



6.10.2023

DEAR CUSTOMER

- THE WEAKNESS OF THE VIETNAMESE MARKET HAS COME AS A SURPRISE
- THE KEY ECONOMIC CONDITIONS IN VIETNAM ARE IMPROVING
- THE APPRECIATION OF THE US DOLLAR IS DISRUPTING MONETARY POLICY IN ASIA

The early autumn has been a surprisingly weak period for the Vietnamese stock market despite the general expectation of uptrending stocks and continued strong performance in 2024. It's worth noting that the Vietnamese stock market has improved since bottoming out in November 2022, and when observing the recent sell off, it is good to keep in mind that Vietnamese retail investors dominate the daily tone of the stock market and often operate on extremely short-term basis. The central bank has sought to maintain the stability of the dong by intervening in the money supply. In doing so, the central bank has caused alarm among retail investors, who are worried about the impact of the measures on the stock market.

In our opinion, the wrong conclusions have been drawn, as the liquidity of Vietnamese banks remains very good. Interbank rates, which reflect liquidity between banks, have remained close to zero throughout the period. With this in mind, we expect the stock market to turn to an upward trajectory towards the end of the year.

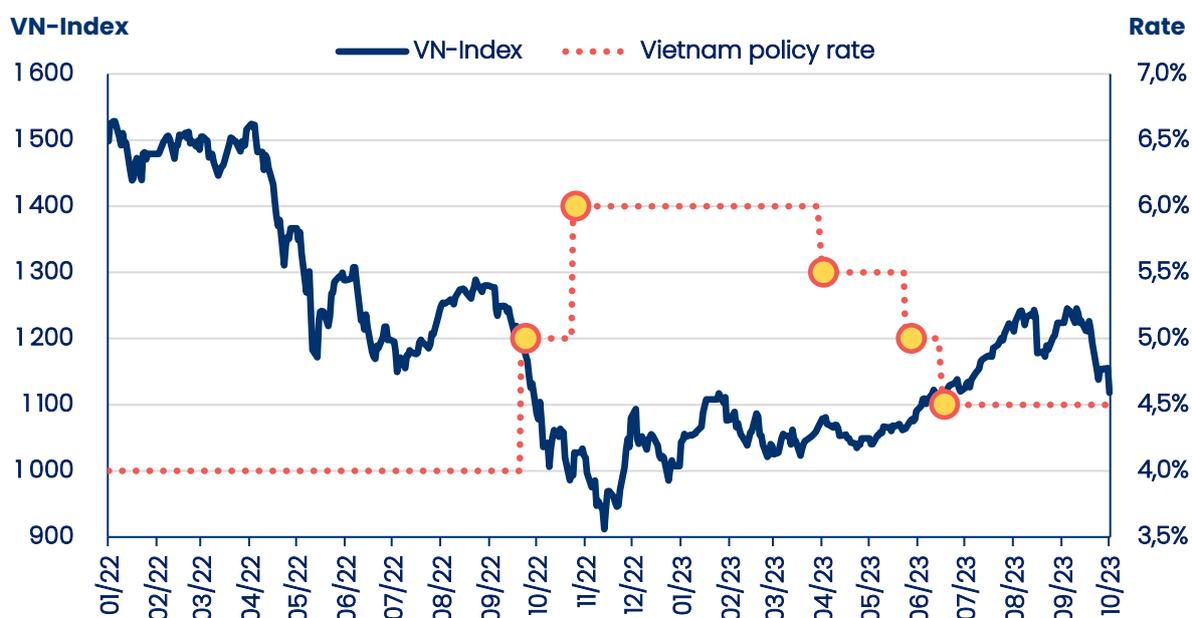
The most critical period for the Vietnamese financial market was in November 2022, when the corporate bond market froze and financing within the banking system tightened. This led to a temporary weakening in economic growth, a dampening of earnings growth, and a slowdown in private consumption. Interest rates in Vietnam have subsequently been brought down, the corporate bond market has continued to normalise, and economic growth has accelerated. There has been no structural problem of over-indebtedness in Vietnam's financial system, but the decision of the authorities to tighten the rules and simultaneously penalize those who abused the market led to a challenging situation in the corporate bond market at that time. This, in turn, had consequences for the stock market and the real economy due to tightened liquidity.

