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Vietnam Market Strategy

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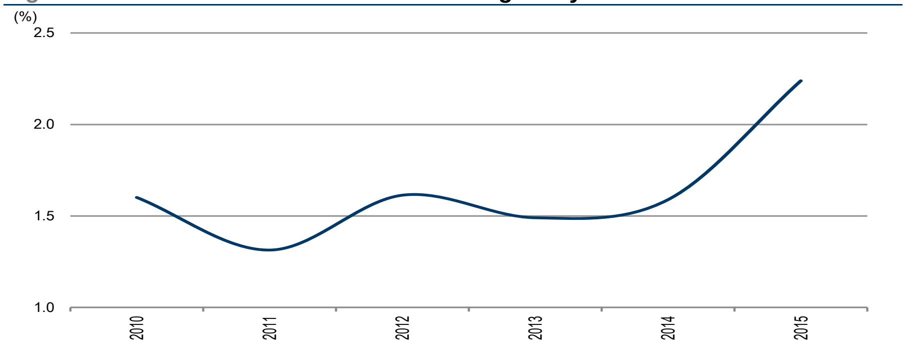
STRATEGY

Private sector taking over

Figure 1: **Vietnam's share of AxJ FDI soaring this year**

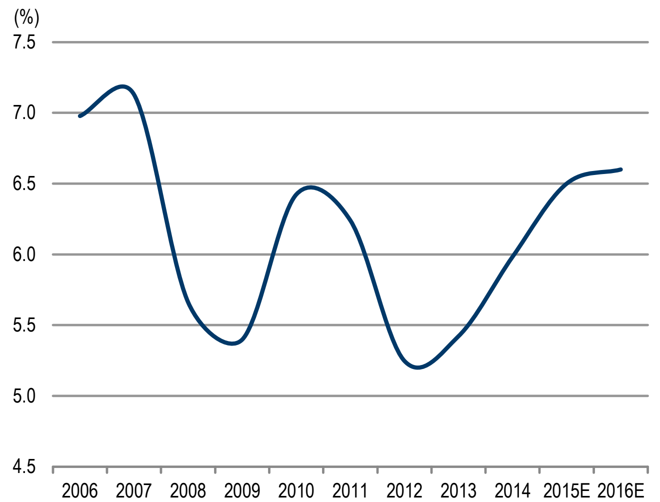


Source: CEIC

- **The private sector, not SOE reforms, is the story.** Much attention has been focused on the potential of SOE reforms, but the real story at present in Vietnam is the rapidly improving performance of the private sector, which we define as both FDIs and domestic private firms. We believe FDI is in the initial stage of a multi-year boom driven by a deepening textile supply chain, continued investment in cellphones and investment in new industries like home appliances and auto parts. Domestic private firms, in the meantime, have arisen from slump and are showing signs of sustainable, rapid growth.
- **In-depth study of FDI and private firm development.** Using industry-level analysis, efficiency metrics and case studies, this report goes beyond the headline statistics to determine where the private sector is having the biggest impact and how sustainable the current trends are. We find that shifts in credit allocation, more stable financial indicators, trade pacts and changing patterns of entrepreneurship are giving private firms a structural advantage that will enable them to continue edging out SOEs.
- **How to gain access.** Low trading volumes, foreign limits, state ownership and scarcity premiums still make Vietnam a challenging destination for equity investors, but some appealing options remain, both among stocks listed in Vietnam and names listed elsewhere in Asia with substantial exposure to Vietnam. We continue to like **VNM** and **VIC** in our coverage. Among names listed elsewhere, we highlight **Shenzhou**.
- We also include in this report four different stocks screening styles based on **CS HOLT® platform** which currently cover 25 stocks in Vietnam.

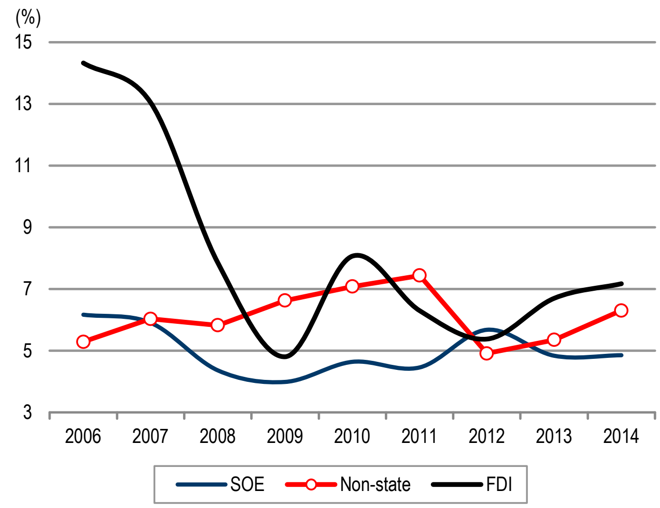
Focus charts and tables

Figure 2: Real GDP growth accelerating



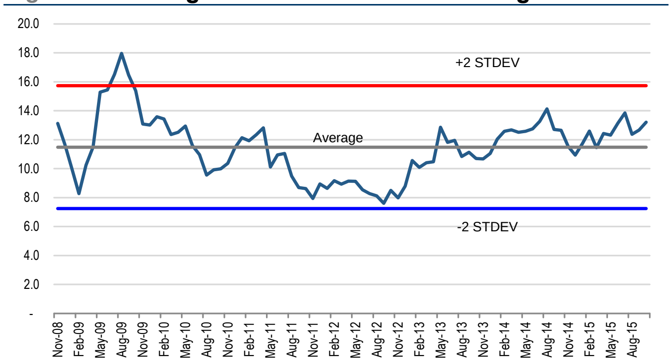
Source: CEIC, ADB forecast

Figure 3: Private sector the driver



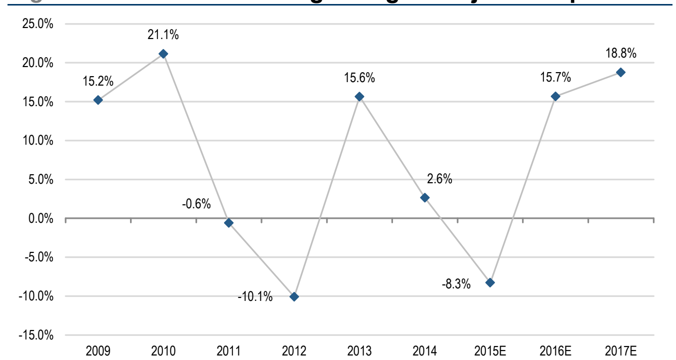
Source: Company data, Credit Suisse estimates

Figure 4: P/E might be above historical average…



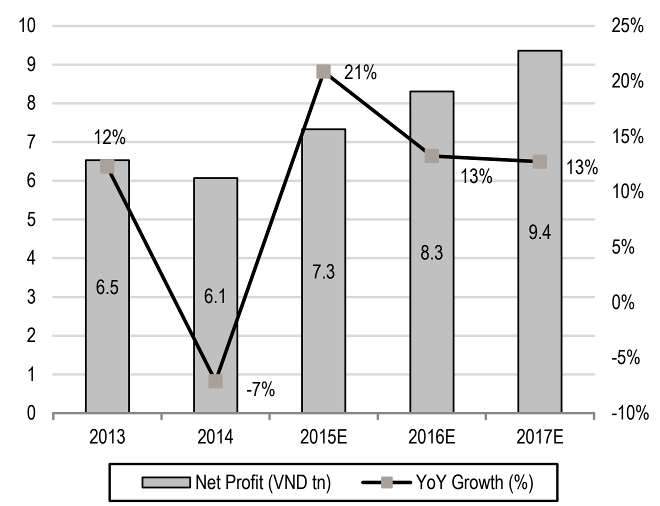
Source: Thompson Reuters, Credit Suisse, Note – 12-mth forward PE

Figure 5: …but accelerating EPS growth justifies premium



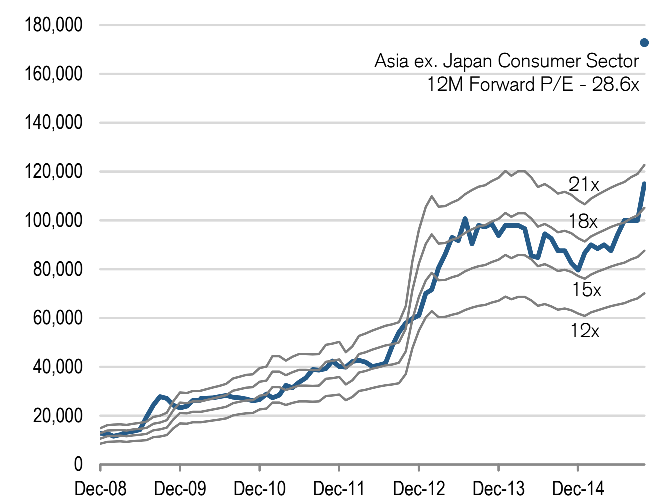
Source: Company data, Credit Suisse estimates

Figure 6: VNM – we expect earnings growth to continue into FY16-17E driven by higher demand…



Source: Company data, Credit Suisse estimates

Figure 7: VNM—12-mth forward P/E band, at 16.3x FY16E P/E, Vinamilk is still at ~40% discount to regional peers.



Source: Thompson Reuters, Company data, Credit Suisse estimates

Private sector taking over

Private sector taking over

SOE reforms should be a meaningful medium-term economic and market driver, but on a 12-month view, the private sector is where the action is. FDI is booming. Vietnam already attracts by far the biggest FDI as a percent of GDP in developing Asia and is grabbing market share. For now, downstream textiles/garments/footwear and cell phones are predominating, but we see opportunities in new sectors and see signs of deepening of supply chains in textiles. Vietnam's competitive advantages—flexible labour markets, obliging government policies, low labour costs, improving access to developed markets—give it an improved position vis-à-vis China and Thailand and clear edges over Indonesia and the Philippines in key industries. In contrast to FDIs, domestic private firms are operating mainly in the domestic market, but are growing as fast as the foreign-owned sector. Improved access to credit and the emergence of a new entrepreneurial class are the key growth drivers for private firms.

While SOE reforms remain gradual, Vietnam's FDI and domestic private sector are in a growth sweet spot…

The economic payout

The economic payoff from the private sector boom is clear. FDIs are driving all of the export growth at present, and growth is the best in Asia, with a widening advantage. Vietnam's investment efficiency—as measured by its Incremental Capital Output Ratio (ICOR)—has historically been weak, but improvements in private sector ICOR, along with increased weightings from private firms, are now enhancing overall efficiency in the economy despite an increased drag from SOEs. The bottom line is that GDP growth is accelerating amid a difficult global environment, and all the improvement is coming from the private sector.

…driving best-in-Asia export growth and accelerating GDP amid difficult global environment

Valuation deserves a premium

At 13.2x, the market 12-month forward P/E is above the post-GFC average of 11.5x, but we believe the multiple deserves a premium relative to its historical level. First, a big drop in interest rates—8.5 pp from the peak—has lowered the risk-free rate, while a lower systemic risk argues in favour of a more modest equity risk premium. Second, the success of the de-dollarisation campaign means that more local money stays in dong rather than dollars or gold, with a bigger potential pool for equities. Third, earnings growth as measured by consensus is accelerating to 15.7%/18.8% for FY16/17E from -8.3% in FY15E.

Valuations remain reasonable as growth accelerating. Lower RFR and confidence in dong add to catalysts

How to gain access

Vietnam remains a challenging market to access, but we can point to three ways to get exposure. Within our CS Vietnam coverage, we continue to like **Vinamilk** (growing demand for dairy products, superior distribution channels, medium-term margin expansion) and **Vingroup** (benefits from continued economic growth and a recovery in the property market). Investors can buy companies listed elsewhere with meaningful Vietnam exposure. We highlight Shenzhou as a possibility on the manufacturing side.

We like VNM and VIC. Listed companies with exposure to Vietnam, e.g., Shenzhou also provide access

Credit Suisse HOLT® platform* currently covers 25 companies in Vietnam. We include in this report four different stocks screening styles; "Scorecard", "Growth", "Momentum" and "Attractively priced quality" based on CS HOLT platform which currently cover 25 stocks in Vietnam. (Please refer to Appendix 1 for HOLT screening results). **CS HOLT is not part of Equity Research*.

The private sector taking over

Although the outlook for SOE reforms is mixed, Vietnam's private sector—defined to include foreign and local firms—is achieving the critical mass needed to drive the economy. Shifting credit allocation, more stable financial indicators, trade agreements, favourable wage differentials and changes in entrepreneurial patterns are transforming the landscape in favour of private firms.

Vietnam's private sector (foreign and local firms) is achieving scale needed to drive the economy

SOE reforms a medium-term catalyst

We are still hopeful that the SOE reforms will act as a meaningful economic and market driver medium term. Tight fiscal conditions, awareness of the economic gains the reforms offer and trade agreement pledges all should motivate the government to pursue reforms. On paper, the government's SOE reform plans look sound. There are now about 3,000 SOEs, down from roughly 5,000 5-6 years ago. All SOEs have corporate restructuring plans on paper. The government has targeted 432 share sales—known in Vietnam as "equitisation"—in 2014-15, and in theory SOEs in non-strategic industries are supposed to fully privatise. Last year the government passed laws attempting to strengthen corporate governance and require SOEs to publish financial data. The prime minister has threatened criminal punishment for bureaucrats blocking reforms. Publicly, the government strongly supports SOE reforms. A recent order for State Capital Investment Corporation (SCIC)—the government's main holding company for SOEs and other investments—to liquidate stakes in ten state-controlled companies is heartening.

Potential upside from SOE reforms is huge for both the economy and the market…

The potential upside from the reforms is large. Although SOEs no longer seem to pose risks to the financial sector, operational performance remains poor. SOEs' incremental capital output ratio—SOE investment divided by the increase in SOE output—was higher (i.e., less efficient) last year than at any point in the past decade outside the GFC (Figure 8). Serious structural reforms could give a huge boost to the economy, while SOE listings could energise stock market investors.

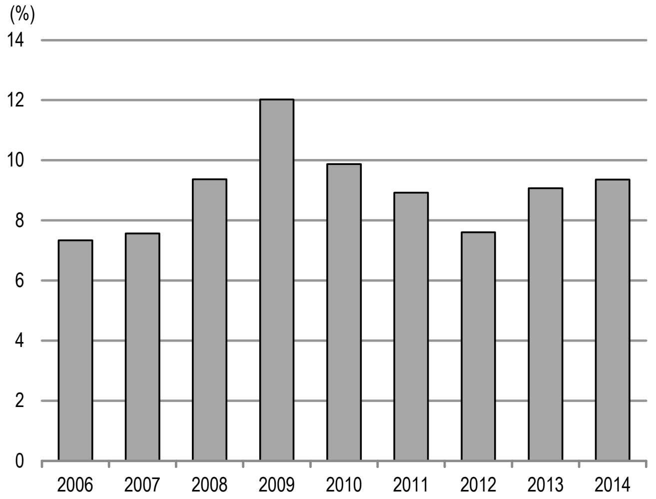
SOE reforms, however, are unlikely to act as the top 6-12 month economic catalyst. Only 237 mostly small SOEs have been equitised in 2014-15. Out of 566 mn shares offered on the Hanoi exchange this year, only 184 mn were bought. 11 out of the 29 companies with IPOs planned for the Ho Chi Minh exchange had to cancel their auctions due to low investor interest. Even when successful, equitisation usually involves sale of just a small portion of shares, sometimes to other SOEs. Once any shares are sold, the firm is taken off the government's books and no longer counted as an SOE. Most equitisations have been IPOs rather than sale of strategic stakes. Equitisation can take years from start to finish, with multiple bureaucratic steps and serious difficulties valuing assets. SOEs still maintain multiple cross-holdings, the legacy of an earlier period of ill-advised consolidation that sought to create large-scale SOE conglomerates. Less than 10% of SOEs have published financial reports despite the new requirement for them to release financials.

…but this is unlikely to act as the top 6-12 month catalyst

On a one-year view, therefore, the real story is not reforms but the shrinking contribution of SOEs to the economy. Although they remain major employers and retain considerable political influence, the contribution to GDP of firms with more than 50% ownership shrunk to 32.5% last year, the lowest reading on record (Figure 9). This is where the private sector story begins.

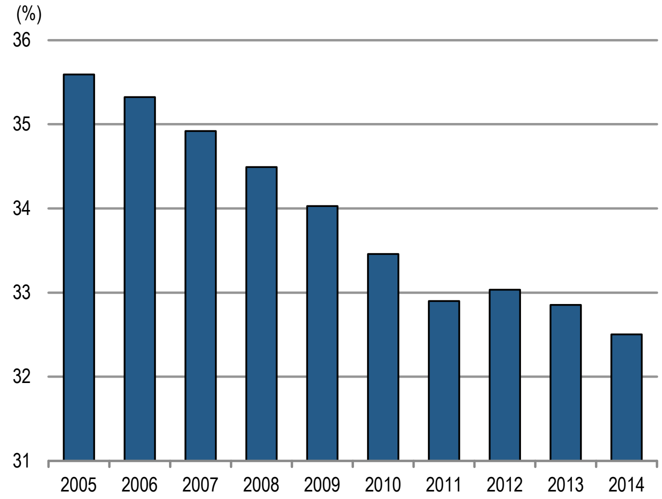
The real driver of Vietnam's economic growth is now the private sector

Figure 8: SOE ICOR rising again, pointing to worsening capital inefficiency



Source: CEIC, Credit Suisse estimates

Figure 9: State sector GDP as a % of GDP at all-time low



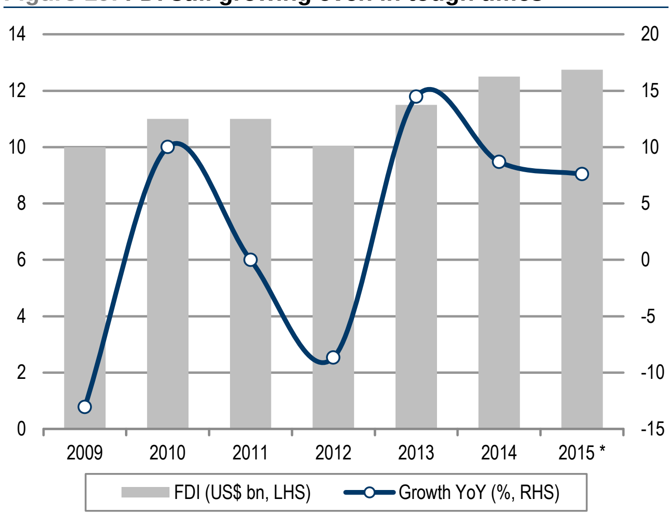
Source: CEIC

Booming FDI

Rapid growth in the contribution from foreign firms explains much of the shrinking importance of SOEs and the improved performance of the economy (Figure 10). FDI inflows YTD are up 8% YoY, after expanding 9% last year and 14% in 2013. Vietnam's share of FDI into AxJ has risen from 1.3% in 2011 to 2.2% last year (Figure 11). As a percentage of GDP, Vietnam's FDI is by far AxJ's biggest if the two financial centres, Singapore and Hong Kong, are excluded (Figure 12). The collapse of global trade during the GFC walloped the foreign sector in 2008-11, but the recent surge in FDI has given it a new life. Since 2001, the foreign contribution to GDP has risen from 17.9% to 21.5% last year (Figure 13).

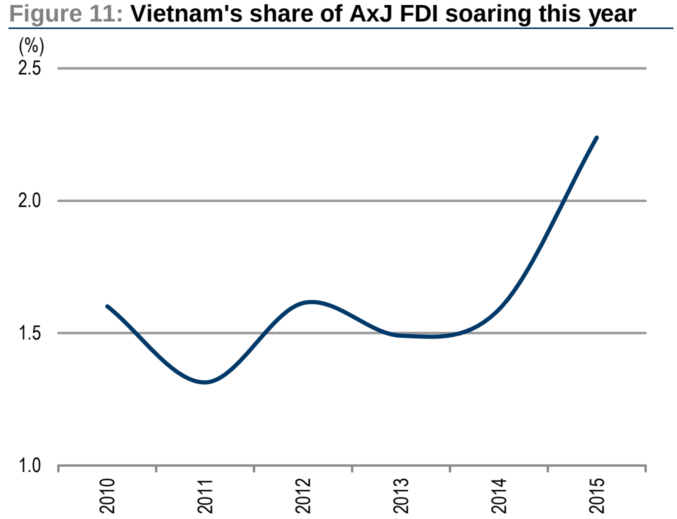
FDI inflows continue to rise as Vietnam takes market share from peers…

Figure 10: FDI still growing even in tough times



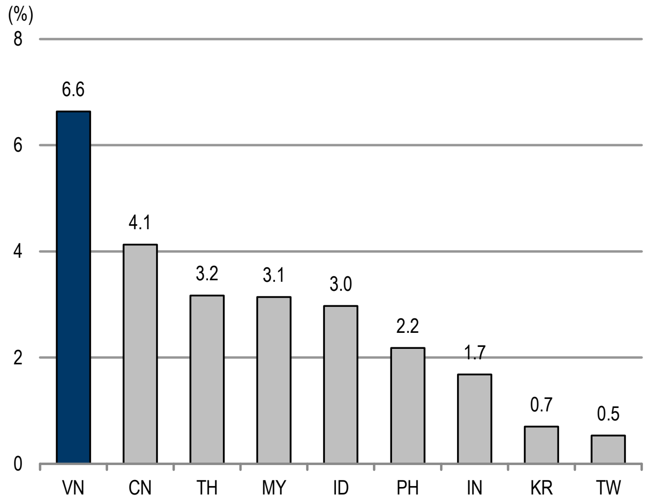
** 2015 annualized and 2015 YoY growth is 8M15 versus 8M14; Source: CEIC, Credit Suisse estimates*

Figure 11: Vietnam's share of AxJ FDI soaring this year



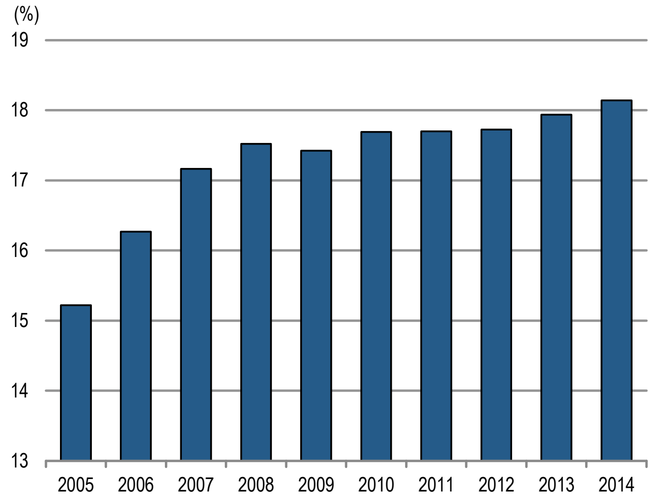
Source: CEIC, Credit Suisse estimates

Figure 12: **Inbound FDI as a % of GDP by far the highest among peers**



Source: CEIC, Credit Suisse estimates

Figure 13: **FDIs' contribution to GDP at an all-time high**

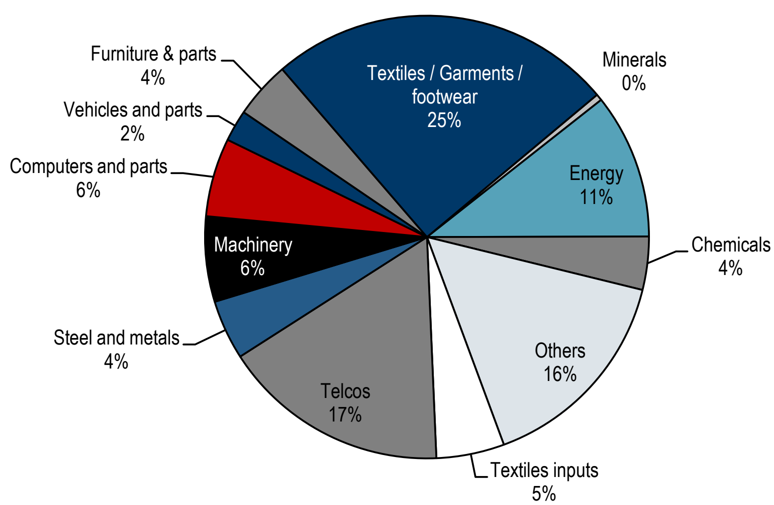


Source: CEIC, Credit Suisse estimates

…driven largely by cell phones and textiles/garments/footwear manufacturing…

FDI seems to be highly concentrated to two industries—cell phones and textiles/garments/footwear. We lack the data to break out FDI flows by industry, but export data provides a useful proxy. The biggest single grouping by far is finished textiles, garments and footwear, accounting for 25% of total exports ex-food, beverages and agricultural products. Telecoms equipment—almost all of which, we believe, is cell phones—are the next biggest at 17%. Computers and textile inputs (i.e., fabrics & yarn) are the next most important but lag far behind at just 6% of total exports each. Furniture is another 4% of exports, but we suspect that a good amount of this comes from local firms (Figure 14). Apart from some real estate investment, we believe that relatively little FDI is targeting the domestic market.

Figure 14: **Exports by industry excluding food, beverages and agricultural products**

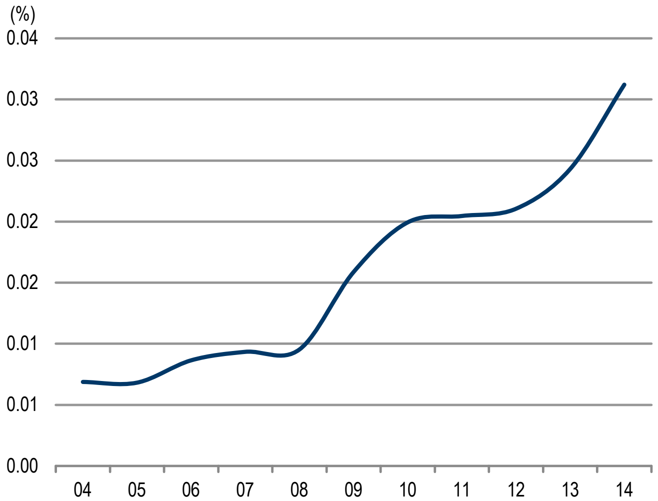


Source: UNCTAD, Credit Suisse estimates

…apparently at the expense of China and Thailand

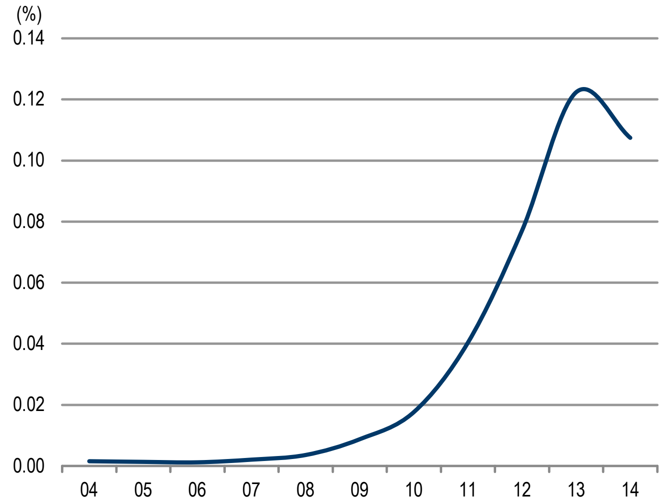
Although starting from very low bases, market share gains have been impressive in all these industries. Textiles, textile inputs, telcos and computers have all seen export growth much faster than the growth in global exports for those categories (Figure 15, Figure 16, and Figure 17). We lack hard data to prove it, but anecdotal evidence indicates that the rising share of FDI is coming largely from the movement of textile and electronics production from China and Thailand, or the location of greenfields investment in Vietnam that might previously have gone to those two countries. As an example, Samsung and LG this year moved their flat screen facilities in Thailand to Vietnam, and our case studies have turned up textiles firms moving production from China.

