

Economic Update

10 Jan 2023

ECONOMIC UPDATE
2023 could be a year with two halves

- Vietnam's GDP growth decelerated to 5.9% yoy in 4Q22 as exports slumped and reopening boost faded, bringing 2022 pace to 8.0% yoy.
- We downgrade our GDP growth forecast for 2023 to 6.2% (+/- 0.3% pts) from a previous forecast of 6.7%.

GDP growth decelerated in 4Q22

According to the General Statistics Office (GSO), Vietnam's GDP rose 5.9% yoy in 4Q22, largely driven by robust service (+8.1% yoy). 4Q22 growth rate slowed down significantly from the peak of 13.7% yoy in 3Q22, reflecting the weakening in exports and industrial production, while the impact of reopening faded. For entire-2022, Vietnam's economy expanded 8.0% yoy (vs. our forecast of 7.9% yoy), the strongest annual growth rate since 2011.

Weakness in 4Q22 exports and industrial production is a major concern

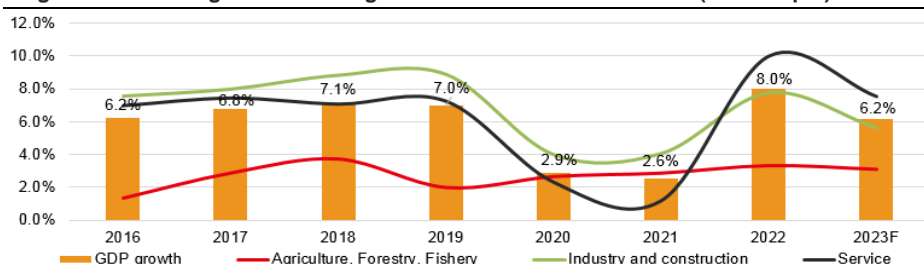
We saw a slowdown of Vietnam's industrial sector in 4Q22 amid sluggish global economic growth. To be specific, the general IIP rose 3.0% yoy, slowing down significantly compared to the previous quarter (+10.9% yoy in 3Q22). Moreover, the Dec IIP declined 1.0% mom and inched up only by 0.2% yoy, the lowest year-on-year level since Nov 2021. Besides, the continuous decline in external orders for the manufacturing sector in the past few months has caused the value of Vietnam's exports to decline since Nov 2022 with export value in Nov-Dec 2022 period dropping to US\$58.1bn (-12.4% yoy).

Vietnam economy strong growth upturn will fade into 2023

We downgrade our GDP growth forecast for 2023 to 6.2% (+/- 0.3% pts) from a previous forecast of 6.7%. This is due to the stronger-than-expected impact of the global economic slowdown on Vietnam's manufacturing and exports. Besides, Vietnam still faces challenges from high interest rates, declining but uncomfortable level of global inflations, tight liquidity, likely rising debt distress in residential property area. Macro tailwinds will be few, perhaps in the form of infrastructure development as a part of public investment and robust energy transition. We see the China's reopening and growing FDI competition among regional peers are likely variable factors to Vietnam's growth outlook. Average inflation is expected to increase by 3.8% yoy in 2023 (vs. 3.2% yoy in 2022).

Pressure on interest rates and currency will ease considerably in 2H23

In our view, a combination of improving FX reserves together with FED's less hawkish stance sometime in mid-2023, would mark an end to the sharp VND drop against US\$. We expect Vietnam's FX reserve to recover to US\$102bn at end-2023 from an expected US\$90bn in 2022. Increasing probability of global tightening liquidity backstop provides headroom for SBV to keep the policy rates unchanged from now on. Then, deposit rates will stay flat in 1H23 and gradually cool down since 3Q23.

Figure 1: We downgrade our GDP growth forecast for 2023 to 6.2% (+/- 0.3% pts)


Source: GSO, VNDIRECT RESEARCH

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2023 COULD BE A YEAR WITH TWO HALVES

GDP growth decelerated in 4Q22, as expected

According to the General Statistics Office (GSO), Vietnam's GDP rose 5.9% yoy in 4Q22 (vs. our forecast of 5.6% yoy), largely driven by robust service (+8.1% yoy). 4Q22 growth rate slowed down significantly from the peak of 13.7% yoy in 3Q22, reflecting the weakening in exports and industrial production, while the impact of reopening faded. Regarding to three main pillars of the economy, service sector remained strong with the growth rate of 8.1% yoy (vs. +5.4% yoy in 4Q21 and 19.3% yoy in 3Q22) while agriculture sector growth improved to 3.9% yoy (vs. 3.2% yoy in 4Q21 and 3.7% yoy in 3Q22). On the contrary, the growth rate of industry and construction sector decelerated to 4.2% yoy, even lower than the growth rate of 5.6% yoy in the same period last year.

Industry and construction sector weakened due to lower external demand

Industry and construction sector edged up only by 4.2% yoy in 4Q22, which is lower than the growth rate of 5.6% yoy in 4Q21 and 12.2% yoy in 3Q22. The decline in external order amid global economic slowdown was the main obstacle to the performance of manufacturing sub-sector in 4Q22. This sub-sector growth fell sharply to 3.0% yoy from last year's level of 8.0% yoy (vs. +11.6% yoy in the previous quarter). Sluggish manufacturing activity also undermined electricity demand, driving growth of electricity, gas, steam and air-conditioning supply sub-sector to 4.5% yoy (vs. 12.6% yoy in 4Q21 and 11.6% yoy printed 3Q22). Mining sub-sector remained strong with growth rate accelerating to 7.9% yoy (vs. 1.6% yoy in 4Q21 and 6.4% yoy in 3Q22) thanks to the favourable output price of crude oil and other minerals in 2022. Meanwhile, construction sub-sector and water supply sub-sector in 4Q22 expanded by 6.7% yoy (vs. +6.5% yoy in 4Q21 and 17.5% yoy in 3Q22) and 8.2% yoy (vs. 3.6% yoy in 4Q21 and 9.5% yoy in 3Q22), respectively. For the 2022, the industry and construction sector rose by 7.8% yoy (vs. +4.1% yoy in 2021), mostly contributed by the high performance in the first nine months of the year.

Figure 2: Growth of sub-sector in industry and construction sector

| | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 |
|--|-------|-------|-------|-------|-------|-------|--------|-------|------|-------|-------|------|
| Industry & Construction | 5.0% | 1.7% | 2.9% | 5.6% | 6.3% | 10.4% | -5.5% | 5.6% | 6.4% | 8.7% | 12.2% | 4.2% |
| Industry | 5.1% | 1.1% | 2.3% | 4.8% | 6.3% | 11.2% | -4.4% | 6.5% | 7.0% | 9.5% | 11.1% | 3.6% |
| Mining | -4.2% | -5.8% | -5.9% | -6.1% | -8.5% | -4.7% | -9.1% | -2.7% | 1.1% | 4.5% | 6.4% | 7.9% |
| Manufacturing | 7.1% | 3.4% | 3.9% | 8.6% | 8.9% | 13.4% | -4.1% | 8.0% | 7.7% | 11.1% | 11.6% | 3.0% |
| Electricity, gas, steam and air condition supply | 7.5% | -0.1% | 4.0% | 4.4% | 4.3% | 12.8% | -2.6% | 5.5% | 7.1% | 4.5% | 11.6% | 4.5% |
| Water supply, sewerage, waste management | 6.7% | 1.4% | 5.5% | 8.3% | 5.4% | 7.8% | -0.2% | 3.6% | 6.5% | 6.3% | 9.5% | 8.2% |
| Construction | 4.4% | 4.7% | 5.7% | 8.6% | 6.5% | 6.5% | -10.1% | 2.1% | 3.3% | 4.9% | 17.5% | 6.7% |

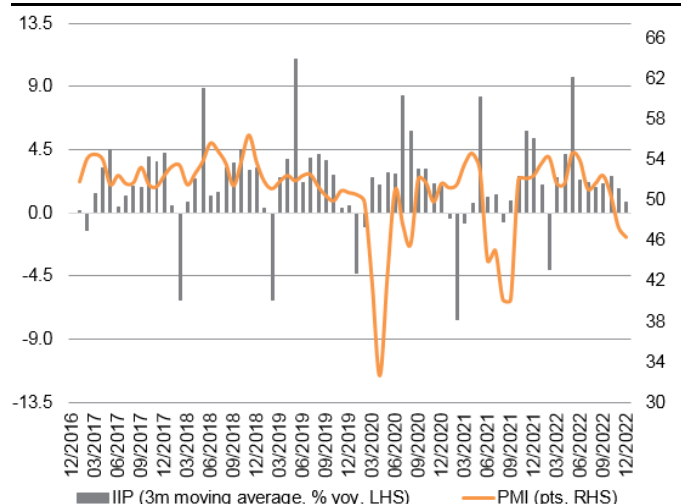
Source: VNDIRECT RESEARCH, GSO

The difficulty of the industrial sector due to the lack of orders in 4Q22 is also evident in the fact that many businesses cut working hours or even laid off workers. According to the Vietnam General Confederation of Labor, more than 430,000 employees have had their working hours reduced, more than 41,000 workers have been laid off or lost their jobs since the beginning of 2022. In

which, the most affected sector is the footwear: 171,414 employees (accounting for 36.3% of the total affected employees), following by textile and garment with 131,340 employees (27.81%), wood processing: 63,681 employees (13.49%); electronics: 19,535 employees (4.14%).

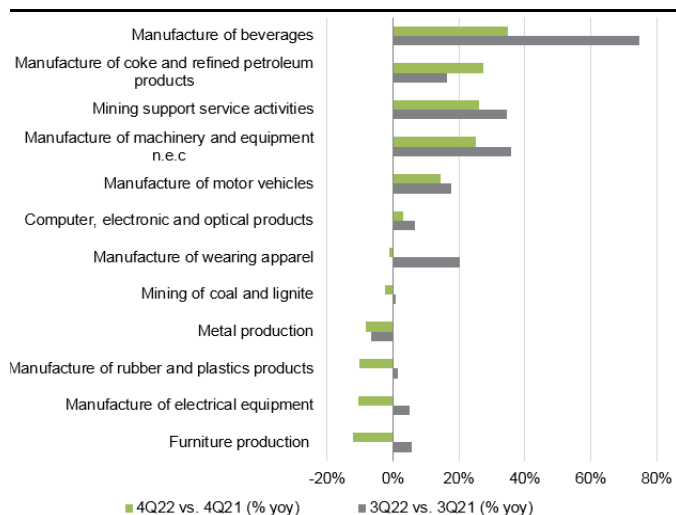
We believe that the slowdown of the industrial activities will last into 1H23F, amid the sluggish global economic growth. Notably, Vietnam's Dec 2022 PMI data dropped to 46.4 points, marking the second consecutive month stayed below the 50-point threshold. This data suggest that the manufacturing contraction may worsen in the next few months.

