BREAK THROUGH

From series "Outlook 2022"

FPT Securities

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ABBREVIATIONS AND TERMS	
API	Active Pharma Ingredient
ASEAN	Association of South East Asian Nations
BMI	Business Monitor International
EBA	Everything But Arms
EMA	European Medicines Agency
EVFTA	European Union – Vietnam Free Trade Agreement
FED	Federal Reserve System
FRED	Federal Reserve Economic Data
FTA	Free Trade Agreement
GSO	General Statistics Office of Vietnam
HMA	Heads of Medicines Agencies
IATA	International Air Transport Association
IIP	Index of Industrial Production
OWID	Our World in Data
PMI	Purchasing Managers' Index
PPP	Public-Private Partnership
RCEP	Regional Comprehensive Economic Partnership
VITAS	Vietnam Textile and Apparel Association
VJEPA	Vietnam – Japan Economic Partnership Agreement
VKFTA	Vietnam – Korea Free Trade Agreement

A. WAITING FOR A BREAKTHROUGH OPPORTUNITY

In "**BREAKTHROUGH**", the industries included are all waiting for support factors to improve business conditions. In addition to specific factors analyzed in each industry, we believe that the **Construction**, **Textile & Garment**, **Aviation** and **Pharmaceutical** industries can all benefit from the new anti-pandemic strategy.

New dual mission of pandemic prevention and socio-economic development is expected to help Vietnam recover strongly in 2022 after basically achieving vacination target in December 2021. On October 11, 2021, the Government issued Resolution 128/NQ-CP on Temporary regulations of safe, flexible adaptation and effective control of the Covid-19 pandemic with important changes such as:

Table 1 – Comparison of anti-pandemic strategy between Resolution 128/NQ-CP and Directive 16/CT-TTg

	Resolution 128/NQ-CP	Directive 16/CT-TTg
Objectives	Dual mission: pandemic prevention and socio-economic development	Active pandemic prevention and control
Policies	Four levels of pandemic risk, evaluated from commune level down with corresponding measures.	Large-scale social distancing
Business restrictions	Production facilities and contractors working on transportation and construction projects operate normally. Service establishments (including shopping centers, supermarkets, convenience stores, wholesale markets, restaurants, eateries, and traditional markets) mostly operate normally (limited operation only at the highest risk level).	Discontinue operation or operate under “three on the spot.”

Source: FPTS research

Compared to Directive 16/CT-TTg, new anti-pandemic policies under Resolution 128 will help improve domestic economic activities, thanks to (1) applying flexible anti-epidemic measures (corresponding to 04 risk levels, evaluated at a small scale), and (2) prioritizing stabilization of business, construction, and service activities with low risk of infection (mostly allowed to operate normally). Under the expectation of a strong economic recovery in 2022, these industries will benefit from:

- **Construction** industry will benefit from restored investors confidence, real estate investors will resume projects stopped in 2021 (due to customer access concerns) and manufacturing industries will continue expansion when production is secured.
- **Textile & garment** industry is expected to recover as workers return to work with peace of mind, especially in the southern provinces heavily affected by social distancing in 2021.
- The hospital channel of the **Pharmaceutical** industry will also recover when hospitals can accept normal patients again after being fully committed to Covid-19 treatment and prevention.
- **Aviation** industry is supported by gradual resumption of domestic routes, promoting transportation of goods and passengers as well as accompanying services.

New anti-pandemic strategy will not only stabilize domestic economy but also gradually restore international travel into Vietnam. International commercial routes have started to reopen since Jan 01, 2022 and are expected to expand in the next two weeks, including countries with high pandemic safety score such as China, Korea, Japan, Thailand, the United States, and European countries, etc (accounting for about 90% of Vietnam international visitors in 2018 – 2019, before the pandemic).

In addition, entry restrictions are also being gradually eased by the Ministry of Health. On Dec 16,2021, the Ministry of Health issued Official Dispatch 10699/BYT-MT on Covid-19 prevention and control for entrants, according to which, from Jan 01, 2022, quarantine requirements will be reduced:

Table 2 – Comparison of quarantine requirements for entrants

	Official Dispatch 10699/BYT-MT	Official Dispatch 6288/BYT-MT	Official Dispatch 5599/BYT-MT
On	Covid-19 prevention and control for entrants	Shortening centralized quarantine duration for fully vaccinated entrants	Shortening quarantine duration, piloting home quarantine of F1 cases, managing treatment of Covid-19 cases
Issue date	Dec 16, 2021	Aug 04, 2021	Jul 14, 2021
Required quarantine for entrants	**03 days** of self-monitoring at place of residence for those who are fully vaccinated against or recovered from Covid-19. **07 days** of self-isolation at place of residence for those who have not been vaccinated or not fully vaccinated against Covid-19.	**14 days total**: 7 days of centralized quarantine and 07 days of self-monitoring for those who are fully vaccinated against or recovered from Covid-19.	**28 days total**: 14 days of centralized quarantine (down from 21 days) and 14 days of self-monitoring at place of residence.

Source: Ministry of Health

Particularly for those who stay in Vietnam for less than 14 days, the Ministry of Health has waived quarantine at place of residence from December 24, 2021 (including entrants with diplomatic and official purposes, investors, experts, skilled workers, business managers, market researchers and their relatives), according to Official Dispatch 10943/BYT-MT.

Besides **Aviation** industry that obviously benefits greatly from these new policies, **Pharmaceutical** and **Construction** industries will also be supported as the approval process of EU-GMP factory standards accelerates and FDI returns to growth momentum.

With the supporting factors above, we expect the **Construction**, **Textile & garment**, **Aviation** and **Pharmaceutical** industries will breakthrough in 2022:

- **Construction**: **POSITIVE** recovery with forecasted real growth at 7.7% thanks private domestic and international investment rebound.
- **Textile & garment**: expected **POSITIVE** outlook with export value increasing by 4.0 – 6.4% yoy, supported by stable production and recovering world demand.
- **Aviation**: **IMPROVED** outlook thanks to reopening of domestic and international routes.
- **Pharmaceutical**: **IMPROVED** outlook as risk of input supply chain disruption abate and hospital channels grow again.

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2021 in review:

The construction industry had a difficult year with real growth of only 0.63%, the lowest in the past 10 years, due to:

- Large-scale social distancing in Q3/2021 caused serious disruption to construction activities. During this period, not only projects in distanced area have to be halted but also projects located outside were also affected by the disruption of material and human resource supply chain. This disruption also caused investment capital to continue to slow down, increasing competitive pressure in the industry.
- Input material prices increased sharply, especially in the first half of the year when construction demand recovered. In which, the two materials accounting for the highest proportion are steel and cement, respectively, which increased by 40% and 8.4% compared to the beginning of the year.

Outlook 2022:

We expect the industry to recover positively with forecasted real growth of 7.9% in 2022, among the highest in the region.

- Infrastructure construction: forecasted real growth of 6.5% thanks to improved government investment capacity as public debt ceiling was increased. In the medium term, focusing on infrastructure investment will boost civil construction by improving both economic outlook and Vietnam's ability to attract international investment.
- Residential and non-residential construction: Real growth is projected at 7.7% and 9.0%, respectively, driven by rebounding demand from private domestic and international investment. Loosening anti-pandemic policies and stabilizing domestic production will help restore real estate and manufacture investors confidence. Additionally, international investment will also be easier as entrant restrictions are gradually lifted.

B. CONSTRUCTION INDUSTRY – SUPPORT FROM PRIVATE INVESTMENT AND FDI

I. 2021 in review: Interrupted construction activities, sharply rising material costs

In general, the construction industry faced many difficulties in 2021, due to (1) disrupted construction activities in Q3 2021 due to large-scale social distancing and (2) eroded profits by a sharp increase in input material costs, especially in the first half of the year as construction demand picked up again.

1. Interrupted recovery momentum due to large-scale social distancing

The construction industry recorded real growth of 0.6% in 2021, very low compared to average growth of 7.2% in the last 10 years. After promising signs of recovery at 5.6% in the first half of the year, large-scale social distancing caused construction to decline 11.4% over the same period in Q3/2021 (corresponding to a cumulative decrease of 0.6% yoy), ending its growth streak since the economic crisis of 2011-2012.

Figure 1 – Construction industry YTD real growth

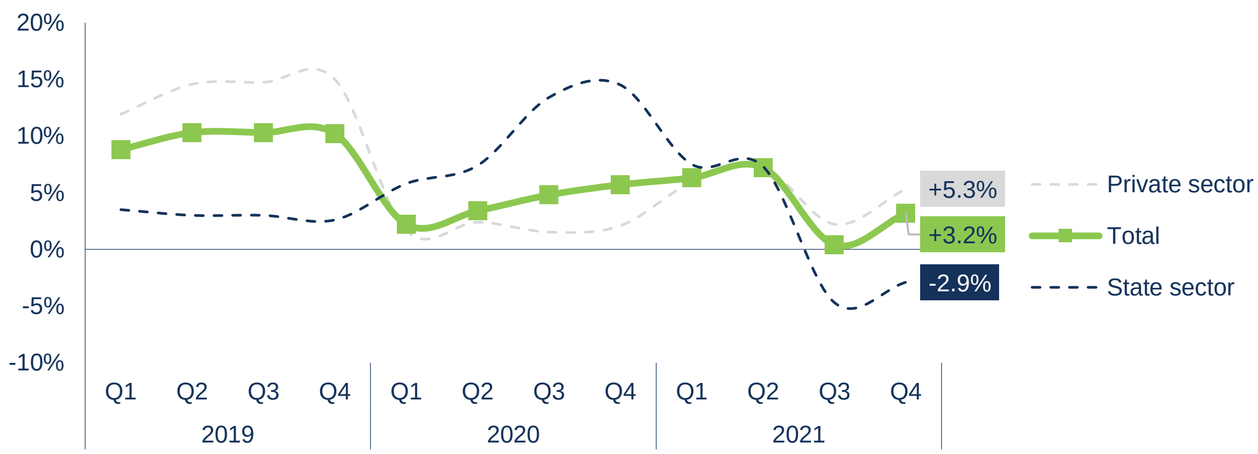
Source: GSO

Except for some key projects, almost all projects located in socially distanced provinces/cities must stop (in some cases up to 4 months like in Ho Chi Minh city). Furthermore, projects outside distanced area were also delayed due to disruptions in materials and human resources supply.