Figure 15: Global market share of textile input exports rising sharply from low base



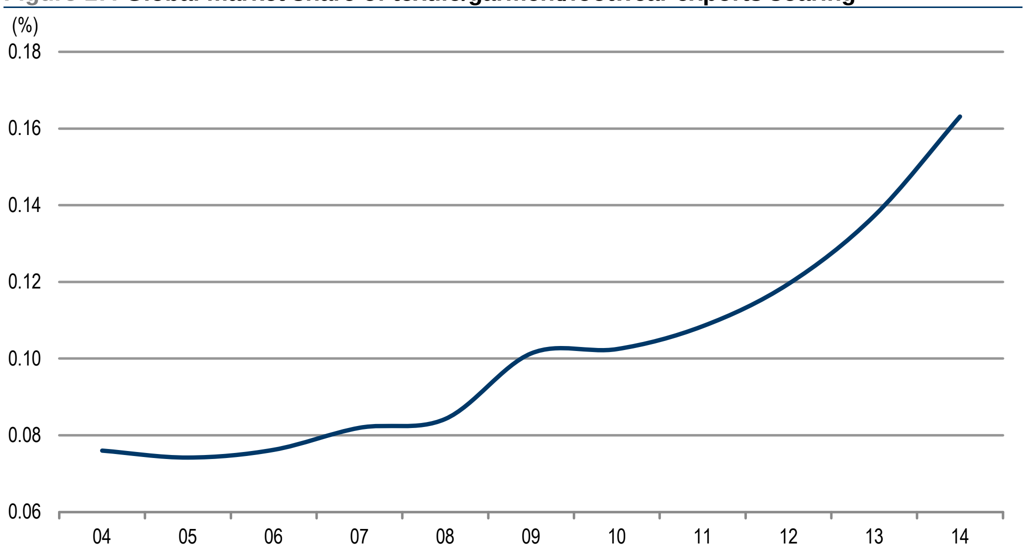
Textile inputs include Textile yarn, Cotton fabrics, woven, Fabrics, woven, of man-made fabrics, other textile fabrics, woven, knitted or crocheted fabrics, n.e.s, tulles, trimmings, lace, ribbons & other small wares, special yarn, special textile fabrics & related, Made-up articles, of textile materials, n.e.s; Source: UNCTAD, Credit Suisse

Figure 16: Global market share of telcos exports also gaining



Source: UNCTAD, Credit Suisse

Figure 17: Global market share of textile/garment/footwear exports soaring

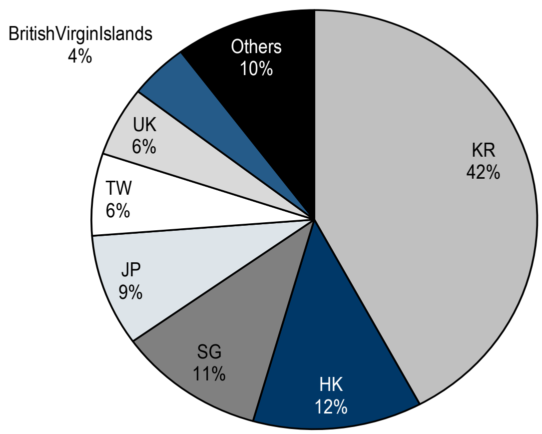


Textile include, Men's clothing of textile fabrics, not knitted, Women's clothing, of textile fabrics, Men's or boy's clothing, of textile, knitted, croche., Women's clothing, of textile, knitted or crocheted, Articles of apparel, of textile fabrics, n.e.s., Clothing accessories, of textile fabrics, Articles of apparel, clothing access., excluding textile, Footwear; Source: UNCTAD, Credit Suisse

Korea top investor, followed by HK/China

Given the industry concentration, it is not surprising that there is a similar concentration for sources of FDI (Figure 18). In the 17 months between March 2014 and August 2015, Korea contributed 42% of total registered capital inflows, more than three times the next highest source. Most of the new Korean investment likely is in cellphones from Samsung and LG, though Korea has also long been active in textiles/garments/footwear. Hong Kong and China are the next biggest with a combined 15%. We suspect that most is textiles. Singapore's 11% likely has a sizeable real estate component and possibly some investment ultimately from China, while Taiwan's probably is a mix of tech and textiles. A high-profile Intel chip plant (Saigon Hi-tech park, District 9, HCM city) dominates the small US contribution. Western countries have invested relatively little in Vietnam, likely due to their weakness in Vietnam's core industries—textiles and low-end tech and cellphone processes.

Figure 18: **Korea the top source of FDI**

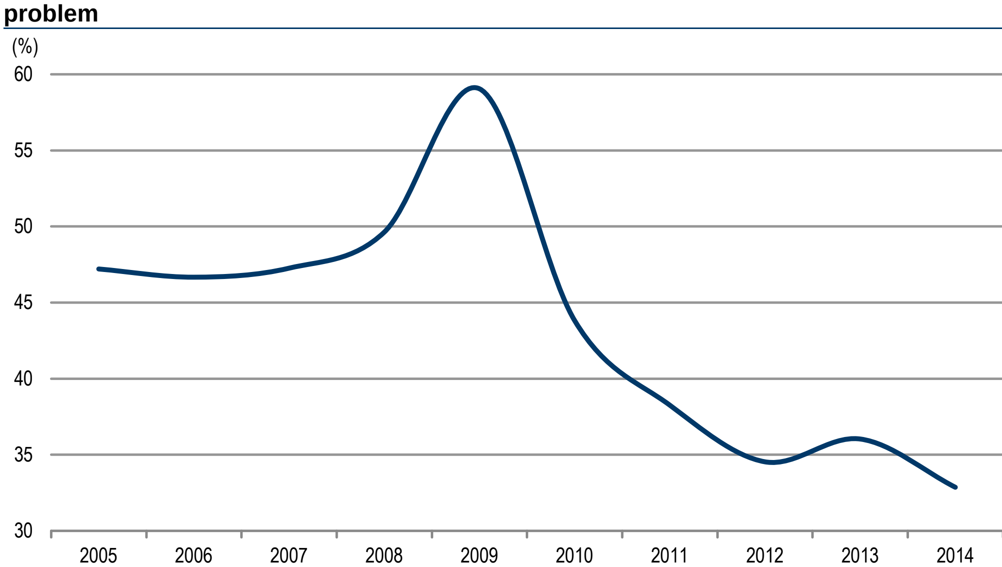


Source: CEIC

As well as being concentrated, FDI has also been thin so far, with limited backward linkages. For the most part, FDIs are performing low-end final-stage work such as assembly, with inputs imported from home countries. The lack of depth means that the value added for the economy is much less than stated exports would indicate, with the trend negative (Figure 19). Thin operations also mean that FDI is less sticky than it would be if deep supply chains had been established.

FDIs still performing low-end final-stage work such as assembly with lower value-added

Figure 19: **Domestic content of FDI exports low and falling—lack of vertical integration a problem**

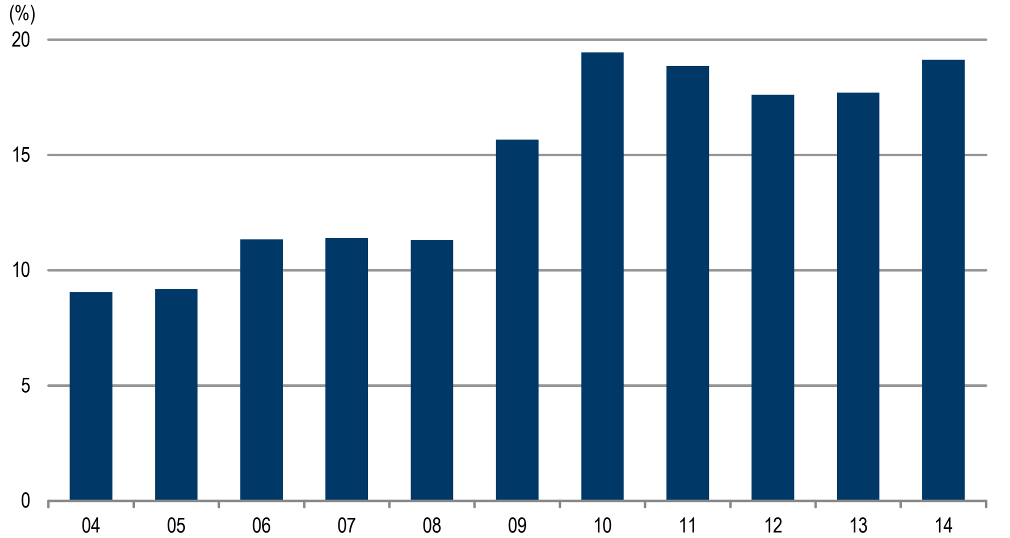


Source: CEIC, Credit Suisse

That said, there are signs of incipient clustering, with increased backward linkages, in textiles. We lack data on domestic content, but if we again use exports as a proxy for total domestic production, we find that the ratio of textile input exports (i.e., yarn and fabrics) to textile end product exports has risen in the past two years, with a significant increase last year (Figure 20). The increased production of textile inputs seems to be the result of a natural movement of suppliers to follow their customers and the benefits of trade treaties, which we discuss in more detail below. Our case studies have found signs of incipient vertical integration in textiles.

Importantly though, there are growing signs of incipient clustering, particularly in textiles

Figure 20: Ratio of textile input exports to finished textile exports—signs of increasing vertical integration



Source: UNCTAD, Credit Suisse

Because it would generally require improved worker skills, we see less scope for deepening of electronics production, but a broadening beyond cellphones to other low-end electronics manufacturing appears possible. The movement of Samsung and LG's flat screen production from Thailand is an encouraging example of a potential broadening of electronics investments.

We expect a broadening beyond cellphones to other low-end electronics manufacturing…

As far as broadening of other products FDIs export is concerned, we see promise in white goods, TVs and sound equipment. We see little probability in the near term for Vietnam to build a vertically integrated auto industry that could compete with Thailand's or Indonesia's, but some parts production could migrate there. Free trade agreements—TPP, the EU FTA and ASEAN's AEC—give Vietnam low or zero-tariff access to parts exports in the EU and ASEAN, and eventually the US, Japan and Korea if TPP passes.

…and we see possible broadening of FDI products into white goods, TVs and sound equipment

Competitive advantages

In considering Vietnam's competitive advantages in FDI, we address two questions: why are industries moving from China and Thailand to Vietnam, and why do they choose to move to Vietnam over the Philippines and Indonesia?

Labour costs, trade agreements and diversification are key advantages for Vietnam…

Compared with China and Thailand, three factors work in Vietnam's favour:

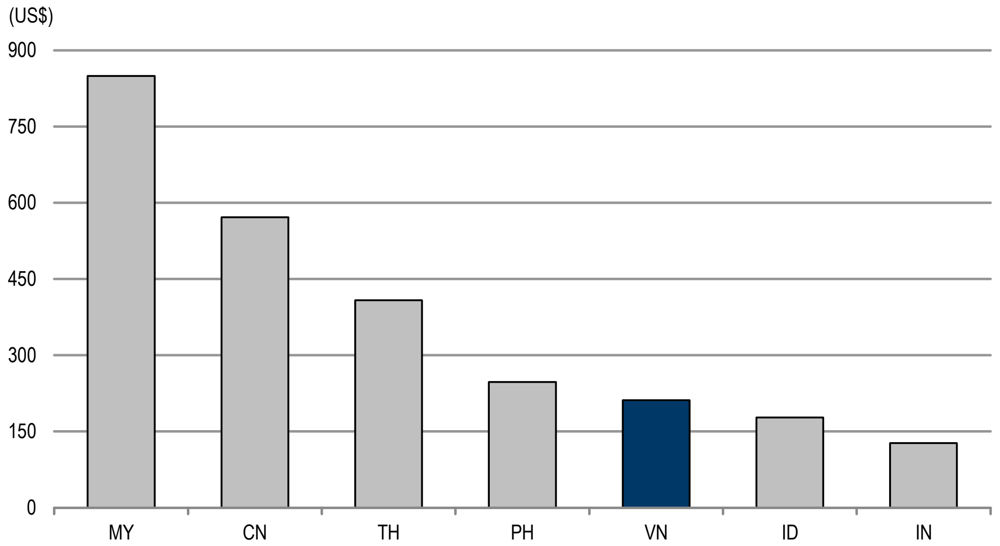
Labour costs: Even with high wage inflation, Vietnam's labour costs are half Thailand's and not much more than one-fourth China's (Figure 21).

Trade agreements: Vietnam signed a Free Trade Agreement (FTA) with the EU in August, and reached preliminary agreement on the Trans Pacific Partnership (TPP) with the US and ten other countries. Neither China nor Thailand have FTAs with the EU or the US, and we find it hard to imagine that the EU or US would ever offer full market access to

China in textiles. We see very low probability of the EU signing an FTA with Thailand as long as it is under a military government, and we doubt that the country will join TPP.

Diversification: FDIs have long been pursuing a China + 1 policy, and since the disastrous 2011 floods, some companies heavily exposed to Thailand have been pursuing a Thailand + 1 policy.

Figure 21: **Average monthly wages far below China or Thailand levels**



Source: CEIC

When considering Vietnam versus the Philippines and Indonesia, FDIs' calculus is somewhat different. Labour costs in both are slightly below Vietnam's, while the Philippines might decide to join TPP. Here, Vietnam's advantages are:

…while general openness to FDI, labour regulations and taxes set it apart from competitors

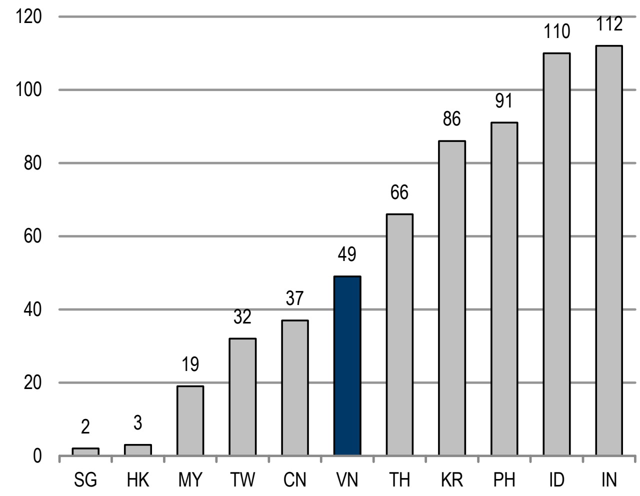
(1). **General openness to FDI:** FDIs in Vietnam praise local and central governments for a welcoming attitude and eagerness to facilitate investment. They make efforts to ease regulatory processes, the acquisition of land and the issuance of tax privileges. In the Philippines, the application process for tax privileges can be onerous, while recent protectionist moves and adverse court rulings have soured some FDIs in Indonesia.

(2). **Labour regulations:** Labour regulations create rigidities in both the Philippines and Indonesia, but especially the latter. The difficulty of firing workers in Indonesia discourages hiring and investment. Vietnam ranks quite well in the Global Competitiveness Report's Labor Market Efficiency ratings, well above not only Indonesia and the Philippines, but also Thailand and Korea (Figure 22).

(3). **Taxes:** If no privileges are offered, corporates in the Philippines pay 30% income tax and in Indonesia 25% against 22% in Vietnam (Figure 23).

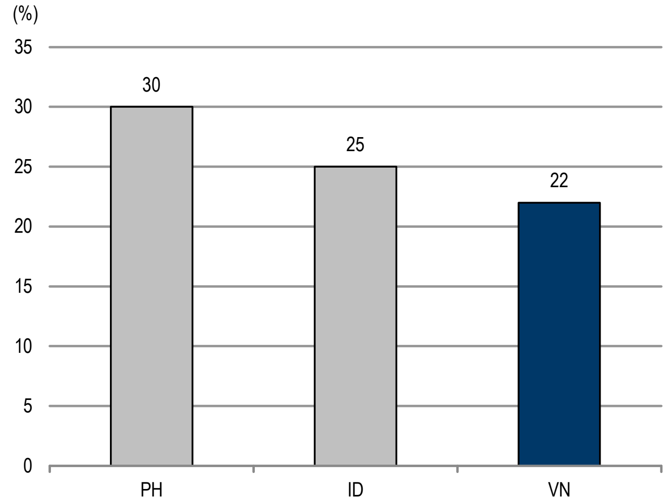
(4). **Infrastructure:** Although Vietnam's infrastructure lags that of China and Thailand, it is superior to the Philippines and Indonesia in key areas like power and water supply.

Figure 22: **Labour market efficiency rankings—much higher than the Philippines or Indonesia**



Source: The Global Competitiveness Report 2014–2015

Figure 23: **Corporate income tax rate lower than the Philippines or Indonesia**



Source: Deloitte

Boost from free trade agreements

Free trade agreements are playing an important role in boosting FDI

Free trade agreements are playing an important role in boosting FDI. The three most important agreements are:

(1) **FTA with the EU.** Vietnam signed a preliminary agreement with the EU in August, and a final agreement is expected by the end of the year. The agreement eliminates 99% of tariffs on exports to the EU and commits the EU to eliminating all import taxes, including for textiles and seafood, within seven years, with a few exceptions.

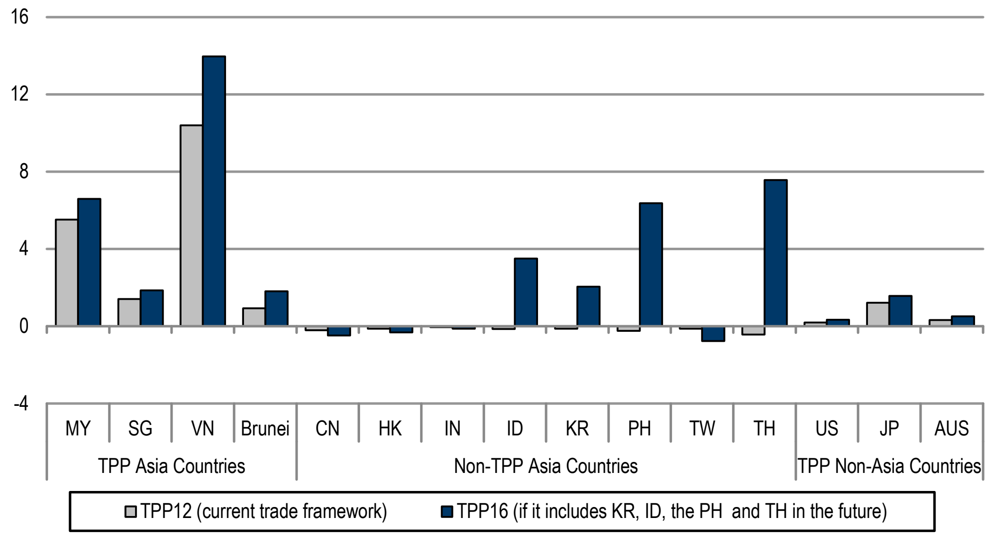
(2) **TPP.** The 12 signatories—including the US, Canada, Japan and Australia—have reached a preliminary agreement to cut tariffs on most goods and to free trade in services. Ratification in the US and Canada, which were both facing national elections, is uncertain.

(3) **Asean Economic Community (AEC).** AEC comes into full force by the end of the year. The agreement involves tariff reductions by Vietnam and in theory frees trade in services.

TPP could give major boost to GDP growth

Of the three, TPP has the greatest potential due to the size of the economies included—covering 40% of global GDP—but because of greater uncertainty over ratification, perhaps the EU FTA will ultimately matter more. AEC might enhance the appeal of ASEAN in general for FDIs but does not appear to offer special advantages for Vietnam. If TPP passes, the gains could be considerable. The Peterson Institute calculates that TPP could add 10% to Vietnam's GDP by 2025 if fully ratified, by far the biggest boost for any of the signatories, with additional gains possible if countries now outside the agreement join in (Figure 24).

Figure 24: **Estimated boost to GDP by 2025 from TPP (%)**



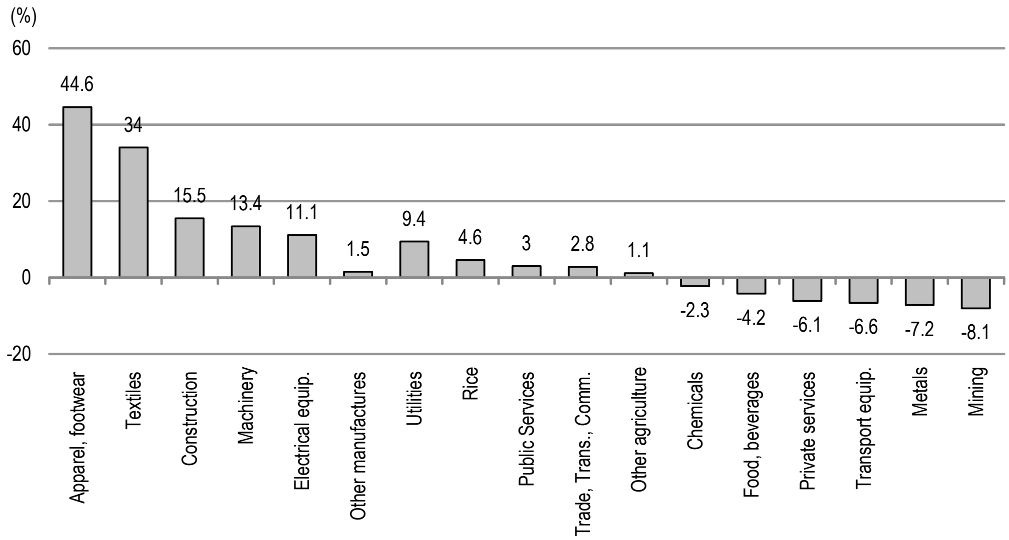
Source: Petri et. al (2012), www.asiapacifictrade.org (March 2015 update), Credit Suisse

Textile/garments/footwear manufacturers already positioning themselves for FTA gains

Although the lack of details released to the public on TPP and the EU pact limit our ability to analyse the agreements, textiles/garments/footwear would almost certainly receive the biggest boost. Vietnam is already highly competitive here, and tariffs in the EU and US are currently high enough to distort trade patterns. Our channel checks indicate that textile/garments/footwear firms are increasing investment at least in part due to the EU FTA and TPP. While we are not confident of that outcome, the expectations that Vietnam will achieve a tariff advantage over China, Thailand and others already appears to be delivering gains for Vietnam. One of our FDI case studies—Stella—has specifically cited FTAs as one of the main factors leading them to move production to Vietnam.

Other sectors could gain lesser advantages. Because trade in tech and telcos products is already largely unfettered, benefits should be considerably smaller, but the Peterson Institute still expects some significant advantages (Figure 25). Peterson expects gains for construction, but we imagine that the additional growth would be due to second-round effects. The reduction of tariffs on seafood and aquaculture appears to us significant enough to boost those sectors. As noted, perhaps TPP could give birth to an auto parts industry.

Figure 25: Estimated change in sectoral output from base line by 2025 if TPP implemented



Source: The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment, Policy Analyses in International Economics No. 98. Washington: Peterson Institute for International Economics and East-West Centre. 2012 (asiapacifictrade.org)

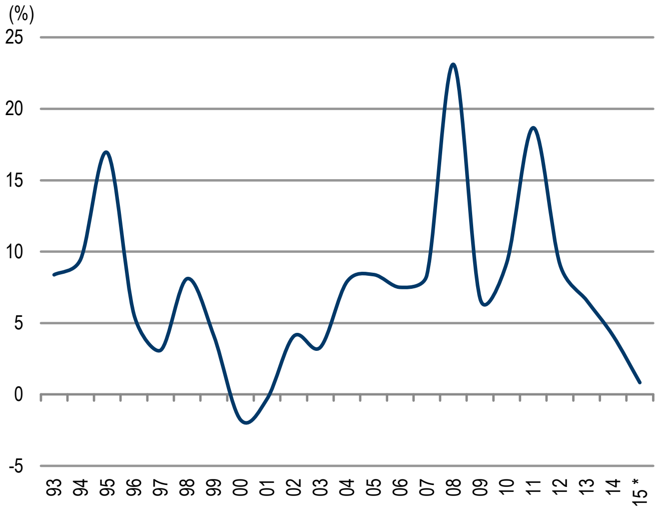
More stable currency and inflation

Lower inflation and a more stable currency likely also encouraging FDI

Lower inflation and a more stable currency likely also have helped encourage FDI. After dangerously overheating to the 15-25% range in 2008-11, CPI inflation has fallen comfortably to low single digits (Figure 26). A combination of global disinflation, low commodity prices and more prudent fiscal and monetary policies explains the positive inflation trend. Largely because of the drop in inflation, the currency has become one of Asean's most stable since mid-2011 (Figure 27).

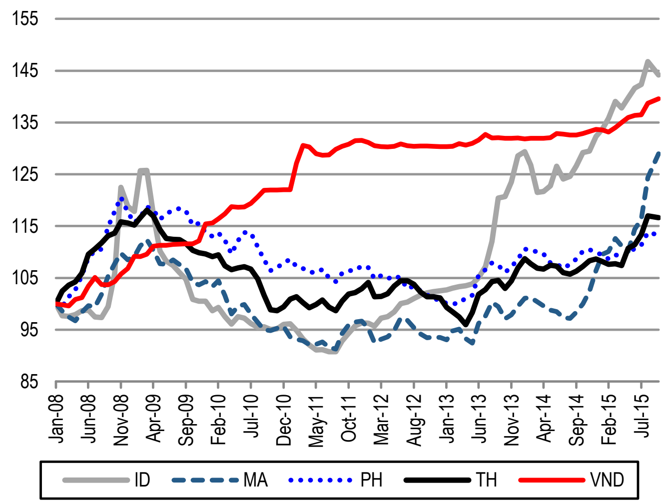
The VND and CPI trends have helped FDI in two ways. First, greater stability makes financial planning easier. Second, the fall in inflation has relieved upward pressure on real costs. Because the government had concerns about panic selling of the dong, during the high-inflation years it did not allow the exchange rate to weaken anything near the CPI rate, pushing up the real, inflation-adjusted exchange rate. Largely because of the big decline in inflation, the real rate has fallen since 2013 (Figure 28).