Figure 3: PMI fell to 46.4pts in Dec, marking the second consecutive month PMI stayed below the 50-pt threshold



Source: GSO, VNDIRECT RESEARCH

Figure 4: Industrial production index (IIP) by category



Source: GSO, VNDIRECT RESEARCH

The service sector maintained its growth momentum thanks to the recovery of domestic demand and international tourist arrivals

Service sector grew by 8.1% yoy in 4Q22, the strongest fourth quarter growth rate since 2011. The positive growth rate of service sector was contributed by:

- The sustainable recovery of domestic demand should be mentioned first. Per GSO data, gross retail sales of consumer goods and services rising 17.1% yoy in 4Q22 (vs. -4.2% yoy in 4Q21). For 2022, gross retail sales of consumer goods and services increased 19.8% yoy. If excluding the price factor, this indicator rose 15.6% yoy (that in the same period last year declined by 6.7% yoy). The growth rate in 2022 has surpassed the growth rate of the pre-pandemic period, showing that domestic demand is recovering firmly. Thanks to the recovery of domestic consumption, retail sub-sector grew 6.8% yoy in 4Q22 and increased 10.2% yoy in 2022.
- The spectacular recovery of tourism has been the highlight of the service industry in 2022. According to the General Department of Tourism, the total number of domestic tourists in 2022 reached 101.3m (equivalent to 169% of full-year target), 2.5 times compared to its level in 2021 and 1.2 times compared to the pre-pandemic level in 2019. Meanwhile, over 3.6 million international tourist arrivals came to Vietnam (vs. 157,300 international tourist arrivals in 2021), accounting for 20% total number of international tourist arrivals in 2019 (pre-pandemic level). Thanks to the recovery of tourist arrivals, revenue from tourism reached VND450,000bn in 2022 (+150% yoy), thus reaching 70.6% its level in 2019 (pre-pandemic level). As a result, sub-sectors related to tourism saw high growth rate in 4Q22 as well as the entire-2022, including accommodation and food activities (+37.6% yoy in 4Q22 and +40.6% yoy in 2022), arts, entertainment and recreation (+20.9% yoy in 4Q22 and +16.7% yoy in 2022).

- Other service sub-sectors that recorded positive growth in 4Q22 include: information and communication (+7.6% yoy in 4Q22); financial, banking and insurance activities (+8.5% yoy in 4Q22).

For 2022, the service sector rose by 10.0% yoy, the highest annual growth rate in 2011-2022 period.

Figure 5: Domestic demand increased steadily (Unit: VNDbn)

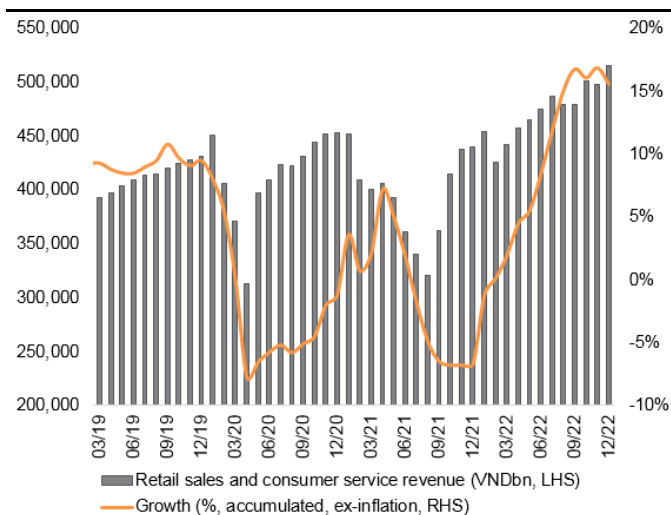
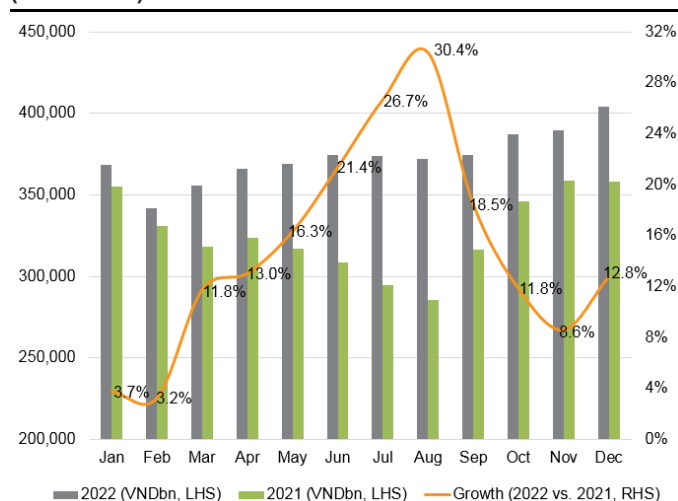


Figure 6: Retail sales growth decelerated as low base effect faded (Unit: VNDbn)



Agriculture, forestry and fishery sector improved in 4Q22

Agriculture, forestry and fishery sector rose 3.9% yoy in 4Q22, stronger than the growth rate of 3.2% yoy in 4Q21 and 3.7% in the previous quarter. Specifically, all the agriculture forestry and fishery sub-sectors recorded higher year-on-year growth rates in 4Q22. Notably, the forestry sub-sector increased the most by 7.0% yoy in 4Q22 (vs. +5.1% yoy in 4Q21 and 7.3% yoy in 3Q22). Meanwhile, the agriculture and fishery sub-sectors grew by 3.6% yoy and 4.2% yoy, respectively, in 4Q22.

For 2022, the agriculture, forestry and fishery sector grew by 3.4% yoy, the strongest expansion since 2019.

Figure 7: Growth of sub-sector (% yoy)

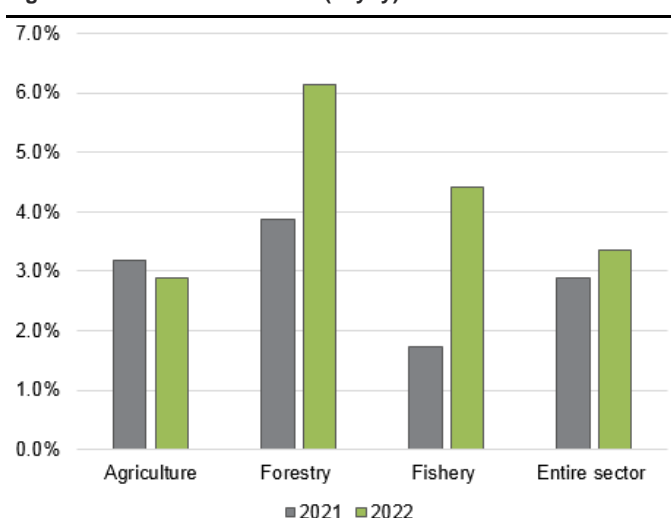
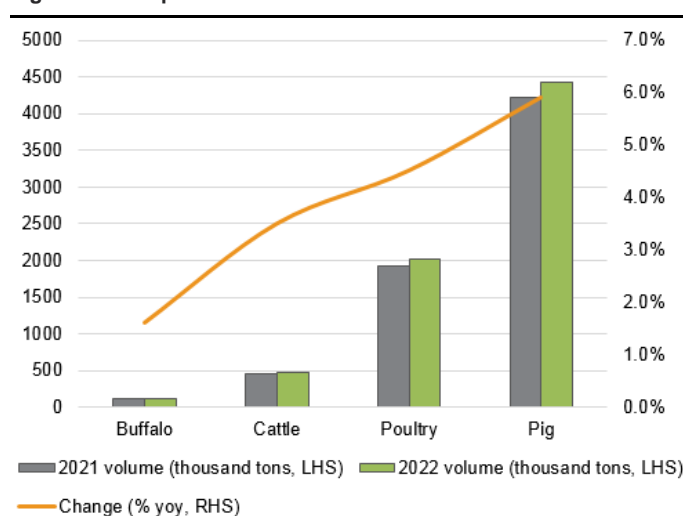


Figure 8: Main product of livestock



Vietnam's export was hit hard as external orders continue to decline

Exports slumped in 4Q22 as new orders for the manufacturing sector fell over the past few months

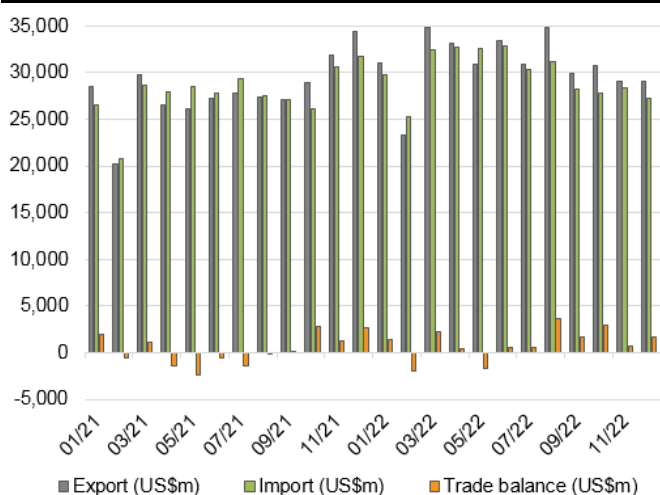
The continuous decline in external orders for the manufacturing sector in the past few months has caused the value of Vietnam's exports to decline since Nov 2022. According to Vietnam Customs, export value dropped to US\$58.1bn (-12.4% yoy) in Nov-Dec 2022 period. For 4Q22, Vietnam's export value reached US\$88.8bn (-6.8% yoy). The decline was recorded in most of the key export items, including: phones all of kinds (-21.9% yoy), electric goods and computers (-3.3% yoy), machine and instrument (-4.6% yoy), textiles and garments (-8.3% yoy), textile fibres (-38.0% yoy), steel (-56.0% yoy) and fishery (-9.4% yoy). On the other hand, a number of export items with positive growth in 4Q22 include toys and sports equipment (38.4% yoy), footwear (+28.8% yoy), bags & suitcases (+29.3% yoy), crude oil (+25.7% yoy) and petroleum products (+40.4% yoy). For 2022, Vietnam's export value increased 10.5% yoy to about US\$371.3bn, thus disappointing our forecast.

We consider that Vietnam's exports will face more difficulties in 1H23 due to:

- Gloomy global economic outlook, followed by a decline in new orders for Vietnam's manufacturing industry. The PMI fell below 50 points in Nov-Dec 2022 period, showing that the manufacturing industry is shrinking due to a less positive order situation.
- Production capacity takes time to heal when the market recovers. Many businesses have to cut operating capacity, reduce employee hours or even lay off employees. Therefore, enterprises need time to recover production even if export orders rebound.

