

Analyst

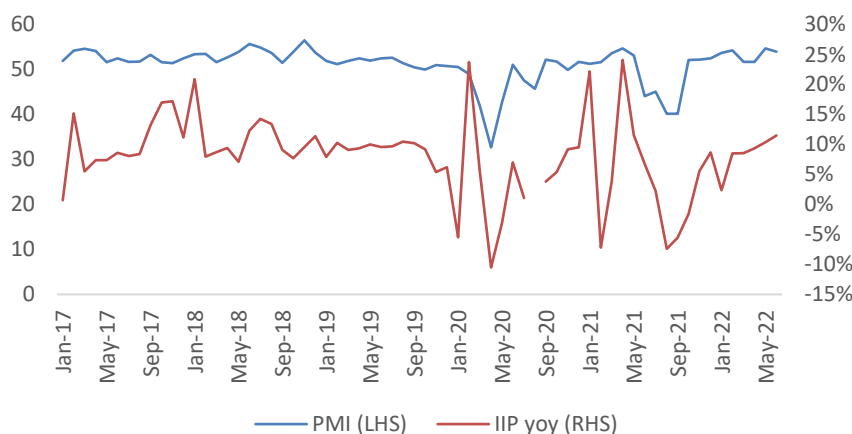
Trần Thị Hồng Nhung

nhungth@gtjas.com.vn - ext:703**IMPRESSIVE GDP GROWTH IN Q2, MANUFACTURING AND RETAIL REVENUE ARE KEY DRIVERS**

The newly published macroeconomic data shows Vietnam's strong economic recovery. GDP growth is recorded at 7.72% in Q2, the highest figure recorded in the 2011-2021 period. Cumulative 6 months, our economy reports GDP growth of 6.42%, surpassing the market's forecast. UOB right after that has adjusted their forecast for 2022 GDP growth of Vietnam to 7% from the last figure 6.5% disclosed in June.

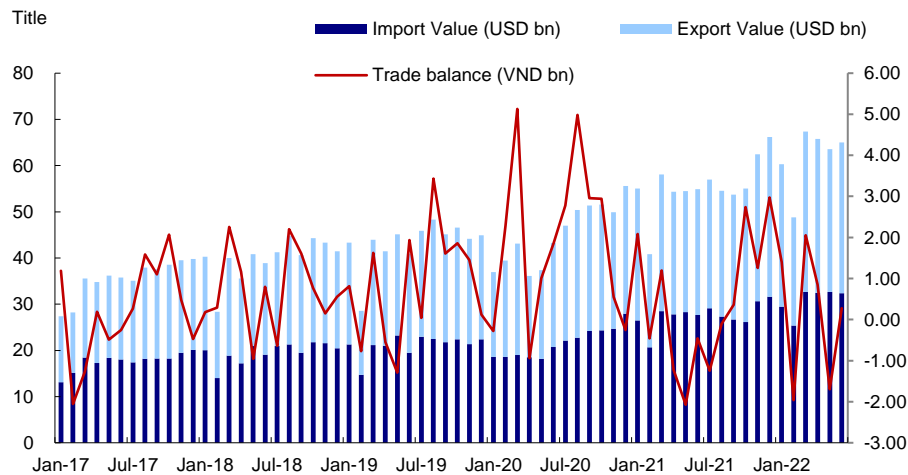
Looping in the key drivers of economy:

- **The growth in industrial production and services was recorded at 7.7% and 6.6%, respectively.** In which, the IIP index increased by 8.8%, constituted by strong growth in garment & textile, electronic equipment and pharmaceutical areas. PMI index is recorded at 54.0 along with rising new orders and exporting orders, still signaling a solid improvement in health of manufacturing sector.

*Sources: Fiinpro, GTJAVN*

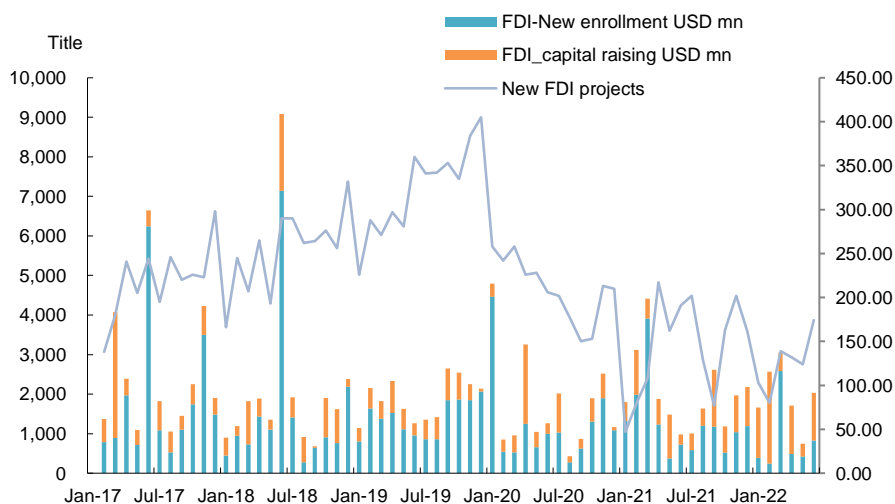
- **In the services area, retail sales of goods and services returned thanks to our fully reopening the border for international tourism.** Retail sales of goods and services jumped 27% in Q2. Accumulated 6 months, there is recorded over 602,000 international arrivals, increasing 6.8 times y-o-y but it is only equal 7% arrivals figure recorded in the same period of 2019, showing a tremendous room for growing in the next quarters.
- **There is still a sluggish disbursement of public projects -one of the important factors contributing to GDP growth.** In the 1st haft of 2022, the disbursement amount only equals 27.75% planned, even lower that the same period last year at 29.02%. Continuing rising construction materials is one of key factors leading to our very low disbursement rate.