Figure 26: **CPI inflation down to insignificant levels**



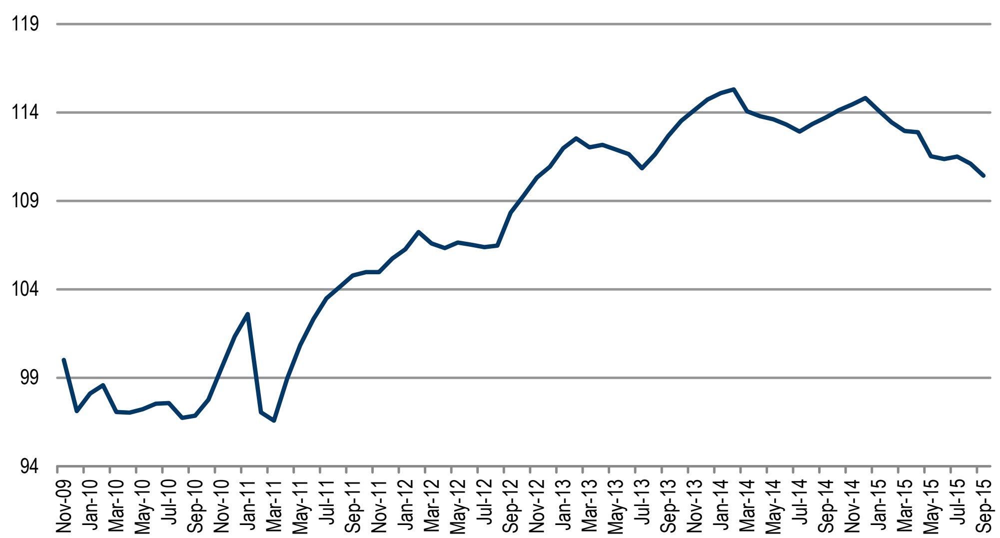
** Average of each month YoY from Jan 2015 - July 2015*
Source: CEIC, General Statistics Office of Vietnam

Figure 27: **One of Asean's most stable exchange rates since 2011**



Source: the BLOOMBERG PROFESSIONAL™ service

Figure 28: **Inflation-adjusted USD/VND rate—lower inflation allowing real FX rate to depreciate**



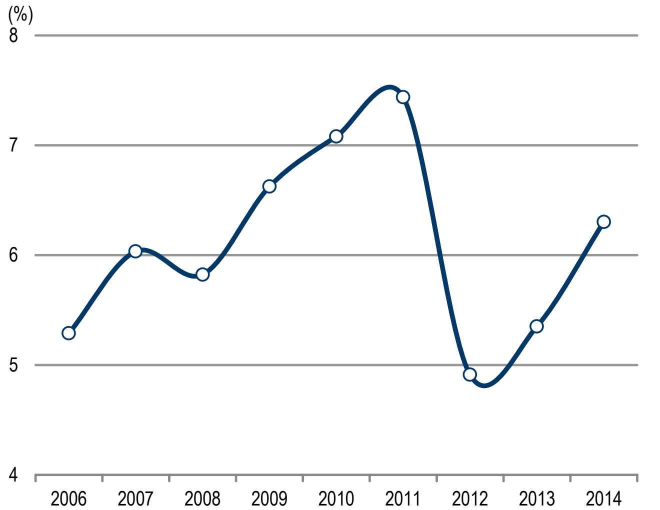
Source: CEIC and Credit Suisse estimates

Domestic private sector recovery

Domestically owned private firms are adding to the boost from FDI. Growth in domestic private GDP bottomed in 2012 and has been accelerating since, with increasing contributions to total GDP (Figure 29 and Figure 30). The ICOR of domestic private firms is even lower (i.e., more efficient) than that of FDIs and has been improving (Figure 31 and Figure 32). We lack hard data on sector contributions, but we believe that domestic private firms are strongest in services, consumption-oriented businesses and the domestic market. We suspect that they are weaker in exports and manufacturing.

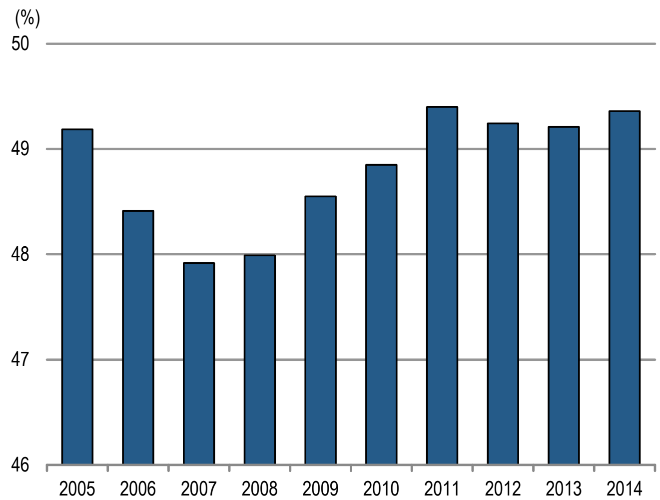
Growth in domestic private GDP bottomed in 2012 and has been accelerating since…

Figure 29: **Growth in domestic private GDP recovering**



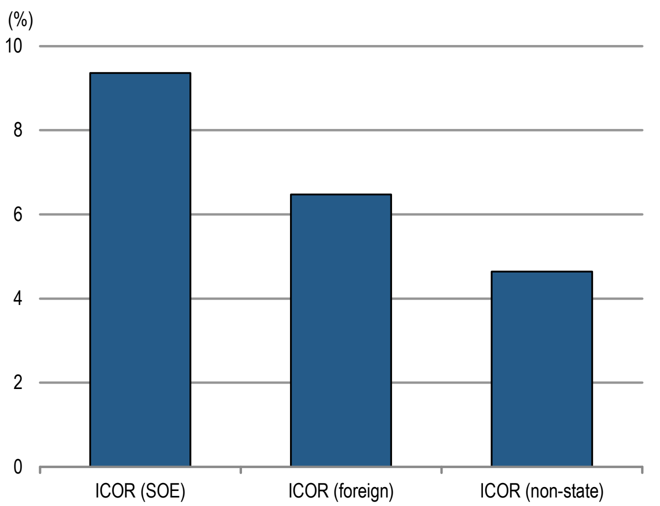
Source: CEIC

Figure 30: **Domestic private GDP as a % of total rising**



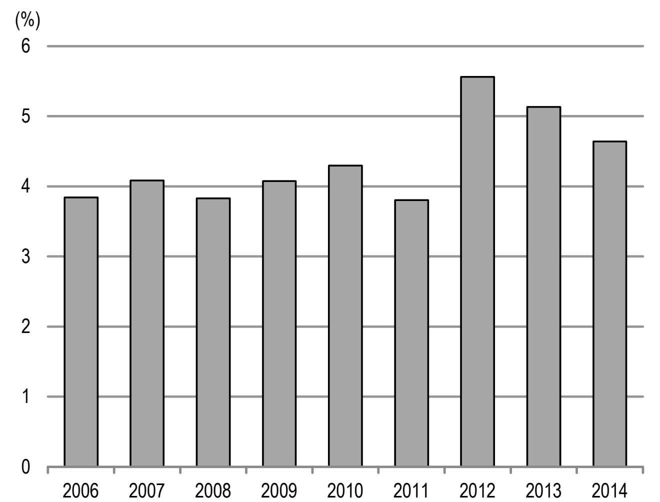
Source: CEIC, Credit Suisse

Figure 31: **Domestic private ICOR lowest (most efficient) sector**



Source: CEIC, Credit Suisse

Figure 32: **Domestic private ICOR recovering to pre-crisis levels**



Source: CEIC, Credit Suisse

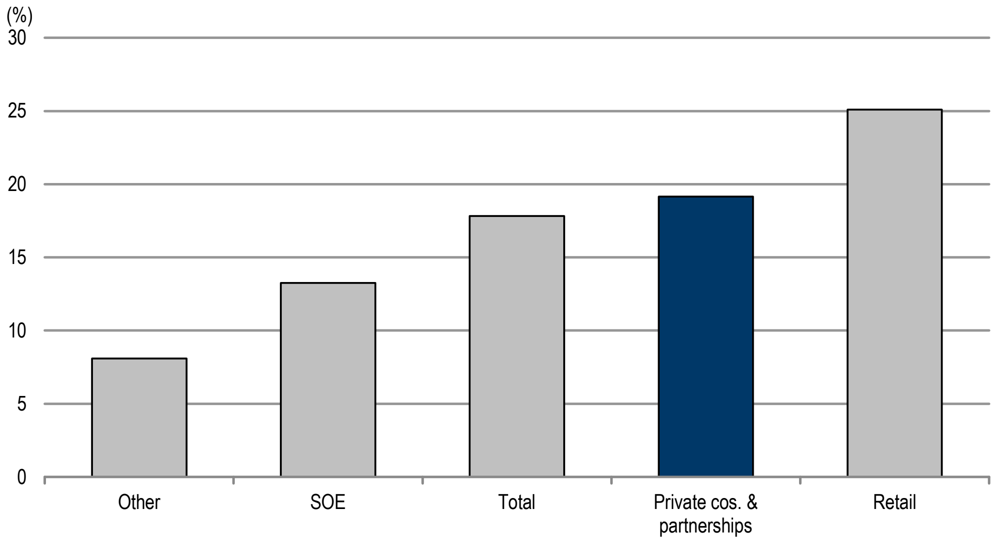
Cyclical factors loom large in the private sector boom. The 2011-12 downturn hit the private sector especially hard, and the improvement in domestic demand the past 1-2 years has helped hugely.

Equally important, however, is what we believe could become a structural improvement in capital availability for private firms.

Better access to bank credit probably most important boost to private firms

Better access to bank credit probably helps the most. Top-down data on bank credit by borrower type is not available, but we have assembled loan growth by borrower type for six listed major banks for 2014 accounting for ~32% of total bank credit and found that lending to private firms, with 19% growth, greatly exceeded expansion in lending to SOEs, at 13% (Figure 33). Anecdotal support has come from our conversations with bankers and local businesspeople. While part of the boom in lending to private firms clearly is related to the cyclical recovery in the economy, we believe that some is based on changes in banks. Equitisation has enhanced the profit motive of state-owned banks and lessened the importance of SOE connections, while the advent of cash flow-based credit analysis has also probably helped. The assignment of greater weight to cash flow helps private firms, which typically have more profitable businesses than SOEs, while the reduced importance of collateral hurts asset-rich SOEs more than asset-poor private firms.

Figure 33: 2014 credit growth from 7 joint stock banks—more allocation to private sector



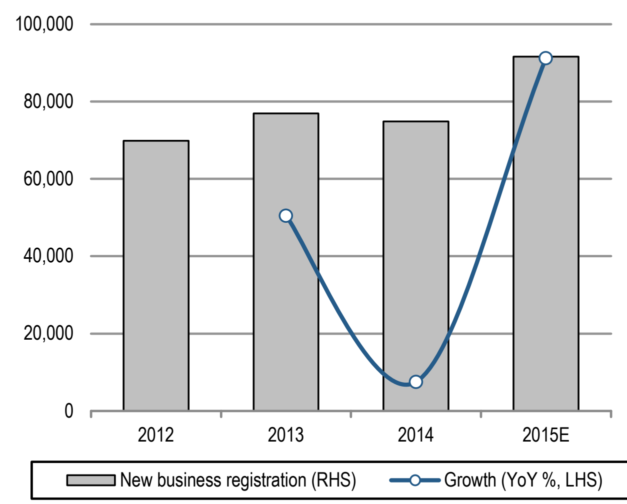
Source: Company data, the BLOOMBERG PROFESSIONAL™ service

Improved equity flows also may be helping. Although the hard data is lacking, we have heard anecdotal evidence that foreign private equity is flowing more freely. We note, however, that such flows are volatile and are likely small compared with bank credit.

…as well as improved equity flow, with rising new business registration

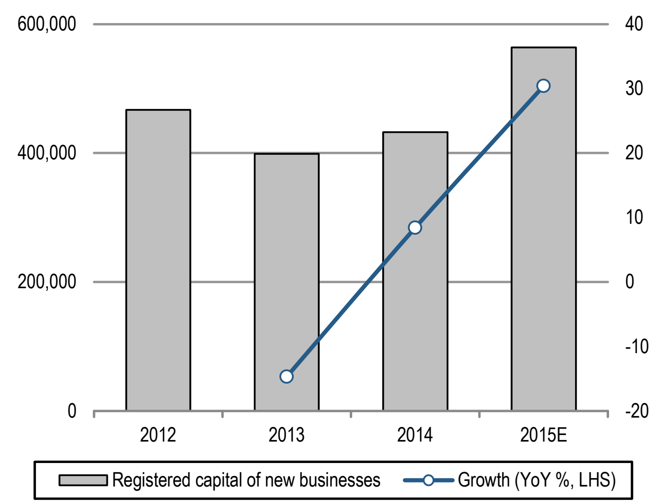
We find evidence for greater capital availability in business registration data. New business registrations have jumped so far this year, rising 22%, and registered capital is up 30% (Figure 34 and Figure 35). The average amount of capital per new business has risen from D5.2 bn in 2013 to D6.2 bn this year (Figure 36). The jump in registrations indicates that banks are lending to a bigger number of new businesses, while the increase in capital per business suggests that the size of loans is increasing.

Figure 34: New business registration has jumped this year



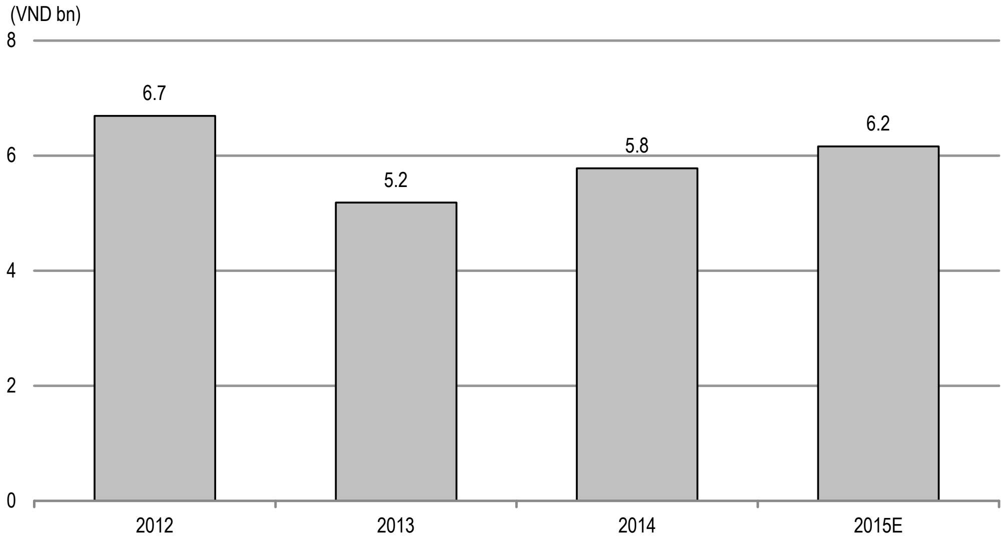
Source: The department of business registration management, Ministry of Planning and Investment

Figure 35: Registered capital of new businesses rising even faster



Source: The department of business registration management, Ministry of Planning and Investment

Figure 36: Registered capital per new business registration—signs of better financing for start-ups



Source: The department of business registration management, Ministry of Planning and Investment

Changing patterns in entrepreneurship also helping private firms

Changing patterns in entrepreneurship may also be helping private firms. Overseas Vietnamese who had left after the war with the US ended in 1975—the so-called Viet Kieu—started many of the new businesses of the previous decade and before. They brought capital and business skills—two scarce resources at the time—from the US and other developed countries. More recently, however, local Vietnamese are becoming more dominant. Compared with overseas Vietnamese, local entrepreneurs often have better connections with the government and banks and often understand local markets and consumers better.

Assuming that capital availability continues to improve, SOEs pose perhaps the biggest challenge to private firms. SOEs still enjoy special relationships with state-owned banks, often have privileged regulatory positions and can get permits and registrations more quickly than private firms. SOEs in many cases are like a fallen tree blocking a road. They add little value but can impede the progress of others.

More opportunities for private segment available

Nonetheless, we see continued rich opportunities for private firms. SOEs are too slow to respond to the needs of an increasingly complex consumption environment, and we expect that private firms will continue to take market share from SOEs in a wide range of services and consumption-oriented industries. We cannot imagine any SOE duplicating the success in fast food seen by one of our case studies, Huy Vietnam.

Less certain, but with perhaps equal potential, are linkages to the booming FDI sector. Because of their inefficiencies, the SOEs who dominate the domestically owned manufacturing sector have been unable to act as effective suppliers for FDIs, explaining the lack of depth in Vietnam's export sector. At present, private firms lack the scale, capital and expertise to fill the gap, but over time improvement is possible. As technology transfers to local staff from expat managers proceed at FDIs, some locals will inevitably strike out on their own and start up supplier firms. Increasing availability of bank credit to local entrepreneurs could help them. Although Vietnam is probably years away from seeing a sizeable export-oriented domestic private sector, we would be surprised if at some point the country did not follow the example of Thailand, where exporters' supply chains have penetrated into domestic businesses.

TPP in theory could speed reform

TPP could provide an additional boost to private firms. TPP should in theory force signatories to end the privileged status of SOEs in government procurement, market access and industry regulations. Although developed countries pushed these clauses to benefit FDIs, domestic private firms could gain the most.

FDI case study #1—Shenzhou International

Shenzhou is new in entering Vietnam, but its story points to an incipient trend of vertical integration, as it is investing both in upstream (i.e., fabric, starting Nov-14) and downstream (garments, starting Jul-15). Importantly, while still partly using imported inputs from China, Shenzhou has already started sourcing more inputs (i.e., yarn) from fellow FDIs (Bros, Texhong) with the longer-term aim of completing the full value chain in Vietnam.

The company has an aggressive expansion plan in Vietnam with ~US$500 mn investment. In upstream, the company currently has capacity for 70 mn tons of fabric per day and expects to increase this to 200 mn tons/day to support its downstream factories both in Vietnam and Cambodia. In downstream, while it has just started, it already has 2,500 workers and aims to increase this to 20,000 workers over the next few years. The company expects Vietnam to contribute 20-25% of its overall capacity in a few years, just behind China (~55%) and larger than Cambodia (~20%).

Shenzhou had visited countries including Myanmar, Laos, Indonesia and the Philippines, but in the end chose Vietnam due to its superior water and electricity supply, which is critical for upstream. It also cited population as a limiting factor in Cambodia (15.1 mn), but a draw for Vietnam (~90 mn). While lower wages are a plus (US$350-400/month compared to ~US$800/month in China), Shenzhou noted that labour costs are not its primary concern when looking at 4-5 years investment plans.

In terms of challenges, the company highlights road infrastructure—it take 2.5 hours to travel 60km between its up and downstream plants—and the complexity of regulations and sometimes poor coordination between local and central governments. Longer term, the company is looking to also invest into Myanmar, but likely just downstream, and its main focus will remain its expansion plan and integration of the value chain in Vietnam.

FDI case study #2—Texhong Textile

Texhong is not a typical Vietnam FDI investor, but its story highlights some of Vietnam's strengths. A Hong Kong firm, Texhong spins yarn and exports 90% of production back to China rather than developed markets. To some, that might appear like bringing sand to the beach, but for us the fact that a Chinese firm would be moving production to Vietnam to import back to China says a lot about how competitive the country is in textile inputs now.

Texhong has a 10-year history in Vietnam but is placing more of its chips there. It has invested $450 mn so far and is considering expanding its capacity there from about 50% now to 70-80%. It is studying vertically integrating by going downstream (somewhat in contrast to the more typical FDI in textiles who might already be downstream but is considering going upstream).

Texhong investigated investing in ten countries before settling on Vietnam as its prime target. It likes the cheap labour, the proximity to its core markets in the mainland and cultural similarities with China. Management would like to see greater regulatory clarity but generally praises local governments as helpful. The company notes with pleasure big improvements in infrastructure since it first arrived. Although the lack of downstream production is currently a hindrance, Texhong's vertical integration plans could solve the problem.

FDI case study #3—Stella

Stella offers an archetypical Vietnam FDI story. Founded in Taiwan in 1982, Stella has since progressed to become one of the leading developers and manufacturers of quality footwear with brand customers like Clarks, Deckers, ECCO, Rockport, Timberland and Wolverine, as well as fashion footwear like Cole Haan, Guess, Jones Group, Kenneth Cole and Michael Kors.

As for many FDIs, Vietnam remains a fairly small part of Stella's production chain, but it plans to expand. Stella entered Vietnam in 1998 through a JV with a local partner, and Vietnam now accounts for 20% of production capacity. Stella shipped 9 mn pairs of shoes from Vietnam in 2014, and expects to increase this to 11 mn pairs in 2015 and 15 mn pairs in 2016. As a group, Stella ambitiously targets shipping 100 mn pairs of shoes globally by 2020. Vietnam would be a key driver, as Stella expects Vietnam to become 30-35% of its production capacity by 2020.

While cheap labour in Vietnam and unfavourable export quotas in China were the initial drivers behind its investment, Stella notes that Vietnam also offers (1) workforce stability (>60% of its 18,000 workers have been with Stella for three years), (2) improving skill sets and efficiencies (the key driver behind an increase in production from 2014 to 2015) and (3) that the authorities have been supportive.

Stella notes some challenges. The limited local supply chain means most inputs need to be imported, meaning Vietnam has not been able to deliver products like higher-end dress shoes due to time constraints on the customer side. Stella also hopes that Vietnam would continue to work with and appeal to global brands (i.e., Stella's customers), as they ultimately have a say on where the production base would be.

Regionally, Stella has also explored producing in Indonesia and the Philippines, but notes that the investment per pair in those country remains higher (~US$6-7/pair compared to ~US$5/pair in Vietnam, possibly due to scale), while Vietnam's various trade agreements add to its appeal.

Figure 37: **Case study on Foreign Direct Investment—Why Vietnam?**

	Stella	Texhong	Shenzhou
Business	Footwear	Yarn-spinning	Upstream (Fabric) and Downstream (Garment)
Vietnam exposure/significance	~20% of Group's capacity Shipped 9mn pairs of shoes from VN in FY14, targeting 11mn/15mn for FY15/16E	~50% of group's capacity 2 big plants + 1 small plant and is adding another	~10% of group's capacity ~70tons/day for Fabric, 2,500 workers for garments
Investment started	1998 (through partner with a local)	2006	Nov-14 for Fabric, Jul-15 for Garments
Investment amount	US$52mn	~US$450mn	~US$500mn in total (incld. expansion)
Future investment plans	Group targets to ship 100mn pairs of shoes by 2020 (from 62mn now) Vietnam to account for 30-35% of group's capacity by 2020	VN will be >50% group capacity next year Investment will mainly be toward Northern region (closer to china) Considering going downstream, VN will play key part (could be 70-80% long-term), need partner	~20-25% of group capacity in medium-term ~200tons/day Fabric production, 20,000 workers (Phase1+2) in Vietnam
Where do you source your inputs?	Mainly China, limited local suppliers but would like to use more if available	Cotton from USA, Brazil, Australia	Yarn partly from China and partly from FDI in Vietnam (Bros, Texhong), will use more from other FDIs in Vietnam going forward
Where do you ship your outputs?	Global	>90% to China	Fabric to Cambodia/Vietnam (internal), Garments to global market
What're Vietnam Key advantages?	Stella's initial investment was due to preferable export quota Another important factor is worker's loyalty Potential benefit from TPP, various trade agreements e.g. with Europe	Lower production cost (due to no import tariff on Cotton) Proximity to China (biggest customer for Texhong) good for logistic + language/culture . Labour (only 8-9% of total cost) is ~40% cheaper than China still	Guaranteed Electricity and Water are most important Good population size (e.g. Cambodia expansion is limited given its smaller population) Cheaper labour helps, but not major criteria
What have been positive experiences?	Very low-turnover, >60% of workers have been with Stella for over 3yrs Workers have improved in efficiencies, no additional investment required in past 2 years but has increased output by >20%	Local/provincial government are quite helpful	Infrastructure particularly on Electricity and Water supply better than neighbours
What're Vietnam Key disadvantages?	Due to the lack of local supply chain / integration, unable to produce high-end dress shoes due to time-constraint	Does not have the whole value chain - no Fabric manufacturer now premium finishing Laws and Regulations relatively difficult to understand + the enforcement could be retro-active 8-9 years ago infrastructure limitation was bad, but has now improved (since 3-4 yrs ago), e.g., less road congestion Uncertainties on relationship with China	Need better road infrastructure. Currently takes >2.5hrs to travel 60km between Up and downstream factory Uncertainties on relationship with China Regulations are complex and unclear, taking time in clarifying VND depreciation (citing that Cambodia is using USD)
Do you have other investment elsewhere?	Investing in Indonesia and the Philippines Note that the Philippines could also join TPP and English-speaking means customers' could be more comfortable	No and no plan Have visited more than 10 countries but chose Vietnam	Cambodia, but probably matured at 12,000 workers. Infrastructure also means cannot go Upstream Beyond 2017, looking at Myanmar and/or Laos, but only for downstream
What VN should do for you to make further investment?	Need to appeal more to global brand who has influence in choosing its production base	Continue to improve the clarity on regulatory side.	Road infrastructure, Continue to improve the clarity on regulatory side.
View on VN Wage	There's increase but still low relative to others	Still 40% cheaper than China	Could be half compared to China (US$350-400/mth compared to US$800/mth), but also growing faster. We are looking at other factors for long-term investment

Source: Company data, Credit Suisse

Domestic private company case study – Huy Vietnam

Huy Vietnam provides an example of a firm filling the gaps left by sluggish SOEs in the domestic economy. Spotting the opportunity presented by the lack of chain restaurants serving Vietnamese food, the local and overseas Vietnamese partners Mr. Huy Nhat and Ms. Tran Thi Thanh Tam co-founded Huy Vietnam in 2006. Leveraging on their experience in F&B industry in both the US and Vietnam, they now operate 98 restaurants mainly in HCMC and Hanoi under three brands (Mon Hue, Com Tho Chay. and Pho Ong Hung).

The growth story of Huy Vietnam of course was not without challenges. Between 2007 and 2013, the company only managed to open 13 restaurants as the banking crisis that hit Vietnam in 2010 made it hard for local entrepreneur to access credit. The complexity of regulation and overall inefficiencies of the registration process also slowed expansion.

2014, however, saw much more rapid growth, with a combination of better access to funding—especially Private Equity investment—and leveraged relationships allowing Huy Vietnam to expand rapidly with 85 new restaurants in 2014.

The company's management also points to a more positive operating environment for domestic private companies. While rules and regulations and the legal process remain challenging, better access to capital and a more entrepreneurial mindset (ready to invest longer term, better understanding of what consumer want) mean that private firms are more competitive than before.

The economic payoff

The economic payoff from the private sector boom is clear. Despite slow growth from SOEs, FDIs and domestic private firms are giving Vietnam accelerating growth at a time when growth elsewhere in Asia is decelerating.