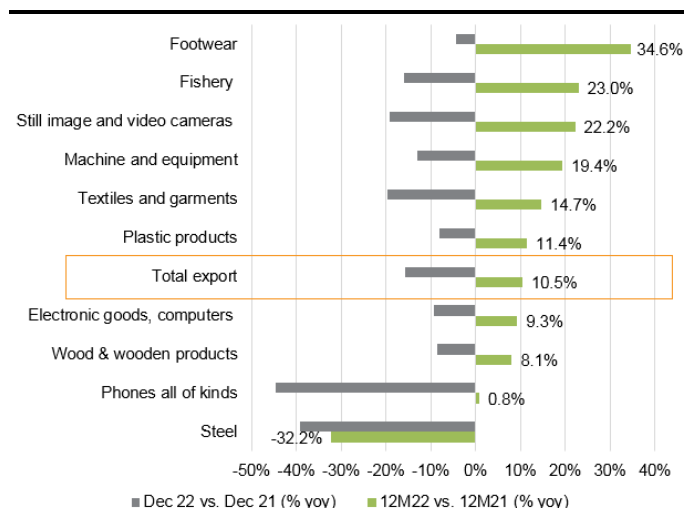
We expect Vietnam's export outlook to be brighter in the second half of 2023 thanks to (1) strong recovery of demand in China after the economy reopens, (2) Fed begins to normalize monetary policy

Figure 9: Exports slumped in Nov-Dec period due to weakening global demand



Source: Vietnam Customs, GSO, VNDIRECT RESEARCH

Figure 10: Top export products in term of value



Source: Vietnam Customs, VNDIRECT RESEARCH

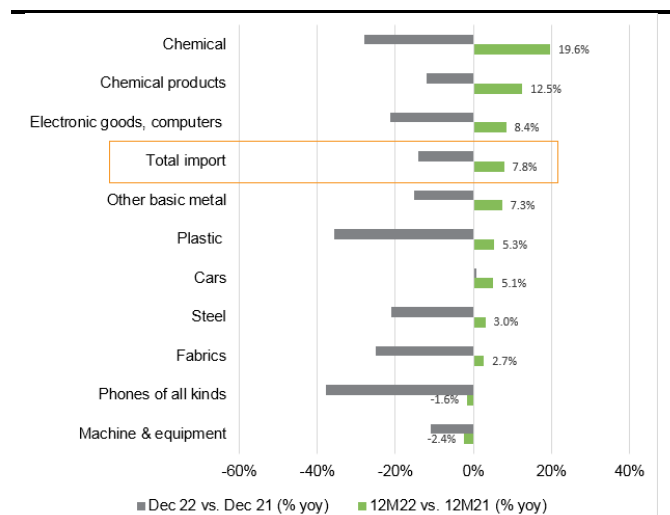
Low imports reflected slowdown in manufacturing sector

Import values stood at a low level in 4Q22, reflecting weak demand for imported raw materials, capital goods and intermediate products amid a decline in new orders for manufacturing. According to GSO, Vietnam's import spending in 4Q22 fell 5.7% yoy (vs. a 7.0% yoy increase in the previous quarter) to about

US\$83.5bn (-7.0% qoq). In which, the import of intermediate goods (for production activities) dropped sharply by 9.0% yoy while the import of capital goods and the import of raw materials decreased by 5.3% yoy and 3.5% yoy, respectively. On the other hand, the imports of consumer goods and other goods increased slightly by 4.2% over the same period last year.

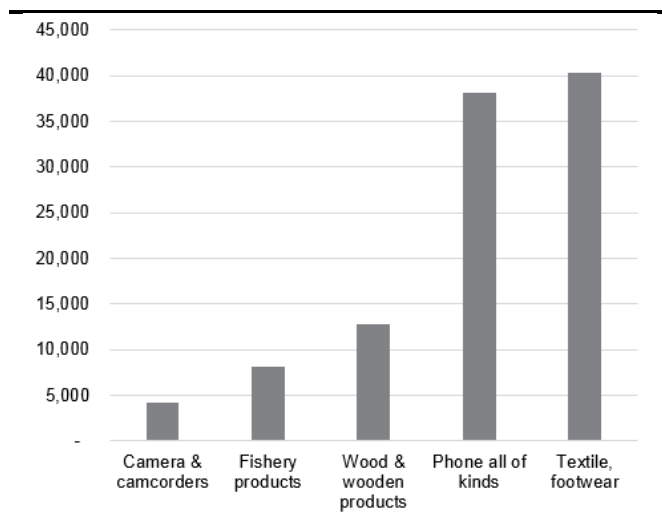
For 2022, import value climbed to US\$358.9bn (+7.8% yoy), and Vietnam net export US\$12.4bn (vs. a trade surplus of US\$3.3bn seen in 2021). We believe that import value is unlikely to improve significantly in the coming months due to the tendency of enterprises to reduce production amid sluggish world economic growth prospects.

Figure 11: Top import products in term of value



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 12: Top net export products in 2022 (Unit:US\$m)



Source: Vietnam Customs, VNDIRECT RESEARCH

Implemented FDI remained positive, public investment grew steadily but still below expectations

Implemented FDI remained positive, new FDI continued to decline

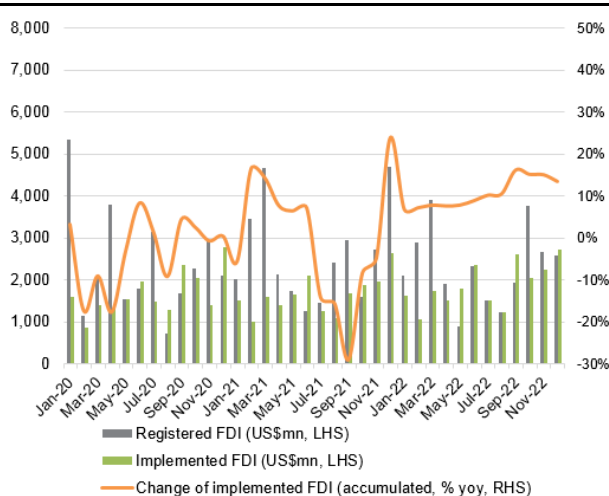
Disbursed FDI uptrend is an encouraging development, reflecting follow-through from previously pledged commitments, even though registered FDI has weakened. According to the Ministry of Planning and Investment (MPI), the implemented capital of FDI projects rose by 3.0% yoy to US\$2.7bn in Dec 2022. For 2022, the implemented capital of FDI projects increased 13.5% yoy to US\$22.4bn (vs. a 1.2% decrease in 2021), the highest annual growth rate since 2016.

Meanwhile, registered capital of FDI projects declined 11.0% yoy to US\$27.7bn in 2022. For more detail, 2,036 (+17.1% yoy) newly licensed projects in 2022 with a registered capital of US\$12.5bn, a decline of 18.4% in terms of registered capital compared to 2021; 1,107 projects (+12.4% yoy) licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US\$10.1bn (+12.2% yoy); 3,566 turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US\$5.2bn (-25.2% yoy).

The decrease of new FDI inflow this year was mainly due to the absence of large-scale projects. Last year, Vietnam witnessed the large FDI new projects including: Long An I and II liquefied natural gas (LNG) power plants with total investment value of US\$3.1bn, the Omon II thermal power plant with investment value of US\$1.3bn. This year, the largest registered FDI project was the new carbon neutral factory by Denmark's Lego Group, worth US\$1.3bn. In addition, many large enterprises are also suspending new investment and

production expansion plans in the context of the global economic uncertainty, including (1) slowing global growth, (2) high inflation weighing on consumers' wallets, (3) strong US\$ appreciation puts pressure on emerging market and frontier market exchange rates and (4) financial market liquidity tightens due to the Fed's interest rate hike.

To more accurately assess FDI inflows, we use the calculation of implemented FDI plus incremental FDI (similar to the calculation of some other countries). We appreciate this calculation because this is the disbursed amount (implemented FDI) and has a high probability of disbursement (incremental FDI) in the future. Accordingly, the total value reached US\$32.5bn (+13.1% yoy).

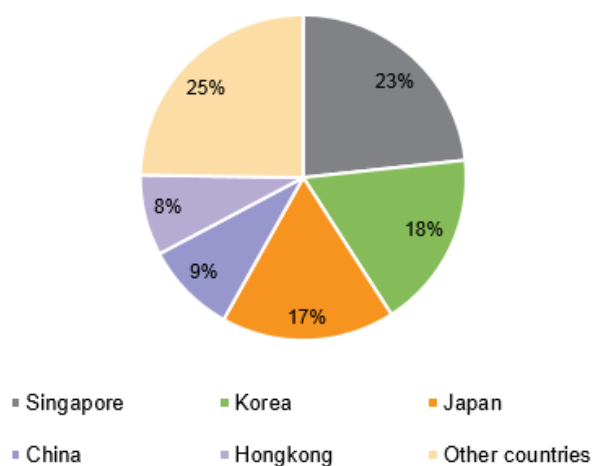
Figure 13: Implemented FDI rose 13.5% yoy in 2022


Source: GSO, MPI, VNDIRECT RESEARCH

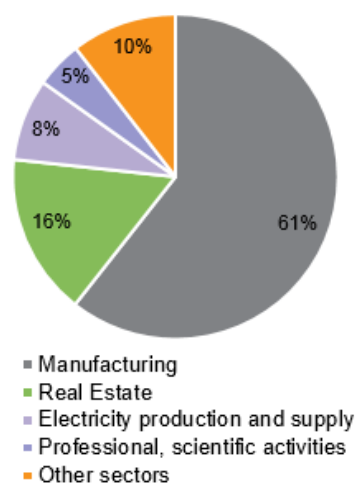
Figure 14: List of major FDI projects in 2022

| FDI projects | Sectors | Registered capital (US\$bn) | Province/city |
|--|----------------------|-----------------------------|---------------|
| Lego's toy factory | Manufacturing | 1.3 | Binh Duong |
| Expansion of VSIP Bac Ninh project | Industrial Park | 0.9 | Bac Ninh |
| Expansion of Samsung's plant in Thai Nguyen province | Manufacturing | 0.9 | Thai Nguyen |
| The manufacturing factory of Goertek Group | Manufacturing | 0.3 | Nghe An |
| Commercial and service projects of GE Vietnam | Commercial & Service | 0.2 | Bac Ninh |
| Electronic component factory project (JNTC - Korea) | Manufacturing | 0.2 | Phu Tho |

Source: GSO, MPI, VNDIRECT RESEARCH

Figure 15: 11M22 registered FDI (breakdown by country)