- Export** maintains the 2- digit growth, underpinned by a strong growth in seafoods, garment, shoes and electronic devices. However, the current tightened monetary policy in EU and key exporting markets of Vietnam posted worrisome of a weaker demand. On the other hands, those concerns are unclear as the survey showing that the citizen’s spending expectation is still high. In addition, after the period of struggling with the pandemic, our neighboring markets can be an alternative motivation for our export.



Sources: Fiinpro, GTJAVN

- On the opposite side, that is reported a sharply increase in import** amount in the first months of the year, partly due to a sudden demand for machinery and equipment from the new large FDI projects pouring into Vietnam in these 2 years. Therefore, it can be expected that the balance of imports and exports will turn in a favorable direction in the second half of the year as well as next years after those projects completing their construction.
- New FDI** coming to Vietnam is still weak after the pandemic. In the 1st haft, the new FDI mainly comes from capital increases in existing projects. Meanwhile, the number of new registered projects is at a five-year low.





Sources: Fiinpro, GTJAVN

- The current global economic context and travel restrictions in some countries have not been removed, making international investment activities face many obstacles. Therefore, FDI might not be able to break through in the short term that is expected to go sideways in the second half of this year. However, with the outstanding macro platforms in the long-term including demographic factors, stable monetary policy, friendly policies for foreign investors and support from the trade agreements we have signed, FDI inflows will return. Lego Group's investment earlier this year is a very clear demonstration of the attractiveness of Vietnam, or Samsung is still fulfilling its commitment by continuing to increase capital in projects in Vietnam (more than \$ 1 billion) in the first half of 2022.

Big FDI projects in the 1H2022

| Project | Type | Value (USD bn) | Country | Province/City |
|--|------------------------|----------------|-------------|---------------|
| Lego Manufacturing Vietnam | New registered capital | 1.3 | Denchmark | Binh Duong |
| Samsung Electro-mechanics Vietnam | Adjusted capital | 0.92 | South Korea | Thai Nguyen |
| Electronic Manufacturing Factory | Adjusted capital | 0.306 | - | Bac Ninh |
| Telecommunication device factory | Adjusted capital | 0.26 | - | Nghe An |
| Multimedia Sound device factory | Adjusted capital | 0.127 | - | Hai Phong |
| Electronic equipment factory | Adjusted capital | 163 | - | Phu Tho |

Sources: Foreign Investment Agency, GTJAVN

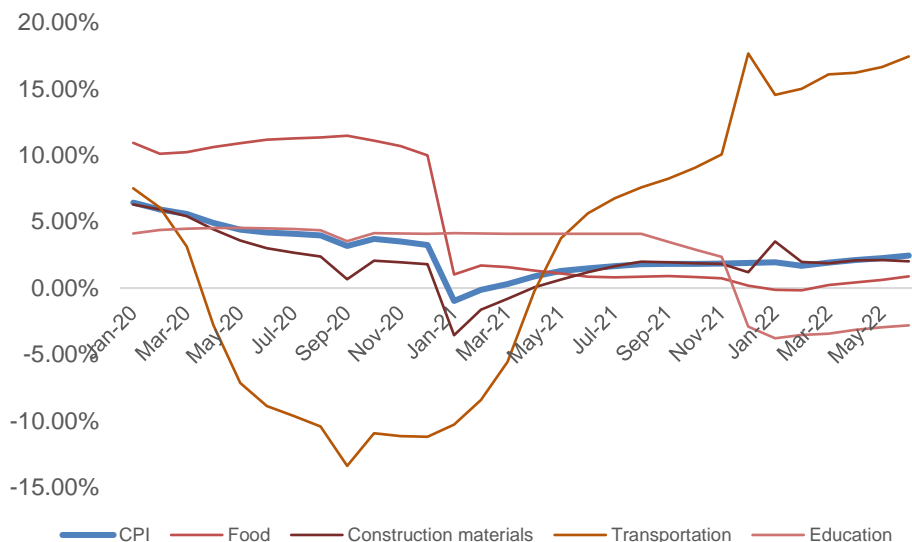
WHAT IS EXPECTED IN Q3?

A sudden growth in the third quarter (at double digits) is in forecast, underpinned by the low base in the same period last year and the fully tourism opening is completely a strong catalyst. Meanwhile, the new wave of covid is not worrying. The low number of new covid cases recorded and the possibility of an economic shutdown because the near-zero epidemic further strengthens expectations of economic recovery.