2. Sluggish investment, total realized investment capital only increased by 3.2% yoy

In 2021, total realized investment capital at current prices grew insignificantly, reaching 2,892 trillion (+3.2% yoy, just slightly higher than the annual average core inflation at 2.0%).

Figure 2 – Realized investment capital at current prices YTD growth



Source: GSO

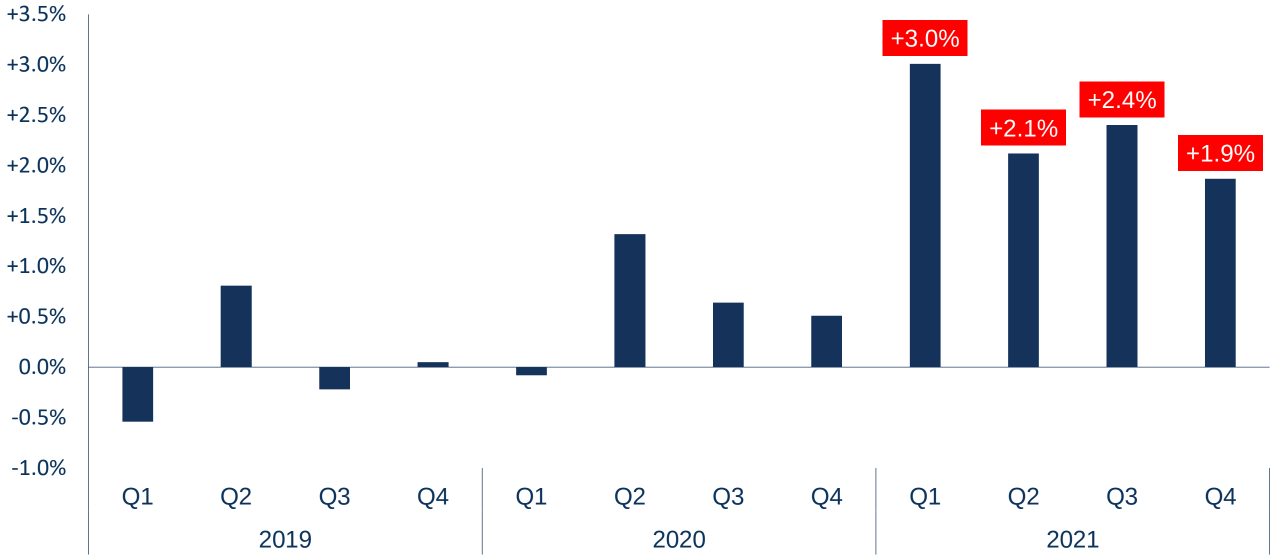
In which, state sector's realized investment capital reached 714 trillion, down 2.9% yoy after high growth of 2020; private sector's reached 2,178 trillion, up 5.3% yoy. Thus, during two pandemic years, state sector has replaced private sector as the main growth engine (+11.2% compared to only +7.5%).

The divergence of investment capital trend during the last two years has correspondingly affected construction businesses. Increasing public investment spending will benefit infrastructure contractors, and conversely, slowing private investment will limit growth of civil construction companies.

3. Sharply increased material costs

On average, in 2021, the price index of materials and fuels used in construction[1] increased by 6.4% yoy due to spiking demand (not only in Vietnam but globally) while supply chain has not been able to recover from 2020 disruptions.

Figure 3 – Price index of materials and fuels used in construction QoQ



Source: GSO

Two main construction materials, steel (30% of total costs) and cement (10%), increased by 40% yoy and 8.4% yoy, respectively. Moreover, glass prices also increased +30% yoy, plastic pipes +20% yoy, sand and stone +15% yoy, bricks and asphalt +10% yoy, etc.

A sharp increase in material prices can push many construction companies into losses, because (1) raw materials account for ~70% of construction costs and (2) contractors bear most of the input price risks in the duration of contract (most construction contracts are fixed-price and usually last about 03-24 months). With under 05% average pre-tax profit margin, an increase of 6.4% yoy in the price index could wipe out about 2/3 of total profit of the whole construction industry in Vietnam.

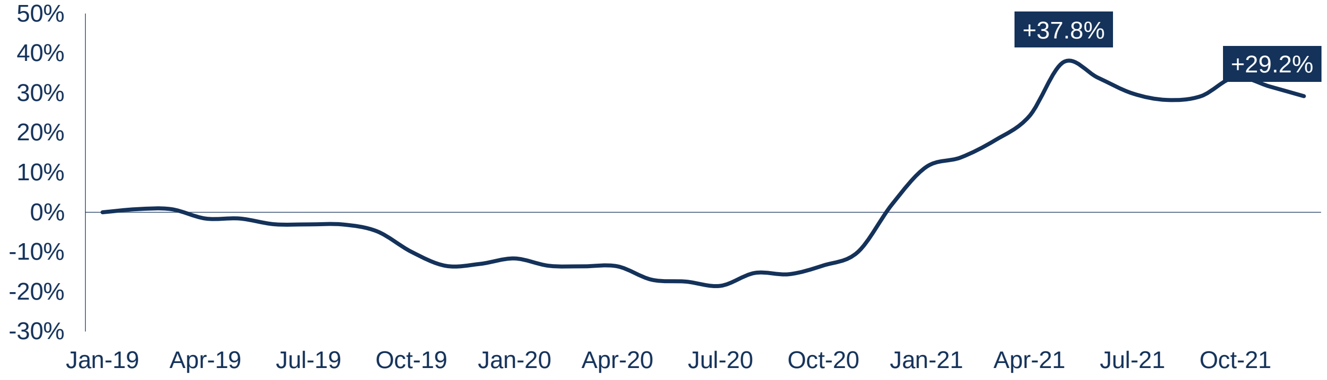
As a result, many contractors had to suspend construction when material prices increased sharply (especially in the first half of 2021) to avoid large losses. Affected projects included major public investment projects such as Cam Lam - Vinh Hao expressway, North-South expressway component projects and many other residential real estate projects.

[1] The price index of materials and fuels used for production reflects trends and price fluctuation magnitude over time of predetermined list of representative materials and fuels. This list is developed periodically and is used for a fixed period of time (usually 5 years). In which, the weight of each group of materials and fuels used for production is determined based on the proportion of each group's cost in the total cost.

3.1. Steel: price spiked in the first half of 2021

In the first half of 2021, construction steel price increased very sharply, peaking at ~17,500 VND/kg in May – a 70% increase over 09 months from the lowest level in August 2020. In the second half, steel prices decreased slightly to ~16,410 VND/kg as due to reduced demand during social distancing and market stabilization efforts by the Ministry of Construction.

Figure 4 – Construction steel price fluctuations in the last 03 years



Source: Vietnam Steel Association, FPTS research

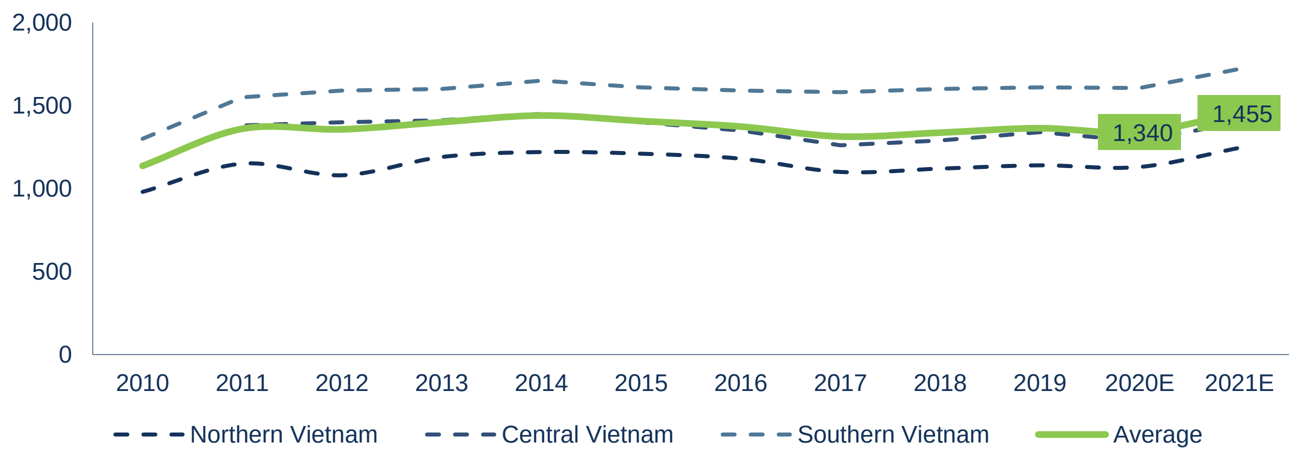
The sharp increase in domestic steel prices was due to (1) global steel prices spiked in response to a sudden increase in demand while supply was limited, plus (2) many steel input materials prices also skyrocketed, especially Iron ore and coking coal sometimes increased over 200%.

In 2022, we expect domestic steel prices to cool down. Global steel prices are forecasted to decrease by 22% in 2022 and 27% in 2023 as steel supply will gradually recover and no more demand spike like in early 2021, according to *Fitch Solutions*. In addition, in order to stabilize domestic steel prices, the Government will reduce import tax for some construction steel products and steel plates by about 5 - 10% from 01/01/2021, according to Decree 101/2021/NĐ-CP, issued on 15/11/2021. *For additional information, please refer to "Keep Faith" – the Macroeconomics installment of "Outlook 2022" series by FPTS.*

3.2. Cement: price increased due to pressure from coal

In 2021, cement prices increased by about 8.4% compared to 2020 average after two adjustments, respectively ~30,000 VND/ton in April and ~85,000 VND/ton in October.

Figure 5 – Average cement prices in Vietnam



Source: Vietnam National Cement Association, FPTS estimates

After many years of stable prices due to oversupply, cement prices increased in 2021 mainly because of pressure from coal prices, as coal accounts for about 45% of cement production costs. In the first 09 months of 2021, imported coal prices (accounting for 66% of coal used by cement industry) increased by an average of 83% as supply from main sources such as China, Indonesia, Columbia was seriously affected (from labor safety concerns, adverse weather, broken supply chain…). On the other hand, domestic coal prices also increased by about 09% yoy.