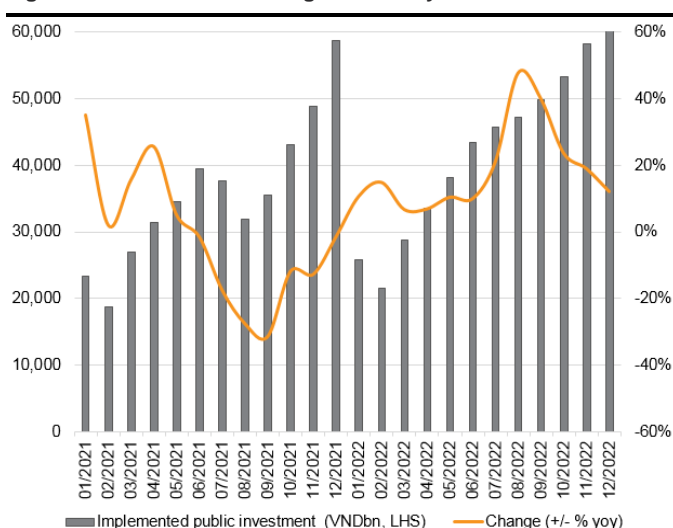
Source: GSO, MPI, VNDIRECT RESEARCH

Figure 16: 11M22 registered FDI (breakdown by sector)


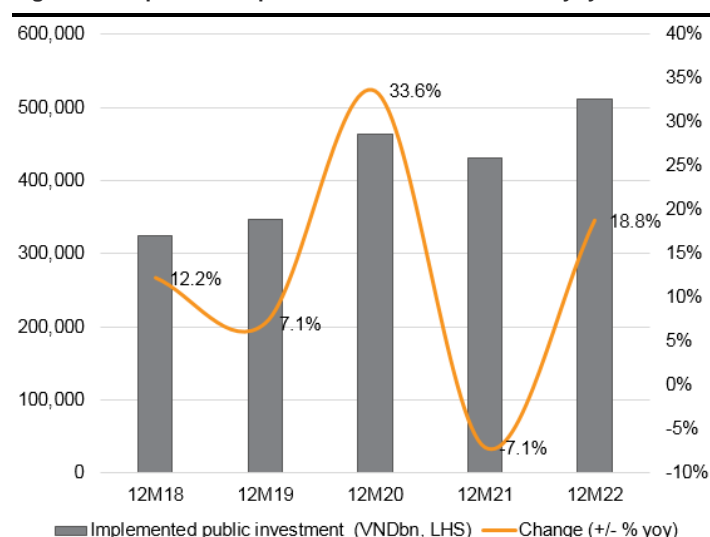
Source: GSO, MPI, VNDIRECT RESEARCH

Public investment grew steadily but still below expectations

According to GSO, the implemented state capital (public investment) in Dec 13.4% mom (+12.2% yoy) to VND65.9tr. For 2022, public investment rose by 18.8% yoy to VND511.6tr, which is strong improvement than the decline of 7.1% yoy seen in 2021. However, implemented public investment only reached about 86% the revised full-year guidance.

Figure 17: Public investment grew steadily


Source: GSO, VNDIRECT RESEARCH

Figure 18: Implemented public investment rose 18.8% yoy in 2022


Source: GSO, VNDIRECT RESEARCH

Figure 19: Progress of key transport infrastructure projects in the period of 2021 - 2026

| Project | Total investment (VNDbn) | Estimated construction progress | | | | | | | |
|--|--------------------------|---------------------------------|------|------|------|------|------|------|------|
| | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Cam Lo - La Son | 7,700 | | | | | | | | |
| Cao Bo - Mai Son | 1,600 | | | | | | | | |
| My Thuan Bridge 2 | 5,000 | | | | | | | | |
| Mai Son - Highway 45 | 12,920 | | | | | | | | |
| Vinh Hao - Phan Thiet | 10,853 | | | | | | | | |
| Phan Thiet - Dau Giay | 14,360 | | | | | | | | |
| Nghi Son - Dien Chau | 8,380 | | | | | | | | |
| Highway 45 - Nghi Son | 6,330 | | | | | | | | |
| Dien Chau - Bai Vot | 13,340 | | | | | | | | |
| Nha Trang - Cam Lam | 7,615 | | | | | | | | |
| Cam Lam - Vinh Hao | 13,690 | | | | | | | | |
| Eleven sub-projects of the North-South expressway (phrase 1) | 146,990 | | | | | | | | |
| Twelve sub-projects of the North-South expressway (phrase 2) | 109,112 | | | | | | | | |
| Long Thanh International Airport (phrase 1) | | | | | | | | | |
| Total | 357,890 | | | | | | | | |

Source: VNDIRECT RESEARCH

Inflation well-managed in 2022

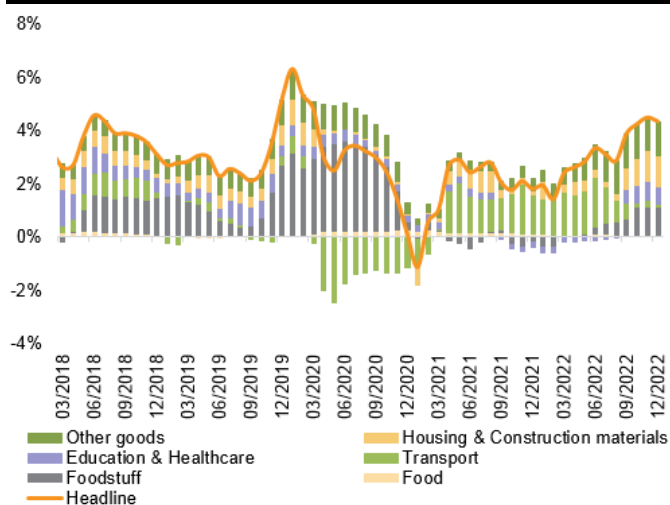
Vietnam's headline inflation remained flat in December. On month-on-month basis, headline CPI slid 0.01% vs. Nov level, as the transport CPI slumped 1.7% mom amid lower crude oil while the accommodation & construction materials edged up by 0.7% mom. On year-on-year basis, Vietnam's inflation decelerated to 4.4% yoy in Dec 2022 from 4.6% yoy in the previous month.

For 2022, headline CPI averaged at 3.2% yoy (in line with our forecast), which was below the government's target of 4.0%. Accordingly, agri-products and live pork prices have pulled the average food consumer price index (CPI) up 2.6% yoy in 2022 (vs. +0.7% yoy in 2021). Transportation CPI was up 11.3% yoy in 2022 (vs. 10.5% yoy in 2021) following the 40% yoy growth of crude oil prices. In addition, the higher price of imported raw materials and consumer goods along with strengthening US\$ put more pressure on domestic inflation.

In order to contain inflation, in early 2022, some fiscal supports have been implemented, including: lowering value-added tax on specific goods and services from 10% to 8% since Feb, lowering environmental tax on petroleum products by VND3,000/liter since Apr, cutting down petroleum products import

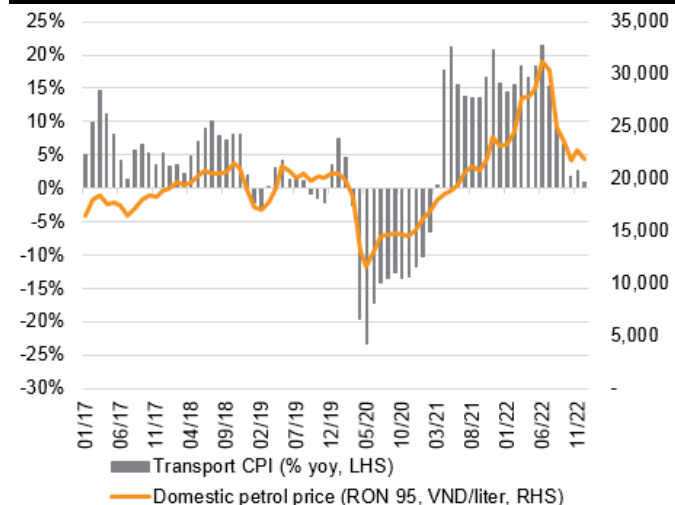
tax from 20% to 10% since Aug. Additionally, some public fees and charges have been cut down.

Figure 20: Inflationary pressure rose further in December



Source: GSO, VNDIRECT RESEARCH

Figure 21: Transportation CPI

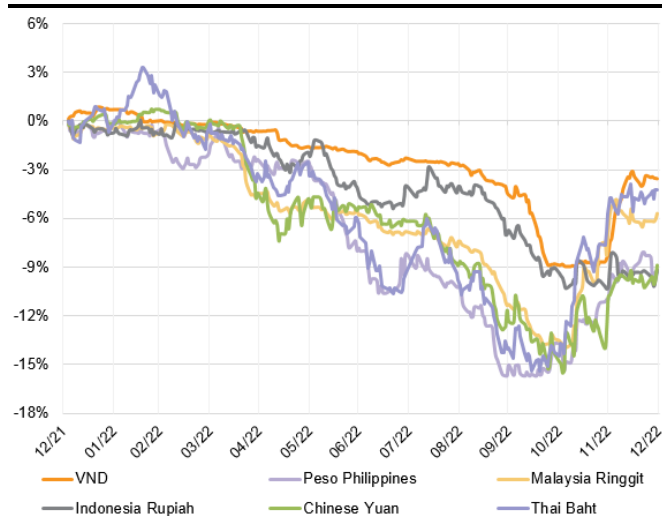
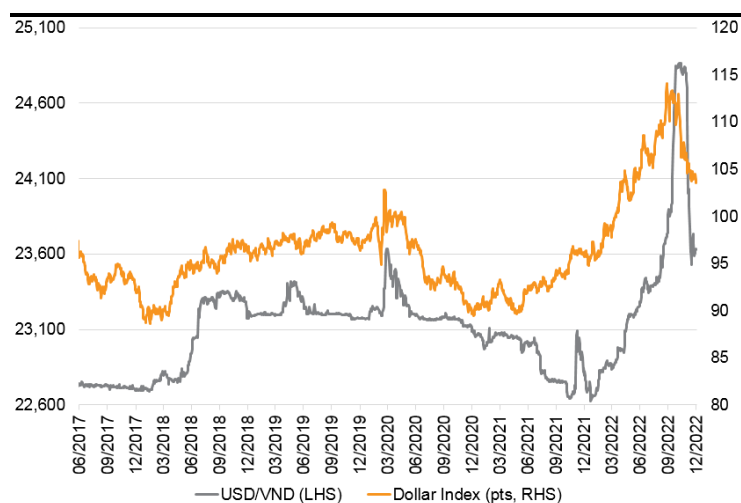


Source: GSO, VNDIRECT RESEARCH

The pressure on VND exchange rate eased temporarily due to the weakening of the DXY

The dollar index (DXY) fell sharply in the past few weeks after the Fed decided to slow the pace of rate hikes at its December meeting. Accordingly, FED announced to raise its policy rate by 50 basis points in December meeting, as market expected. Before and after the Fed's decision, the US dollar lost its appeal against other major currencies, dragging the DXY index down 8% from 113 points in early November to 104 points in late-Dec 2022. The decrease of the US\$ in the international market has contributed to reducing pressure on the VND exchange rate in Dec 2022. Specifically, as of 31 Dec 2022, the US\$/VND exchange rate on the interbank market fell to 23,633 from 24,702 on 30 Nov 2022. Since the beginning of 2022, VND has depreciated 3.5% ytd to the US\$ (compared to its peak of 8.9% on 10 November 2022). Within this period, the US\$/VND exchange rate has outperformed most other currencies in the region, including Philippine Peso (+9.3% ytd), Indonesian Rupiah (+9.2% ytd), Chinese Yuan (+8.9% ytd), Malaysian Ringgit (+5.6% ytd) and Thai Baht (+4.2% ytd).