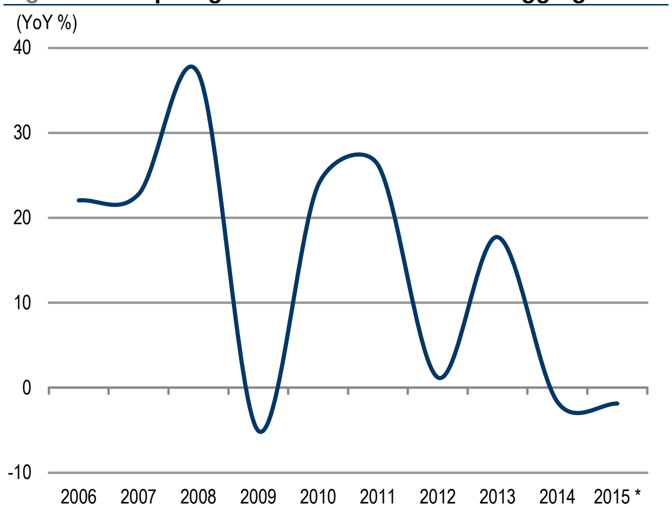
FDIs and domestic private firms are giving Vietnam accelerating growth, in clear contrast to peers

Export boom

The clearest gains from the FDI boom are in exports. While exports from domestic firms—both SOE and private—have stagnated (Figure 38), FDI exports rose 23% last year and are up 28% CAGR since 2010 (Figure 39). The FDI export boom is not a matter of high growth off a low base. FDIs accounted for two-thirds of all exports last year (Figure 40). We do not have data breaking out exports of private domestic firms from SOEs, but because private firms are largely absent from manufacturing, we imagine that SOEs account for most of the domestic firm contribution. Despite the stagnation in domestic firm exports, the FDI performance has given Vietnam 15% export growth so far this year, after 23% last year. Vietnam's export growth this year is Asia's fastest, and the advantage is widening this year (Figure 41).

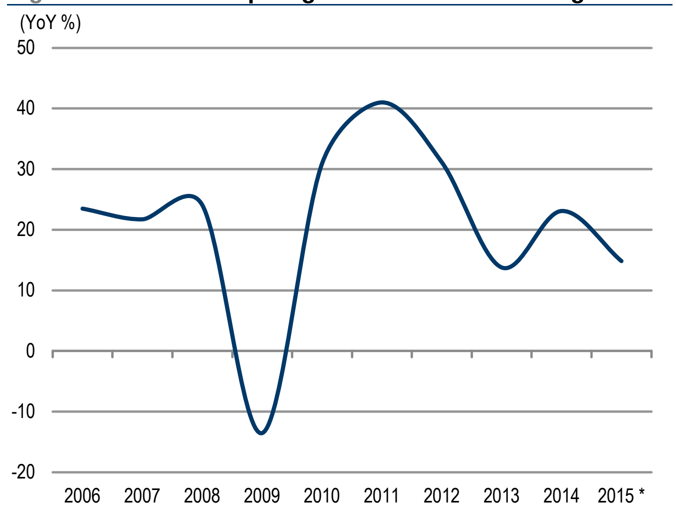
FDI exports rose 23% last year and are up 28% (CAGR) since 2010, 15% growth so far this year is the best in Asia

Figure 38: **Export growth of domestic firms lagging**



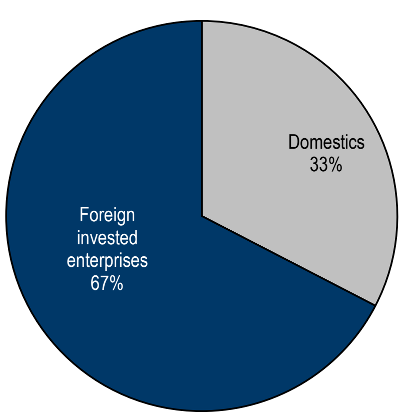
Source: Company data, Credit Suisse estimates

Figure 39: **But FDI export growth still in double digits**



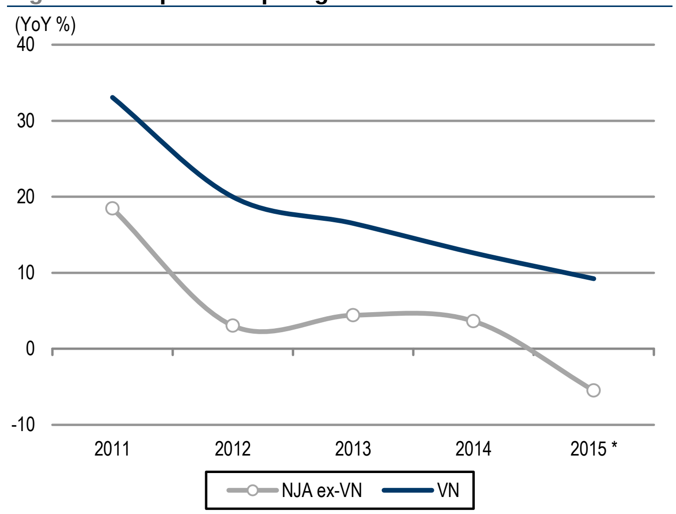
Source: Company data, Credit Suisse estimates

Figure 40: **FDIs contributed two-thirds of 2014 exports**



Source: CEIC, Credit Suisse

Figure 41: **Superior export growth not a one-off**



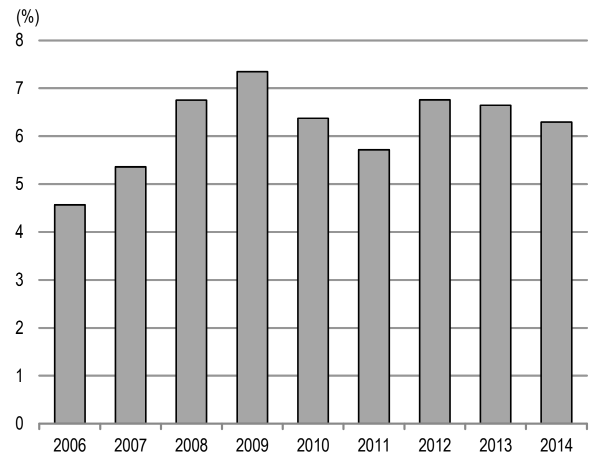
*Note: * YoY 8M15 versus 8M14; Source: CEIC, Credit Suisse*

Enhanced efficiency

The private sector boom is enhancing overall economic efficiency. The incremental capital output ratio (ICOR)—investment divided by the increase in GDP—is a key measure of investment efficiency in an economy. A high reading points to inefficiency, while a low ratio is positive. Up until recently, there has been no improvement in Vietnam's high (i.e., inefficient) ICOR, but the ratio has fallen over the past two years (Figure 42). As noted, a rising ICOR among SOEs has been a drag (Figure 8), but the private sector has more than offset the weak SOE performance. ICOR for both FDIs and domestic private firms is falling to more efficient levels (Figure 43), and because they are now a bigger part of the economy, the impact of the improvement is greater.

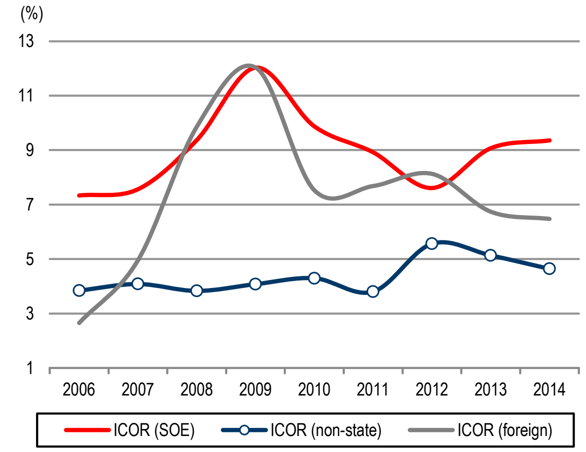
ICOR for both FDIs and domestic private firms is falling (indicating higher efficiency), offsetting SOE's weak performance

Figure 42: **ICOR for whole economy improving**



Source: CEIC, Credit Suisse

Figure 43: **Lower private sector ICOR the driver**



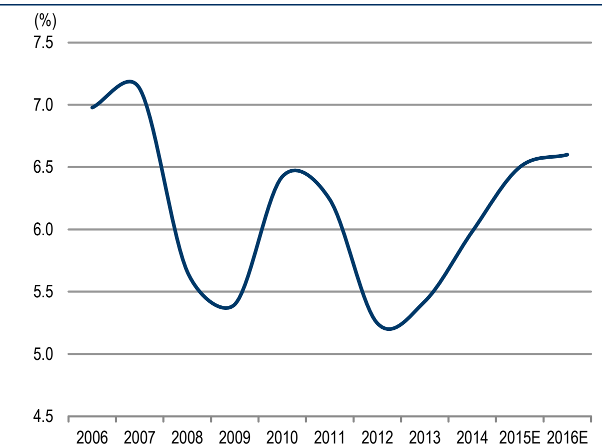
Source: CEIC, Credit Suisse

GDP recovery

The bottom line is that GDP is in its third year of accelerating growth, taking Vietnam up to China-India-Philippines levels of expansion (Figure 44). The acceleration is coming exclusively from the private sector, whereas SOE growth is flat (Figure 45). Of course, other factors are also at work behind the recovery of the past 2-3 years—improved bank liquidity, the fall in inflation, moderate fiscal stimulus—but at its heart, the story is about private firms filling the gaps left by SOEs.

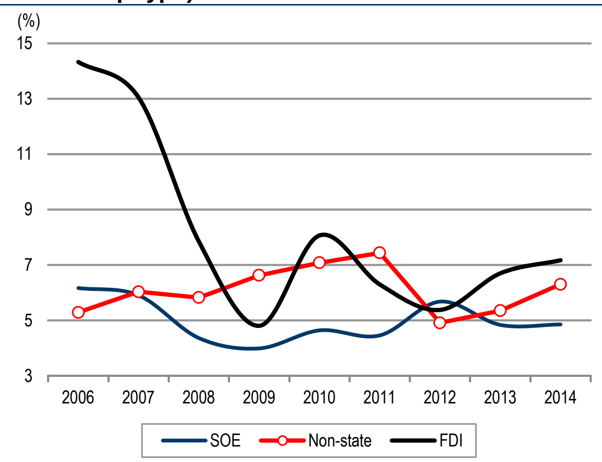
The bottom line is that GDP is in its third year of accelerating growth

Figure 44: **Real GDP growth accelerating**



Source: CEIC, ADB forecast

Figure 45: **Private sector the driver (YoY growth in GDP, by ownership type)**



Source: CEIC

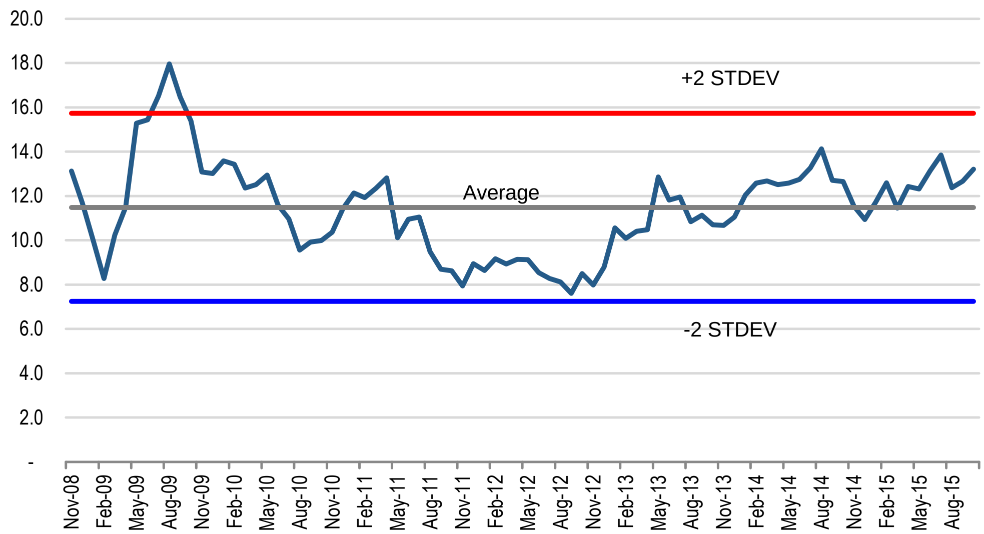
Valuations deserve a premium

Valuations are not among Asia's cheapest or low historically, but given the superior growth outlook and fallen cost of capital, we believe Vietnam deserves a premium.

Market multiples above average…

The 12-month forward P/E for the Vietnam market based on consensus forecasts for the top 40 stocks by market cap is moderately above its post-GFC average and close to the average of the past two years. The P/E is also above the regional average, though it is close to ASEAN averages.

Figure 46: Vietnam market 12-month forward P/E might be above historical average…

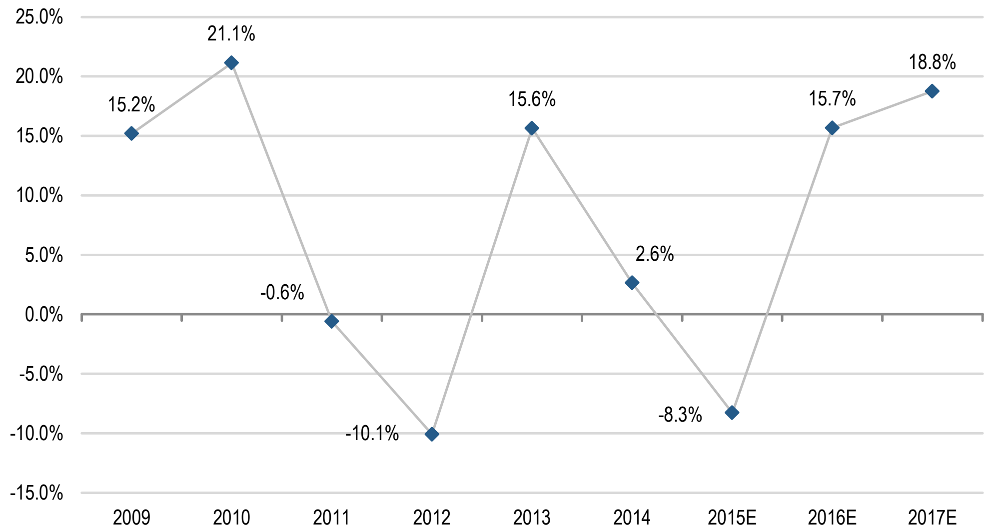


Source: Thompson Reuters, Credit Suisse

…but earnings growth is accelerating

Accelerating earnings growth, however, is supportive of multiple expansion. Consensus is forecasting 15.7-18.8% EPS growth into FY16-17E after volatile numbers created largely from swings in oil prices in FY15E (Figure 47).

Figure 47: …but market EPS growth is accelerating into FY16-17E



Source: Thompson Reuters, Credit Suisse

Three reasons why P/E should rise

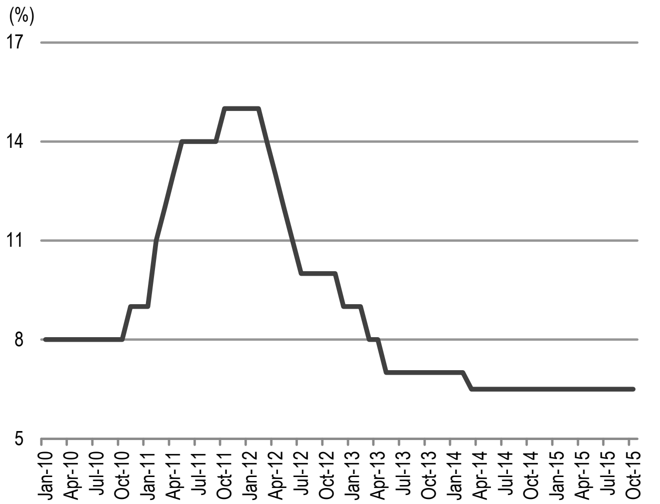
We identify three reasons why the market P/E deserves to expand:

(1) **Big fall in cost of capital.** Since 2011, the policy rate has fallen by 850 pp from 15% to 6.5% (Figure 48). The risk-free rate, therefore, has fallen sharply.

(2) **Currency stability.** Until recently, Vietnam has operated with three de facto currencies—the dong, the dollar and gold. For everyday transactions, Vietnamese used dong, but property and big-ticket items were traded in dollars or gold. Much if not most household savings were in dollars and gold. Banks offered deposits in all three currencies—dong, dollars and gold. The threat of flight to dollars or gold kept VND interest rates artificially high and hurt the stock market. When the dong weakened, locals sold stocks to buy dollars, dragging down the index. Now that locals have more confidence in the dong, they are more likely to invest in stocks rather than dollars or gold. An active de-dollarisation campaign by the government has helped. Banks can no longer offer gold accounts, sales and transactions in dollars are now banned and new dollar accounts cannot be opened. Until recently, the index displayed a strong negative correlation with the exchange rate, meaning that stocks fell when the dong weakened, but the correlation is now largely neutral (Figure 49).

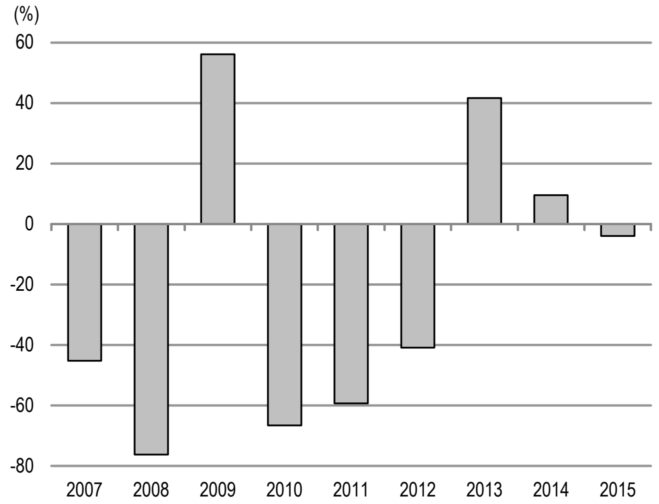
(3) **Lower systemic risk.** Systemic risk has fallen considerably. In the early years of the decade, major SOEs stood on the brink of collapse, bank NPLs were raising concerns about a financial crisis and capital was fleeing VND assets. The risk of capital controls was real. The crisis did not pass quickly, and arguably it was only 2013 when investors could breathe more easily. At present, we would rate systemic risk roughly middling by Asian standards. The reduced risk of currency collapse, capital controls and financial contagion indicate that investors should assign the country a lower equity risk premium, adding to the fall in the cost of capital coming from the lower risk-free rate.

Figure 48: **8 pp fall in interest rates points to big decline in cost of capital**



Source: CEIC

Figure 49: **Correlation of VND/USD rate against VNINDEX no longer strongly negative**



Source: DataStream, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Foreign premiums could prove durable

We will discuss in greater depth the question of foreign premiums in the next section, but we will note here that, for some stocks, the current premium will likely prove durable. Even based on the prices including the premium, these stocks can appear attractive.

Catalysts and risks

Potential catalysts include:

- More GDP or EPS upgrades
- Clarification of increases to foreign ownership limits, which could come after the New Year
- SOE reforms, such as share sales by SCIC or IPOs
- The Communist Party congress expected in 2Q16. The market would welcome any strengthening of Prime Minister Dung's position, and completion of the congress could lead to acceleration of reforms

The major risks are:

- External factors, with potential CNY devaluation probably the biggest risk
- Tightening fiscal position
- Potentially excessive credit growth

How to gain access

While Vietnam market still lacks depth, several appealing investment options are available. **Within the CS research coverage**, our top-pick is **Vinamilk** (VNM.HM), the largest dairy play offering superior growth but trading at a discount to regional peers. Property developer **Vingroup** (VIC.HM) is well-positioned to benefit from the recovery in property market with growth momentum expected to pick up from 4Q15.

We like VNM and VIC. Listed companies with exposure to Vietnam, e.g., Shenzhou also provide access.

Companies listed elsewhere also provide exposure to Vietnam. We provide a list of companies in other NJA markets that have big Vietnam exposure in terms of revenue or as its production base. Among CS coverage, we highlight **Shenzhou International**.

Credit Suisse HOLT®* platform currently covers 25 companies in Vietnam. We include in this report four different stocks screening styles; "Scorecard", "Growth", "Momentum" and "Attractively priced quality" based on CS HOLT platform which currently cover 25 stocks in Vietnam. (Please refer to Appendix 1 for HOLT screening results).

We also include CS HOLT* screening in this report (refer to Appendix 1)

**Note: CS HOLT is not part of Equity Research*

Market access remains a challenge…

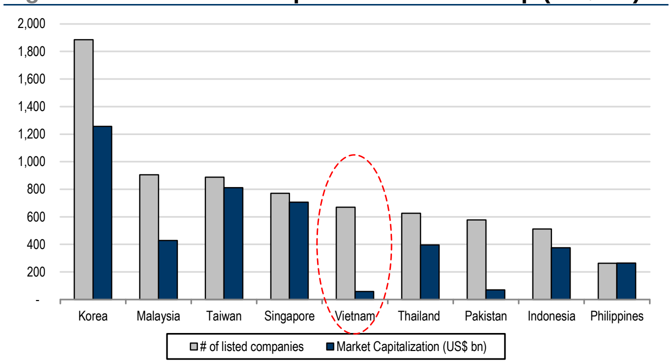
Only 27 listed companies (~4% of total) have market cap of > US$300 mn…

With **675 listed companies** on its Ho Chi Minh City stock exchange (309 companies) and Hanoi stock exchange (366 companies) combined (and would be >800 listed companies if the small cap UPCoM is included), number of listed companies in Vietnam is comparable to regional peers like Singapore, Thailand, Indonesia, Malaysia or Pakistan (Figure 51).

Most listed companies are relatively small…

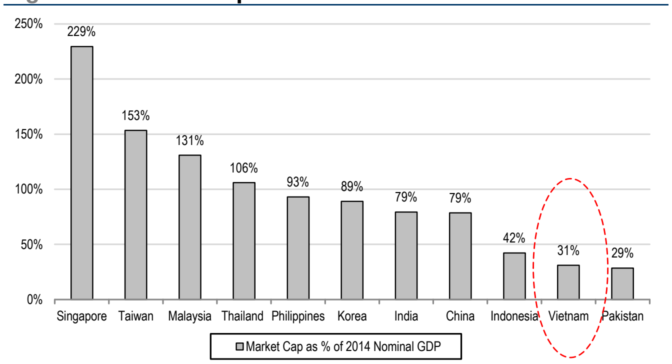
However, most of these listed companies are very small. **Total market capitalisation of two exchanges combined only amounts to ~US$59 bn**. Among these, only 11 companies have market cap of >US$1 bn and **only 32 companies (~5% of total listed companies) have market cap of > US$250 mn**. Vietnam stock market capitalisation is only **31% of its GDP**, comparable to Pakistan, but is still much lower than other Asian peers (figure 52).

Figure 50: **# of listed companies vs market cap (US$ bn)**



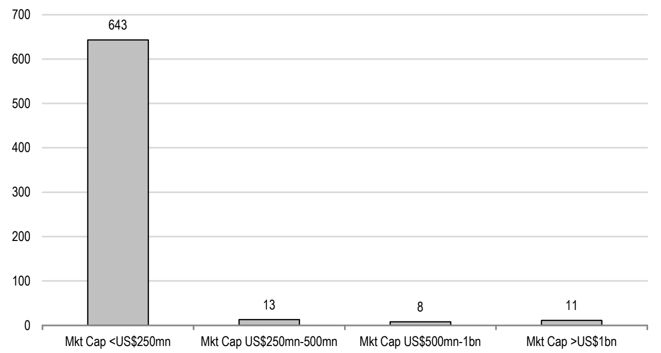
Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Figure 51: **Market capitalisation as a % of GDP**



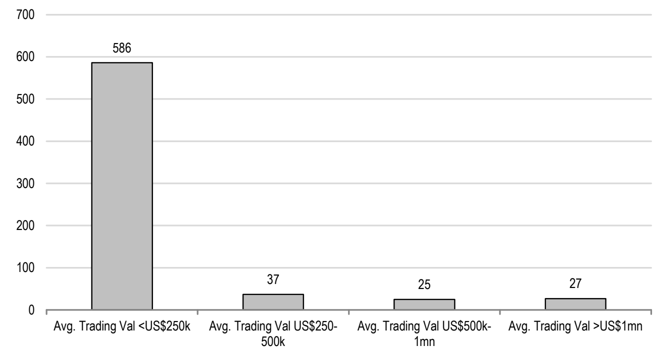
Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Figure 52: **Vietnam listed company—by market cap**



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Figure 53: **Vietnam listed company—by trading value***



**3-month average trading value per day, Source: the BLOOMBERG PROFESSIONAL™ service*

…and only 33 stocks are trading above US$1 mn a day

…and illiquid

We also note that on liquidity side, only **33 stocks (~5% of market) have 3-month average daily trading value >US$1 mn/day** and only 57 (~8%) stocks have average daily trading value >US$0.5 mn/day. Overall, **combined 3-month average trading value across the two exchanges amounted to ~US$110-120 mn**, with HCMC stock exchange accounting for ~80% of this daily trading value. This is broadly in line with what we have seen in Pakistan (US$133 mn) and the Philippines (US$130 mn), but still lower than other peers like Thailand (US$964 mn), Indonesia (US$279 mn) and Malaysia (US$229 mn).

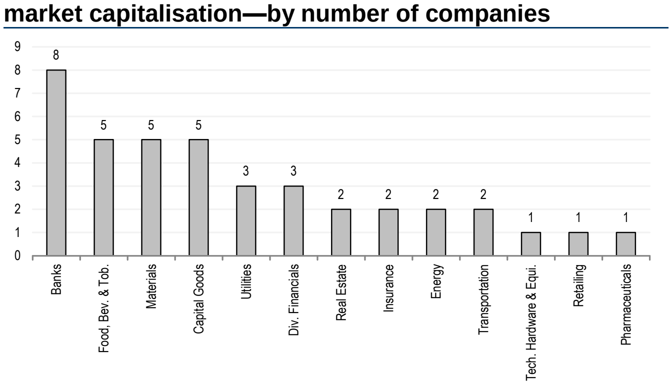
Limited choices among larger caps / more liquid stocks.

Limited access to key sectors and lack of options within the sector

Looking at top 40 stocks by market cap (accounts for ~76% of the market) based on GICs classification, apart from **Banks** (eight banks are among top 40 market caps in Vietnam, total market cap of ~US$17 bn or 28% of the market), only other sectors with sizable companies are **Food & Beverages** (five companies, total market cap of ~US$10 bn or 17% of market, largely Vinamilk and Masan), **Utilities** (three companies, total market cap of ~US$5 bn or 8% of the market, largely PV Gas) and **Real Estate** (two companies, total market cap of ~US$4 bn or 6% of the market, largely Vingroup).

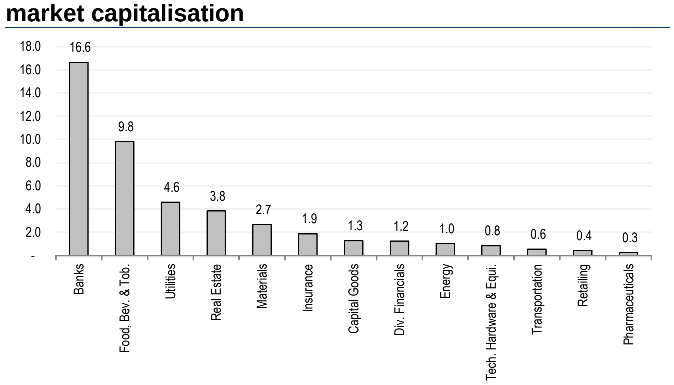
This means (1) investors still lack access to key sectors, e.g., energy, telecom services, manufacturing, (2) choice could be limited / difficult to pick stocks from top-down view (e.g., very limited number of stocks that have direct exposure to TPP theme), (3) the stocks that are larger, more liquid with good quality could be trading at a large premium. We see this as the key issue for Vietnam market and discuss more in details at the end of this section.