Currently, the liquidity in Vietnam's financial system is very good, and lending is picking up again as interest rates have returned to normal levels. Since April, the central bank has managed to create favorable conditions for growth. In the first half of 2023, GDP growth slowed to 3.7%, but the recently released preliminary figures for Q3 show growth of 5.3%, indicating an accelerating trend. In September, Vietnam's exports also turned to growth. The rate of year-on-year export growth was 11.9%. Moreover, foreign direct investments (FDI) in the industrial sector set an all-time monthly record in September, reaching USD 2.8 billion.

Export growth can be expected to remain somewhat subdued. However, very strong overall economic growth figures are expected for 2024, driven by the weak base data for the domestic market this year and the measures to boost growth that have been taken in 2023. The earnings growth of listed companies will be robust, reaching levels as high as 25–30%.

The central bank has purposefully lowered its policy rates to accelerate economic growth. Due to the global rise in interest rates, Vietnam also saw policy rates increase from 4% to 6% in 2022. This year, however, policy rates have already been lowered to 4.5%. This has led to ample liquidity for banks and a clear decline in deposit rates, which are key supporting factors for lending in Vietnam. Over the next 12 months, policy rates are expected to decrease from 4.5% to 4%. The stock market could have been expected to remain on an upward trend given the current lending conditions and liquidity, considering the outlook of clearly improving economic data and corporate earnings.

From the lows of November, the direction of the VN-Index is upwards



Source: Bloomberg

The P/S ratio (price to sales) clearly indicates that the stock market is relatively undervalued compared to the levels seen at the beginning of 2022. There is obvious potential for market to re-rate its valuation ratios in the next 12 months. We anticipate the valuation of the Vietnamese stock market to rise from a P/S ratio of 1.3 to over 2.0 as the disruptions to the financial system are fading away, businesses outlook improves by more favorable economic conditions and earnings growth accelerates.

A P/S ratio of 1.3 is very low for the Vietnamese stock market



Although the first half of the year was lackluster for the Vietnamese economy, with exports contracting and overall economic growth clocking only 3.7%, the top holdings in the PYN Elite portfolio generated reasonably strong revenue growth and earnings.

The results of PYN Elite's top holdings in H1/2023

Ticker	Company	Revenue (Billion VND)		Earnings (Billion VND)		Earnings YoY
		H1/2023	H1/2022	H1/2023	H1/2022	
STB	Sacombank	13,538	11,254	3,825	2,078	84%
VHM	Vinhomes	62,132	13,394	21,570	5,207	314%
VRE	Vincom Retail	4,116	3,219	2,024	1,150	76%
CTG	Vietinbank	34,790	30,011	10,010	9,309	8%
TPB	TP Bank	7,576	8,189	2,706	3,030	-11%
ACV	ACV	9,658	5,538	3,594	3,046	18%
MBB	MB Bank	23,491	22,855	9,917	9,169	8%
HDB	HD Bank	12,071	10,704	4,247	3,998	6%
VEA	VEAM	1,984	2,248	3,148	3,190	-1%
CMG	CMC Corporation	3,602	3,485	127	114	12%
SCS	Saigon Cargo	334	455	242	340	-29%
Total		173,292	111,352	61,410	40,631	51%
				Average		44%

Source: FiinPro

The year 2024 may deliver particularly strong earnings for Vietnamese listed companies, but we also expect earnings growth to remain fairly good for several years. The table below shows the earnings outlook for PYN Elite's portfolio's top holdings for three years, along with the corresponding P/E valuations. For the shopping mall operator VRE and the airport operator ACV, we use cash flow-based earnings as both have significant property assets exceeding their book values on which depreciation is recognized in accordance with Vietnamese Accounting Standards (VAS), despite the values of the buildings and land having increased annually. For this reason, cash flow-based earnings, reflecting the international IFRS practices, provide a more accurate picture of the profitability of these two companies.

PYN Elite's forecasts of the earnings growth of portfolio companies

Ticker	Weight	Est Net Profit (Billion VND)			Forward P/E		
		2023	2024	2025	2023	2024	2025
STB	15.3%	7,479	15,171	18,679	7.4	4.2	3.4
VHM	12.0%	30,352	34,379	36,603	6.3	5.6	5.2
VRE*	9.7%	5,512	5,780	6,538	10.8	10.3	9.1
CTG	9.1%	17,446	22,638	28,902	8.0	6.2	4.8
TPB	8.4%	6,281	8,380	11,521	5.9	4.4	3.2
ACV*	8.1%	8,862	9,332	10,550	18.5	17.5	15.5
MBB	7.6%	19,521	23,223	31,728	4.9	4.1	3.0
HDB	7.6%	9,088	11,978	14,639	5.4	4.4	3.6
VEA	4.8%	6,878	7,306	7,597	7.1	6.7	6.4
VNFIN LEAD	3.7%				7.4	6.0	5.3
CMG	2.5%	331	475	630	21.5	15.1	11.4
SCS	2.2%	533	546	583	12.0	11.7	11.0
Average					9.6	8.0	6.8
Weighted average					8.6	7.1	6.1