We think that the cooling of the US\$ is positive news for Vietnam as it eases the pressure on the VND exchange rate. In the context of lower pressure on VND exchange rate, the SBV has room to shifting its priority to stabilizing interest rates to support businesses and the economy. The SBV has more tools to support the economy, for example, consider buying foreign exchange reserves to pump liquidity in VND to the market to cool down the domestic interest rate. This can be taken into account in the context that Vietnam's foreign exchange reserves are on the verge of the IMF's recommendation of 3 months of imports. However, we think that the DXY is unlikely to fall further to below 100 and even rebound in the context that the Fed may raise its policy rates by 50-75 basis points in 1H23. Therefore, the SBV will probably maintain a certain cautious view on the exchange rate and will not take drastic action to ease the monetary policy, especially in the first half of 2023.

Figure 22: Regional currencies bounced back against the US\$ (% ytd)

Figure 23: The US\$/VND exchange rate movements (Jun 2017- Dec 2022)


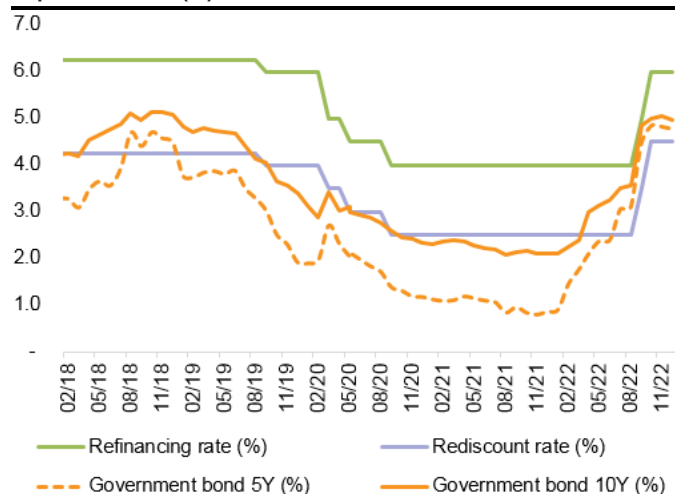
The increase momentum of domestic interest rate slowed down

Some commercial banks reduced lending interest rates at the call of the SBV

Regarding to lending interest rate, at least 12 commercial banks announced to reduce lending interest rates to support businesses, following the call of the SBV. Some participating banks include Vietcombank, Agribank, HDBank, ACB, SHB, VIB, MBB. The interest rate reduction is from 0.5%/year to 3.5%/year for loans in VND and for some existing corporate and individual customers. Although this has limited impact on the general lending interest rate, it will create more competition among commercial banks. The SBV said banks with lower lending interest rates will be granted higher credit quotas than others. Therefore, we believe that there are banks that will actively reduce a part of net interest margin (NIM) to have an advantage in receiving higher credit allocation limit in the future. Currently, the average NIM of Vietnam's commercial banks is around 3.2%-3.4%, relatively high compared to commercial banks in other countries in the region such as Thailand (average NIM is from 2.7%-3%); Malaysia (2-2.3%); China (~2%); Singapore (~1.6%). That means there is still room to further reduce lending rates.

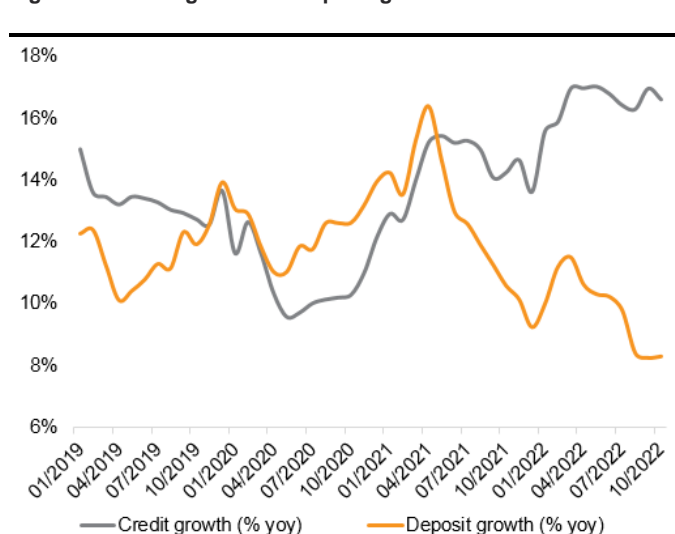
In addition to calling on commercial banks to actively lower lending rates, the SBV needs to step up the implementation of the 2% interest rate support package for businesses. The 2% interest rate compensate package is part of the economic stimulus package under Resolution 43 of the National Assembly and Decree 31 of the Government. The scale of support is up to VND40,000bn, for businesses, cooperatives and business households. There are about 10 main industry groups that will be supported, including aviation; tourism; transportation and warehousing; agriculture, forestry and fishery; and manufacturing. In the context that businesses are under great pressure due to rising loan interest rates, we believe that accelerating the 2% interest rate support package is very urgent for the business community and the economy.

Figure 24: SBV raised its policy rates by 200 basis points since September 2022 (%)



Source: BLOOMBERG, SBV, VNDIRECT RESEARCH

Figure 25: Credit growth vs. deposit growth

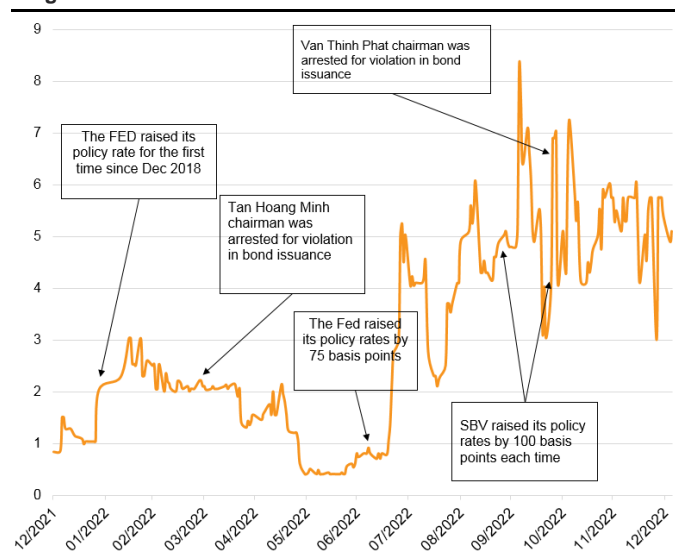


Source: SBV, VNDIRECT RESEARCH

The increase in deposit interest rate slowed down, the interbank overnight interest rate fluctuated in the range of 4-6%.

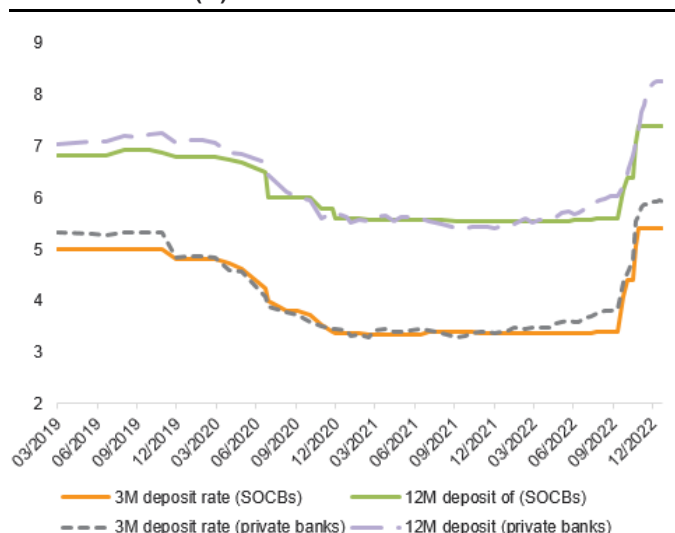
Thanks to market intervention and liquidity support from the SBV, interbank interest rates have cooled down significantly from their peak in early October. Specifically, overnight interest rates fluctuated in the range of 4-6% in Dec 2022 period (compared to the peak of 8.4% in early October). Meanwhile, 1-week interest rates fluctuated in the range of 5-6.5% within this period (compared to the peak of 9.5% in early October). However, the above interest rate is still very high compared to the beginning of 2022, showing that pressure from rising US\$ interest rates, US\$/VND exchange rate fluctuations and liquidity constraints are still weighing on domestic interest rates.

Figure 26: The interbank overnight interest rate fluctuated in the range of 4-6% in Dec 2022



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 27: The increase momentum of deposit interest rate slowed down in Dec 2022 (%)



Source: Commercial banks, VNDIRECT RESEARCH

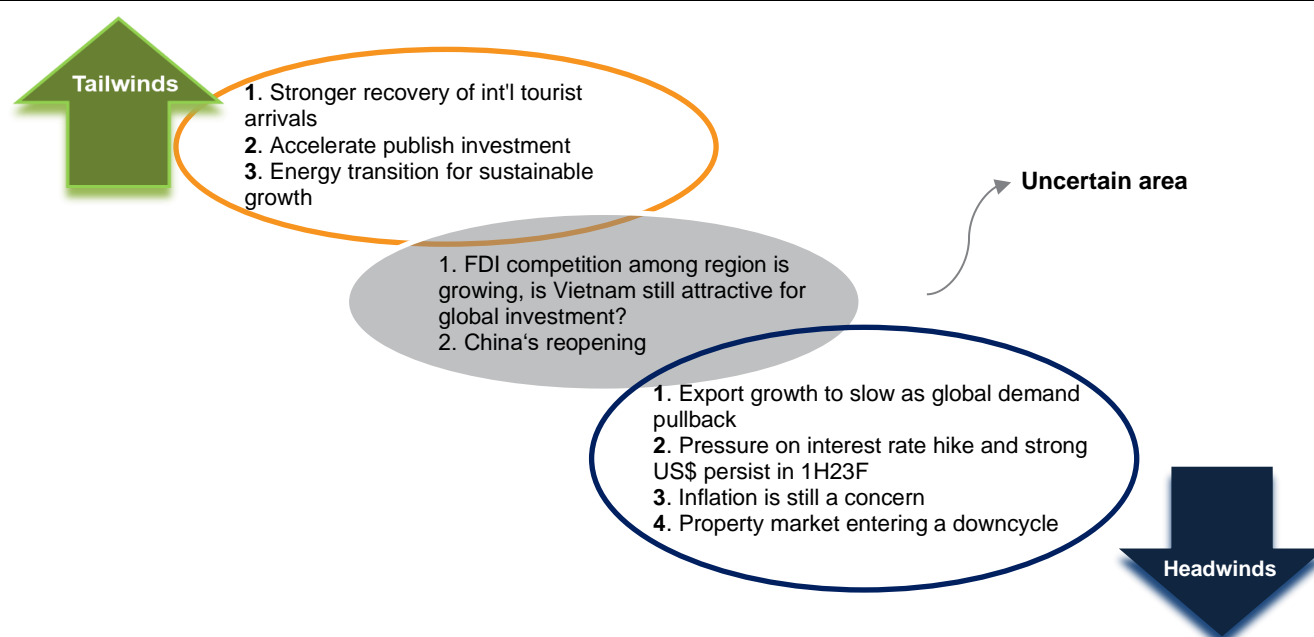
Deposit interest rates continued to increase but at a slower pace. As of 31 Dec, 2022, the 3-month term deposit rates and the 12-month term deposit rates of private banks rose by 6bps (vs. the increase of 21bps in Nov) and 11bps (vs. the increase of 83bps in Nov), respectively, compared to the level at the end of

