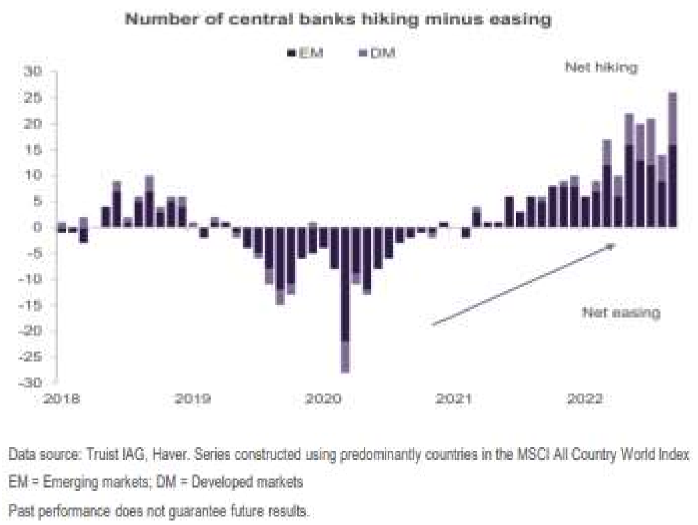
ANALYST COMMENT:

We believe that the recent rate hikes by the SBV were done in part to address increasing deprecation pressures on the VND. The Vietnamese currency has been coming under increasing pressure throughout 2022 from various sources including:

External headwinds from global central banker's raising rates and implementing QT to fight inflation putting downward pressure on the VND

(1) Interest rate hikes are expected to continue throughout the end of the year as over 16 major central banks around the world, especially US (FED) and UK (BOE), have indicated. Moving to 2023, we expect that while inflationary pressures will remain in the early parts of the year, if the actions of central banks have the intended effects and inflation is brought under control, we could see easing monetary policies emerging in the second half as encouraging economic growth will return to the forefront of policy makers minds;



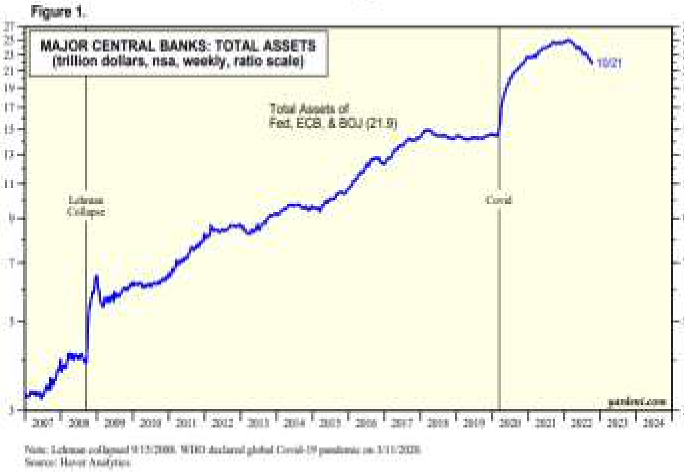


FED and other major central banks will shrink their balance sheet soon and will put depreciation pressure to VND in upcoming months

(2) The FED, along with the BOE and ECB are stopping reinvesting maturing assets and starting to sell assets on their balance sheet (also known as Quantitative Tightening program). The FED expected to reduce around USD400bn of its balance sheet by the end of 2022. ECB and BOE also plans to follow FED. Morgan Stanley estimated that the balance sheets of the heaviest-hitting central banks will shrink by roughly USD4tn by the end of next year. Those events will put upward pressure

on rates which could be difficult to lower rates and in turn will badly affect economic growth.

Fed+ECB+BOJ in Dollars



Fed+ECB+BOJ in Dollars

China zero-COVID-19 strategy and recession risks in US and EU also putting downward pressure on the VND

(3) China continues to pursue a zero-COVID-19 strategy with mass testing and lockdowns when cases surge. This strategy could cause another major disruption to global supply chains and further inflate shipping costs, which in turn could hinder our trading activities and may put another depreciation pressure on foreign exchange rate in upcoming months;

(4) The Chinese Renminbi (CNY) has been under pressure since 1Q2022, seeing a devaluation vs the USD of c. 12.8% YTD and surpassing the important psychological level of 7:1 and hitting a 12-year low. The devaluation of the CNY could have knock on effects to emerging/frontier markets which compete with China for global shares of exports, which includes Vietnam, as Chinese exports are getting cheaper for importers; and

Recession risks grow which in turn lead to low performance from US's and EU's economy could weigh on our export activities which is the country's key economic growth driver

(5) Recession risks grow, especially in US and EU as gas & energy crisis following the recent disruption of Russian natural gas supplies through the Nord Stream 1 pipeline in EU and FED continued to set price stability (lower inflation) as top priority. The effects of low performance from US's and EU's economy could weigh on our export activities which is the country's key economic growth driver.

However, Vietnam's economy continues to exhibit relatively good fundamentals and factors which will help VND in general (in banking system and in black market) stabilized in the final months of 2022, include:

Vietnam's economy continues to exhibit relatively good fundamentals and factors which will help VND in general (in banking system and in black market) stabilized in upcoming months of 2022

(1) Inflation remaining low and under control below 4%;

(2) Exports, which are the country's key economic growth driver, will remain strong as manufacturing activities gradually recover and are expected to continue their upward trajectory given the recovery of the global economy. Vietnam emerged as a substitute manufacturing center to cover loss output causing by zero-COVID-19 strategy of China. In addition, our trading activities continued to be solid as total export-import turnover in 10M2022 reached USD616.2bn (+14.7% YoY) and our balance of trade continued posted surplus USD2.3bn in October 2022 and overall 10M2022 remained surplus over USD9.4bn;

(3) FDI inflows disbursement grew strongly in 10M2022 (+15.2% YoY);

(4) SBV will try to lower depreciation pressure to VND by keeping the positive gap between the VND and USD interbank interest rate. In addition, with sufficient foreign reserves (stood at around USD105bn at the end of 2Q2022, however there has been speculation that c. USD18bn have been sold by the SBV, putting current reserves at an estimated USD87bn) SBV could use to defend its currency when needed.

Overall, we have 3 scenarios for fx till end of 2022 which range 24.800 – 25.500

Overall, we have 3 scenarios for the VND until end of 2022 which will depend majority in interest rate and quantitative tightening program of FED and major central banks (ECB, BOE and BOJ):

(1) In first scenario, we assume that inflation peaked in US, US's economy and labour market can not sustain growth with this level of interest rate and FED will keep their rate hike plan. In this scenario, FX rate will be around the 24.800 – 25.200 level.

(2) In second scenario, we assume that inflation climbs higher in US, US's economy and labour market still remain strong in this level of interest rate and FED will be more hawkish with their rate hike plan. In this scenario, if SBV raise their reference rate by 50-100bps, FX rate will be around the 24.800 – 25.200 level.

(3) In third scenario, we also assume that inflation climb higher in US, US's economy and labour market still remain strong in this level of interest rate and FED will be more hawkish with their rate hike plan. But in this scenario, SBV do not raise their reference rate, FX rate will be depreciated 1-2% more, which will be 25.000 – 25.500.

We think third scenario will be likely with recent move of SBV to prepare for aggressive FED rate hike, cause September 2022's inflation figure released in US higher than market expectation by 0.1-0.2%, so FED might be more hawkish with their rate hike and labour market seem to remain strong.

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