In terms of consumption, export continued to be cement's growth driver in 2021. According to *Vietnam National Cement Association*, in 10M2021, total cement consumption increased slightly, reaching 88.7 million tons (+7.0% yoy), of which domestic consumption was stable (reaching 51 million tons, -1.0% yoy) and export increased significantly (reaching 32.7 million tons, +16.3% yoy). However, it should be noted that cement exports often have low profits[2], and is utilized mainly to relieve domestic oversupply.

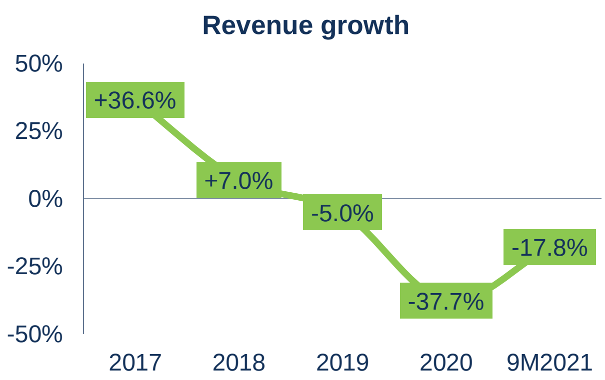
In 2022, we expect very limited room for cement price increases. In terms of inputs, average global coal price has decreased by ~50% from the peak of October 2021 (after China implemented many urgent measures to increase coal supply in order to solve the country's energy crisis) and is expected to keep declining gradually in the medium term, according to *Fitch Solutions*. In terms of output, exports will be more difficult in 2022 when clinker export tax will be increased from 05% to 10% starting 01/01/2022 (according to *Decree 101/2021/ND-CP*).

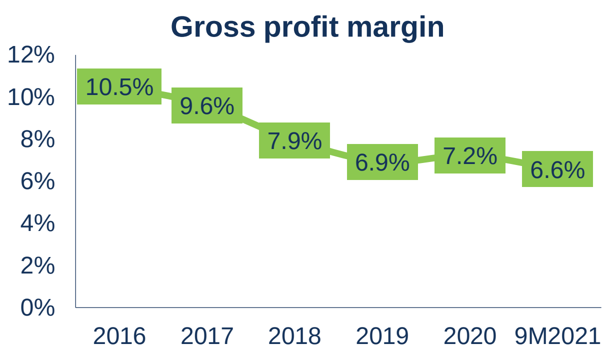
4. Operating results update of selected construction companies

In general, social distancing in 2021 has affected residential and non-residential construction companies much more than infrastructure construction companies.

4.1. Residential and non-residential construction (CTD, HBC, VCG, PHC, VC9, VC2, ROS, Ricons)

Figure 6 – Revenue growth and gross margin of residential and non-residential construction companies





Source: Financial Reports

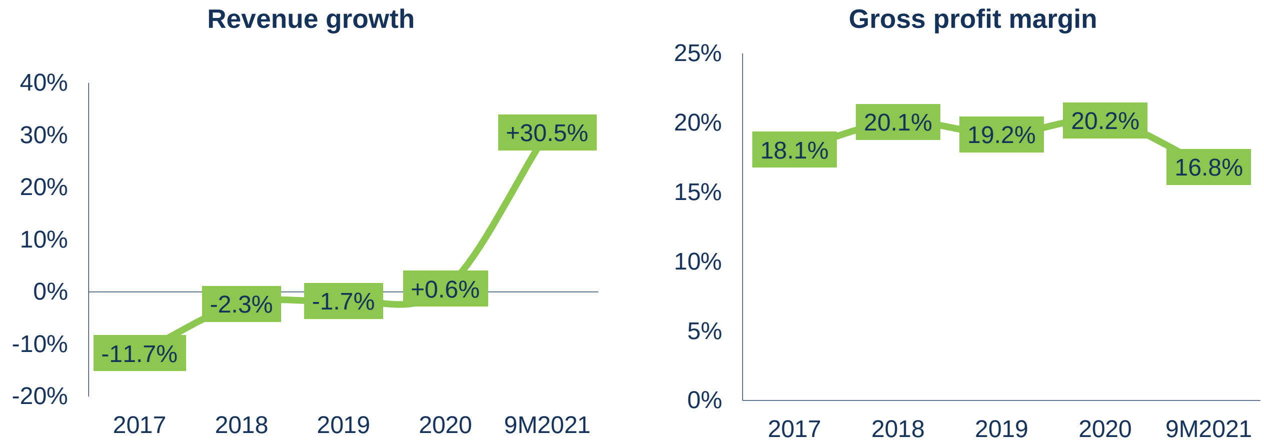
In 09M2021, net revenue of residential and non-residential construction companies decreased by 18% over the same period (following a decrease of 38% yoy in 2020), mainly because these companies are concentrated in large provinces and cities that underwent social distancing, especially Hanoi and Ho Chi Minh city. In addition, revenue in this period was mostly from contracts signed before 2019 as private investment demand has slowed since 2020, limiting new contracts.

Average gross profit margin also decreased by 0.6 percentage points (ppt) compared to 09M2020, partly influenced by construction materials price hike and increasing competitive pressure as residential and non-residential construction market stagnated.

[2] Cement and clinker exporting often has low profits because (1) Vietnam is close to major cement exporters such as China and Thailand, (2) cement has high transportation costs due to high weight to value ratio, and (3) clinker and cêmnt exports are subjected to 5% resource-intensive export tax.

4.2. Infrastructure construction (DPG, PC1, C4G, SJG, C47)

Figure 7 – Revenue growth and gross margin of infrastructure construction companies



Source: Financial Reports

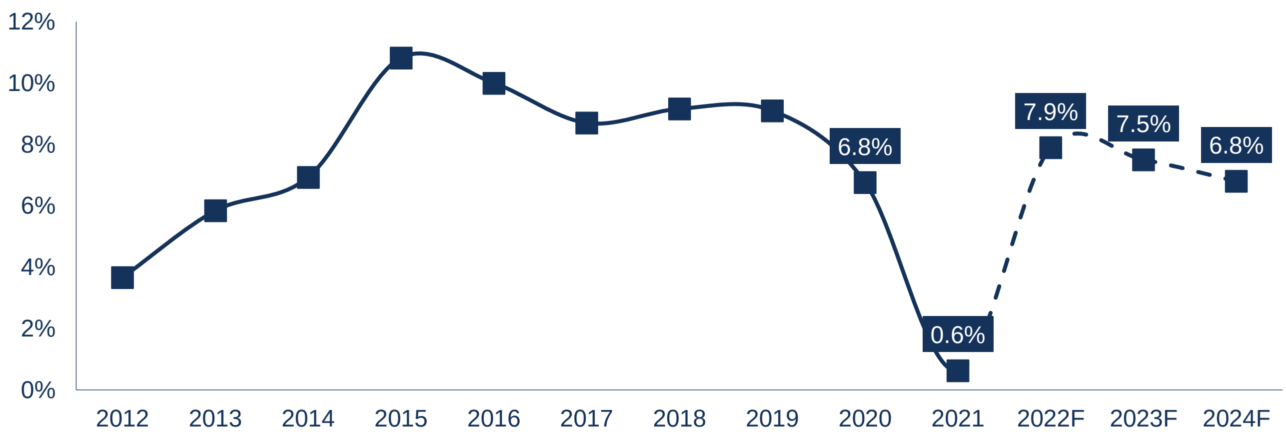
In 09M2021, net revenue of infrastructure construction companies increased by 31% yoy, mainly due to PC1's strong performance thanks to opportunities from wind power investment support mechanism. Excluding PC1, the remaining companies' revenue only increased by 3.1% yoy. Thus, this group's operations were generally stable and less affected by the pandemic.

In contrast, gross profit margin decreased significantly -3.4 ppt compared to 2020 because infrastructure contractors often directly execute projects and are more affected by materials cost increases (compared to residential and non-residential construction companies who often hire subcontractors).

II. Outlook 2022: Strong recovery

In 2022, construction industry is expected to experience POSITIVE recovery with real growth of 7.9% (according to *BMI's forecast*), among the highest in the region. Growth in 2022 will mainly be driven by rebound of private investment and FDI, spurred by the new anti-pandemic strategy.

Figure 8 – Construction industry forecasted real growth



Source: GSO, BMI

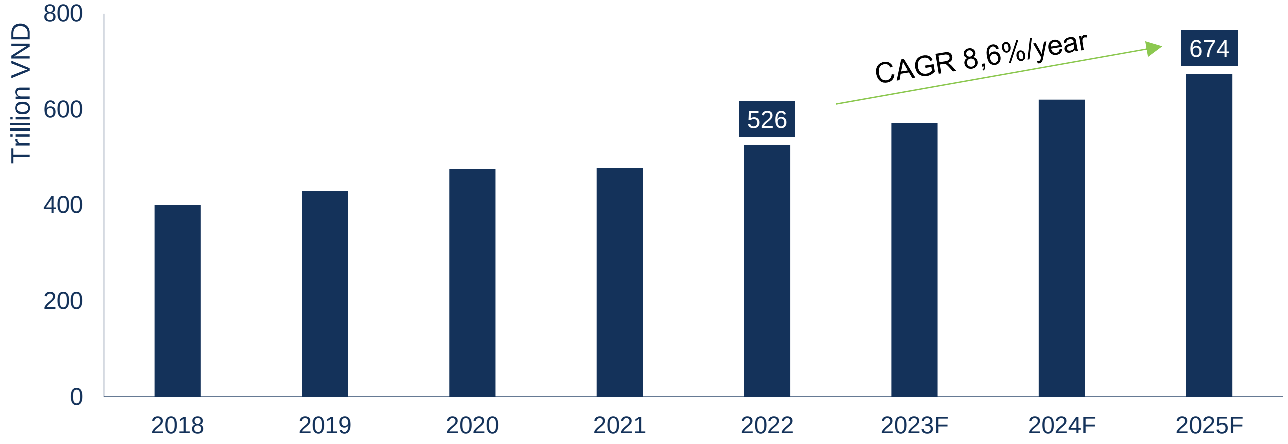
1. Infrastructure construction: driven by high levels of public investment

In 2022, infrastructure construction is expected to grow at a real rate of 6.5%, up 1.1 ppt from end of 2020 forecast, according to *BMI*, mainly because public investment is no longer limited by public debt ceiling in the medium term. In contrast, public-private partnership (PPP - Public-Private Partnership) investment prospect is marred by difficulties in raising capital due to old mechanisms.