last month. Thus, since the beginning of 2022, the 3-month term deposit rates and the 12-month term deposit rates of private banks have increased significantly by 251 and 275 basis points, respectively. Meanwhile, the 3-month term deposit rates and the 12-month term deposit rates of state-owned banks stayed flat in Nov-Dec 2022 period. Noted that, the 3-month term deposit rates and the 12-month term deposit rates of state-owned banks increase sharply by 133 and 127 basis points, respectively, in October. Since the beginning of 2022, the 3-month term deposit rates and the 12-month term deposit rates of state-owned banks have increased by 203 and 187 basis points, respectively.

2023 VIETNAM MACRO OUTLOOK: A YEAR WITH TWO HALVES

Some growth engines are losing steam while uncertainties emerge

Figure 28: The dynamics of tailwinds, headwinds and uncertainties to Vietnam macro outlook into 2023



Source: VNDIRECT RESEARCH

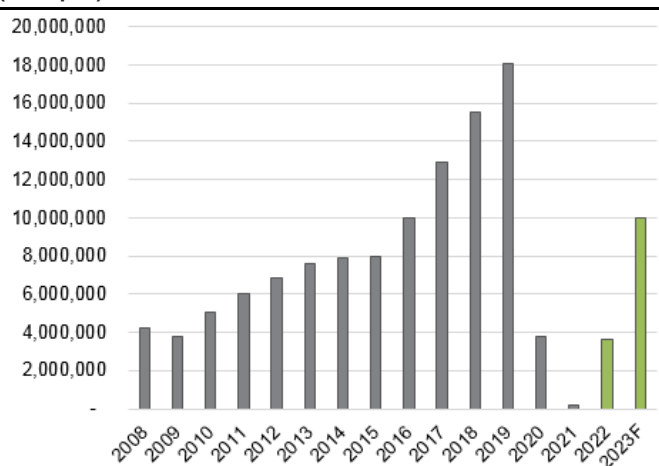
Tailwind #1: Stronger recovery of international tourist arrivals

Since 15/02/2022, Vietnam has lifted restrictions on the frequency of international flights and restored pre-pandemic visa policy. Until 15/05/2022, Vietnam has stopped the requirements of validate Covid-19 test results for international passengers and fully resumed international air traffic. According to GSO, there were 707,100 international tourist arrivals to Vietnam in Dec, up 18.5% over the previous month and 41.2 times higher than the same period last year. In 2022, international visitors to Vietnam reached nearly 3.7m, 23.3 times higher than the same period last year but still down 79.7% compared to the same period in 2019 (before COVID-19 pandemic).

In general, almost every countries have removed entry requirements related to COVID-19 prevention, however the most negative factor to Vietnam tourism recovery is China's zero-covid policy, in which travel to and from China is still strictly limited. Before COVID-19, the number of Chinese tourists accounted for 30% of the total number of international tourists to Vietnam in 2019. We expect tourists from China to rebound strongly in 2H22 after China officially lifted travel restrictions from January 8, 2023. In addition, we expect the number of tourists to Vietnam from the US, EU, Japan, Korea and Southeast Asia will continue to recover positively in 2023F. Therefore, we believe that Vietnam can welcome

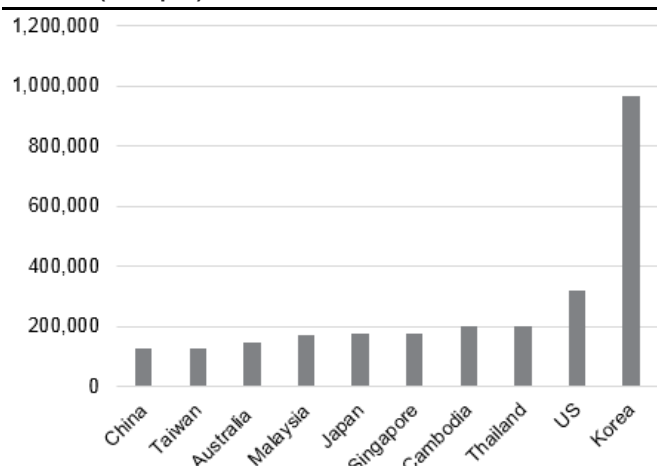
10m international arrivals in 2023F, an increase of about 173% compared to the level in 2022, reaching 55% of 2019 (before COVID-19). A stronger recovery in international tourist arrivals in 2023F will underpin the service sector's recovery in 2023F amid a likely slowdown in domestic demand due to the impact of higher inflation and rising interest rates. The activities that benefit the most from the recovery of international tourist arrivals in 2023F include accommodation and catering services, travel services, transportation activities, and entertainment activities.

Figure 29: International tourist arrivals to Vietnam (2008-2023F)
(Unit: pax)



Source: Ministry of Plan and Investment

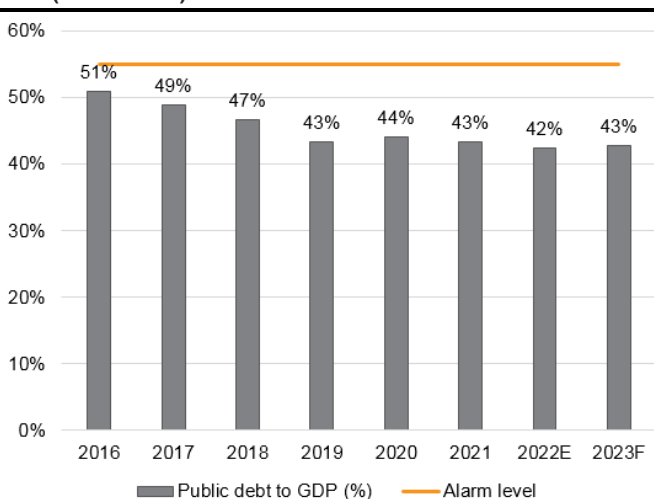
Figure 30: Top 10 countries with most tourist arrivals to Vietnam in 10M22 (Unit: pax)



* Source: Graphics AsiaBriefingLtd

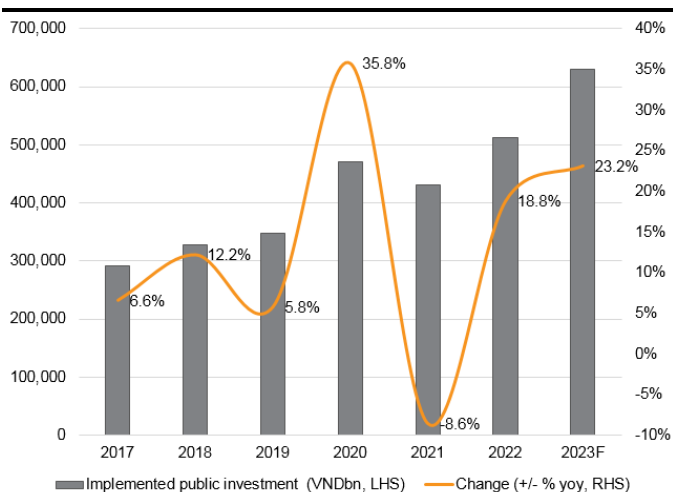
Tailwind #2: Accelerating public investment disbursement

Figure 31: Public debt to GDP ratio is still far lower than the alarm level (55% of GDP)



Source: GSO, VNDIRECT RESEARCH

Figure 32: Implemented public investment capital (2017-2023F)



Source: GSO, VNDIRECT RESEARCH

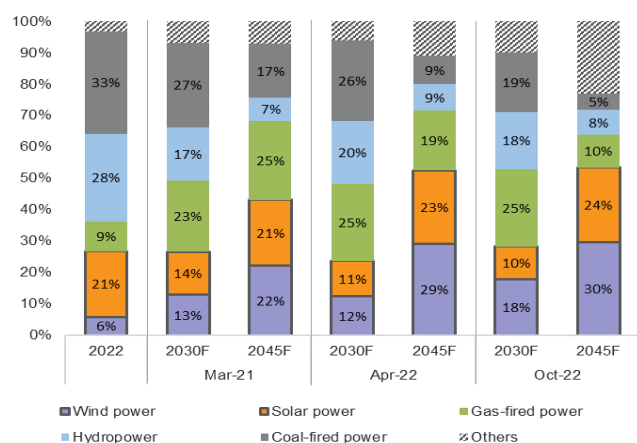
We see that the Vietnam's government plans to accelerate public investment to support the economy. The Government has announced a budget estimate for 2023F, in which the investment capital from the state budget (also known as public investment) is about at VND726,684bn, up to 22% compared to the previous year's plan. This number includes capital allocated to projects under the Socio-Economic Development and Recovery Program. In order to achieve this ambitious plan, the Vietnam's government has relaxed the average inflation

target in 2023F, increasing by 4.5% over the same period (the target in 2022 is 4.0%) and lifted the higher budget deficit in 2023F to 4.5%, from 4% for 2022.

Another factor that support public investment in 2023 is the reduction of construction material prices in recent months. Specifically, after peaking in April, domestic construction prices fell 19.7% from the peak (-10.6% yoy) and decreased by 6.7% compared to the end of 2021. We expect construction material prices to decline further in the coming quarters due to weak demand. The lower construction material prices could help improve profit margins for construction contractors and speeding up the progress of public investment projects. As a result, we believe that the actual implementation of public investment in 2023F can increase by 20-25% compared to the actual implementation in 2022. Key public investment projects that will be promoted in 2023F include: The North-South Expressway phase 1 and 2, Long Thanh international airport.