Source: PYN Fund Management

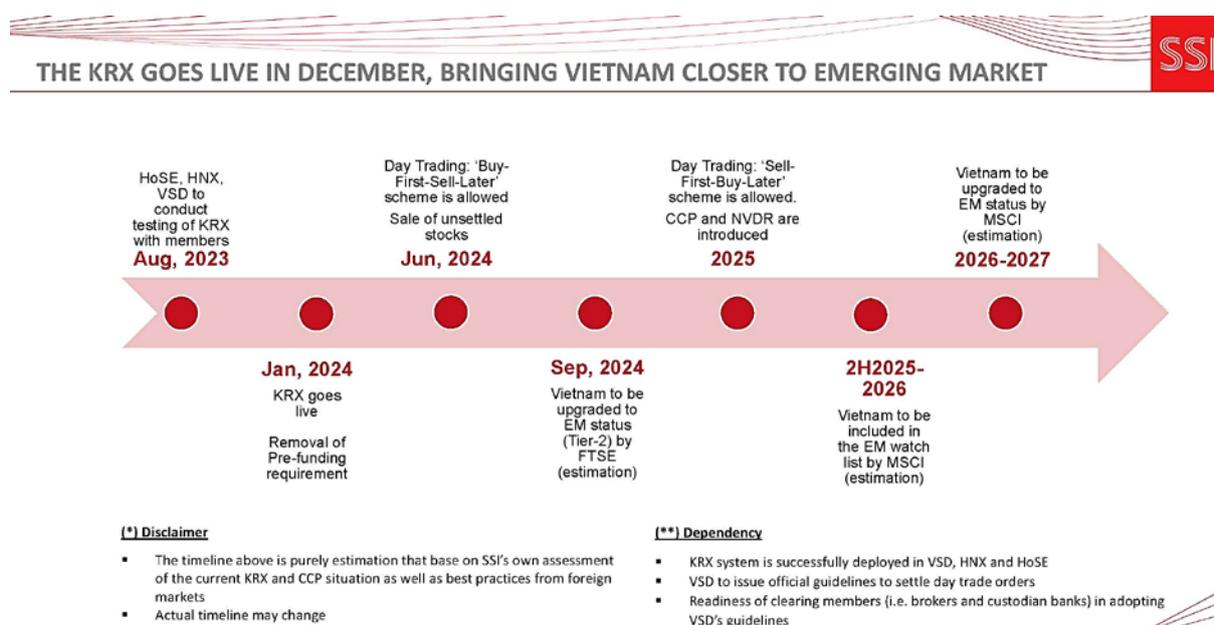
*VRE and ACV are cash earnings. Adapted IFRS key guidelines

The Vietnamese stock market will see a very interesting period of 12–24 months if the timeline for market modernization predicted by the major Vietnamese brokerage firm SSI is even roughly accurate. We are publishing SSI's chart, as we have received similar assessments of the expected progress from several market participants. According to our sources, the Prime Minister of Vietnam has made market modernization a key objective and instructed the market regulator SSC to swiftly implement the planned measures. The new KRX trading system is now being tested daily. Major brokerage firms and

the SSC have formed working groups to address certain remaining issues, such as responsibilities related to transaction settlement and payment matching. With the introduction of the new trading system, the plan is to move on from the practice of prefunding stock transactions, which is an archaic practice that is still in use in Vietnam. Due to prefunding, stock receivables cannot be used for stock purchases. Instead, every investor, including PYN Elite, must first demonstrate to the stockbroker that they have the cash funds for new purchase orders.

Almost a decade ago, we actively participated in discussions within the industry in Vietnam regarding the modernization of the market and potential solutions. Our understanding is that, at that time, the officials of the Ministry of Finance were concerned about implementing changes too rapidly and halted the progress of modernization. The situation may be different this time around, as the reforms are already being worked on at a practical level. With this in mind, we expect that at least some of the plans will be implemented.