1.1. Public investment will remain high thanks to loosening public debt ceiling

The Government will keep prioritizing public investment in 2021 – 2025: Estimated development investment spending for 2022 is at 526.1 trillion VND, up 10.2% compared to 2021 and is expected to continue to increase 8.6% per annum to 2025 (based on the 2021-2025 public investment capital plan of up to 2,870 trillion, up ~44% compared to the 2016-2020 plan). Public spending will focus on key infrastructure projects such as North-South Expressway, Quang Ninh - Kien Giang coastal road, Long Thanh International Airport and other highways.

Figure 9 – Estimated development investment spending of Vietnam Government



Source: Ministry of Finance, FPTS estimates

Loosened public debt ceiling will support the Government to maintain high levels of public investment. After adjustment, Vietnam's public debt was about 43.7% of GDP in 2021, slightly down from 45.1% in 2020 and very far from the 60% ceiling of 2021-2025 period (according to *Resolution 23/2021/ QH15*) *– please refer to “Keep Faith” – the Macroeconomics installment of "Outlook 2022" series by FPTS.*

1.2. PPP projects delayed due to old mechanism hindering capital raising

In 2021, all three North-South Expressway PPP component projects faced great difficulties in raising bank credit, mainly because these projects were not allowed to use new revenue sharing mechanisms in PPP law as they were approved before the law came into effect. As of 07/12/2021, only Cam Lam - Vinh Hao expressway PPP project has successfully signed credit contracts, while the other two projects (Dien Chau - Bai Vot and Nha Trang - Cam Lam) were in danger of being canceled due to late credit contract signing.

To meet infrastructure investment target, the Government is considering piloting specific mechanisms and policies to support expressways development during 2021 – 2025 (suggested by the Ministry of Transport), including (1) removing the 50% maximum restriction on State capital in PPP projects, (2) assigning local government as competent State agencies to implement projects in their territories (instead of Ministries) and allowing them to borrow from government bond funds to invest in highways, (3) permitting contractor appointment for consultancy and site clearance packages, (4) allowing local government to award extraction right of minerals used in making general construction materials to highway contractors, used only for the project (bypassing auction). Completing a legal framework and introducing specific mechanisms to promote PPP fund raising will play an important role in infrastructure investment during 2021 - 2025 as State budget can only meet 70% of infrastructure investment demand (despite being at a very high level compared to that of 2016 – 2020).

In the medium term, prioritizing infrastructure investment will contribute significantly to the growth of all construction sectors, boosting domestic investment demand and increasing Vietnam’s competitiveness in attracting international investment.

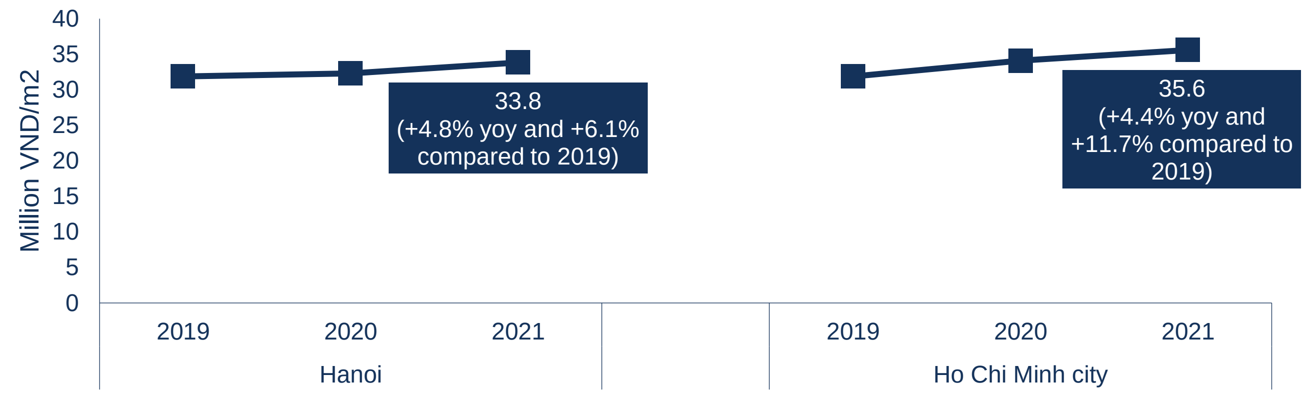
2. Residential construction: rebound to meet pent-up demand during the pandemic period

In 2022, residential construction is projected to grow at a real rate of 7.7%. Commercial housing construction market is expected to rebound strongly in 2022 to meet suppressed demand of the last two years. This market is concentrated in residential hubs, very sensitive to economic and legal changes, and is the main playing field of large-scale contractors, despite accounting for only 7% of total floor area completed.

In Vietnam, housing demand is still strong (not lost during the pandemic but only temporarily delayed) as this comes from stable long-term demographic factors such as urbanization and rising average income. High demand for housing can be inferred from increasing prices of real estate products amid the pandemic when supply is limited:

- Increasing real estate product prices: Average apartment prices in Hanoi and Ho Chi Minh City increased by about 4.4 – 4.8% in 2021, reaching 33.8 million/m^2 and 35.6 million/m^2 respectively. Additionally, other real estate products such as single houses also increased by ~06 – 15% yoy and townhouses by ~14 – 17% yoy, according to *batdongsan.com*.

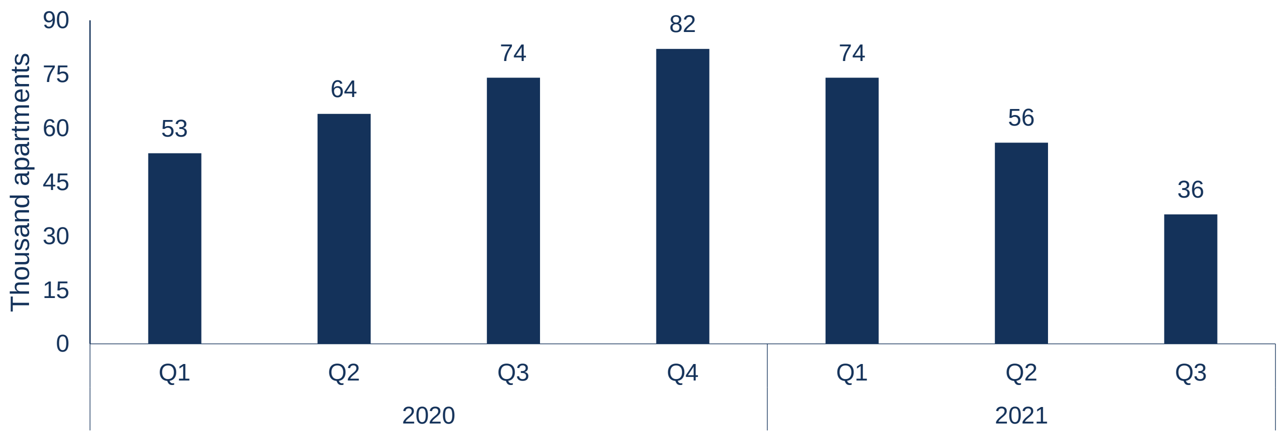
Figure 10 – Average apartment prices



Source: batdongsan.com

- Limited real estate product supply: During the pandemic period of 2020 - 2021, many real estate projects had stopped due to concerns about economic prospects as well as customer access. According to *Vietnam Association of Realtors*, national primary apartments supply in 09M2021 reached 166 thousand, significantly down 13% compared to the same period in 2020. In Hanoi and Ho Chi Minh City, apartment supply also decreased 27% in 09M2021, following a 70% decrease in 2020.

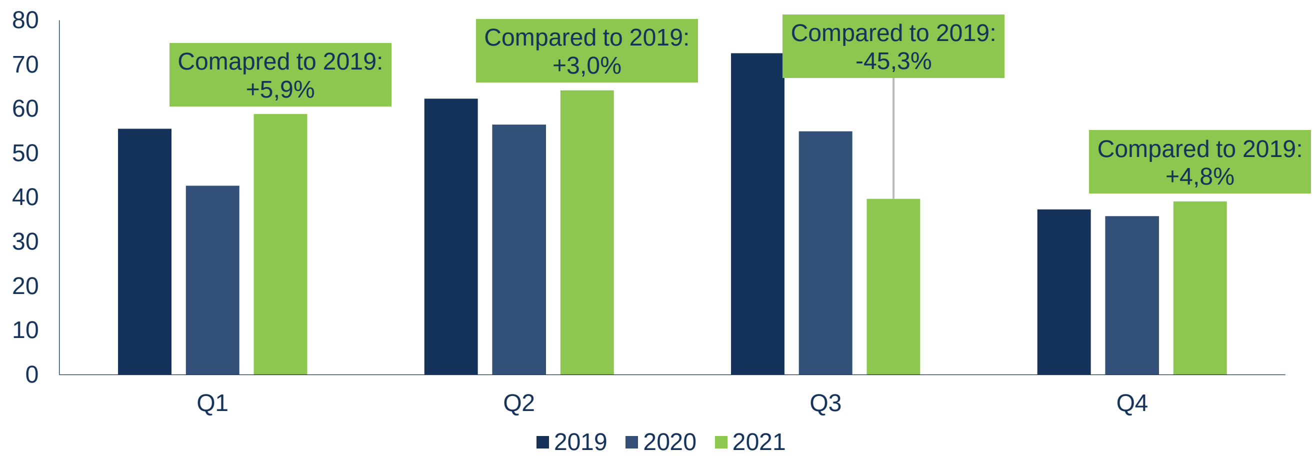
Figure 11 – Apartment primary supply



Source: Vietnam Association of Realtors

- Quickly rebounding demand: Contrary to supply, interest in real estate market in 2021 quickly returned to 2019 levels, before the pandemic (except for Q3/2021 as social distancing prevented buyers from reaching real estate projects), according to *batdongsan.com*. In other quarters, the real estate market interest index was about 03 - 06% higher than that of 2019, most of which came from Hanoi (40%) and Ho Chi Minh city (29%).