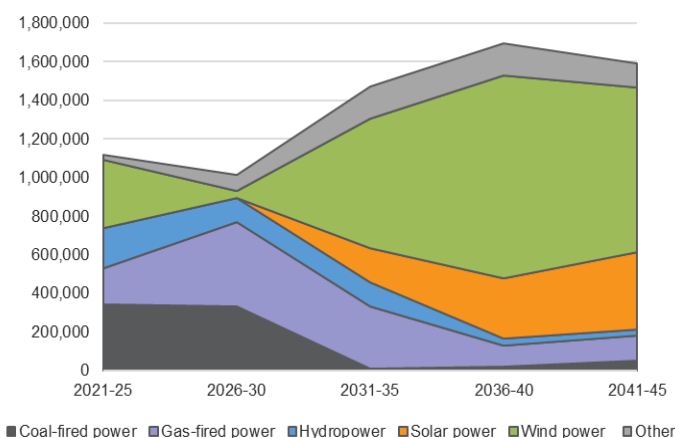
Tailwind #3. Energy transition for a sustainable growth

Figure 33: The newest draft of Power Development Plan 8 enhances larger portion of renewable energy power in 2022-45F



Source: PDP8 draft, VNDIRECT RESEARCH

Figure 34: Vietnam needs US\$10.3bn per annum for energy transition into 2022-45F (incl. grid system and RE power development)



Source: PDP8 draft, VNDIRECT RESEARCH

Vietnam is set to follow Indonesia and South Africa with a climate financing package of at least US\$11bn to shift its economy away from coal and boost the rollout of renewable energy sources. Led by the European Union (EU) and the UK, this funding deal are aiming to be announced the Just Energy Transition Partnership at the EU-ASEAN summit on Dec 14. Of which, about US\$5 – 7bn will come from public loans and grants, with the rest from private sources.

Vietnam's package is set to be the third in a series of blockbuster deals to help large coal-reliant middle-income countries accelerate their transition to low-carbon economies. South Africa's US\$8.5bn agreement was the first, announced at last year's COP climate summit, with an investment plan signed off at this year's meeting in Egypt. Indonesia's US\$20bn pact was unveiled at the Group of 20 (G20) gathering in Bali this week.

We see mounting internal and external headwinds that could slow Vietnam's economy in 2023.

Headwind #1: Export growth to slow as global demand pullback

Fitch's latest Global Economic Outlook forecast consumer spending to grow by 2.5% in 2022 before slowing to 0.9% in 2023F amid global economic downturn.

For U.S. and EU, Vietnam's major trading partner, Fed's aggressive interest rate hikes will increasingly weigh on job growth and consumer spending in 2023F. Several U.S. tech companies (Twitter, Meta) have recently announced layoffs and other cost-cutting measures, which alerted the rising of jobless claims. Additionally, U.S.' two largest retailers - Amazon and Walmart have posted the weak 3Q22 results. Amazon reported 3Q22 revenue and net profit to drop 15.4% yoy and 9.6% yoy, respectively while Walmart recorded a net loss of US\$1.7bn in 3Q22. The difficulties listed above were soon reflected in the data of the fourth quarter of 2022 when Vietnam's export value decreased by 6.1% yoy.

The reopening and recovery of domestic demand of the China's economy is unlikely to offset weak consumer demand in the U.S. and Europe in 2023F. We lowered our export growth forecast in 2023 to 5% yoy from a previous forecast of 9-10% yoy, lower than the Government's target of 8%. The adjustment to reflect a stronger-than-expected slowdown in new orders for Vietnam's exports in the first half of 2023.

For imports, we lower our forecast for Vietnam's import value to 5% yoy in 2023 from the previous forecast of 9-10% yoy, backed by the following reasons: (1) Global commodity prices continue to cool down in 2023, (2) a sharp increase in the US\$/VND exchange rate could reduce demand for imported consumer goods, (3) lower demand for raw materials and inputs for manufacturing activities amid sluggish global economy. We expect Vietnam's trade surplus to widen to US\$13.4bn in 2023F from a trade surplus of US\$12.4bn in 2022.

Headwind #2: Pressure from interest rate hike and strengthening US\$ persist at least until 2Q23F

Moving into 2023, we see pressure on both interest rate and FX might linger till 2Q23F, then considerably ease following the FED's more neutral monetary policy.

We believe that SBV could keep its policy interest rate unchanged in 2023F as: (1) the Fed slows down the rate hike in 2023F and the dollar index tend to decline (some leading research institutions forecast DXY at 103-106 in 2023), (2) domestic inflation picks up but still under control. In the context of lower exchange rate pressure, SBV may consider shifting its target to stabilizing interest rates to support businesses and the economy, especially in the second half of 2023F. We forecast that the refinancing interest rate could remain at 6.0% and the rediscount rate maintain at 4.5% in 2023.

We expect the pressure on VND to cool down considerably since 2Q23F. We expect US\$/VND to trade in the VND23,500-24,000 range (+0-1.5% from current level) by the end of 2023 due to a shift from "tightening monetary policy" to "normalization" by the Fed next year.

However, we consider that we cannot rule out the risk that the FED will tighten monetary policy more strongly and longer than the market expected if the inflation cools down not as expected by the FED (due to escalation of the Russia- Ukraine conflict, food crisis, supply chain disruption). If that happens, Vietnam's exchange rate and interest rates could come under more pressure than our expectation in 2023F.

Headwind #3: Inflation pressure will increase in 2023 but still under control

We expect higher inflation pressures for Vietnam in 2023 due to the following reasons:

On demand side:

- Domestic demand will likely soften in 1H23F, but partially offset by international tourism. We expect retail sales of consumer goods and services to increase 8.5-9% yoy in 2023F, lower than that of 19.8% yoy in 2022.
- The National Assembly has decided to increase the base salary to VND1.8m/month, equivalent to an increase of 20.8%, effective since 01/07/2023. In addition, an increase in pensions, social insurance allowances, and job allowances for a number of people such as pensioners from the state budget, grassroots medical staff... was approved. Once the base salary increased, inflation also tended to increase due to the psychology of increasing wages associated with the increase in the price of consumer goods of a part of grocery and retail businesses.

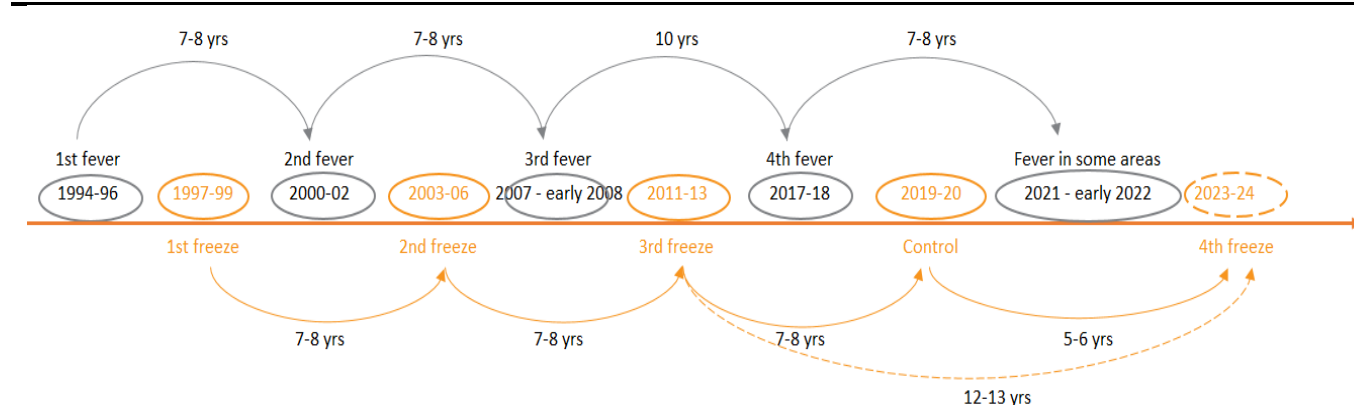
From supply side:

- Though global commodities have peaked out, the effect of strengthening US\$ on imported material still linger till 3Q23F.
- It is likely that the government could consider increasing the prices of essential services such as electricity, health care, and education in 2023. Specifically, the retail electricity price will be under upward adjustment pressure in 2023 due to the increase in production costs (increased exchange rate, increased input material prices including coal, gas...). Besides, after the temporary suspension of price increases for medical and educational services due to the impact of the COVID-19 pandemic, the government could consider raising the prices of these services in 2023.
- Higher interest rate would increase costs of manufacturing, trade and logistics businesses, thereby increasing the pressure to raise output prices.

Consequences, we forecast Vietnam's average headline inflation climb to 3.8% yoy in 2023F (vs. an expectation of 3.2% yoy in 2022F), fulfilling the government's target of controlling average inflation in 2023F below 4.5%. Factors supporting inflation control in 2023F include: (1) world commodity prices are expected to cool down in 2023F and (2) the SBV conducts prudent monetary and money supply policies to control inflation.

Headwind #4: Property market entering a downcycle

Figure 35: All signs point to the making of the next down cycle in domestic property market



Sources: VNDIRECT RESEARCH

All signs pointing to the making of the next down cycle in domestic property market include: (1) developers have limited refinance opportunity as tighter regulations on corporate bond issuance and credit exposure to property, (2) rising mortgage rates and to drag the housing demand, and (3) a drop in new supply as the project approval process likely be delayed on waiting the amend

Law of land. Presales have experienced a downturn since 3Q22 as condo sales volume sharply fell by 40% qoq/+128% yoy in both HCMC and Hanoi, according to CBRE. Together, landed hospitality presales volume nearly squeezed with 70.4% qoq/+85% yoy.

However, this downcycle is likely different from the last trough period 2011-13. We see listed property developers' financial health, currently in a better shape than the last downcycle period 2011-13, thus, we expect less damage and shorter time to ride out from this downcycle. We expect the on-schedule Land law 2023 affected since 2H24F to tackle the bottlenecks in the approval of new residential projects, leading housing supply to recover since 2024-25F.

Besides we see the “grey area” with uncertainties pose risks or catalysts to the macro outlook

Uncertain #1: Is Vietnam still an attractive destination for global investment?

Vietnam remains an attractive location for companies' 'China+1' diversification strategy thanks competitive labour cost, favorable geographical location (proximity to the production center in southern China) and political stability. Additionally, Vietnam has signed very progressive free trade agreements (FTAs) with major partners and regions in the world such as CPTPP, EVFTA, RCEP...

Recently, a number of global technology giants aim to invest or expand production in Vietnam in the near future, including: Apple 's iPhone and iPad production, Google 's mobile phone production line (Pixel 7), Xiaomi and Oppo, also intend to set up manufacturing base in Vietnam.

We expect registered FDI into Vietnam to grow by about 10-12% yoy and disbursed FDI to increase by 6-8% yoy in 2023F.

However, we see the growing competition from other countries and Vietnam currently lag behind in lure FDI flows of EV and semiconductor industry. Since 2020, Indonesia has released the Omnibus Law which provided more opportunities for foreign companies to operate or invest in this country. Since then, FDI flow to Indonesia grew positively 10% yoy in 2021 and 46% yoy in 9M22 to US\$31bn. Vietnam and Indonesia are the two markets receiving the most FDI and, while Vietnam is transforming itself into an electronics equipment manufacturing hub, Indonesia is focusing on the electric vehicle supply chain.