Figure 54: **Industry split for Vietnam's top 40 stocks by market capitalisation—by number of companies**



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Figure 55: **Industry split for Vietnam's top 40 stocks by market capitalisation**



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Foreign ownership limit and large State ownership in some cases.

Foreign ownership limit and state's significant stake add to liquidity woes…

Foreign ownership limit (30% for banks, previously 49% for most corporates) has also been a limiting factor. Among top 40 listed companies by market cap, seven companies are already at 49% limit (VNM, FPT, SSI (though its FOL was raised to 100% already), MWG, DHG, HCM, BMP) and three banks are already at or close to their 30% limit (CTG, ACB, and EIB (26%)). Foreign investors might need to pay material premium (10-15%) for stocks with full or close to full foreign limit.

We also note that another contributing factor to poor market access is significant state ownership in large listed companies, e.g., SBV's stake in large banks (87.7% in BIDV, 77.1% in VCB, 64.5% in CTG), Ministry of Finance's 70.9% stake in BVH and SCIC's 45.1% stake in Vinamilk and 43.4% stake in DHG also add to liquidity issue. These large state ownerships also mean increase in FOL for some stocks would only have limited impact unless SCIC is willing to reduce its stake, e.g., only an additional 6% of Vinamilk stock would be available to foreigners even if FOL is raised to 100%.

The new FOL rule and some divestment could help, but needs time and follow-through

We note that there has been efforts to increase foreign participation including the new FOL rule and SCIC's potential disposal of stake in listed companies including Vinamilk. These measures, if followed through, would be positive for market access. However, the impact from these changes could be limited in the near term, require the further follow through from the government to have real impact, and does not in itself solve the key problem for the lack of choices /exposure to key sectors in the market (and these are why we believe the foreign premium on some stocks could endure even into medium term). We discuss these in more detail at the end of this section.

High retail (and low foreign / institution) participation relative to peers.

Market still dominated by domestic retail

80-85% of Vietnam stock market trading value is driven by retail investors. While this is comparable to what we see in China (83%), it is much higher than 60-65% in Thailand, 50-60% in Pakistan, ~30% in Singapore, 25% in Hong Kong or 21% in Malaysia. This together with relative lack of choices for investible stocks as well as foreign ownership limitations for some stocks means the "price discovery" process could be less efficient in Vietnam, and share price could be more volatile or more driven by short-term news flow.

…so how to gain access?

CS research top picks VNM and VIC

Credit Suisse research top picks: Vinamilk and Vingroup

Vinamilk and Vingroup are top-picks

The Credit Suisse Asian Frontier Research Team currently covers three stocks in Vietnam with a combined market cap of US$12 bn (or 22% of Vietnam stock market cap) and average trading value of US$1-2 mn per day. **Vinamilk** and **Vingroup** are our top-picks. *For more detailed discussion, please refer to individual section at the back of this report.*

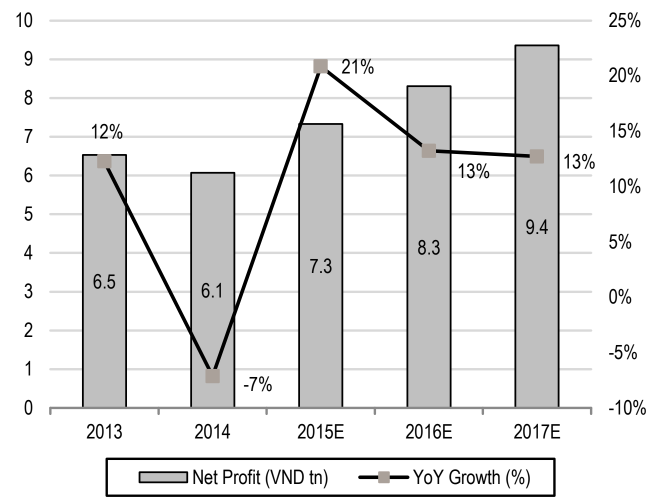
Figure 56: **Vietnam CS coverage – comparative multiples**

	Current Price (VND)	Target Price (VND)	Upside (%)	Rating	P/E (x) FY15E	P/E (x) FY16E	EV/EBITDA (x) FY15E	EV/EBITDA (x) FY16E	Div Yield (%) FY15E	Div Yield (%) FY16E	P/B (x) FY15E	P/B (x) FY16E	ROE (%) FY15E	ROE (%) FY16E
Vinamilk	113,000	134,000	18.6	O	18.5	16.3	14.0	11.9	3.4	3.5	6.1	5.2	35.0	34.5
Vingroup	44,500	43,720	-1.8	O	16.8	12.0	13.2	9.6	-	-	2.6	2.1	16.8	12.0
Masan Group	73,500	82,500	12.2	N	28.3	21.7	13.0	10.5	-	-	2.2	1.9	12.5	13.5
CS coverage average*					**20.0**	**16.1**	**13.6**	**10.9**	**1.7**	**1.7**	**4.3**	**3.6**	**25.0**	**23.5**

*Source: Company data, Credit Suisse estimates, *blended 3 companies*

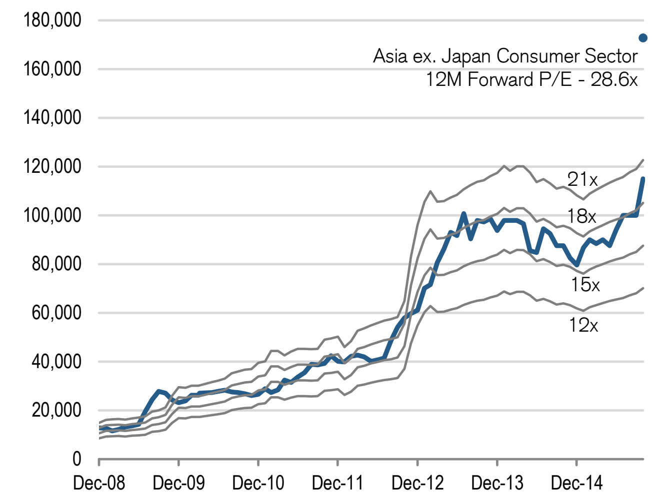
Vinamilk (VNM.HM) is our top-pick given its good growth profile, driven by growing demand for dairy products, superior distribution channels, medium-term margin expansion on lower material cost and attractive valuation. *For more detailed discussion, please refer to individual section at the back of this report.*

Figure 57: Vinamilk net profit and YoY earning growth



Source: Company data, Credit Suisse estimates

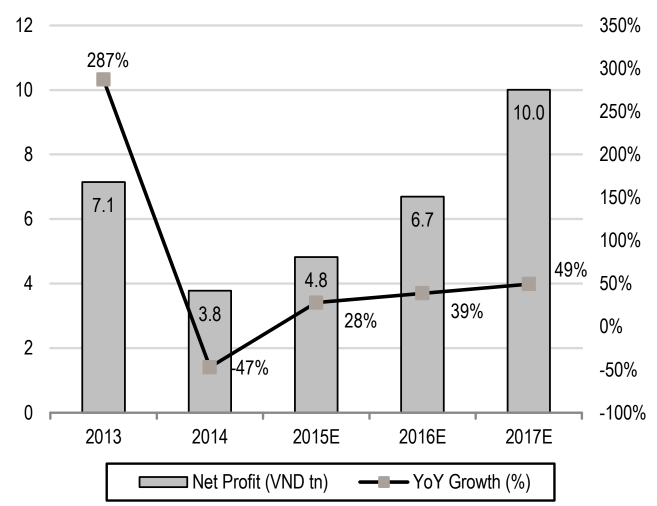
Figure 58: Vinamilk—12-month forward P/E band



Source: Thompson Reuters, Company data, Credit Suisse estimates

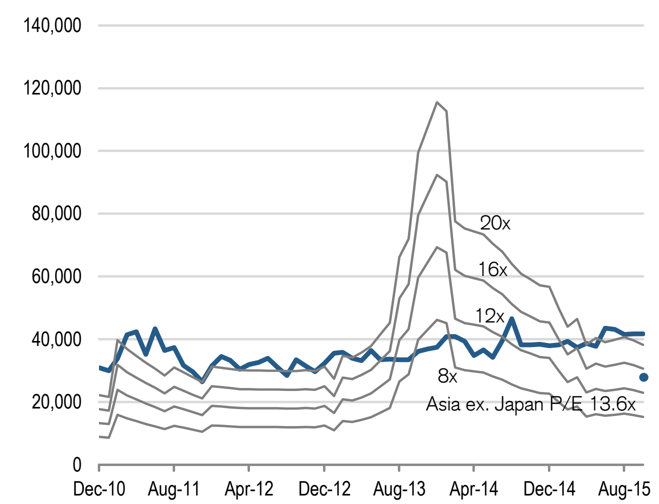
Vingroup (VIC.HM) is positioned to benefit from continued recovery in the Vietnamese economy and growth in middle class, with growth momentum to pick up from 4Q15 driven by the strong pipeline of deliveries in mid-high end residential projects over the next 2-3 years. *For more detailed discussion, please refer to individual section at the back of this report.*

Figure 59: Vingroup net profit and YoY earning growth



Source: Company data, Credit Suisse estimates

Figure 60: Vingroup—12-month forward P/E band



Source: Thompson Reuters, Company data, Credit Suisse estimates

For **Masan Group (MSN.HM)**, in our report "Chinks have appeared in the armour" published 27-Oct-15, we downgraded Masan Group to NEUTRAL (TP of VND82,500) and cut our 2015-17E EPS forecasts by 34-37%, led by (1) sluggish volume growth/market share erosion in consumer business, (2) slower ramp up in mining and (3) a surge in gearing ratios. Inclusion of feed business is not enough to offset this. The core consumer business is losing ground with only 4% YoY revenue growth in 1H15 (vs five-year average of 28%). We had turned cautious earlier, and our latest discussion with management does little to change our sceptical view. Our earlier assumption for increasing footprint in key segments was based on aggressive brand building. Now, with the addition of animal feed (which demands extensive marketing and an M&A budget of US$150-250 mn), we think resource/time allocation is likely to be split. Prospects of share gains in Masan Consumer seem lower and we reduce our forecasts by 200-400 bp across segments (which make up 85-90% of sales). The group's re-entrance into the feed business is aimed at capitalizing on Vietnam's huge and growing appetite for pork (28kg/capita). However with low gross margins (10-15%), stronghold of multi-nationals, high sensitivity to input prices and probability of VND depreciation, we think an uphill tasks awaits for further penetration. The stock has corrected 21% over 3M, however valuations still remains unattractive at 22x P/E and we see 23-33% downside risk to consensus EPS. Lack of a dividend policy does not help and positive catalysts are missing. *For more detailed, please refer to our report "Chinks have appeared in the armour" published 27-Oct-15"*

Overseas listed companies with exposure

22 listed companies with >20% of geographical segment revenue in Vietnam

Another way of gaining exposure to Vietnam without investing directly in Vietnam stock markets would be through listed companies that have significant exposure to Vietnam. Based on Bloomberg data, the table below sets out 22 companies with >20% of geographical segment revenue in Vietnam, ranked by their revenue exposure.

Figure 61: Listed companies with >20% geographical segment revenue in Vietnam

Ticker	Name	GICS Sub Industry Name	Vietnam Geo Segment Rev%	Market Cap (USD mn)	3M Average trading value (USD mn)	Est. 2015 P/E
366 HK	LUKS GRP VIET	Construction Materials	96.2	187	0.06	14.8
LATI MK	LATTITUDE TREE HL	Home Furnishings	78.7	155	0.16	8.3
5288 TT	EUROCHARM HOLDING	Auto Parts & Equipment	76.4	171	0.77	14.9
101330 KS	MOBASE CO LTD*	Tech. Hardware, Storage	74.6	110	1.15	4.2
DNA AU	DONACO INTL LTD	Casinos & Gaming	68.8	480	0.58	n/a
SIA LN	SOCO INTL PLC	Oil & Gas Exploration & Production	60	946	124.63	n/a
KCPL IN	KCP LTD	Construction Materials	45.5	193	0.75	26.1
184 HK	KECK SENG INVEST	Hotels, Resorts & Cruise Lines	43.5	295	0.07	9.8
43 HK	CP POKPHAND	Agricultural Products	35.1	2,951	1.51	12.8
UMWOG MK	UMW OIL & GAS CO	Oil & Gas Drilling	34.9	620	1.01	15.3
ASPL LN	ASEANA PROPERTY	Real Estate Development	34.5	111	0.01	12.0
KJC MK	KIAN JOO CAN FAC	Metal & Glass Containers	33.3	326	0.05	10.2
1902 TT	TAIWAN PULP &PAP	Paper Products	32.9	133	0.10	26.4
PER MK	PERSTIMA	Diversified Metals & Mining	32.5	109	0.02	10.0
MFL MK	MALAYAN FLOUR	Packaged Foods & Meats	28.9	170	0.04	14.8
1440 TT	TAINAN SPINNING	Textiles	26.5	807	0.81	31.0
5440 JP	KYOEI STEEL LTD	Steel	24	817	3.45	12.7
9938 TT	TAIWAN PAIHO LTD	Textiles	23.9	744	10.46	23.2
367 HK	CHUANGS CONSORT	Real Estate Development	22.7	204	0.10	3.1
1203 TT	VE WONG CORP	Packaged Foods & Meats	21.1	156	0.08	15.9
1535 TT	CHINA ECOTEK	Construction & Engineering	21	236	0.12	11.5
KST SP	KS ENERGY	Trading Companies & Distribution	20.8	139	0.02	n/a

*Source: Company data, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates. *Mobase is a smartphone casing manufacturer, which has a production base in Vietnam. Almost all of its production is sold to the Samsung handset mfg plant in Vietnam as a component supplier.*

We identified another 13 companies with significant manufacturing exposure

On the manufacturing side, as highlighted in our 7-Oct-15 note, the preliminary agreement on the Trans-Pacific Partnership (TPP) trade agreement is an important positive for Vietnam.

While TPP's actual implementation remains uncertain given the need for individual countries to ratify the agreement, we note that (1) Vietnam could be the top winner as and when this is approved, with biggest gains for textiles, garments and footwear exports and (2) some of the HK/China manufacturers have already been investing in Vietnam ahead of the actual implementation of TPP. The figure below shows a list of companies from Taiwan, Hong Kong and China with significant manufacturing base in Vietnam. We have an OUTPERFORM rating on **Shenzhou**.

Figure 62: **Listed companies with significant manufacturing in Vietnam, ranked by exposure**

Ticker	Name	Manufacturing	% of production in Vietnam	Market Cap (USD mn)	3M Avg. trading value (USD mn)	Est. 2015 P/E	Rating	Target Price	Upside (%)
CS Coverage									
2678 HK	Texhong	Yarn spinner	46%, targeting ~53%	694	0.58	9.3	N	HK$8.50	42.6
1836 HK	Stella	Footwear	20%, target 25% longer-term	1,900	0.95	15.5	N	HK$21.6	14.0
2313 HK	**Shenzhou**	**Textile**	**19% currently, 40% in few years**	**6,796**	**15.74**	**19.3**	**O**	**HK$42.0**	**9.9**
1382 HK	Pacific Textile	Textile	ramping up 18%, target 40% in 5yr+	1,963	2.79	14.1	N	HK$12.5	16.2
Not Rated									
1537 TT	Kung Lung Battery	Lead acid battery	95.0%	300	2.18	14.2			
1558 TT	Zeng Hsing	Sewing machine	95.0%	263	0.87	10.4			
1817 TT	Sanitar	Bathroom ceramics	95.0%	78	0.19	13.8			
1476 TT	Eclat	Fabric maker	50.0%	4,037	30.85	37.7			
1477 TT	Makalot	Garment maker	50.0%	1,517	14.92	25.2			
551 HK	Yue Yuen	Footwear	42% end Jun-15	5,883	6.70	13.4			
9904 TT	Pou Chen	Shoe maker	40.0%	4,404	17.07	12.8			
9910 TT	Feng Tay	Shoe maker	40.0%	3,501	17.50	31.5			
601339 C1	Bros	Colored spinning product	30%	1,522	25.68	n/a			

Source: Company data, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates for covered companies

Aside from the table above, we note that **Samsung** of course has been a major investor in Vietnam over the past few years, though we do not have details on its production capacity or how much Vietnam production is contributing to the overall group. **Compal** also have manufacturing in Vietnam, but still small relative to the overall production as being significant (China is still 80-85% in terms of their manufacturing capacity).

In Singapore, **Triyards** (ETL SP) owns three yards in Vietnam for the construction of offshore equipment. **Sembcorp Industries** (SCI SP) has a 67% stake in a Phu My 3 power plant in Vietnam after buying over one-third stake from BP in 2013. The plant contributes about 2-4% of group net profit. The project has an equity IRR of above 15%. The company also runs a number of industrial parks in Vietnam. Property companies like **Capitaland (CAPL SP)** and **Keppel Land (held under KEP SP)** have assets in Vietnam though still <10% of their total assets.

HK-based company **BYDE** is metal casing supplier to Samsung. It doesn't have a factory in Vietnam, but is more like competing with Samsung's internal factory in Vietnam.

CS HOLT* currently covers 25 companies

**Credit Suisse HOLT is not part of equity research, materials in this section are not prepared by Equity Research*

Credit Suisse HOLT® covers 25 companies in Vietnam

We include 4 different screenings based on HOLT platform in this report

Credit Suisse's HOLT platform analyses companies based on their cash-generating ability and overall potential for value creation. CS HOLT calculates company's cash flow-based return metric, CFROI®, to measure its return on investment then charts it against the firm's cost of capital. Returns that exceed their cost of capital create value.

CS HOLT platform currently covers 25 stocks in Vietnam. We include in this report stocks screening based on CS HOLT platform using four different investment styles: "Scorecard", "Growth", "Momentum" and "Quality". We note that Hoa Phat Group (HPG.HM, Not Rated) and FPT Corporation (FPT.HM, Not Rated) both pass the screening across all four criteria.

Figure 63: **Four investment styles CS HOLT explored for Vietnam**

Investment style	Criteria
"Scorecard"	A percentile ranking based on the firm's ➢ Operational Quality (CFROI, value creation), ➢ Momentum (CFROI revisions, price/liquidity momentum) and ➢ Valuation characteristics (up/downside, P/E, Dividend yield, P/B).
"Growth"	➢ Have positive sales growth in the last two years, ➢ Earn above economic returns ➢ Reinvestment rate of more than 5%.
"Momentum"	➢ Registered positive price return over the last three and one month, ➢ Supported by earnings upgrades (positive CFROI revisions) over the same period.
"Attractively-priced Quality"	➢ Above average CFROI (>6%) ➢ Currently showing more upside in the HOLT DCF model compared to their five year historical average.

Source: Source: CS HOLT®,*GICS Sector, What is HOLT Scorecard and Investment Style?

For more details on the screening and HOLT Vietnam coverage please refer to Appendix one of the report.

Looking forward - Change in FOL rule and SCIC's share disposal could be positive for market access…

New FOL rule and SCIC share disposal could be positive for market access…

We note that there has been some efforts to improve market access including the change in Foreign Ownership Limit (FOL) rule and SCIC's potential disposal of its significant stake in ten companies including Vinamilk. While these changes and their impact would still take time and would require more "follow-through" from the government, an increase in amount of tradeable shares and more room for foreign participation are positive, in our view. We also note that these changes could also be indicative of the government's policy direction that it might be more willing to let go of some control and increase private / foreign participation in the market further into medium-longer term.

New FOL rule could create room for more foreign participation…

As discussed above, among top 40 listed companies by market cap in Vietnam, seven companies had reached 49% limit (VNM, FPT, SSI, MWG, DHG, HCM, BMP) and three banks are already at or close to their 30% limit (CTG, ACB, and EIB (26%)). This means a cap on further foreign participation while foreign investors might need to pay material premium (10-15%) for stocks with full or close to full foreign limit.

Decree 60/2015 (promulgated on 26-Jun-15, took effect on 1-Sep-15) effectively allows foreign ownership limit for public companies to be raised to 100% from the current 49% except for some specific/conditional sectors that the government deem as sensitive and thus want to maintain higher level of control. We note that Saigon Securities (SSI) was the first company to raise its foreign limit to 100% from 1-Sept-15.

…and SCIC's exit from ten companies could mean more tradable shares

The Vietnamese government on 8-Oct-15 sent an official letter to the State Capital Investment Corp. (SCIC) to come up with a plan and suitable timeframe to divest its stake and exit from ten companies (mostly listed) including Vinamilk (VNM) and FPT Corp/FPT Telecom. Figure 74 shows the list of these companies and the potential value for SCIC's stake. Overall, SCIC could potentially raise at least D72 tn (US$3.2 bn) from the complete exit.

SCIC's divestment (even partially) from listed companies would be positive for market accessibility. SCIC's exit from listed companies would increase tradeable shares and market activities. This, if combined with an increase in FOL, could lead to a significant increase in foreign participation (both VNM and FPT are at 49% limit at this point).

Figure 64: **Ten companies SCIC could potentially exit**

Company	Ticker	Stake	Current value of SCIC's stake VND bn	US$ mn
Vietnam Dairy Company	VNM VN	45.1%	61,163	2,742
FPT Telecom*	Not Listed	50.2%	3,263	146
Binh Minh Plastic	BMP VN	38.4%	2,131	96
Tien Phong Plastic	NTP VN	37.1%	1,403	63
Vietnam National Reinsurance Corporation	VNR VN	40.4%	1,218	55
FPT Corp	FPT VN	6.0%	1,118	50
Bao Minh Insurance	BMI VN	50.7%	1,078	48
Ha Giang Mineral	HGM VN	46.6%	205	9
Vietnam Infrastructure and real estate**	Not Listed	47.6%	196	9
Sa Giang Export – Import	SGC VN	49.9%	164	7
Total			**71,937**	**3,225**

*Source: Saigon Times, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates, *Based on FPT Corp's Aug-14 share purchase at D52,000 per share, **based on Y/E2014 book value.*

SCIC's exit from FPT Telecom could also allow FPT Corp (which owns ~45.6% in FPT Telecom) to increase its stake in FPT Telecom, which would lead to greater control of the telecom business, its cash flow and also higher exposure for investors to the business.

Both could take and still require "follow-through"…

…but their impact would take time and require more "follow-through"

We do acknowledge though that the impact from both the change in FOL rule and SCIC's disposal could be limited in the near term and both would still require further "follow-through" from the government.

For the change in FOL rule, we note that (1) the details, e.g., the list of specific / conditional sectors have yet to be announced and thus remain unclear, (2) the FOL for banking sector remains 30% (eight largest listed banks have combined market cap of ~US$15 bn or 28% of the market) and (3) the new limit for some companies would require shareholders' approval. This process could take time and involve uncertainties.

For SCIC's share disposal, the process and timeline of this potential divestment (e.g., to divest gradually or all at once, which companies would be divested first, etc.) remain uncertain. SCIC would need to come up with a plan / suggestion which will then need to be discussed and approved by the government. This process could also take some time in light of the National Assembly in 1Q16. We also note that the government has stated its intention to hold on to stake in companies like Bao Viet Holdings and DHG Pharmaceutical.

…but are positive policy indications. More could be on its way

Most important thing is policy direction

Looking beyond this, however, the more important thing in our view is the policy direction.

- **First, policy coordination.** We believe that the timing of the change in FOL rule and SCIC's potential divestment of its stake in companies are inter-related. The new FOL rule in our view would require SCIC's divestment in companies like Vinamilk to become more effective while SCIC's successful divestment also would require new FOL rule to come into effect given the size of the deal and the price-discovery process would be much more effective with foreign participation. This we believe indicate government's understanding and willingness to follow through.

- **Second, willingness to open up.** Another important aspect we see from both the new FOL rule and SCIC's potential divestment is the government's willingness to let go of control and open up to foreign investors into non-sensitive sectors.

- **Third, the pressure it is facing.** We believe the fiscal pressure the government is facing could also play a part. As highlighted, SCIC could raise at least ~US$3 bn from a complete exit from ten companies, which could help with the government's deficit and debt management. Looking forward, another pressure the government is facing is the need for re-capitalisation of the banking sector. Such need against the backdrop of fiscal challenge could mean the government would need to consider an increase in private/foreign participation in SOCBs as an option. We note again that the government through SBV is holding 77.1% stake in VCB, 64.5% stake in CTG and 87.7% stake in BIDV while foreign ownership in ACB and EIB are at or close to 30% limit.

…though an improvement in SOE reform is needed

The key issue of Vietnam market is the lack of access to key sectors

Key issue for Vietnam remains lack of access to key industries…

While we are encouraged by measures like an increase in FOL or SCIC's potential stake divestment in some listed companies which could be positive for market access, it is important to note that these measures still would not fix the key issue for Vietnam market, i.e., the lack of access to key sectors and lack of choices within each sector in the market.

Almost no access to energy, no access to Telcos, limited access to Materials

Figure 75 below shows Vietnam (combined HCMC and Hanoi) Index components against Thailand's SET Index (as comparison for more developed stock market in the region) and Pakistan's KSE Index (as comparison for more accessible Frontier market). While Vietnam **banking sector** is relatively well-represented (28% of the market, though they face other constraints like significant state ownership and full foreign room), we note investors have very limited access to **Materials** sector (116 listed companies but only six companies larger than US$200 mn), almost no access to **Energy** (largely PVD, PVS) and no access to **Telecommunication Services** sector (indirect exposure through FPT) while these sectors represent as much as 32% of Thailand market and 37% of Pakistan market.

Access to other sectors like **Real estate**, **Food & staple retailing** and **Consumer services** (i.e., proxy for consumption growth) or **Technology Hardware & Equipment** and **Consumer Durables & Apparel** (partial proxy for Manufacturing / FDI) are also limited.

Figure 65: **Sector contributions—Thailand SET vs Pakistan KSE vs Vietnam Index***

	Thailand SET		Pakistan KSE		Vietnam (HCMC + Hanoi)	
	Makt Cap (US$ mn)	# of companies	Makt Cap (US$ mn)	# of companies	Makt Cap (US$ mn)	# of companies
Banks	57,773	11	13,558	25	16,732	9
Energy	40,333	15	11,650	13	1,629	33
Materials	39,761	68	14,053	79	4,510	116
Telecommunication Services	39,507	8	937	4	-	-
Real Estate	35,251	90	51	4	5,614	47
Food & Staples Retailing	22,855	5	-	-	23	1
Transportation	22,051	18	1,207	6	1,819	38
Health Care Equipment & Servic	17,463	16	185	2	43	4
Food Beverage & Tobacco	16,962	41	11,530	50	11,096	52
Utilities	14,430	12	5,362	20	5,527	23
Capital Goods	12,765	50	1,282	19	3,756	160
Consumer Services	9,054	15	19	2	231	13
Technology Hardware & Equipmen	8,345	21	-	-	949	13
Retailing	7,877	16	202	4	693	15
Others/non-specified	7,734	39	304	121	210	38
Diversified Financials	6,559	30	729	48	1,885	27
Media	6,358	24	154	2	46	14
Insurance	5,638	17	1,777	24	2,310	7
Consumer Durables & Apparel	2,350	28	2,581	120	569	17
Automobiles & Components	1,962	13	2,461	15	460	6
Commercial & Professional Serv	809	12	194	3	337	18
Software & Services	729	9	153	3	100	7
Pharmaceuticals, Biotechnology	444	1	2,154	8	565	13
Household & Personal Products	401	4	776	5	150	4
Semiconductors & Semiconductor	56	2	-	-	-	-
Total	**377,468**	**565**	**71,318**	**577**	**59,255**	**675**

*Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates, *HCMC + Hanoi*

Vietnam need to address three key issues to grow the market

We conclude that in order to both improve the access and grow the market, Vietnam would need to address three key issues.