Figure 12 – Real estate market interest index



Source: batdongsan.com

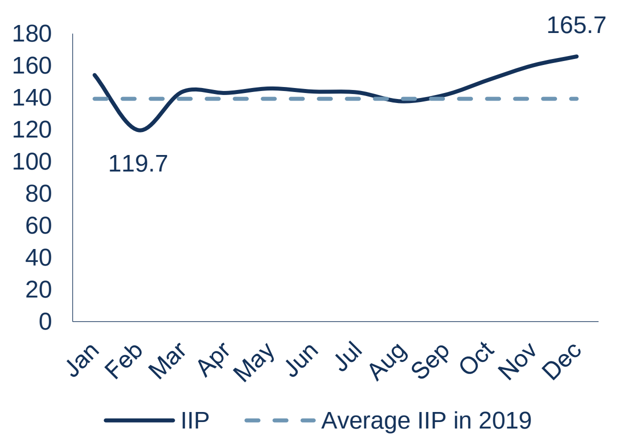
Residential construction market is expected to rebound strongly in 2022 as real estate developers return to unfinished projects, supported by (1) high demand and selling prices of real estate products, and (2) improved customers access under the new anti-pandemic strategy. According to the *Ministry of Construction*, the number of commercial houses under construction reached 245,181 at the end of Q3/2021, ~16 times higher than completed houses in 09M2021, representing large potential for recovery in 2022.

3. Non-residential construction: domestic manufacturing and foreign direct investment return

In 2022, non-residential construction is forecasted to grow at 9.0%, the highest among construction sectors, driven by recovery of domestic investment demand as operations stabilize and international investment as movement restrictions are gradually lifted.

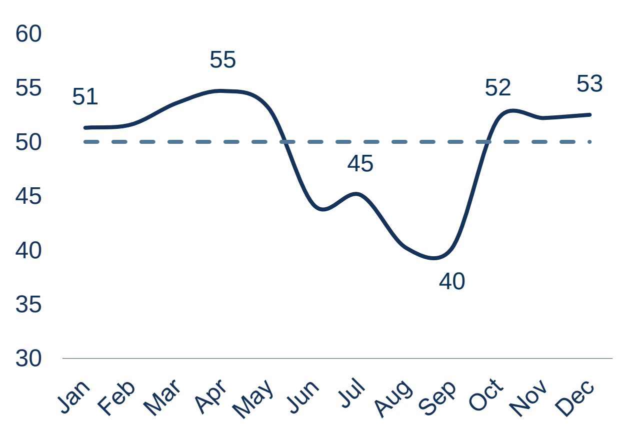
Vibrant domestic economic activity post-social distancing: After dismal results of Q3/2021, domestic industrial production recovered quickly in the last quarter, as shown by (1) Index of Industrial Production (IIP) still maintained its growth momentum in 2021, averaged +4.8% yoy, improved from 3.4% growth in 2020 and (2) Purchasing Managers' Index (PMI) recovered to above 52 in the last three months.

Figure 13 – Vietnam IIP in 2021, base year 2015



Source: GSO

Figure 14 – Vietnam manufacturing PMI 2021

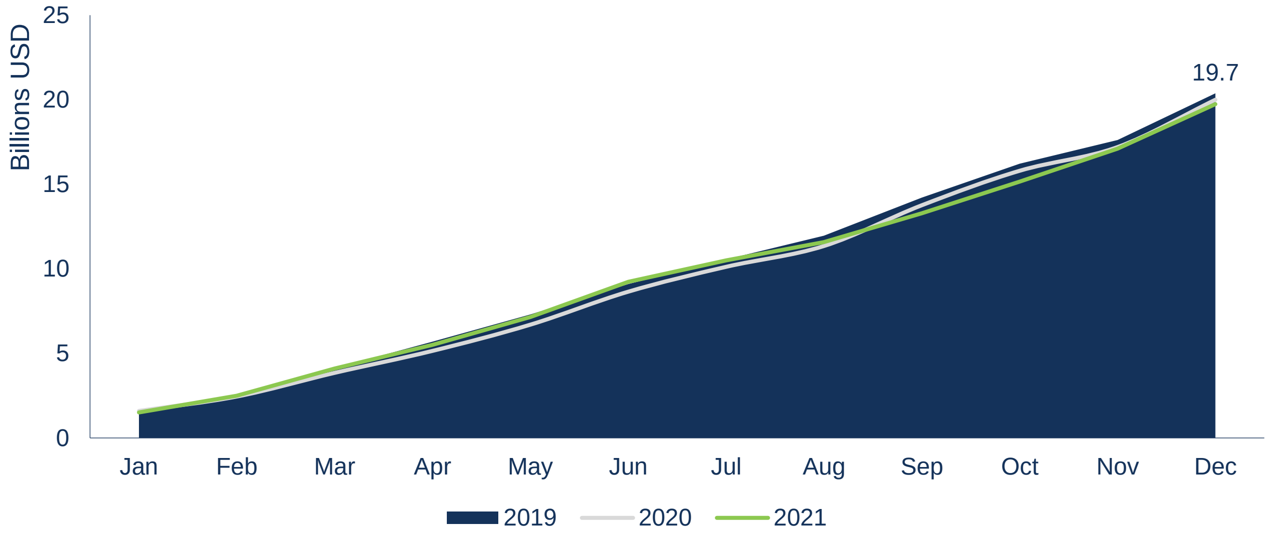


Source: IHSMarkit

Easing international investment into Vietnam: Foreign investors will find it easier to survey and look for investment opportunities in 2022 as international commercial flights are piloted to resume starting 01/01/2022, as well as entrant isolation requirements are being loosened gradually (especially, those who enter the country for less than 14 days are exempted from self-isolation at place of residence).

Vietnam is becoming an attractive destination for international investment in recent years thanks to its stable economy and many other supporting factors such as open-door policy, foreign investment incentives, and a focus on infrastructure investment... This attractiveness is illustrated by the fact that FDI into Vietnam was generally stable during the period of high uncertainty 2020 and economic disruption in 2021, down only 1.9% and 1.3% yoy respectively, (in comparison, in 2020, FDI in both ASEAN and the world decreased by about 25%, according to *UNCTAD's World Investment Trends Report 2021*).

Figure 15 – Realized FDI YTD in 2019 – 2020



Source: Foreign Investment Agency

Additionally, international investment is expected to continue diversifying away from China in the medium term: Risk of concentrated supply chain in China are becoming increasingly apparent after the US-China trade war of 2018 – 2019 and the pandemic outbreak of 2020, prompting many large corporations to consider diversification into neighboring countries. In recent years, many large international corporations have turned to invest in Vietnam (including Samsung - Korea, Sonion - Denmark, Sharp - Japan...) and many others are also planning to (Microsoft, Nintendo, Ricoh, Dell…).

III. Watch list

Unit: Billions VND	Market capitalization (06/01/2022)	Net revenue 09M2021	Net income 09M2021	Net income %yoy	Gross profit margin	ROE (TTM)	P/E (TTM)
CTD	8,491.7	6,189.5	87.5	-76.3%	4.4%	2.2%	46.8x

- CTD is one of the leading residential contractors in Vietnam, focusing on high-rise buildings.
- In 2021, CTD's business results dropped sharply because the housing construction market has slowed down since 2020 and social distancing in Q3/2021 caused construction delays and increased costs.
- CTD's 2022 outlook is positive thanks to the recovery of the housing construction market. According to CTD, new contracts in 2021 reached 25,000 billion VND (about 10 times higher than that of 2020).

DPG	5,355.0	1,534.9	252.8	+234.4%	36.3%	35.1%	14.4x

- DPG main businesses include bridges and roads construction, hydropower investment and real estate project development.
- DPG's 09M2021 Net income was increased three fold compared to the same period last year thanks to success of the real estate segment in Hoi An (with a gross profit margin of 57%).
- Entering 2022, DPG's growth will be driven by from high public investment and a rebounding tourism real estate market.

PC1	9,265.3	7,667.3	550.0	+47.5%	9.7%	16.6%	13.6x

- PC1 is the leading general contractor of high voltage transmission lines, electrical substations and renewable energy plants in Vietnam. Additionally, PC1 also invests in renewable energy (small-scale hydroelectricity and wind power) and real estate.
- In 2021, PC1's business results increase sharply thanks to the rush to completion of wind power projects (in order to be eligible for FIT support mechanism, wind power plants need to have commercial operation date before 01/11/2021).
- In 2022, PC1's energy segment is expected to grow strongly thanks to 03 wind power projects completed on time (eligible for the FIT support mechanism). In contrast, real estate segment will be subdued as projects are delayed by legal requirements and electricity construction segment is expected as wind power support mechanism ended.

TCD	4.866,3	2.101,4	264,2	+562,2%	12,8%	40,0%	14,2x

- TCD is a civil and infrastructure general contractor as well as construction stone supplier in the Mekong Delta area.
- In 2021, TCD achieved very high growth thanks to abundant jobs from the parent company's ecosystem, Bamboo Capital Group, and highly profitable financial investment in real estate.
- From 2022 onwards, TCD's development strategy will be based on increased infrastructure investment in the Mekong Delta region, through which TCD aims to become an infrastructure developer through PPP mechanisms and to increase quarry capacity and output to serve infrastructure projects in the region.

TEXTILE & GARMENT INDUSTRY

POSITIVE OUTLOOK FROM PRODUCTION CAPACITY STABILIZATION AND DEMAND RECOVERY

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2021 in review:

In 2021, Vietnam textile and garment industry has recovered positively. Although production was disrupted in Q3, exporting value for the whole year still grew well:

- Production was disrupted in Q3 due to social distancing with tailoring and apparel manufacturing companies in Southern Vietnam being the most affected.
- The recovery of textile and garment demand mostly came from consumption growth in the US market while other markets have not fully recovered (most recorded positive growth compared to low levels of 2020 but still less than that of 2019 – before the pandemic). In 11M2021, Vietnam exported 14.3 billion USD of textile and garment products to the US (accounting for 49% of total export turnover), an increase of 13.1% compared to 2020 and 6.2% compared to 2019.
- Fiber and yarn sector was the bright spot in 2021 with much higher export value compared to previous years because global yarn price increased rapidly and production generally unaffected by the pandemic. Fiber and yarn export turnover in 2021 is estimated at 5.6 billion USD, up 50.8% compared to 2020 and 34.1% compared to 2019.