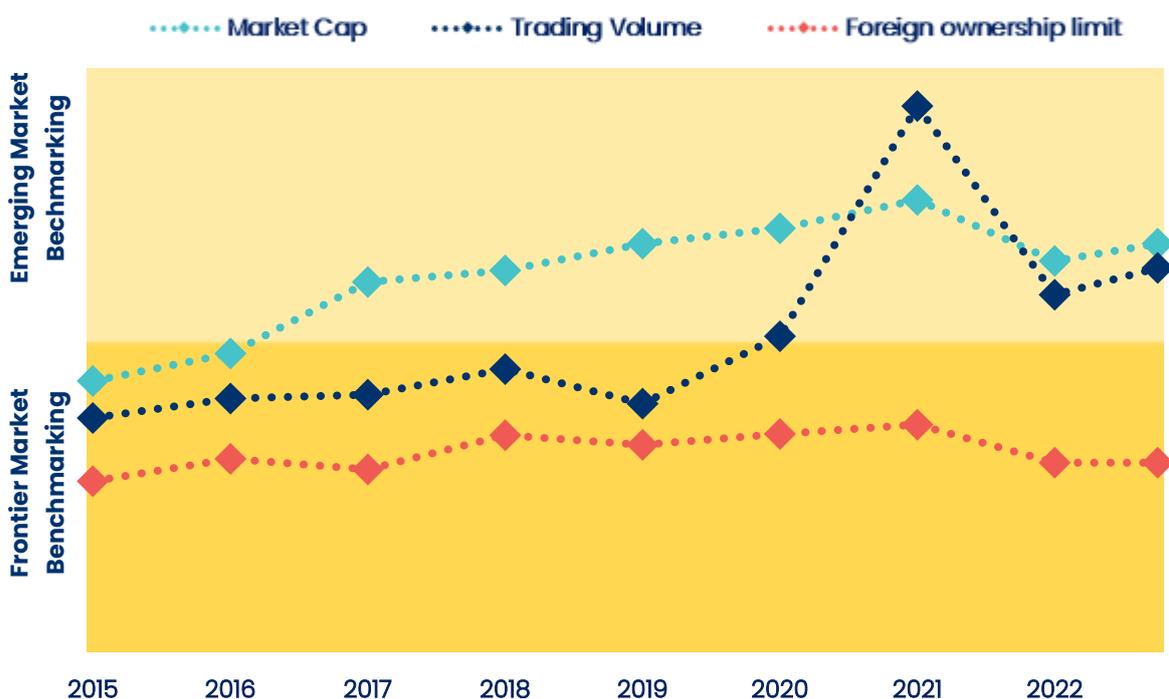
The modernization of the Vietnamese stock market - SSI's projected timeline



Source: SSI Securities Corporation

The research and index company MSCI is the key player in the global financial markets and determines the classification of stock markets around the world. Stock markets are categorized as frontier markets, emerging markets, and developed markets. Vietnam is still categorized in the lowest category as a frontier market. The Vietnamese stock market meets two of the three MSCI criteria for a emerging market. It already has a sufficient number of companies with a large market capitalization and the market's trading volume satisfies the criteria. The third criterion will be fulfilled when Vietnam presents solutions to the limitations on foreign ownership. The prefunding rule also needs to be changed. The chart below illustrates PYN Elite's outline of Vietnam's progress in meeting MSCI criteria.

MSCI criteria and the current status of the Vietnamese stock market



Source: PYN Fund Management

I would also like to highlight one very important event: the September visit to Hanoi by U.S. President Joe Biden. During the visit, economic cooperation between the two countries unexpectedly reached an entirely new level. The U.S.A. and Vietnam declared their relationship to be a Comprehensive Strategic Partnership, which was a much more significant commitment than anticipated.

While the agreement is unlikely to have an immediate impact on the direction of the stock market over the next year, it will present significant opportunities for Vietnam. Vietnam is already one of the world's leading countries in educating of IT engineers, for example. The recently signed agreement will significantly improve Vietnam's opportunities to achieve success in fastgrowth industries and high-tech products.

The agreement is another sign of how the Vietnamese administration appears to be increasingly on the similar path alike Singapore, which involves investing in education, strong anti-corruption efforts by the central administration, and a focus on technological expertise and increasing the prosperity of the country's citizens.

PYN Elite's next subscription date is 31 October 2023.

With greetings from rainy Asia,

PYN Elite
Petri Deryng
Portfolio Manager

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PYN Elite

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