…which an acceleration and improvement in quality of SOE reform / equitisation and IPO may help

- **Firstly, the equitisation and subsequent listing of larger SOEs** particularly in key sectors like Energy, Telcos and Transportation/Logistics. These sectors account for 32-37% of Thai or Pakistan markets, but only ~10% of Vietnam market currently. The listing of these companies, apart from other benefits such as an increase in efficiencies and transparencies, would help both to increase the number of listed companies / tradeable shares and investors' access to key sectors of the economy.
- **Second, growth of domestic private companies.** Apart from key sectors like energy and telcos, we note that **Real Estate**, **Food & Staples Retailing, Consumer Services and Retailing** are also playing important role in the growth of Thai market, together accounting for ~18% of the market compared to ~10% in the case of Vietnam. We believe there're opportunities in these segments on the back of economic growth and resulting increase in consumer spending, but key challenges would include access to funding and regulatory process (e.g., approval for permits as we have discussed in Mon Hue case study), both of which the government could play a part in addressing.
- **Third, integration into the global value chain.** While Vietnam's economic growth is now largely driven by manufacturing, e.g., electronics or garment/textile/footwear, these are driven largely by FDI, while local companies are not playing a large part in the overall value chain. We believe this is also reflected in limited number of listed companies in **Technology Hardware & Equipment** and **Consumer Durables & Apparel** sector. Growth and higher participation of local companies into the global value chain could in our view have positive impact on the stock market as well.

Overall we believe the pace and quality of SOE reform/equitisation (meaning both the quality of the company and other aspect of equitisation like the portion of stake available to public) would play an important part in the development of the Vietnam stock market.

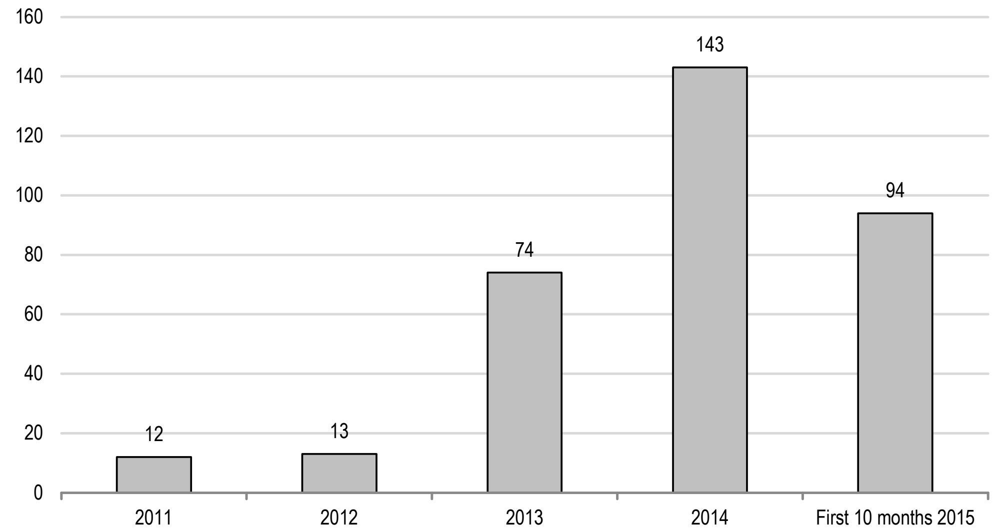
Apart from playing a key role in addressing the first issue we discussed above, an improved transparency and efficiency of the SOEs as well as more level playing field between SOEs and domestic private companies could also help with growth of the domestic private companies in Vietnam, in our view.

Progress remains slow…

Progress has been slow on this front….

As we discussed at the beginning of this report, the progress in terms of SOE reforms / equitisation so far has been slow. Out of the total 2011-15 target to equitise and IPO 531 SOEs, only 336 have been completed. With only two months left, we believe it is very unlikely that the government would be able to meet its target within this year.

Figure 66: Number of state-owned enterprise equitised during 2011–10M15



Source: Bao Viet Securities News, VnEconomy, National Institute of Finance

More importantly, the bigger question lies with the quality of these equitisation / IPO. We note that (1) we have limited clarity into how much stake the government actually reduced through IPO process in most cases, and (2) IPO and listing (which should help improve information disclosure and transparency further) are two separate processes in Vietnam, and companies that have already IPOed might not be listed on the exchange for a long time (which we believe significantly reduce the attractiveness of the IPO).

Figure 76 above shows the number of SOEs that were equitised from 2011 to date while Figure 77 shows some notable equitisation / IPO that happened or are in the process, though none of them is listed yet.

Figure 67: Some recent and upcoming notable equitisation

Company Name	Industry	Equitisation status	Equitisation Date	Registered Cap (USD)	State-ownership after Equitisation	Strategic Investors
Sabeco	Food	Yes	1-Feb-08	291.5	90%	
PetroVietnam Ca Mau Fertiliser	Fertiliser	Yes	11-Dec-14	240.91	51%	25%
Vinatex	Textile	Yes	22-Sep-14	227.27	51%	24%
Vietnam Airlines	Transportation	Yes	14-Nov-14	640.95	75%	20%
SASCO	Transportation/Services	Yes	18-Sep-14	59.77	51%	na
Vocarimex	Food	Yes	25-Jul-14	55.36	36%	32%
Seaprodex	Food	Yes	12-Dec-14	56.82	63%	25%
Vinachem	Chemical	Yes	31-Oct-14	n/a	64%	n/a
Thang Long Construction Corporation	Construction	Yes	24-Mar-14	n/a	35%	n/a
Hai Phong Port	Transportation	Yes	14-May-14	148.59	70%	n/a
Licogi	Construction	Yes	13-Apr-15	40.91	40%	35%
VEFAC	Services	Yes	20-Mar-15	75.91	10%	80%
Vinacomin	Mining	Approved	n/a	90.91	n/a	n/a
Vinalines	Water Transportation	Approved	n/a	413.64	36%	30%
ACV	Air Transportation	Approved	n/a	668.18	75%	n/a
Mobiphone	Telecommunication	Planning	n/a	n/a	n/a	n/a

Source: Vietstock.vn, FTSE Global Market, Decision 314/QD-TTg, Decision 1481/QĐ-BGTVT, Decision 1460/QĐ-BGTVT, Decision 888/QĐ-TTg

….though some positive steps have been made

Despite the slow progress, we note that we have also seen some positive steps from the government. Firstly, while it is unlikely for the government to be able to meet its target, we have seen a material pick-up in the pace of equitisation/IPO in 2014-15 compared to 2011-13. Second, we have seen measures that were intended to boost equitisation, state divestment in enterprises such as Resolution 15/NQ-CP and Resolution 40/NQ-CP.

…but we see better momentum, more supportive policies and likely to remain on government's agenda

Figure 68: **Measures to boost equitisation, state divestment in enterprises**

Resolution/Decision	Date	Details
Resolution 15/NQ-CP	6-Mar-14	Business permitted to divest under par value or under accounting book value, after deducting the provision for losses of financial investment as required. Business permitted to auction the investments in unlisted companies with values at par above 10bn. In case of unsuccessful auction, business may now be allowed to sell at the price agreed with the permission of the owner Business may sell stake in the financial investment companies, commercial banks to the state commercial bank or state bank of Vietnam Business permitted to public offering shares from public companies which operational losses for the past 5 years
Decision 51/2014/QD-TTg	15-Sep-14	Made it mandatory for the SOE IPOs to start share trading on the unlisted companies market (UPCoM) within 90 days and to list shares on the stock exchanges within one year from receiving the new certificate of business registration.
Resolution 40/NQ-CP	1-Jun-15	Allowed to sell in block, allow transforming SOEs into JSC when business cannot IPO due to weak market demand and spike in supply. Specifically, for businesses with approved equitisation plan, but have not been able to IPO due to market condition, the business is permitted to sell shares to employees, union organisation within the business, with a discount price of 60% of the expected IPO price Within 12 months after switching to JSC, business must IPO

Source: chinhphu.vn

Thirdly, as discussed on Page 4 of the report, we note that the government continues to emphasise SOE reforms / equitisation as one of the key priorities of the overall economic reforms. The government's greater willingness to open up as seen with new FOL rule and SCIC's potential divestment together with the fiscal pressure it is facing could mean better pace and quality of SOE reforms into 2016, perhaps after the National Assembly.

Vietnam Dairy Products Joint Stock Company (VNM.HM / VNM VN)

Rating	**OUTPERFORM***
Price (26 Oct 15, D)	113,000
Target price (D)	(from 116,667) 134,000[1]
Upside/downside (%)	18.6
Mkt cap (D mn)	135,616,083 (US$
Enterprise value (D mn)	129,421,267
Number of shares (mn)	1,200.14
Free float (%)	44.0
52-week price range	115,000.0 - 77,083.3
ADTO - 6M (US$ mn)	1.6

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

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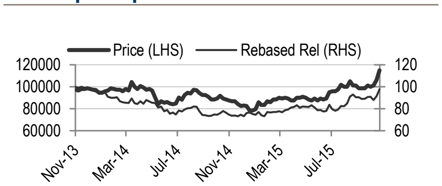
Best in class/Vietnam's crown jewel

- **Largest dairy player in Vietnam** with ~50% overall market share across key products: (1) liquid milk (53% share), (2) condensed milk (78% share), (3) yogurt (84% share) and (4) powder milk (25% share). Domestic revenue constitutes 84% of its total, driven by liquid milk (45%) and yogurt (20%). It also has the largest distribution network with 215,000 retailers and 266 distributors (35-40% higher than second largest player) and a robust supply chain with continued investment in farming and strong link with farmers.
- **Solid 2Q15A driven by volume growth and margin expansion.** VNM reported robust 2Q15 EPS of D2,186 (+40% QoQ/+39% YoY). Revenue grew strongly by 13.4% YoY, driven by both market share gains (liquid and powder milk) and volume growth in both domestic and international markets. We also note major highlight of the result was a surge in margins to 41.8%, led by a rise in domestic margins to 41.6%, while international margins rose to a record high 42.6%, driven by lower powder milk prices and rising share of higher margin powder milk.
- **Margins to remain robust with acceleration in rural growth boosting volumes.** Despite the recent uptick (+20% 3M), powder milk prices (~40% of COGS) still remain 47% below peak prices. With contract negotiations on next year's procurement under way, margins are likely to remain robust in 2016. Management has also highlighted price pass-through once contract negotiations are completed. Moreover, acceleration in dairy volumes in rural Vietnam (+14% YTD), a dominant geographical segment for VNM coupled aggressive distribution and marketing spending (+79%YoY in 1H15) should drive both market share gains and volumetric growth in coming quarters.
- **OUTPERFORM.** At FY16E P/E of 16.3x, we note that Vinamilk is still trading at a discount to regional peers but offering superior growth profile. Given that foreign ownership in Vinamilk is at 49%, we believe the progress on increase in foreign ownership limit in the company's constitution via AGM/EOGM (likely 1Q16) could be an additional positive catalyst.

Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 598.61 on 26-10-15
On 26-10-15 the spot exchange rate was D22298./US$1

Performance over	1M	3M	12M	
Absolute (%)	11.9	12.1	30.4	—
Relative (%)	6.9	16.2	27.3	—

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
Revenue (D mn)	34,976,928.3	38,784,978.8	44,102,827.8	50,195,241.8
EBITDA (D mn)	8,094,339.7	9,271,664.0	10,660,635.1	12,109,678.2
EBIT (D mn)	7,061,609.7	8,331,719.1	9,480,398.5	10,805,369.9
Net profit (D mn)	6,067,598.2	7,329,962.1	8,299,122.4	9,350,153.9
EPS (CS adj.) (D)	5,055.67	6,107.50	6,915.03	7,790.77
Change from previous EPS (%)	n.a.	0.7	2.2	4.1
Consensus EPS (D)	n.a.	6,011	6,825	6,832
EPS growth (%)	-7.1	20.8	13.2	12.7
P/E (x)	22.4	18.5	16.3	14.5
Dividend yield (%)	3.5	3.4	3.5	3.9
EV/EBITDA (x)	15.8	14.0	11.9	10.3
P/B (x)	6.9	6.1	5.2	4.4
ROE (%)	32.6	35.0	34.5	33.1
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Thomson Reuters, Credit Suisse estimates.

Vietnam Dairy Products Joint Stock Company VNM.HM / VNM VN

Price (26 Oct 15): **D113,000**, Rating:**: OUTPERFORM**, Target Price: **D134,000**, Analyst: **Farhan Rizvi**

Target price scenario			
Scenario	**TP**	**%Up/Dwn**	**Assumptions**
Upside	195,000.00	72.57	Peak EV/EBITDA multiple of 20x
Central Case	134,000.00	18.58	FCFF - Target EV/EBITDA of 14.0x
Downside	65,000.00	(42.48)	3 year trough EV/EBITDA multiple of 5.6x

Income statement (D mn)	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Sales revenue	**34,976,928**	**38,784,979**	**44,102,828**	**50,195,242**
Cost of goods sold	22,668,451	23,847,005	27,062,304	30,817,421
SG&A	5,491,508	6,875,359	7,862,868	8,905,467
Other operating exp./(inc.)	(1,277,370)	(1,209,049)	(1,482,979)	(1,637,325)
EBITDA	**8,094,340**	**9,271,664**	**10,660,635**	**12,109,678**
Depreciation & amortisation	1,032,730	939,945	1,180,237	1,304,308
EBIT	**7,061,610**	**8,331,719**	**9,480,398**	**10,805,370**
Net interest expense/(inc.)	(486,797)	(449,121)	(462,694)	(610,599)
Non-operating inc./(exp.)	5,075	6,750	8,794	10,944
Associates/JV	59,887	47,910	52,701	57,971
Recurring PBT	**7,613,369**	**8,835,500**	**10,004,588**	**11,484,884**
Exceptionals/extraordinaries	—	—	—	—
Taxes	1,545,166	1,502,035	1,700,780	2,124,704
Profit after tax	**6,068,203**	**7,333,465**	**8,303,808**	**9,360,180**
Other after tax income	—	—	—	—
Minority interests	605	3,503	4,685	10,026
Preferred dividends	—	—	—	—
Reported net profit	**6,067,598**	**7,329,962**	**8,299,122**	**9,350,154**
Analyst adjustments	—	—	—	—
Net profit (Credit Suisse)	**6,067,598**	**7,329,962**	**8,299,122**	**9,350,154**

Cash flow (D mn)	**12/14A**	**12/15E**	**12/16E**	**12/17E**
EBIT	**7,061,610**	**8,331,719**	**9,480,398**	**10,805,370**
Net interest	(491,872)	(455,871)	(471,488)	(621,543)
Tax paid	1,545,166	1,502,035	1,700,780	2,124,704
Working capital	(2,080,579)	107,605	(389,469)	(462,889)
Other cash & non-cash items	(26,785)	939,945	1,180,237	1,304,308
Operating cash flow	**6,007,539**	**10,425,433**	**11,500,458**	**13,149,950**
Capex	(997,676)	(4,691,316)	(1,894,222)	(2,654,781)
Free cash flow to the firm	**5,009,863**	**5,734,117**	**9,606,236**	**10,495,168**
Disposals of fixed assets	—	—	—	—
Acquisitions	(40,591)	(97,566)	(21,139)	(22,196)
Divestments	—	—	—	—
Associate investments	—	—	—	—
Other investment/(outflows)	(392,162)	25,860	(81,374)	27,979
Investing cash flow	**(1,430,429)**	**(4,763,022)**	**(1,996,735)**	**(2,648,999)**
Equity raised	389,862	—	—	—
Dividends paid	(4,000,800)	(4,800,631)	(4,581,002)	(4,813,833)
Net borrowings	152,619	(155,417)	(93,257)	(248,776)
Other financing cash flow	1,951,589	507,524	15,654	22,837
Financing cash flow	**(1,506,730)**	**(4,448,524)**	**(4,658,605)**	**(5,039,772)**
Total cash flow	**3,070,380**	**1,213,887**	**4,845,117**	**5,461,178**
Adjustments	—	—	—	—
Net change in cash	**3,070,380**	**1,213,887**	**4,845,117**	**5,461,178**

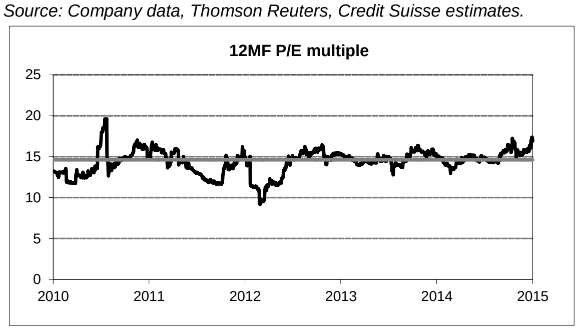
Balance sheet (D mn)	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Cash & cash equivalents	8,995,838	8,165,307	10,604,542	13,117,370
Current receivables	2,364,587	2,649,885	2,888,692	3,286,697
Inventories	3,620,107	4,116,058	4,596,884	5,234,740
Other current assets	541,777	569,661	685,640	780,776
Current assets	**15,522,310**	**15,500,911**	**18,775,759**	**22,419,583**
Property, plant & equip.	8,499,603	12,250,974	12,964,959	14,315,432
Investments	325,220	422,786	443,925	466,122
Intangibles	698,914	673,054	754,428	726,450
Other non-current assets	724,092	724,092	724,092	724,092
Total assets	**25,770,138**	**29,571,817**	**33,663,163**	**38,651,678**
Accounts payable	1,898,529	2,286,699	2,446,729	2,786,233
Short-term debt	1,279,525	1,712,463	1,857,569	1,610,720
Current provisions	1,021,839	1,071,197	1,124,013	1,182,953
Other current liabilities	1,253,369	1,732,580	1,965,878	2,235,541
Current liabilities	**5,453,263**	**6,802,938**	**7,394,189**	**7,815,447**
Long-term debt	346,384	258,029	19,665	17,738
Non-current provisions	162,045	166,066	177,035	189,845
Other non-current liab.	8,210	8,210	8,210	8,210
Total liabilities	**5,969,902**	**7,235,243**	**7,599,099**	**8,031,240**
Shareholders' equity	**19,680,283**	**22,213,117**	**25,935,922**	**30,482,270**
Minority interests	119,954	123,457	128,142	138,169
Total liabilities & equity	**25,770,138**	**29,571,817**	**33,663,163**	**38,651,678**

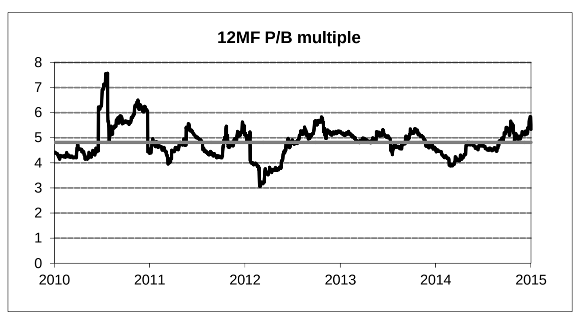
Key earnings drivers	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Liquid milk revenues	13,107	14,790	16,850	19,285
Powder milk revenues	4,952	5,442	6,253	7,169
Advertising & prom	—	—	—	—
Gross margins	2,433	3,351	3,815	4,322
	0.35	0.39	0.39	0.39

Per share data	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Shares (wtd avg.) (mn)	1,200	1,200	1,200	1,200
EPS (Credit Suisse) (D)	**5,056**	**6,107**	**6,915**	**7,791**
DPS (D)	4,000	3,817	4,011	4,425
BVPS (D)	16,398	18,508	21,610	25,399
Operating CFPS (D)	5,006	8,687	9,582	10,957

Key ratios and valuation	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Growth(%)				
Sales revenue	13.0	10.9	13.7	13.8
EBIT	(6.5)	18.0	13.8	14.0
Net profit	(7.1)	20.8	13.2	12.7
EPS	(7.1)	20.8	13.2	12.7
Margins (%)				
EBITDA	23.1	23.9	24.2	24.1
EBIT	20.2	21.5	21.5	21.5
Pre-tax profit	21.8	22.8	22.7	22.9
Net profit	17.3	18.9	18.8	18.6
Valuation metrics (x)				
P/E	22.4	18.5	16.3	14.5
P/B	6.89	6.11	5.23	4.45
Dividend yield (%)	3.54	3.38	3.55	3.92
P/CF	22.6	13.0	11.8	10.3
EV/sales	3.67	3.34	2.88	2.47
EV/EBITDA	15.8	14.0	11.9	10.3
EV/EBIT	18.2	15.5	13.4	11.5
ROE analysis (%)				
ROE	32.6	35.0	34.5	33.1
ROIC	48.0	48.4	47.0	48.3
Asset turnover (x)	1.36	1.31	1.31	1.30
Interest burden (x)	1.08	1.06	1.06	1.06
Tax burden (x)	0.80	0.83	0.83	0.82
Financial leverage (x)	1.30	1.32	1.29	1.26
Credit ratios				
Net debt/equity (%)	(37.2)	(27.7)	(33.5)	(37.5)
Net debt/EBITDA (x)	(0.91)	(0.67)	(0.82)	(0.95)
Interest cover (x)	(14.5)	(18.6)	(20.5)	(17.7)

Source: Company data, Thomson Reuters, Credit Suisse estimates.





Source: IBES

Vingroup JSC

(VIC.HM / VIC VN)

Rating	**OUTPERFORM***
Price (26 Oct 15, D)	44,500
Target price (D)	43,720[1]
Upside/downside (%)	-1.8
Mkt cap (D mn)	82,150,317 (US$
Enterprise value (D mn)	105,143,942
Number of shares (mn)	1,846.07
Free float (%)	43.5
52-week price range	44,600.0 - 35,771.0
ADTO - 6M (US$ mn)	2.1

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

Research Analysts

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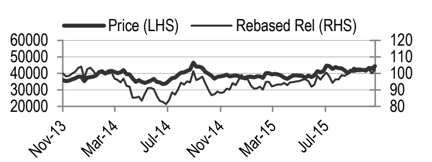
Positioned to benefit from growth

- **Strong brand equity with excellent track record...** Vingroup is the largest listed real estate developer in Vietnam with a dominant presence in the high-end residential, retail and hospitality segments in Vietnam. Vingroup enjoys strong brand equity due to its excellent track record on delivery of mega projects even during times of stress such as mixed-used development projects of Times City and Royal City. Vingroup has the ability to identify and access attractive sites for development due to its proactive approach towards infrastructure development with one of the largest land bank in prime locations across Vietnam.
- **…and positioned to benefit from economic growth.** Vingroup in our view is attractively positioned to benefit from the continued recovery in the Vietnamese economy and growth in middle class given exposure to prime retail, leisure and residential sectors.
- **1H15 result soft, but expect strong pick-up into 2H15/FY16.** Vingroup reported 63% YoY decline in earnings in 1H15A, mainly due to lower net sales from properties as Vingroup has handed over a smaller number of apartments in Vinhomes Times City and Vinhomes Royal City. While this headline result appears soft, we note that (1) new projects such as Park Hill and Vinhomes Central Park continue to demonstrate strong uptake but revenues will be recognised upon handover expected in 2016 and 2017, (2) revenue growth in non-residential segments remained strong (hospitality +34%YoY, retail +7%YoY) and (3) Vingroup continued to aggressively launch new projects including retail malls in Da Nang and Can Tho & Vinmec hospital in Phu Quoc as well as breaking the ground on mixed used projects in Hai Phong and Ha Tinh.
- **OUTPERFORM.** We maintain our OUTPERFORM rating on Vingroup which trades at 2016E P/E of 12.0x and P/B of 1.9x. We expect growth momentum to pick-up from 4Q15 driven by the strong pipeline of deliveries in mid-high end residential projects over the next 2-3 years.

Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 598.61 on 26-10-15
On 26-10-15 the spot exchange rate was D22298./US$1

Performance over	1M	3M	12M
Absolute (%)	5.7	3.0	19.4
Relative (%)	0.8	7.2	16.3

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
Revenue (D mn)	27,723,633.4	28,427,558.5	37,686,901.0	51,525,194.5
EBITDA (D mn)	9,111,629.3	7,937,929.5	10,832,160.4	15,017,593.0
EBIT (D mn)	7,528,672.5	6,257,231.0	8,911,532.5	12,888,130.0
Net attributable profit (D mn)	3,158,582.7	4,294,115.3	6,022,157.9	9,101,269.5
EPS (CS adj.) (D)	1,945.14	2,644.43	3,708.60	5,604.80
Change from previous EPS (%)	n.a.	0	0	0
Consensus EPS (D)	n.a.	1,900	2,955	4,634
EPS growth (%)	-53.9	36.0	40.2	51.1
P/E (x)	22.9	16.8	12.0	7.9
Dividend yield (%)	2.6	0	0	0
EV/EBITDA (x)	11.8	13.2	9.6	6.8
ROE (%)	15.0	16.8	19.6	23.8
Net debt/equity (%)	94.3	71.6	57.6	41.9
NAV per share (D)	—	—	—	—
Disc./(prem.) to NAV (%)	—	—	—	—

Source: Company data, Thomson Reuters, Credit Suisse estimates.