Outlook 2022:

Vietnam's textile and garment industry will continue to grow in 2022 with export turnover estimated at 42.5 – 43.5 billion USD thanks to these following factors:

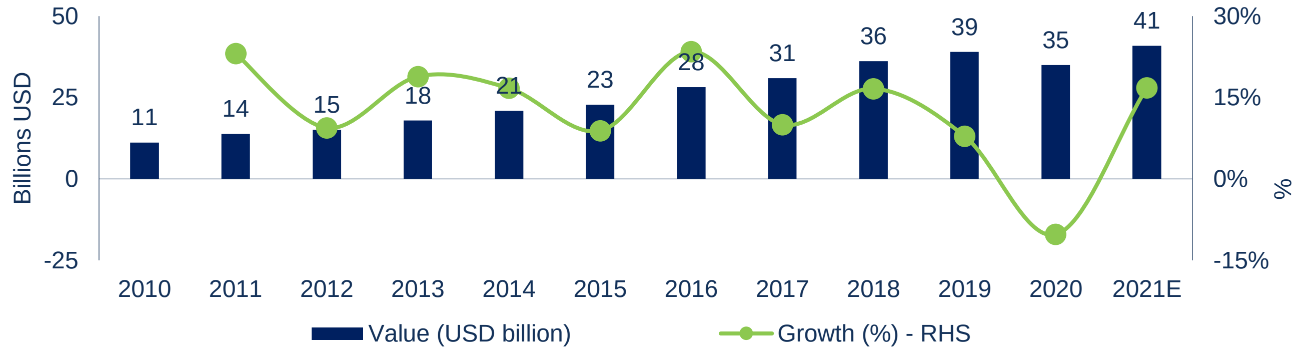
- Domestic production will stablize thanks to new anti-pandemic policies and labor market recovery.
- Global demand for textile and garment products will continue to be supported by recovery of global economies. Additionally, Vietnam's Free Trade Agreements will support Vietnam's textile and garment exports.

C. TEXTILE & GARMENT INDUSTRY – SUPPORTED BY PRODUCTION STABILIZATION AND DEMAND GROWTH

I. 2021 in review: Social distancing disrupted recovery in Q3

In 2021, Vietnam's textile and garment industry recovered robustly after being badly affected by Covid-19. Although production suffered disruption in Q3, export value of 2021 still recorded significant growth YoY. According to *estimates of the Ministry of Industry & Trade and the General Department of Customs*, textile & garment export value of 2021 reached 40.9 billion USD, up 16.8% compared to 2020 and up 3.4% compared to 2019.

Figure 16 – Vietnam textile and garment export value in 2010 – 2021

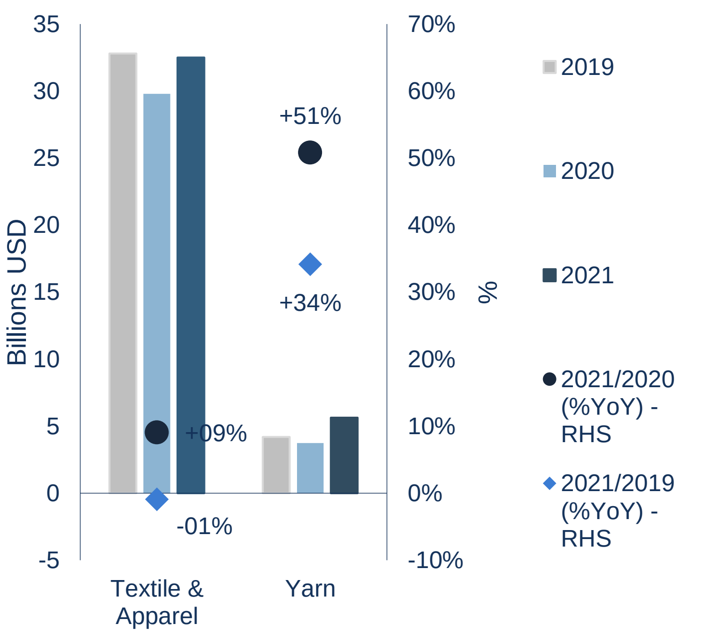


Source: VITAS, General Department of Customs, Ministry of Industry and Trade

Although heavily impacted by social distancing in Q3, Textile and apparel (T&A) sector still recovered positively in 2021 thanks to growth in demand from export markets and production boost in other quarters. T&A export turnover in 2021 is estimated at 32.5 billion USD (accounting for 79% of total industry exports), up 9.1% compared to 2020 but still down 0.9% compared to 2019.

Yarn sector was the bright spot in 2021 with export value much higher than in previous years because global yarn prices increased rapidly while domestic production was generally unaffected by the pandemic. Fiber and yarn export turnover in 2021 is estimated at 5.6 billion USD (accounting for 13.8% of total industry exports), representing an increase of 50.8% compared to 2020 and 34.1% compared to 2019.

Figure 17 – Export value of T&A and Yarn



Source: General Department of Customs

1. Social distancing affected productivity in Q3, mostly concentrated in Southern Vietnam

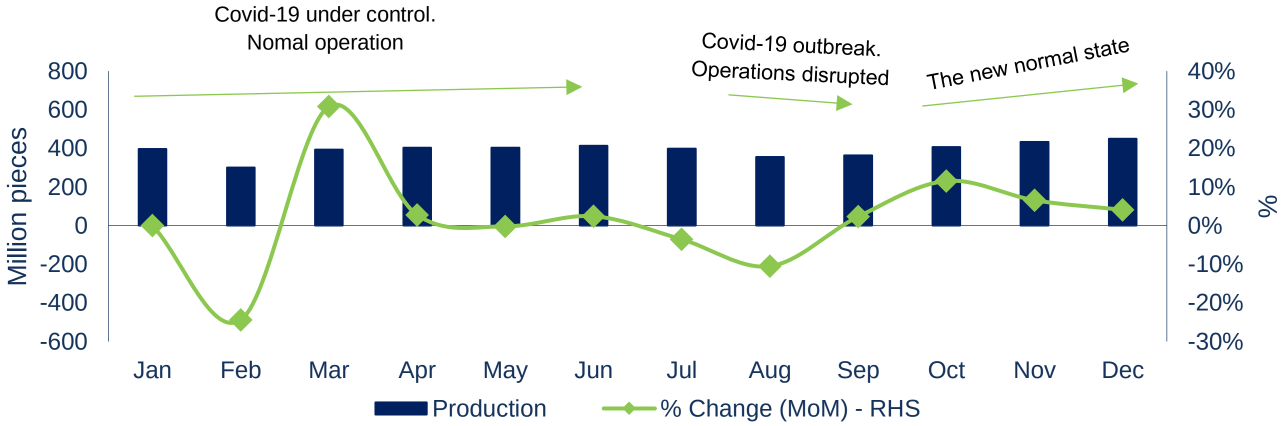
1.1. Production was disrupted in Q3 but recovered well in other quarters

In the first half of 2021, the productivity of Vietnam's textile and garment industry grew stablely thanks to the well-controlled pandemic at this phase. Beside that the apparel companies also no longer suffered by supply shock as the same period in 2020. As a results output of casual wear (main product of the industry) recorded positive growth. In Q1/2021, output of casual clothes produced reached nearly 1.1 billion pieces, in Q2 reached 1.2 billion pieces, growing by 2.4% and 18.1% respectively over the same period.

In Q3/2021, the pandemic outbreaks in Southern Vietnam (accounting for 60% of the industry's production capacity) led to social distancing, which disrupted production for textile and garment companies. In particular, apparel-cutting companies were hit considerably due to labor-intensive manufacture. In addition, they also had to bear additional testing and infection risk management costs. Apparel output in Q3 (usually the peak of production annually) only reached 1.1 billion pieces, down 6.1% over the same period. Specifically, production sharply decreased in August and September compared to the same period last year. Production in August only reached 355.8 million pieces, down 11% compared to July and 7.6% YoY. In September, production increased slightly compared to previous month but still decreased by 10% YoY.

By Q4/2021, the industry's production had recovered well thanks to new anti-pandemic policies that supported businesses to quickly recover. As a result, clothing production began to increase again in October and continued to increase in the remaining months of Q4, peaking in December with an estimated output of 450.2 million pieces. In total, production reached nearly 1.3 billion pieces in Q4, up 6.9% YoY.

Figure 18 - Output of clothes in 2021 by month

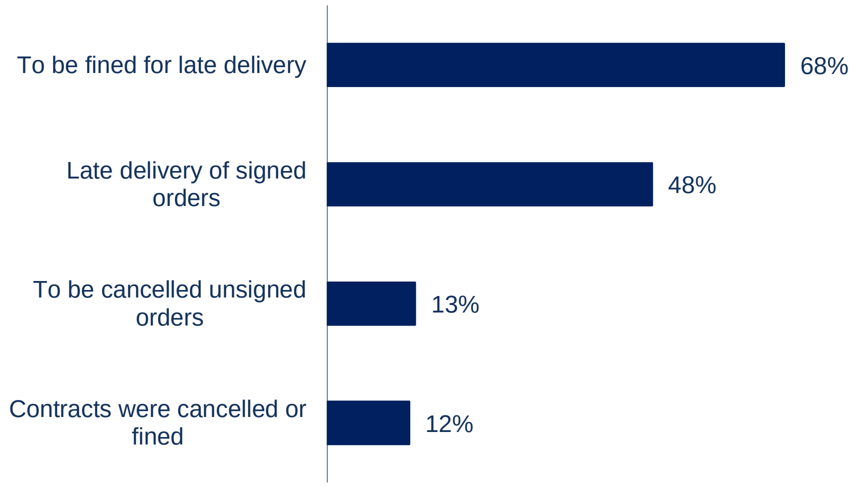


Source: General Department of Vietnam Customs

Companies faced orders cancellation during social distancing:

Textile and garment companies said that they had been under the great pressure from customers. Many faced late delivery fines and even order cancelled as they could not meet delivery schedule as production was suspended by anti-pandemic measures during the outbreak of pandemic. According to *VITAS*, in 09M2021, up to 68.1% of textile and garment companies were fined by customers for late delivery.