Full-year GDP growth could be heading towards 7.0%. However, the inflationary pressures across the globe are the biggest concern. Our output may fall short of expectations if the global economy slows due to central banks' effort to cool down inflation.

INFLATION

Inflation was under higher pressure in June with an increase of 0.69% compared to the previous month. The cumulative average CPI in the first 6 months increased by 2.44%yoy. Rising gasoline prices remain the main pressure on inflation. Specifically, the price of RON95 gasoline has increased by nearly 38% since the beginning of the year to nearly 33,000VND/liter. In addition, rising food and materials construction price also put pressure on inflation.



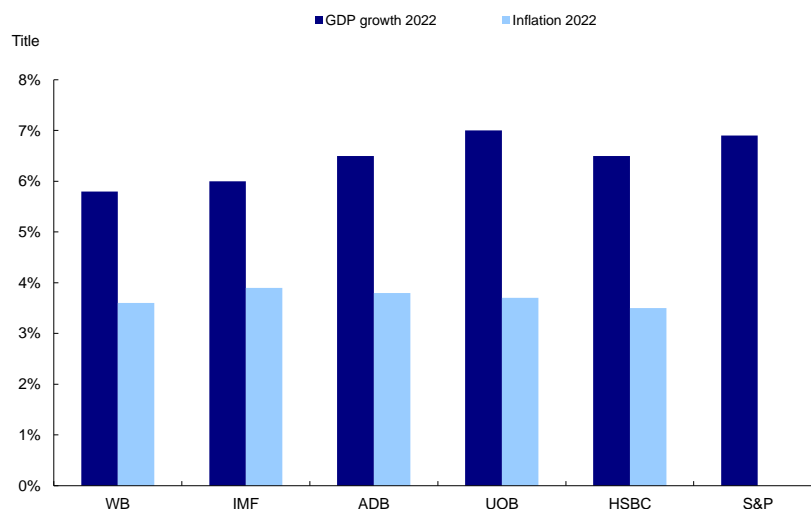
Sources: Wichart, GTJAVN

In alien with the current tightened monetary policy of central banks over the world and geopolitical risks (Ukraine - Russia and reactions of great countries), it is difficult to accurately predict the direction of inflation. The pressure in the third quarter is still evident, however we expect a cooling in the fourth quarter.

MARKET CONSENSUS

Immediately after the macroeconomic data, UOB adjusted their forecast on Vietnam's economic growth for 2022 to 7% from 6.5%-the number published in early June. With a very positive macro data in the second quarter, it is likely that large organizations will most likely adjust their growth forecasts for Vietnam, but inflation forecasts may also be adjusted to increase.

Vietnam's macro forecast



Sources: institutions, GTJAVN



GTJA'S VIEW

Overall, we still have a bright picture of Vietnam's economy in the second half of the year with the expectation of GDP growth of 7.0% while inflation and monetary factors are well controlled. With the current favorable policies and advantages, Vietnam is still an ideal destination for investment capital flows. What we need is time and a more stable global context.

Some of our comments in the Outlook 2022 report include: (1) economic growth will remain high at 6.8% to 7.2% (2) controlling inflation below 4% is a major challenge (3) Exports and FDI attraction will remain strong as drivers for growth (4) Stimulus measures such as economic recovery packages would be delayed and starting to make an impact in the last two quarters of the year.

Overall, with the data coming to June, we are still maintaining the main view mentioned above: (i) economic growth, in a positive scenario may inch up a little bit, however (ii) adjust the inflation forecast to a higher level for the whole year.

Key drivers on growth and CPI:

- Third-quarter industrial production will continue to accelerate, with easing input commodity price pressures if China no longer adopts the strict Covid policy.
- The number of international tourists has rapidly increased but the room to return to 2019 figure is still huge if the pandemic can really cool down in the second half of 2022.
- International commodity prices cooled thereby easing inflationary pressures.

Potential risks:

- There may be a very modest impact of public investment, 2% supporting interest rates policy due to some objective reasons.
- Exchange rate faces the larger pressures if the FED continues to tighten monetary policy.
- There may be continuing linger deceleration of new FDI entrollments into Vietnam.
- Demand for exports could decline if the global economy moves to the recession phase.

Macro forecast of GTJA Vietnam

| GTJA FORECAST | | Conservative | Base case | Optimistic |
|------------------------|---|--------------|-----------|------------|
| GDP 2022 growth | % | 6.8% | 7% | 7.2% |
| Inflation | % | 5% | 4% | 3.7% |



COMPANY RATING DEFINITION

Benchmark: VN - Index.

Time Horizon: 6 to 18 months

| Rating | Definition |
|-------------------|--|
| Buy | Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable |
| Accumulate | Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable |
| Neutral | Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral |
| Reduce | Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable |
| Sell | Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable |

SECTOR RATING DEFINITION

Benchmark: VN - Index

Time Horizon: 6 to 18 months

| Rating | Definition |
|---------------------|--|
| Outperform | Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable |
| Neutral | Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral |
| Underperform | Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable |

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