Vingroup JSC VIC.HM / VIC VN

Price (26 Oct 15): **D44,500**, Rating:**: OUTPERFORM**, Target Price: **D43,720**, Analyst: **Farhan Rizvi**

Target price scenario			
Scenario	**TP**	**%Up/Dwn**	**Assumptions**
Upside	58,243.02	30.88	RNAV without discount
Central Case	43,720.05	(1.75)	RNAV discounted at 25%
Downside	23,297.21	(47.65)	50% discount to RNAV and 20% lower cashflows

Income statement (D mn)	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Sales revenue	**27,723,633**	**28,427,558**	**37,686,901**	**51,525,195**
Cost of goods sold	17,284,911	17,599,457	23,023,191	31,269,141
SG&A	—	—	—	—
Other operating exp./(inc.)	1,327,093	2,890,172	3,831,550	5,238,461
EBITDA	**9,111,629**	**7,937,930**	**10,832,160**	**15,017,593**
Depreciation & amortisation	1,582,957	1,680,698	1,920,628	2,129,463
EBIT	**7,528,672**	**6,257,231**	**8,911,532**	**12,888,130**
Net interest expense/(inc.)	2,145,030	254,813	578,931	421,044
Non-operating inc./(exp.)	34,809	38,290	42,119	46,331
Associates/JV	(8,771)	(9,648)	(10,612)	(11,674)
Recurring PBT	**5,409,681**	**6,031,061**	**8,364,108**	**12,501,744**
Exceptionals/extraordinaries	—	—	—	—
Taxes	1,633,635	1,206,212	1,672,822	2,500,349
Profit after tax	**3,776,046**	**4,824,849**	**6,691,287**	**10,001,395**
Other after tax income	—	—	—	—
Revaluations	—	—	—	—
Minority interests	617,463	530,733	669,129	900,126
Preferred dividends	—	—	—	—
Reported net profit	**3,158,583**	**4,294,115**	**6,022,158**	**9,101,270**
Analyst adjustments	—	—	—	—
Net profit (Credit Suisse)	**3,158,583**	**4,294,115**	**6,022,158**	**9,101,270**

Cash flow (D mn)	**12/14A**	**12/15E**	**12/16E**	**12/17E**
EBIT	**7,528,672**	**6,257,231**	**8,911,532**	**12,888,130**
Net interest	(2,265,430)	(2,110,930)	(1,135,869)	(295,237)
Tax paid	(2,980,354)	(1,206,212)	(1,672,822)	(2,500,349)
Working capital	(1,541,314)	(3,158,523)	(14,134,546)	(14,674,006)
Other cash & non-cash items	(518,159)	27,522,533	35,483,618	503,659
Operating cash flow	**223,415**	**27,304,098**	**27,451,913**	**(4,077,803)**
Capex	(6,463,581)	(1,354,792)	(1,502,522)	(1,759,157)
Free cash flow to the firm	**(6,240,166)**	**25,949,307**	**25,949,391**	**(5,836,960)**
Acquisitions	—	—	—	—
Divestments	—	—	—	—
Associate investments	—	—	—	—
Other investment/(outflows)	—	—	—	—
Investing cash flow	**(4,454,833)**	**211,738**	**(354,343)**	**(724,155)**
Equity raised	—	—	—	—
Dividends paid	—	—	—	—
Net borrowings	5,952,378	(1,840,926)	(6,635,513)	(1,704,266)
Other financing cash flow	—	—	—	—
Financing cash flow	**5,952,378**	**(1,840,926)**	**(6,635,513)**	**(1,704,266)**
Total cash flow	**1,720,961**	**25,674,910**	**20,462,058**	**(6,506,224)**
Adjustments	—	—	—	—
Net change in cash	**1,720,961**	**25,674,910**	**20,462,058**	**(6,506,224)**

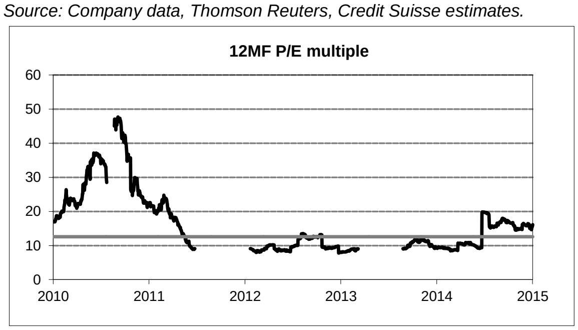
Balance sheet (D mn)	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Cash & cash equivalents	7,607,514	8,501,463	2,519,235	2,701,612
Current receivables	1,404,389	3,905,869	8,275,630	12,020,193
Inventories	16,598,351	14,639,020	21,013,339	29,218,665
Properties under development	—	—	—	—
Other current assets	9,265,354	8,346,725	7,725,319	12,444,557
Current assets	**34,875,608**	**35,393,077**	**39,533,523**	**56,385,027**
Property, plant & equip.	10,526,341	10,200,434	9,782,328	9,412,022
Properties under development	11,272,988	16,965,623	15,854,682	14,356,945
Investment properties	15,399,141	21,468,871	31,103,129	43,276,075
Investment in Associates/JV	1,030,495	1,030,495	1,030,495	1,030,495
Intangibles	6,734,825	6,151,791	5,634,362	5,168,820
Other non-current assets	33,399,389	45,161,754	53,685,071	64,360,279
Total assets	**90,485,307**	**101,856,200**	**113,584,428**	**140,275,293**
Accounts payable	1,628,746	2,410,885	2,207,703	2,998,411
Short-term debt	1,321,195	12,206,896	7,275,649	12,301,039
Current provisions	1,037,104	1,037,104	1,037,104	1,037,104
Other current liabilities	20,616,756	28,226,588	40,107,224	57,715,252
Current liabilities	**24,603,801**	**43,881,473**	**50,627,680**	**74,051,805**
Long-term debt	32,014,819	19,288,192	17,583,927	10,854,271
Non-current provisions	168,370	168,370	168,370	168,370
Other non-current liab.	6,413,684	6,413,684	6,413,684	6,413,684
Total liabilities	**63,200,674**	**69,751,718**	**74,793,660**	**91,488,130**
Shareholders' equity	**23,370,965**	**27,660,081**	**33,677,239**	**42,773,508**
Minority interests	6,888,592	7,419,325	8,088,454	8,988,580
Total liabilities & equity	**90,485,307**	**101,856,200**	**113,584,428**	**140,275,293**

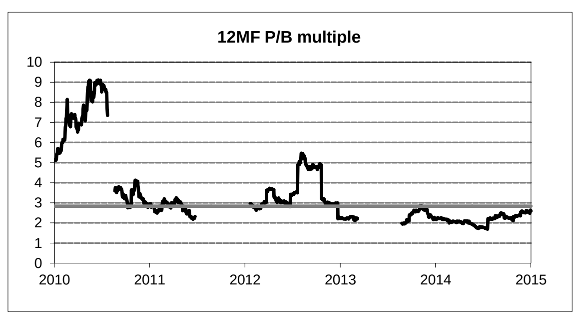
Key earnings drivers	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Retail NLA (000 sm)	370.2	370.2	525.7	626.3
Residental sales (VND	—	—	—	—
Commercial reveneu	—	—	—	—
Hospitality (No of rooms)	21,771,8	20,481,7	25,553,9	34,555,2

Per share data	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Shares (wtd avg.) (mn)	1,624	1,624	1,624	1,624
EPS (Credit Suisse) (D)	**1,945**	**2,644**	**3,709**	**5,605**
DPS (D)	1,136	—	—	—
BVPS (D)	14,392	17,034	20,739	26,341
NAV per share (D)	—	—	—	—

Key ratios and valuation	**12/14A**	**12/15E**	**12/16E**	**12/17E**
Growth(%)				
Sales revenue	50.9	2.5	32.6	36.7
EBIT	47.2	(16.9)	42.4	44.6
Net profit	(53.4)	36.0	40.2	51.1
EPS	(53.9)	36.0	40.2	51.1
Margins (%)				
EBITDA	32.9	27.9	28.7	29.1
EBIT	27.2	22.0	23.6	25.0
Pre-tax profit	19.5	21.2	22.2	24.3
Net profit	11.4	15.1	16.0	17.7
Valuation metrics (x)				
P/E	22.9	16.8	12.0	7.9
P/B	3.09	2.61	2.15	1.69
Dividend yield (%)	2.55	—	—	—
EV/sales	3.89	3.70	2.77	1.99
EV/EBITDA	11.8	13.2	9.6	6.8
EV/EBIT	14.3	16.8	11.7	8.0
ROE analysis (%)				
ROE	15.0	16.8	19.6	23.8
ROIC	11.5	9.3	12.3	15.8
Asset turnover (x)	0.31	0.28	0.33	0.37
Interest burden (x)	0.72	0.96	0.94	0.97
Tax burden (x)	0.70	0.80	0.80	0.80
Financial leverage (x)	3.32	3.17	2.93	2.88
Credit ratios				
Net debt/equity (%)	94.3	71.6	57.6	41.9
Net debt/EBITDA (x)	2.82	2.90	2.06	1.36
Interest cover (x)	3.5	24.6	15.4	30.6

Source: Company data, Thomson Reuters, Credit Suisse estimates.



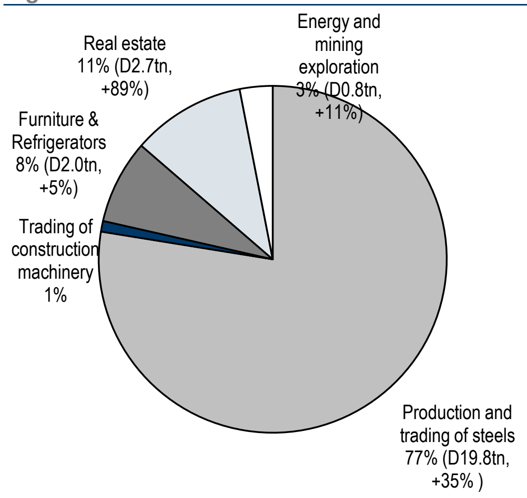


Source: IBES

Hoa Phat Group (HPG.HM) – Not Rated

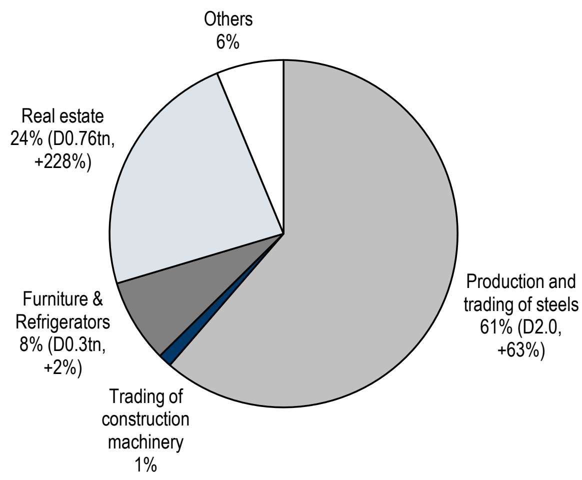
- **Hoa Phat Group (HPG)'s core business is production of steel** and related product (e.g., coke and iron ore) which together account for more than 77% of group's total revenues in 2014. HPG is one of the largest construction steel manufacturer with 19.1% market share in 2014 (ahead of Pomina's 15.1% according to VSA). Through its subsidiaries, HPG also engages in construction machinery and equipment manufacturing, furniture manufacturing, refrigeration manufacturing, mining, real estate, and feeds trading and production.
- **HPG delivered 35% YoY revenue and 62% YoY net profit growth in 2014**, driven by (1) 35% YoY in revenue from production and trading of steel (43% YoY increase in construction steel to 1mn tonnes driven by recovery in real estate market), (2) higher margins due to lower production cost (improved production efficiencies), (3) VND700bn profit from real estate segment (Mandarin Garden).
- **For 2015, HPG targets to sell 1.2mn tonnes of construction steel** (+20% YoY) and to grow steel rope sales by 30% YoY while maintain stable revenues for other industrial products. HPG also targeted to start construction of the new Apartment/Office/Commercial complex in Hanoi, though the contribution would be limited for 2015. Given that the revenue from Mandarin Garden project has largely been recognized in 2014, HPG guided for VND22.5tn in revenue and VND2.3tn in profit after tax in 2015 in its FY14 annual report.
- **6.6x FY16E consensus P/E.** HPG has a market cap of US$1.1bn and has average trading value of US$2.4mn per day over past 3 months. HPG's 2015/2016 consensus EPS have seen 19.7% and 7.6% upward revisions over the past 3 months, and is expected to deliver 12% YoY consensus EPS growth into 2016. HPG is now trading at 6.6x FY16E consensus P/E, below its 7 year average (7.6x) and the market (13.2x).

Figure 69: **HPG—FY14A revenue breakdown**



Source: Company data

Figure 70: **HPG—FY14 net profit breakdown**



Source: Company data

Figure 71: **HPG—financial summary and IBES estimates**

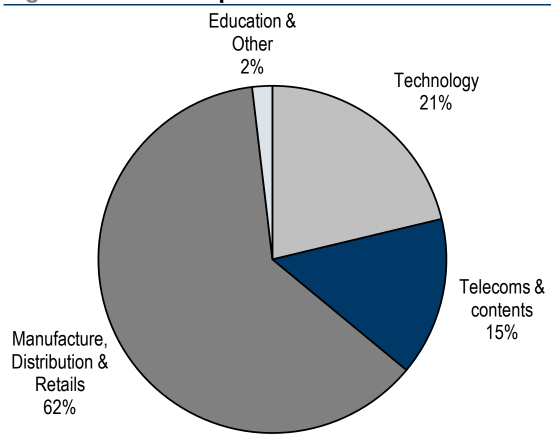
VND bn	2011	2012	2013	2014	2015E IBES	2016E IBES
Revenue	**18,093**	**17,122**	**19,200**	**25,852**	**25,873**	**31,414**
YoY growth (%)	24.8%	-5.4%	12.1%	34.6%	0.1%	21.4%
EBITDA	**2,782**	**2,235**	**3,367**	**5,279**	**5,372**	**5,784**
YoY growth (%)	17.6%	-19.7%	50.6%	56.8%	1.8%	7.7%
EBITDA margin (%)	15.4%	13.1%	17.5%	20.4%	20.8%	18.4%
EBIT	**2,240**	**1,639**	**2,647**	**4,173**	**4,067**	**4,390**
YoY growth (%)	11.6%	-26.8%	61.5%	57.7%	-2.5%	7.9%
Net Profit	**1,297**	**1,031**	**2,010**	**3,250**	**3,087**	**3,474**
YoY growth (%)	-5.8%	-20.5%	95.1%	61.7%	-5.0%	12.6%
Net margin (%)	7.2%	6.0%	10.5%	12.6%	11.9%	11.1%
EPS (VND/shr)	**3,573**	**2,386**	**4,663**	**6,435**	**4,473**	**4,998**
YoY growth (%)	-13.2%	-33.2%	95.4%	38.0%	-30.5%	11.7%
P/E (x)	9.2	13.8	7.1	5.1	7.4	6.6
Dividend Yield (%)	1.5%	1.8%	2.7%	2.1%	3.8%	4.7%
EV/EBITDA (x)	10.6	13.0	8.8	5.5	5.3	5.2
P/B (x)	3.3	3.0	2.5	2.0	1.7	1.4
ROE (%)	18.8%	13.3%	22.9%	30.5%	24.3%	22.8%
Net Debt/Equity (%)	72.3%	62.0%	57.4%	40.0%	31.4%	35.9%

Source: Company data, the BLOOMBERG PROFESSIONAL™ service, Thompson Reuters

FPT Corp. (FPT.HM) – Not Rated

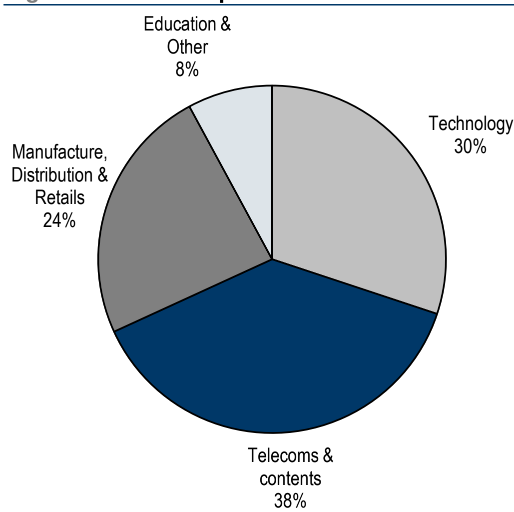
- **FPT Corp through its subsidiaries operate in 4 businesses**; **Technology** (30% of PBT, software outsourcing, system integration, IT services and software solutions), **Telecom** (38% of PBT, fixed-broadband services, digital contents), **Distribution and Retails** (24% of PBT, Handsets/IT products distribution and retail), **and Education & others** (8% of PBT, FPT University, etc.). Domestic market contributes 77% of its PBT in FY14 (-6% YoY in FY14), but the remaining 23% was from global market (+11% YoY in FY14A, mainly from Technology business. We note that FPT Corp owns 45.64% of FPT Telecom as at Dec-14, with SCIC owning 50.2% of the business.
- **FPT reported 21% revenue growth in FY14,** driven by (1) 29% growth in Distribution and Retails driven by higher sales of smartphones and expansion of retail footprint (163 stores, from 100 stores as at Y/E13), (2) 13% YoY growth in Telecoms revenues (21% growth in broadband revenue driven largely by subscriber growth) and (3) 8% growth in Technology revenues, as growth in software outsourcing revenue and impact from acquisition of FPT Slovkia were enough to offset the decline in software solutions and system integration revenues. FPT's EBITDA grew 15% YoY in FY14 though its net profit only grew 1.5% due to amortisation cost related to its fibre optics swap project.
- **FPT targets 13% revenue and 16% PBT growth in FY15,** based on its FY14 annual report, driven by 18% revenue growth in Technology revenues (growth in software outsourcing and recovery of domestic IT project-based businesses), 9% growth in Telecom revenue (fibre optic conversion project to be completed in 2015, cut in revenue from gaming business and online payment services) and 12% growth in retail and distribution business. FPT Corp budget for VND2,031 bn in capex in FY15, mainly due to Telecom sector (VND1.4 tn).
- **9.3x FY16E consensus P/E**. FPT has a market cap of US$0.8 bn and has average trading value of US$1.4 mn per day over the past three months. FPT's 2015/2016E consensus EPS have seen 6.9% and 13.4% upward revisions over the past three months, and is expected to deliver 5.7% YoY consensus EPS growth into 2016. FPT is now trading at 7.2x FY16E consensus P/E, below historical average (9.1x) but below market (13.2x).

Figure 72: **FPT Corp—revenue breakdown**



Source: Company data

Figure 73: **FPT Corp—PBT breakdown**



Source: Company data

Figure 74: FPT Corp—Financial summary and IBES estimates

VND bn	2011	2012	2013	2014	2015E IBES	2016E IBES
Revenue	**25,370**	**24,594**	**27,028**	**32,645**	**39,422**	**44,780**
YoY growth (%)	26.7%	-3.1%	9.9%	20.8%	20.8%	13.6%
EBITDA	**3,177**	**2,838**	**3,026**	**3,475**	**3,487**	**4,248**
YoY growth (%)	23.1%	-10.7%	6.6%	14.8%	0.3%	21.8%
EBITDA margin (%)	12.5%	11.5%	11.2%	10.6%	8.8%	9.5%
EBIT	**2,562**	**2,232**	**2,336**	**2,387**	**2,891**	**3,616**
YoY growth (%)	29.9%	-12.9%	4.7%	2.2%	21.1%	25.1%
Net Profit	**1,682**	**1,540**	**1,608**	**1,632**	**1,864**	**2,463**
YoY growth (%)	33.0%	-8.4%	4.4%	1.5%	14.2%	32.1%
Net margin (%)	6.6%	6.3%	5.9%	5.0%	4.7%	5.5%
EPS (VND/shr)	**4,994**	**4,521**	**4,684**	**4,746**	**5,014**	**6,530**
YoY growth (%)	24.4%	-9.5%	3.6%	1.3%	5.7%	30.2%
P/E (x)	9.4	10.4	10.0	9.9	9.3	7.2
Dividend Yield (%)	2.4%	3.0%	4.4%	3.7%	3.7%	3.7%
EV/EBITDA (x)	6.4	6.8	6.6	6.1	6.0	4.9
P/B (x)	3.4	3.0	2.6	2.4	2.2	1.8
ROE (%)	35.4%	26.3%	24.0%	21.6%	22.7%	26.3%
Net Debt/Equity (%)	32.1%	9.1%	20.4%	32.0%	27.9%	22.0%

Source: Company data, the BLOOMBERG PROFESSIONAL™ service, Thompson Reuters

Appendix 1 – CS HOLT® Vietnam coverage & screening

CS HOLT is not part of Equity Research and materials below are not prepared by Equity Research

Credit Suisse's HOLT platform analyses companies based on their cash generating ability and overall potential for value creation. CS HOLT calculates company's cash flow-based return metric, CFROI®, to measure its return on investment then charts it against the firm's cost of capital. Returns that exceed their cost of capital create value. CS HOLT platform currently covers 25 stocks in Vietnam.

Below CS HOLT discuss stocks screening based on CS HOLT platform using four different investment styles: "Scorecard", "Growth", "Momentum" and "Quality".

Figure 75: **Four investment styles CS HOLT explored for Vietnam**

Investment style	Criteria
"Scorecard"	A percentile ranking based on the firm's ➢ Operational Quality (CFROI, value creation), ➢ Momentum (CFROI revisions, price/liquidity momentum) and ➢ Valuation characteristics (up/downside, P/E, Dividend yield, P/B).
"Growth"	➢ Have positive sales growth in the last two years, ➢ Earn above economic returns ➢ Reinvestment rate of more than 5%.
"Momentum"	➢ Registered positive price return over the last three and one month, ➢ Supported by earnings upgrades (positive CFROI revisions) over the same period.
"Attractively-priced Quality"	➢ Above average CFROI (>6%) ➢ Currently showing more upside in the HOLT DCF model compared to their five year historical average.

Source: CS HOLT®, *GICS Sector, What is HOLT Scorecard and Investment Style?

First investment style – "*HOLT Scorecard"*

CS HOLT Scorecard provides a gauge of a company's attractiveness relative to its peers. It is a percentile ranking based on the firm's **(1) Operational Quality** (CFROI, value creation), **(2) Momentum** (CFROI revisions, price/liquidity momentum) and **(3) Valuation characteristics** (up/downside, PE, Dividend yield, PB). Investors can use the HOLT Scorecard to quickly and accurately compare a given firm against its peers on the three factors that drive performance.

Based on CS HOLT Scorecard, figure below provides top five stocks in term of HOLT's overall percentile with circa or above US$1 mn average daily trading value. **HPG** (Steel producer), **VNM** (Vinamilk, dairy), **FPT** (ICT and Telecom services), **REE** (M&E Engineering, air-con manufacturing, property and utilities), and **PVD** (Drilling and Well services) all passes the screen on this basis. Other small /microcaps that also has high HOLT scores include PNJ (jewellery retailers), MWG (IT retailers) and GMD (port operation, logistics).

Figure 76: **CS HOLT Scorecard— 5 companies with highest HOLT scores and close to US$1 mn average trading value**

Name	Symbol	Market Cap. (USD bn)	Avg. Daily trading Val. (USD mn)	Industry Code *	CFROI (LFY)	CFROI Used in Valuation	CFROI Revisions (13 Weeks)	HOLT Upside (%)	Overall Percentile
Hoa Phat Group JSC	HPG	0.8	2.4	Materials	14.32	10.4	0.34	75	**98**
Vietnam Dairy Products JSC	VNM	5.7	2.9	Consumer Staples	21.47	22.4	0.73	11	**98**
FPT Corporation	FPT	0.8	1.6	Information Technology	10.27	10.8	1.09	70	**93**
Refrigeration Electrical Engineering Corporation	REE	0.3	0.9	Industrials	12.64	11.9	-2.06	103	**84**
PetroVietnam Drilling & Well Service Corp	PVD	0.6	1.5	Energy	7.75	5.0	-0.36	53	**83**

*Source: CS HOLT®, *GICS Sector, What is HOLT Scorecard and Investment Style?*

Second investment style – *Identifying "Growth" ideas*

Using its database, CS HOLT also screen for companies that have had positive sales growth in the last two years, earn above economic returns and have a reinvestment rate of more than 5%. On this basis, **VNM** (Vinamilk, dairy), **VIC** (Vingroup, property), **MSN** (Masan, consumers), **FPT** (ICT and telecom services) and **HPG** (steel producer) pass the screening for stocks with market cap >US$500 mn. For smaller stocks, MWG (Mobile World, IT retailers), RRE , DRC (Danag Rubber) and PNJ also pass the screening.

Figure 77: **Credit Suisse HOLT—"Growth" investment ideas in Vietnam (Mkt Cap >US$500 mn)**

Name	Symbol	Market Cap. (USD bn)	Industry Code *	CFROI (FY1)	CFROI Change (FY1 - LFY)	CFROI Change (FY2 - FY1)	Sales Growth - LFY	Sales Growth - FY(-1)	HOLT Reinvest-ment Rate (FY1)
Vietnam Dairy Products JSC	VNM	6.087	Consumer Staples	23.49	2.0	-1.2	13.0	16.5	9.42
Vingroup JSC	VIC	3.425	Financials	10.70	1.5	-1.2	50.9	132.5	8.39
Masan Group Corp	MSN	2.444	Consumer Staples	9.67	5.6	0.6	34.7	14.9	8.75
FPT Corp	FPT	0.834	Information Technology	12.09	1.8	-1.6	20.8	9.9	9.71
Hoa Phat Group JSC	HPG	0.810	Materials	11.95	-2.4	-2.2	34.8	12.5	8.08

Source: CS HOLT®, *GICS Sector, What is HOLT Scorecard and Investment Style?

Third investment style – *Identifying "Momentum" ideas*

For this investment style, CS HOLT also screens for Vietnam companies that have registered positive price return both over the last three months (13 weeks) and one month (4 weeks), supported by earnings upgrades (positive CFROI revisions) over the same period. On these criteria, **VNM** (Vinamilk, dairy), **VIC** (Vingroup, property), **FPT** (ICT and telecom services), **HPG** (steel producer) and **DPM** (PetroVietnam Fertilizer and Chemical) pass the screening for stocks above US$500 mn. For smaller stocks, GMD and VSH (Vinh Son - Song Hinh Hydropower) also pass the screen.

Figure 78: **Credit Suisse HOLT—"Momentum" investment ideas in Vietnam (Mkt Cap >US$500 mn)**

Name	Symbol	Market Cap. (USD bn)	Industry Code*	Price Return - Absolute 13 Weeks	Price Return - Absolute 04 Weeks	CFROI Revisions - 13 Weeks Cumulative	CFROI Revisions - 4 Weeks Cumulative
Vietnam Dairy Products JSC	VNM	6.087	Consumer Staples	8.7	7.6	1.25	0.92
Vingroup JSC	VIC	3.425	Financials	0.2	1.9	0.08	0.25
FPT Corp	FPT	0.834	Information Technology	0.6	4.7	1.35	1.24
Hoa Phat Group JSC	HPG	0.810	Materials	6.0	3.9	0.72	0.38
PV Fertilizer and Chemical	DPM	0.551	Materials	0.9	7.2	1.14	1.44

Source: CS HOLT®, *GICS Sector, What is HOLT Scorecard and Investment Style?

Fourth investment style – *Identifying "Attractively Priced Quality" ideas*

In this style, CS HOLT looks for companies with above average CFROI (>6%) and are currently showing more upside in the HOLT DCF model compared to their five-year historical average. These companies in our view are quality companies that are priced at relatively attractive level. Based on above criteria, the results include **CTG** (Vietinbank), **FPT** (ICT and telecom services), **HPG** (steel producer), **PVD** (PetroVietnam Drilling and Well services) and **DPM** (PetroVietnam Fertilizer and Chemical) for stocks with market cap >US$500 mn. SSI (Saigon Securities), REE, KDC (Kido, consumers) and PNJ also pass the screening on this criteria for stocks with market cap <US$500 mn.

Figure 79: **Credit Suisse HOLT—"*Attractively Priced Quality*" investment ideas in Vietnam (Mkt Cap >US$500 mn)**

Name	Symbol	Market Cap. (USD bn)	Industry Code *	CFROI Median - Five Year	HOLT Upside, Current (%)	Warranted Upside (%) 5 Year Median
Vietinbank	CTG	3.476	Financials	9.2	-16	-17.8
FPT Corp	FPT	0.834	Information Technology	13.6	76	33.9
Hoa Phat Group JSC	HPG	0.810	Materials	7.6	82	7.1
PV Drilling & Well Service	PVD	0.571	Energy	6.7	53	6.3
PV Fertilizer and Chemical	DPM	0.551	Materials	8.0	110	47.6

Source: CS HOLT®, *GICS Sector, What is HOLT Scorecard and Investment Style?