Figure 19 – Survey on the impact of COVID on textile & garment companies in 09M2021



Source: VITAS

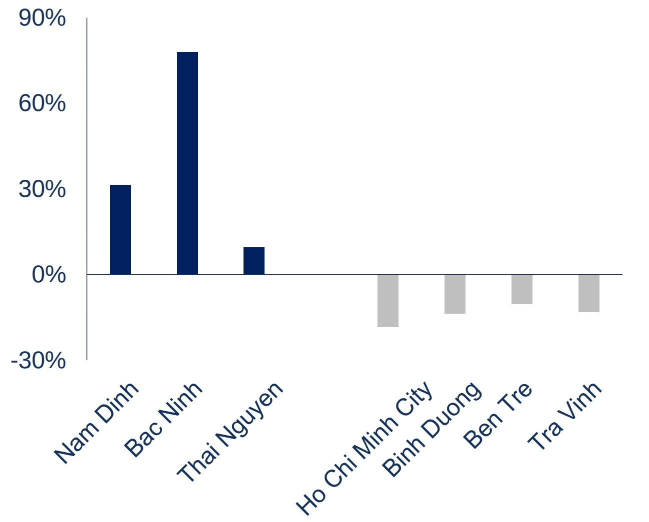
1.2. Covid-19 mostly affected Southern companies

The divergence of productivity among Southern and Northern companies:

Southern apparel companies were significantly affected by social distancing. The IIP index of apparel manufacture dropped sharply in some major garment producing localities in Southern Vietnam, such as: Ho Chi Minh city -18,5%, Binh Duong -13,7%, Ben Tre -10,3%, Tra Vinh -13,2%, Dong Nai -3,5%

On the other hand, apparel production in Northern Vietnam grew well thanks to stable operation and additional orders that moved from the South to the North. The IIP index of apparel manufacture increased positively in some major apparel producing localities such as: Nam Dinh +31,5%, Bac Ninh +78%, Thai Nguyen +9,5%.

Figure 20 – Change in IIP index of apparel manufacture in Q3/2021 (%YoY)



Source: GSO

These effects are reflected in operating results of companies in the two regions:

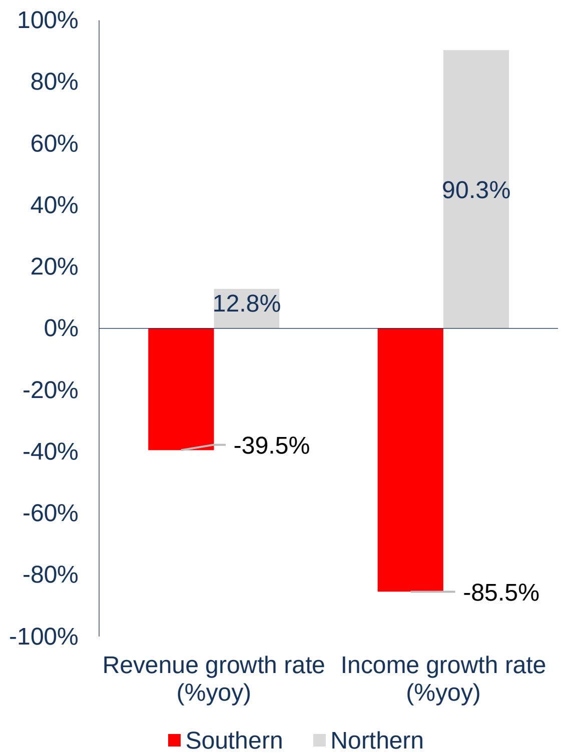
Southern companies faced with difficulties:

Operating results of Southern apparel companies dropped sharply due to manufacture disruption and rising operation costs. During social distancing, these companies operated at only 30 – 40% capacity as they are labor-intensive. In addition, costs also increased due to "three on the spot" production, daily testing and increased employee retention benefits. As a result, total average revenues of these apparel companies decreased by 40% in Q3 YoY and net income decreased by 85%.

Northern companies kept growth up:

Operating results of Northern companies grew robustly due to stable production and additional orders that moved from the South. Since Northern Vietnam was less affected by the pademic, production capacity of these companies has been stable, thereby profited from recovery of garment demand of export markets. In addition, the number of contracts also increased as garment brands moved orders from Southern companies affected by the pandemic to the North. Revenue in Q3 of selected Northern companies grew significantly: MSH (+21% yoy), HTG (+27% yoy).

Figure 21 – Operating results changes of selected Northern and Southern apparel companies in Q3/2021



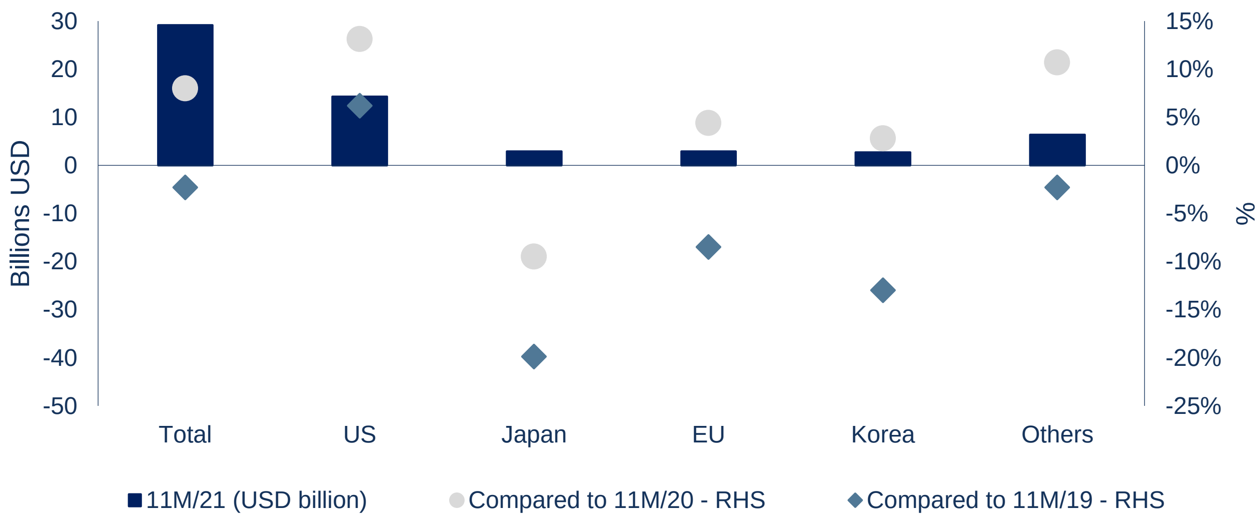
Source: Financial reports.
Southern: VGG, TCM, GMC, MNB.
Northern: TNG, MSH, HTG, HUG.

2. Most of demand recovery came from the US market growth

In 2021, the recovery of textile and apparel (T&A) demand mainly came from export growth to US market, thanks significant increasing consumption demand. In 11M2021, Vietnam's apparel export to US reached 14.3 billion USD (accounting for 49% of total export turnover), up 13.1% compared to 2020 and 6.2% compared to 2019.

Meanwhile, apparel export value to other important markets did not fully recover. In 11M2021, Vietnam apparel export to EU reached 2.9 billion USD and Korea reached 2.7 billion USD, increased by 4.4% and 2.8% respectively but still 8.5% and 13.0% lower than that of 2019. Exports to Japan has not yet recovered, reached only USD 2.89 billion in 11M2021, down 9.5% YoY.

Figure 22 – Vietnam T&A exports in 11M2021



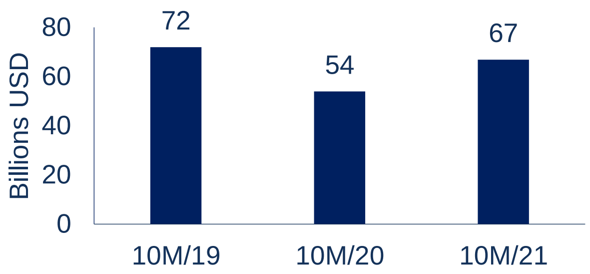
Source: GSO

2.1. US market

In 2021, garment imported into US has steeply increased to meet dramatic rise in domestic consumption demand. For 10M2021, apparel import value into US reached 67 USD billion (+24% YoY, equal to 93% of 2019 – before the pandemic).

High demand for apparel in the US in 2021 was driven by (1) fast personal income recovery and (2) spending boom after social distacing.

Figure 23 – Apparel import value of the US 10M2021



Source: Office of Textiles and Apparel

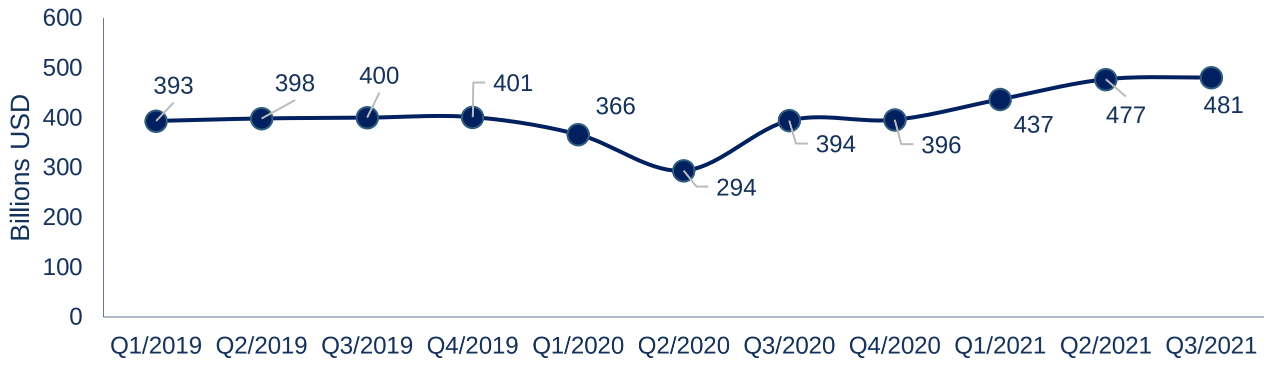
(1) **US personal income has quickly recoverd** thanks to numerous spending packages continuously pumped out to support US economy during the pandemic.