Additionally, we see two industrial developments will shape the investment landscape in ASEAN, including EV industry and semiconductor industry. Significant developments in these industries included new categories of investors, new segments of value chains, further expansion of capacity and increasing activities in regional production networks. Thus, regarding their potential to continue receiving a high level of FDI in the next few years, regional countries has actively promoted FDI in the production of EVs, including batteries, and at the same time encourage consumers to adopt EVs. However, Vietnam is lagging behind other rivals in this trend which might dim the attractiveness of Vietnam in luring FDI flow.

Uncertain #2: China's bumpy recovery is still a variable factor

China 's retail sales growth retreated further from +2.5% yoy in Sep to -0.5% yoy in Oct 22 amid repeated lockdowns across major cities. Factory activities growth moderated from 6.3% yoy in September to 5.0% yoy in October due to inter-provincial supply chain disruption. Default risks of developers with weaker financials stayed elevated. The housing price has already declined by 13 consecutive months. Pre-sales performance of major developers plunged by 33.7% ytd.

With China's economy weak data, the central government has announced a number of new policies that could see total infrastructure spending rise to more than RMB7tr (US\$1tr) in 2022. This spending is expected to boost construction activity in the 4Q22 and into 2023F. The government has issued a 16-point plan to salvage the mired housing market. Developer borrowings due within the next six months are now extended for a year. The authority also urged financial institutions to offer credit lines to quality developers with manageable default risks.

China is likely to grow slowly in 1H23F as an January reopening initially triggers an increase in Covid-19 cases that keeps caution high, but should accelerate sharply in 2H23 on a reopening boost. Our longer-run China view remains cautious because of the long slide in the property market as well as slower potential growth (reflecting weakness in both productivity and property market). The IMF downgraded its growth forecast for the China's economy in 2023F to 4.4% from the previous forecast of 4.6%.

We believe the reopening of China will be a boost for our tourism as Chinese travelers accounts for more than 30% of Vietnam foreign visitor arrivals. Accordingly, businesses operating in the fields of travel, accommodation and catering service and aviation would benefit from the recovery of tourist arrivals from China. The smoother cross-border trade will also support for the Vietnam agriculture exports. Specifically, the export of rubber, rice, vegetables, seafood, wood & wooden products to the Chinese market will benefit from the trend of lower transportation costs and the recovering demand of the Chinese market. In addition, the reopening of China also contributes to stabilizing the supply chain of input materials for Vietnam's manufacturing sector, especially electronics & components, machinery and equipment and textiles.

We revise down our 2022F GDP growth to 6.2% in baseline scenario

Vietnam's GDP growth to slow down to 6.2% in 2023F

Figure 36: Key macro forecasts in 2022-2023F

| Indicator | Unit | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F |
|--------------------------------------|----------|--------|--------|--------|--------|--------|--------|
| Real GDP growth | % yoy | 7.5 | 7.4 | 2.9 | 2.6 | 8.0 | 6.2 |
| Export growth | % yoy | 13.3 | 8.4 | 6.9 | 18.9 | 10.5 | 5.0 |
| Import growth | % yoy | 11.8 | 6.9 | 3.7 | 26.7 | 7.8 | 4.9 |
| Trade balance | USD bn | 6.9 | 10.9 | 18.9 | 3.3 | 12.4 | 13.4 |
| Current account balance | USD bn | 5.8 | 12.8 | 12.7 | -7.2 | -3.0 | 6.2 |
| Current account to GDP | % of GDP | 1.9 | 3.8 | 3.7 | -2.0 | -0.8 | 1.4 |
| FX reserves | USD bn | 55 | 78 | 95 | 109 | 90 | 102 |
| FX to GDP | % of GDP | 17.8 | 23.4 | 27.4 | 29.9 | 22.6 | 23.5 |
| Import coverage | months | 2.8 | 3.7 | 4.3 | 3.9 | 3.0 | 3.3 |
| CPI (period average) | % yoy | 3.5 | 2.8 | 3.2 | 1.8 | 3.2 | 3.8 |
| Credit growth | % ytd | 13.9 | 13.7 | 12.1 | 13.6 | 14.0 | 11.5 |
| Credit to GDP | % of GDP | 102.9 | 106.3 | 114.2 | 123.1 | 126.5 | 130.4 |
| M2 growth | % ytd | 12.4 | 14.8 | 14.7 | 10.7 | 8.0 | 10.2 |
| Refinancing rate | % | 6.3 | 6.0 | 4.0 | 4.0 | 6.0 | 6.0 |
| 12M deposit interest rate (year-end) | % | 6.9 | 7.0 | 5.6 | 5.6 | 7.8 | 8.3 |
| Government bond 10Y (year-end) | % | 5.1 | 3.4 | 2.4 | 2.1 | 5.0 | 5.0 |
| Exchange rate (USD/VND) | % yoy | 22,853 | 23,173 | 23,103 | 22,826 | 23,633 | 23,800 |
| Fiscal balance | % of GDP | 2.2 | 2.9 | 2.9 | 3.4 | 4.0 | 3.9 |
| Public debt | % of GDP | 46 | 43 | 44 | 43 | 42 | 43 |

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

We downgrade our GDP growth forecast for 2023 to 6.2% (+/- 0.3 ppt) from a previous forecast of 6.7%. This is due to the stronger-than-expected impact of the global economic slowdown on Vietnam's manufacturing and exports. Besides, Vietnam still faces challenges from high interest rates, declining but

uncomfortable level of global inflations, tight liquidity, likely rising debt distress in residential property area.

Regarding to three main pillars of the economy, we lower our growth forecast for industry and construction sector to 5.6% yoy from a previous forecast of 7.1% yoy due to lower external orders for manufacturing activity amid global economic slowdown. Meanwhile, we lift our growth forecast for service sector to 7.5% yoy from a previous forecast of 7.3% yoy and upgrade our forecast for agriculture, forestry, fishery sector to 3.1% yoy from a previous forecast of 2.9% yoy. Revised for the service and agriculture sectors to reflect the strong recovery underway and a brighter outlook thanks to China's earlier-than-expected reopening.

Overall, Vietnam will still be one of the fastest growing countries in the Asia-Pacific region in 2023.

The upward momentum of deposit rates could slow down in 1H23F

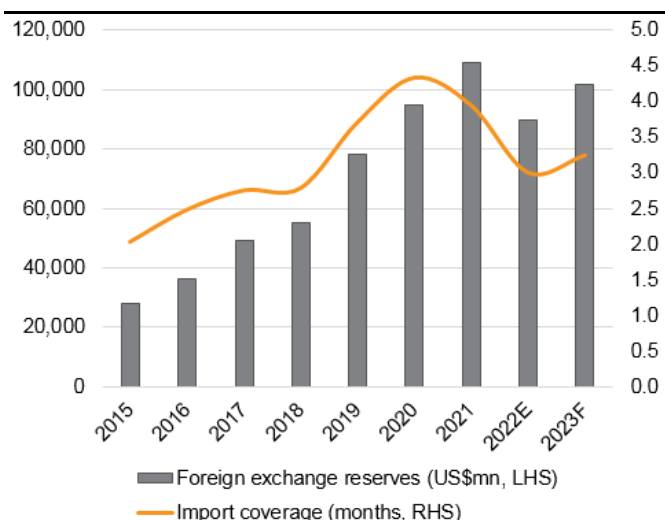
We expect deposit rates to be under upward pressure in the first half of 2023F due to (1) liquidity constraints in the context of confidence crisis in the corporate bond market, (2) the demand for capital mobilization of banks increased sharply to ensure capital adequacy criteria and to meet high demand for loans and (3) deposit growth has been much slower than credit growth since the beginning of 2022, so banks need to raise deposit rates to attract more deposits.

However, we expect deposit rates to decrease slightly in the second half of 2023F thanks to (1) lower exchange rate pressure allows state banks to pump liquidity into the system and stabilize interest rates, (2) domestic inflation could be under control and meet the government's target of below 4.5%, (3) The government promulgates policies to support and strengthen investors' confidence in the corporate bond market.

Consequences, we expect the deposit rates to inch up by about 50 basis points in 2023F, significantly lower than the increase of nearly 230 basis points in 2022F. We see the 12-month deposit rates of commercial bank could climb to 8.0-8.5%/year (on average) by the end of 2023F.

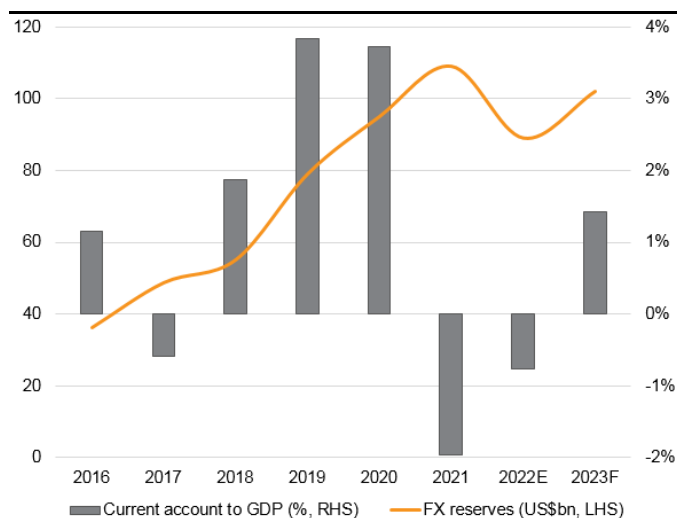
Vietnam's FX reserve will improve

Figure 37: Vietnam's import coverage (month) and FX reserves



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 38: Vietnam's current account and FX reserves



Source: SBV, VNDIRECT RESEARCH

In 2022, the SBV faces many difficulties in balancing the three main goals of controlling inflation, stabilizing exchange rates and stabilizing interest rates to support economic growth. In 10M22, the SBV had to sell a large amount of foreign exchange reserves to stabilize the exchange rate (about over 20% of total foreign exchange reserves). However, this has caused Vietnam's foreign exchange reserves to fall below the recommended level of the IMF (less than 3 months of imports).

For 2023, we expect trade surplus to reach US\$13.4bn in 2023F from a trade surplus of US\$12.4bn in 2022. We also expect current account surplus to widen to 1.4% GDP in 2023F from an expected deficit of 0.8% GDP in 2022F. In addition, we expect Vietnam's FX reserves recover to 3.3 months of import and reach US\$102bn by the end of 2023 from an expected US\$90bn in 2022.

Key risks to our implication: higher than expected inflation, stronger than expected DXY could put more pressure on Vietnam's exchange rate, slower-than-expected economic growth of Vietnam's major trading partners hit Vietnam's exports harder.

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

| | |
|--------|---|
| Add | The stock's total return is expected to reach 15% or higher over the next 12 months. |
| Hold | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months. |

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

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