Figure 80: **Credit Suisse HOLT Vietnam Coverage**

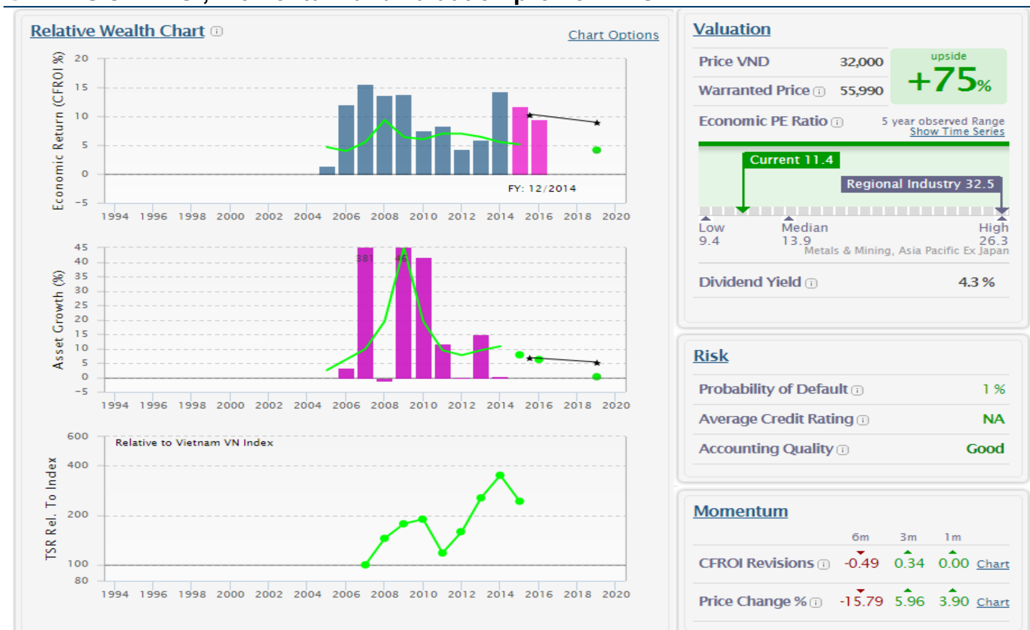
Name	Symbol	Market Capitalisation (US$ bn)	Daily Liquidity, Average (mil) [USD]	Industry Code - GICS Sector	CFROI (LFY)	CFROI Used in Valuation	CFROI Revisions - 13 Weeks Cumulative
ASIA COMMERCIAL BANK	ACB	0.8	0.4	Financials	2.69	5.4	0.36
BAOVIET HOLDINGS	BVH	1.7	1.2	Financials	6.09	4.6	NA
DANANG RUBBER JSC	DRC	0.2	0.2	Consumer Discretionary	9.69	10.8	-0.25
FPT CORPORATION	FPT	0.8	1.6	Information Technology	10.27	10.8	1.09
GEMADEPT CORP	GMD	0.2	0.6	Industrials	6.58	3.0	0.43
HOA PHAT GROUP JSC	HPG	0.8	2.4	Materials	14.32	10.4	0.34
HOANG ANH GIA LAI GROUP	HAG	0.5	2.0	Financials	1.37	3.0	-0.06
JOINT STOCK COMMERCIAL BANK FOR FOREIGN TRADE OF VIETNAM	VCB	5.6	2.1	Financials	4.03	6.5	-0.16
KINH BAC CITY DEVELOPMENT SHARE HOLDING CORPORATION	KBC	0.3	1.5	Financials	3.96	6.4	-0.62
KINH DO CORP	KDC	0.3	1.9	Consumer Staples	7.38	5.9	0.00
MASAN GROUP CORP	MSN	2.5	2.1	Consumer Staples	4.06	9.7	0.00
MOBILE WORLD INVESTMENT CORP	MWG	0.4	0.2	Consumer Discretionary	27.03	28.5	-0.45
PETROVIETNAM DRILLING & WELL SERVICE CORP	PVD	0.6	1.5	Energy	7.75	5.0	-0.36
PETROVIETNAM FERTILIZER AND CHEMICALS CORP	DPM	0.6	1.0	Materials	4.49	3.8	-0.28
PHA LAI THERMAL POWER JSC	PPC	0.3	0.3	Utilities	0.75	0.3	0.73
PHU NHUAN JEWELRY JSC	PNJ	0.2	0.1	Consumer Discretionary	12.62	18.2	2.41
REFRIGERATION ELECTRICAL ENGINEERING CORPORATION	REE	0.3	0.9	Industrials	12.64	11.9	-2.06
SAIGON HANOI COMMERCIAL JOINT STOCK BANK	SHB	0.3	1.3	Financials	3.04	1.8	NA
SAIGON SECURITIES INCORPORATION	SSI	0.5	4.8	Financials	9.93	9.2	NA
SAIGON THUONG TIN COMMERCIAL JOINT STOCK BANK	STB	0.8	0.4	Financials	7.83	1.5	-3.24
THANH CONG TEXTILE GARMENT INVESTMENT TRADING JOIN	TCM	0.1	1.4	Consumer Discretionary	2.98	3.1	0.00
VIETNAM DAIRY PRODUCTS JSC	VNM	5.7	2.9	Consumer Staples	21.47	22.4	0.73
VIETNAM JOINT STOCK COMMERCIAL BANK FOR INDUSTRY A	CTG	3.5	2.3	Financials	7.34	5.5	1.83
VINGROUP JSC	VIC	3.5	2.5	Financials	9.16	9.9	0.27
VINH SON - SONG HINH HYDROPOWER JSC	VSH	0.1	0.2	Utilities	1.44	0.3	0.30

Source: CS HOLT®

CS HOLT – Hoa Phat Group

Hoa Phat Group (HPG) is classified in the HOLT best-in-class investment style given the company's strong CFROI improvements in recent years, positive earnings momentum over the last three months and attractive DCF upside on the HOLT model. The company more than doubled its CFROI to 14.3% in 2014 on the back of robust sales growth and higher EBITDA margins. Current IBES consensus earnings suggest CFROI will remain at a relatively high level of 11.8% vs the company's five-year historical median of 7.6%.

81: HPG's CFROI, momentum and valuation profile in HOLT

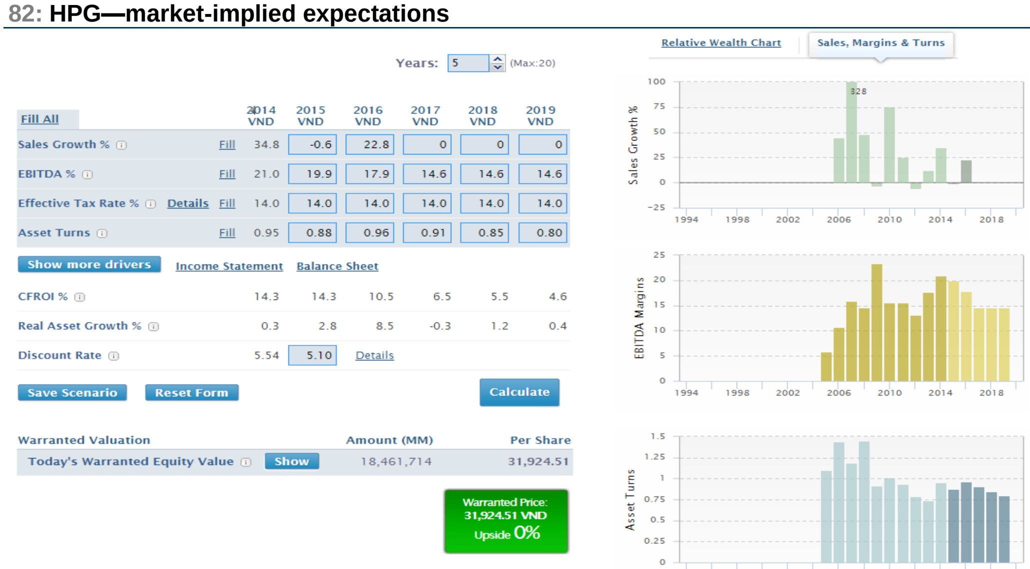


Source: CS HOLT®

HPG's share price hasn't been priced-in for growth yet

Using IBES consensus sales growth and EBITDA margins estimates for 2015 and 2016, HPG is currently priced for no further sales growth beyond 2016 and for margins to decline to 14.5%, both parameters appear conservative relative to recent history.

82: HPG—market-implied expectations



Source: CS HOLT®

Relative to regional steel companies, HPG also exhibits higher CFROI than most of its peers while trading at lower market-implied expectations. It is also the only stock to have material earnings upgrades in recent months.

83: Hoa Phat Group's CFROI, Asset Growth and Momentum vs peers

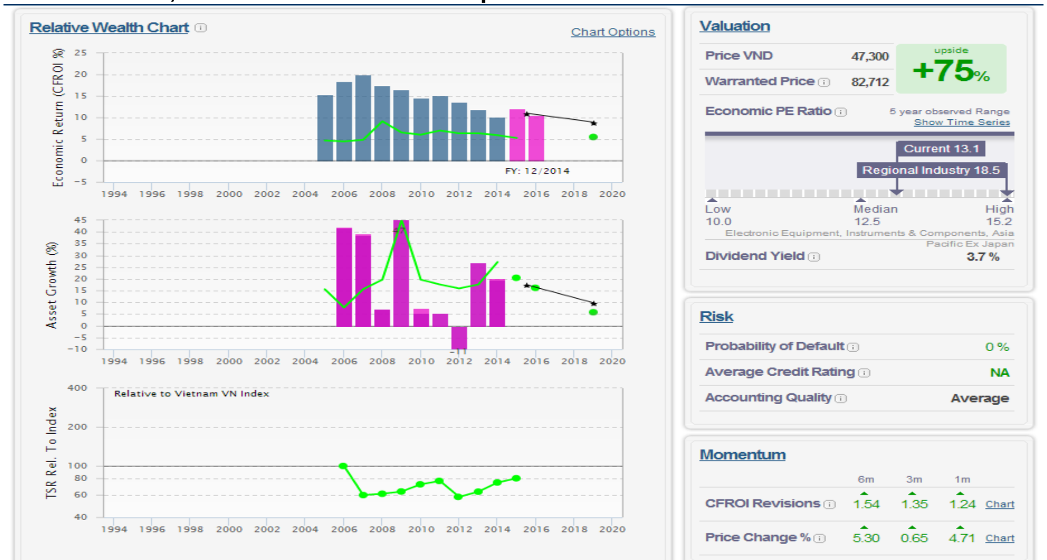
Company	Ticker	Overall Percentile	Operational Quality Percentile	Momentum Percentile	Valuation Percentile	Market Cap (Bil USD)
HOA PHAT GROUP JSC	HPG	99	87	75	91	0.81
STP & I PUBLIC COMPANY LIMITED	STPI	84	99	15	92	0.63
PANTECH GROUP HOLDINGS BHD	PNTE	59	42	45	81	0.09
CHOO BEE METAL INDUSTRIES BERHAD	CHOO	55	23	55	84	0.04
LION INDUSTRIES CORPORATION BERHAD	LLBM	41	22	38	76	0.06
CSC STEEL HOLDINGS BERHAD	CSTH	37	16	39	74	0.09
ANN JOO RESOURCES BERHAD	ANNJ	9	35	24	15	0.09
KRAKATAU STEEL (PERSERO) TBK PT	KRAS	2	3	21	4	0.38

Source: CS HOLT®

CS HOLT – FPT Corporation

FPT Corporation (FPT) screens as a best-in-class company on HOLT. Despite its declining CFROI trend in recent years, the company still earns above-average CFROI relative to regional peers, helped by higher EBITDA margins offsetting lower asset efficiency. Based on consensus estimates, FPT's CFROI is expected to stabilise at 11% in the next two years. Additionally, the company has seen strong earnings and price momentum in recent months, with valuation on HOLT P/E cheaper than regional peers.

84:FPT CFROI, momentum and valuation profile in HOLT

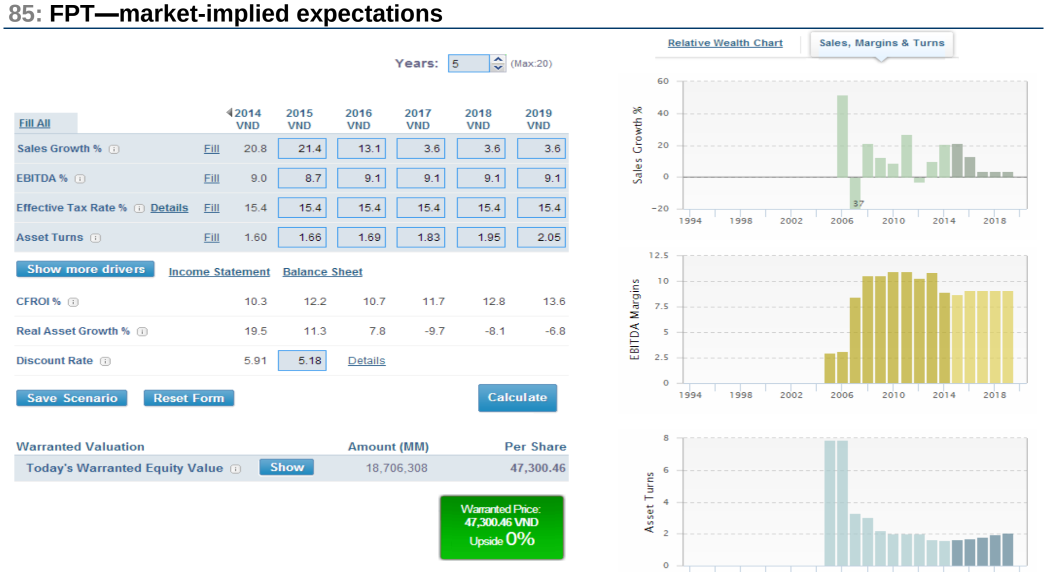


Source: CS HOLT®

FPT's share price implies conservative top-line growth and lower margins

Using IBES consensus sales growth and EBITDA margins estimates for 2015 and 2016, FPT is currently priced for ~4% revenue growth beyond 2016 along with stable margins of 9%, in line with FY14 levels. This appears conservative relative to recent history.

85: FPT—market-implied expectations



Source: CS HOLT ®

Relative to regional tech distributors, FPT exhibits one of the lowest market-implied expectations along with the highest CFROI (earnings) revisions in recent weeks.

86: FPT's CFROI, Asset Growth and Momentum vs peers

Company	Ticker	Overall Percentile	Operational Quality Percentile	Momentum Percentile	Valuation Percentile	Market Cap (Bil USD)
FPT CORPORATION	FPT	95	64	86	82	0.84
REDINGTON (INDIA) LIMITED	REDI	86	51	71	82	0.75
AURORA CORPORATION	2373	64	72	53	50	0.5
DAOU DATA	032190	63	49	95	27	0.61
WT MICROELECTRONICS CO., LIMITED	3036	32	36	38	49	0.5
WPG HOLDINGS LIMITED	3702	22	22	58	29	1.76
SAMART CORPORATION PUBLIC COMPANY LIMITED	SAMART	14	38	24	32	0.69
DIGITAL CHINA HOLDINGS LTD	861	11	34	25	28	1.16
SYNNEX TECHNOLOGY INTERNATIONAL CORP	2347	9	15	41	29	1.68

Source: CS HOLT®

Appendix 2 – VN stocks: Top 40 by market capitalisation

Figure 87: **VN stocks—Top 40 by market capitalisation**

Name	Mkt Cap (US$ bn)	Industry	3M Avg Trad. Val (US$ mn)	P/E T+1	P/BV (x) T+1	ROE (%) T+1	Div yield (%) T+1	Free- Float (%)	Foreign (%)
Vinamilk (VNM)	6.0	Food, Bev. & Tob.	2.1	19.4	6.2	36.6	3.7	51.3	49.0
Vietcombank (VCB)	5.5	Banks	2.0	30.4	2.6	10.2	2.3	22.9	21.0
PetroVietnam Gas (GAS)	4.0	Utilities	1.1	10.5	2.3	23.9	7.5	3.2	2.1
BIDV	3.8	Banks	2.0	15.8	2.0	14.7	4.0	12.2	2.1
Vietinbank (CTG)	3.5	Banks	2.2	16.4	1.6	10.3	n/a	7.8	29.5
Vingroup (VIC)	3.5	Real Estate	2.1	21.8	3.0	14.6	n/a	51.0	14.3
Masan Group (MSN)	2.5	Food, Bev. & Tob.	0.9	26.6	3.2	18.4	n/a	41.3	34.3
Bao Viet Hldgs (BVH)	1.7	Insurance	1.0	32.9	n/a	8.7	1.8	25.8	25.1
Hoa Phat Group (HPG)	1.1	Materials	2.4	7.2	1.6	25.1	4.7	50.7	39.4
Military Bank (MBB)	1.0	Banks	2.3	7.9	1.0	13.1	6.0	37.5	10.0
Sacombank (STB)	1.0	Banks	0.4	45.7	1.3	2.9	1.9	91.6	9.1
HAGL International (HNG)	0.9	Food, Bev. & Tob.	0.3	n/a	n/a	n/a	n/a	20.5	0.3
FPT Corp (FPT)	0.8	Tech. Hardware & Equip.	1.4	9.8	2.1	25.3	4.3	68.3	49.0
ACB	0.8	Banks	0.4	16.2	1.5	9.6	3.9	93.1	30.0
Eximbank (EIB)	0.6	Banks	0.4	21.5	1.0	5.1	3.4	75.1	26.3
PV Drilling & Well servs (PVD)	0.6	Energy	1.4	6.8	1.0	16.1	4.8	49.1	36.9
PV Fert & Chemical (DPM)	0.6	Materials	0.9	9.9	1.3	16.0	7.6	32.9	27.3
HAGL	0.5	Diversified Financials	1.5	9.6	0.8	9.0	n/a	54.2	16.4
Saigon Securities (SSI)	0.5	Diversified Financials	4.6	12.0	1.8	15.4	n/a	70.2	49.2
PV Tech. Services (PVS)	0.4	Energy	1.4	6.9	1.0	14.8	5.4	48.0	25.9
Mobile World (MWG)	0.4	Retailing	0.2	9.9	3.8	48.1	0.8	49.8	49.1
Quy Nhon Mining (SQC)	0.4	Materials	0.0	n/a	n/a	n/a	n/a	100.0	6.9
Hatien 1 Cement (HT1)	0.4	Materials	0.1	14.0	1.9	15.8	n/a	82.9	9.9
REE	0.3	Capital Goods	0.9	8.0	1.2	15.2	6.0	58.6	43.7
PV Nhon Trach 2 (NT2)	0.3	Utilities	2.3	7.7	1.5	21.0	5.9	15.6	17.5
Port of Hai Phong (PHP)	0.3	Transportation	n/a	n/a	n/a	n/a	n/a	5.3	0.0
PV Ca Mau Fert. (DCM)	0.3	Materials	0.3	9.9	1.2	12.8	6.2	24.3	3.7
Kinh Bac City Dev. (KBC)	0.3	Real Estate	1.2	11.8	1.0	9.5	n/a	61.9	31.0
SHB	0.3	Banks	0.9	9.2	n/a	7.0	n/a	82.6	11.6
Pha Lai Thermal Power (PPC)	0.3	Utilities	0.3	8.9	1.0	11.9	10.7	19.3	15.6
DHG Pharma (DHG)	0.3	Pharmas, Biotech.	0.1	10.7	2.3	23.5	5.0	43.2	49.1
KIDO Group (KDC)	0.3	Food, Bev. & Tob.	1.5	30.6	0.9	73.9	89.3	39.1	26.0
Binh Minh Plastics (BMP)	0.2	Capital Goods	0.5	10.6	2.7	29.0	2.9	61.8	49.0
Tan Tao Inv. (ITA)	0.2	Capital Goods	0.7	n/a	n/a	n/a	n/a	55.6	16.5
HCMC Infrastructure (CII)	0.2	Transportation	4.7	9.6	1.8	21.3	6.5	49.9	35.4
Cotecon (CTD)	0.2	Capital Goods	0.3	11.2	n/a	16.3	2.5	60.4	48.9
VCG	0.2	Capital Goods	0.5	n/a	n/a	n/a	n/a	20.7	8.8
HCM Securities (HCM)	0.2	Diversified Financials	1.6	17.0	1.9	11.0	3.2	38.1	49.0
Vinacafe Bien Hoa (VCF)	0.2	Food, Bev. & Tob.	0.0	9.7	2.3	27.3	n/a	32.7	29.2
PVI Holdings (PVI)	0.2	Insurance	0.2	n/a	n/a	n/a	n/a	16.0	43.9

Source: the BLOOMBERG PROFESSIONAL™ service

CREDIT SUISSE

Companies Mentioned *(Price as of 26-Oct-2015)*

ACB (ACB.HN, D21800.0)
BIDV (BID.HM, D24300.0)
BMPLASCO (BMP.HM, D123000.0)
BP (BP.L, 384.4p)
BaoViet (BVH.HM, D60000.0)
Bros (601339.SS, Rmb6.94)
CII (CII.HM, D24100.0)
COTECCONS (CTD.HM, D129000.0)
CP Pokphand (0043.HK, HK$0.96)
CapitaLand (CATL.SI, S$3.17)
China Ecotek (1535.TW, NT$62.0)
Chuang's Int'l (0367.HK, HK$0.89)
Compal Electronics (2324.TW, NT$20.65)
DHG PHARMA (DHG.HM, D68500.0)
DRC (DRC.HM, D46100.0)
Eclat (1476.TW, NT$476.5)
Eurocharm (5288.TW, NT$111.5)
Eximbank (EIB.HM, D11700.0)
FPT (FPT.HM, D47600.0)
FT (9910.TW, NT$190.0)
GEMADEPT (GMD.HM, D42200.0)
HA TIEN 1 (HT1.HM, D26400.0)
HAGL (HAG.HM, D14500.0)
HAGL Agrico (HNG.HM, D28100.0)
HOA PHAT GROUP (HPG.HM, D31900.0)
HSC (HCM.HM, D36100.0)
ITACO (ITA.HM, D6700.0)
Intel Corp. (INTC.OQ, $34.59)
KIDO GROUP (KDC.HM, D23300.0)
Keck Seng Inv (0184.HK, HK$6.85)
Keppel Corporation (KPLM.SI, S$7.2)
Kimberly-Clark Corporation (KMB.N, $121.34)
KinhBac City (KBC.HM, D14300.0)
Kung Long (1537.TW, NT$118.5)
LG Electronics Inc (066570.KS, W53,600)
Luks Group (VN) (0366.HK, HK$2.9)
MB Bank (MBB.HM, D14200.0)
MWI Corp (MWG.HM, D68000.0)
Makalot (1477.TW, NT$248.5)
Masan Group (MSN.HM, D73500.0)
PNJ (PNJ.HM, D32000.0)
PPC (PPC.HM, D18800.0)
PTSC (PVS.HN, D26900.0)
PV Drilling (PVD.HM, D36500.0)
PV Gas (GAS.HM, D46800.0)
PV POWER NT2 (NT2.HM, D27100.0)
PVCFC (DCM.HM, D12900.0)
PVFCCo (DPM.HM, D32600.0)
PVI (PVI.HN, D19700.0)
Pacific Textiles Group (1382.HK, HK$10.9)
Pou Chen Corp (9904.TW, NT$48.55)
REE (REE.HM, D26100.0)
SHB (SHB.HN, D8700.0)
SQC (SQC.HN, D80000.0)
Sacombank (STB.HM, D14100.0)
Saigon Sec (SSI.HM, D23700.0)
Samsung Electronics (005930.KS, W1,292,000)
Sanitar (1817.TW, NT$34.45)
Sembcorp Industries Limited (SCIL.SI, S$3.61)
Shenzhou International (2313.HK, HK$38.3)
Stella (1836.HK, HK$18.98)
TPPC (1902.TW, NT$10.85)
Tainan Spinning (1440.TW, NT$15.75)
Taiwan Paiho (9938.TW, NT$79.3)
Texhong Textile Group (2678.HK, HK$5.8)
Triyards (TRIY.SI, S$0.455)
VIETCOMBANK (VCB.HM, D46700.0)
VINACONEX (VCG.HN, D13300.0)
Ve Wong (1203.TW, NT$21.15)
VietinBank (CTG.HM, D20900.0)
Vietnam Dairy Products Joint Stock Company (VNM.HM, D113000.0, OUTPERFORM, TP D116666.62)
Vinacafe BH (VCF.HM, D169000.0)
Vingroup JSC (VIC.HM, D44500.0, OUTPERFORM, TP D43720.05)
Yue Yuen Industrial Holding (0551.HK, HK$28.05)
Zeng Hsing (1558.TW, NT$147.0)
adidas (ADSGn.DE, €81.82)

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Disclosure Appendix

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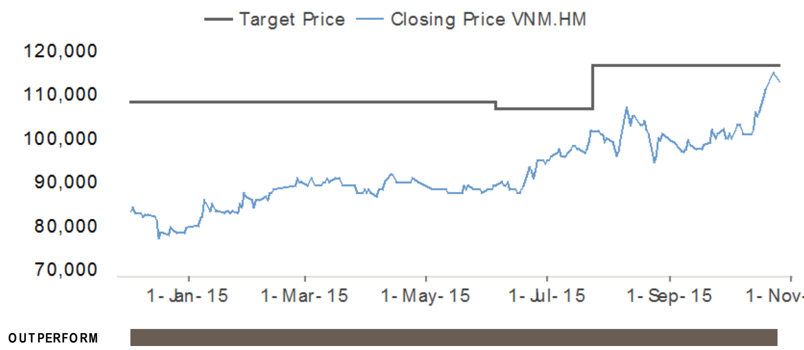
3-Year Price and Rating History for Vietnam Dairy Products Joint Stock Company (VNM.HM)

VNM.HM Date	Closing Price (D)	Target Price (D)	Rating
03-Dec-14	83333.30	108333.29	O *
05-Jun-15	89166.63	106666.62	
24-Jul-15	101666.63	116666.62	

** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Vingroup JSC (VIC.HM)

VIC.HM Date	Closing Price (D)	Target Price (D)	Rating
03-Apr-14	39291.41		R
05-Jun-14	34747.50	53559.80	O *
05-May-15	38791.61	43720.05	

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Underperform/Sell*	13%	(23% banking clients)
Restricted	2%	

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Price Target: (12 months) for Vietnam Dairy Products Joint Stock Company (VNM.HM)

Method: We have valued Vinamilk on the FCFF methodology with cost of equity of 11.9%, Kd of 6% and WACC of 11.5%. Our FCF-based based target price arrives at D116,667, implying a 2015E EV/EBITDA of 14.4x.

Risk: Key risks to our target price of D116,667 for Vinamilk include: (1) continued government regulation on product pricing, (2) further deterioration in operating conditions in export markets and (3) macro slowdown and more intense competition in the domestic market.

Price Target: (12 months) for Vingroup JSC (VIC.HM)

Method: Our target price of D43,720.05 for Vingroup is based at 25% discount to our 2015 reappraised net asset value (RNAV). The RNAV is calculated based on Vingroup's portfolio of assets which is 9-11% for its retail, hospitality and commercial properties. For residential properties, we estimate net present value (NPV) of net profit from residential properties based on our assumed take up schedule and selling prices over the next eight years using a 12.3% discount rate.

Risk: Key risks to our target price of D43,720.05 for Vingroup is if the real estate market does not perform as forecast and there is a decline in demand/prices of its retail, hospitality and residential properties.

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