(2) **Post – lockdown spending boom**

After re-opening, US residents spending has dramaticaly increased because there was nowhere to spend during lockdown due logistics and commercial activities disruption, compensating for the previous period – dubbed "revenge shopping" by McKinsey. In addition, goods shortage concerns due to global supply chain disruptions have also increased consumer demand for 2021.

According to *FRED,* US consumer spending for clothings and apparels has started to increase sharply in the first quarter of 2021, then mantained positive momentum in the following quarters. In Q3/2021, consumer spending for clothing reached 481 billion USD, +22% compared to 2020 and +20% compared to 2019.

Figure 24 – US consumer spending for clothing



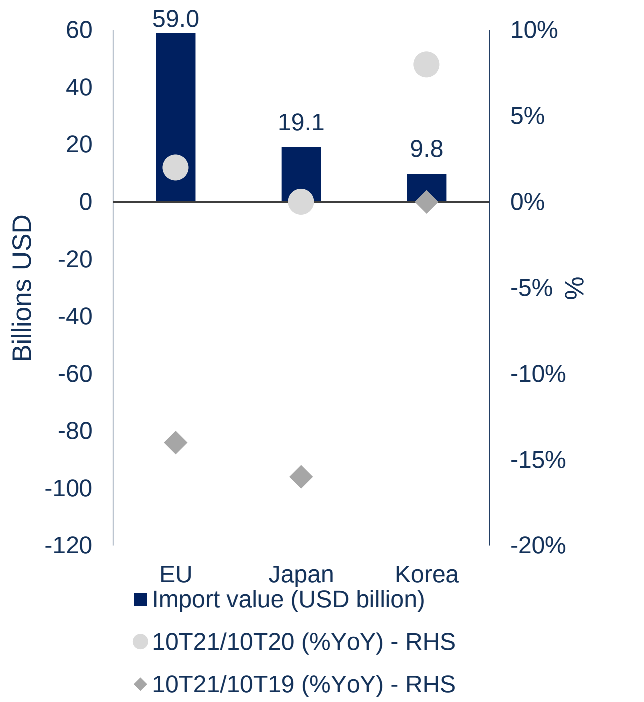
Source: FRED

2.2. EU (only counting out-of-EU import) and Korean market

EU: Apparel import (HS codes 61, 62) demand has slightly rebounded from low base of 2020, however very slowly compared to other large economies such as US or China because EU economies were still impacted by Covid-19. In additon, textile and apparel products were non-essential goods so demand was not very high when the economy has just started to recover. It was not until Q2/2021 that EU GDP started to recover (+13% YoY). In 10M2021, apparel goods import reached 59 billion USD, a slight increase of 2% compared to 2020 but still 14% less than that of 2019.

Korea: demand for apparel import has recovered well thanks to early re-opening and rapid vaccination. Moreover, South Korea's strategy of promoting high-tech product investment has reduced production of consumer goods such as clothing, increasing demand for imported apparel. In 10M2021, textile and garment import reached 9.8 billion USD, up 8% compared to 2020 and equal to 2019.

Figure 25 – Apparel import value of EU, Japan and Korea in 10M2021



Source: FPTS Research

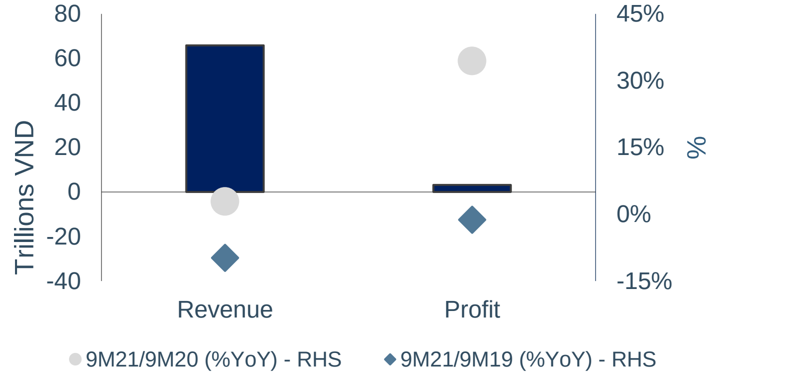
2.3. Japanese market

Demand for apparel import of Japanese market has not yet recovered in 2021 as consumption demand still suffered from Covid-19. Japan's consumer spending in Q3/2021 decreased 1% compared to Q1/2021 and 4% lower compared to the same period in 2020. For 10M2021, Japan's apparel import value has reached USD 19.1 billion, nearly equal to 2020 but 16% down compared to 2019.

3. Operating results recovered positively, fibers & yarns sector was the bright spot

In 09M2021, operating results of textile and garment industry has recovered positively despite social distancing in Q3 thanks to early recovery of demand from major export markets in the beginning of the year. For 09M2021, industry revenue reached 65.83 trillion VND, profit after tax reached 3.24 trillion VND, increased by 3% and 34% respectively over the same period in 2020.

Figure 26 – Operating results of Vietnam T&A industry in 09M2021

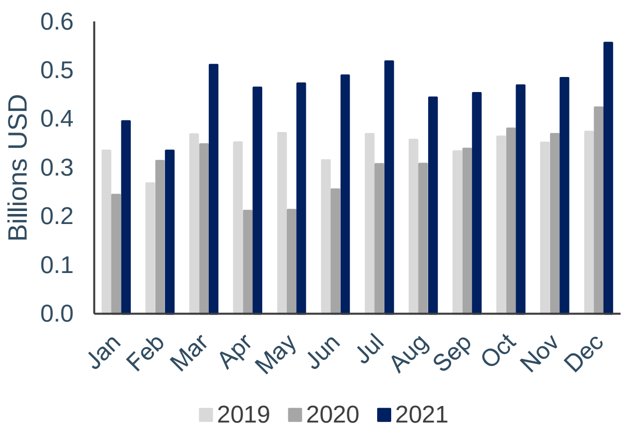


Source: Fiintrade, FPTS Research

Fibers & yarns sector was the bright spot

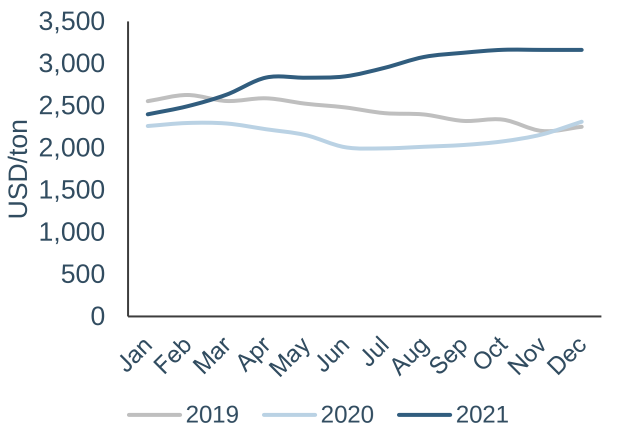
Fiber and yarn export value in 2021 increased significantly, reaching 5.6 billion USD, an increase of 50.8% compared to 2020 and 34.9% compared to 2019 because (1) average yarn export price in 11M2021 increased by 34.7% over the same period (reached 2,890 USD/ton) due to demand recovery and broken supply chain, and (2) yarns production in general was unaffected by social distancing.

Figure 27 – Vietnam's yarn export turnover by month



Source: General Department of Customs

Figure 28 – Unit prices of Vietnam yarn export by month

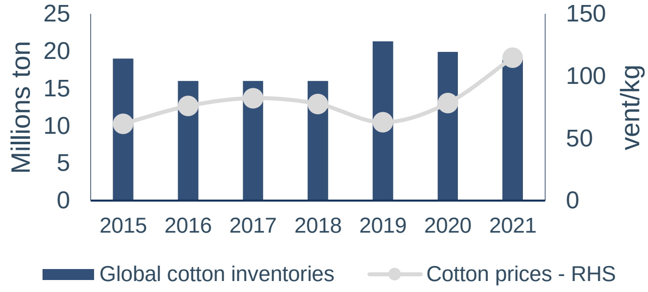


Source: General Department of Customs

In 2021, Vietnam's yarn export price increased significantly (average +34.7% yoy): Yarn demand increased because of higher garment production demand. After the pandemic, some major economies such as China and the US re-opened early, increasing total consumption demand as well as garment consumption. Meanwhile, cotton and yarn supply chain was broken, caused by:

1) Cotton production in 20/21 could not keep up with sudden demand spike. Major cotton producing countries such as Brazil and India were still affected by Covid-19, limiting cotton output. On the other hand, cotton demand increases, pushing cotton inventories down and causing cotton prices to rise. On average, cotton prices in 2021 increased by 46.7% compared to 2020.

Figure 29 – Global cotton inventories and prices



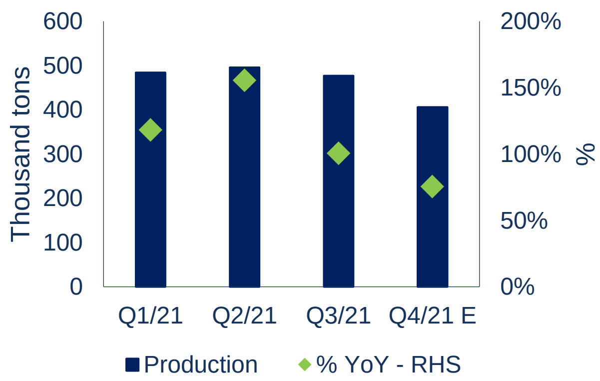
Source: United States Department of Agriculture

2) **China (accounting for 55% of Vietnam's yarn exports) yarn import demand was driven by a decline in domestic production** due to limited spinning mills capacity, which was strongly affected by electricity shortages. The provinces most affected by the power shortage were Jiangsu, Zhejiang, and Guangdong, which also are the main producer of China's textiles. Vietnam's yarn export turnover to China grew strongly, reaching 2.2 billion USD in 09M2021, up 52.5% over the same period.

Yarn manufacturing companies were less affected by social distancing::

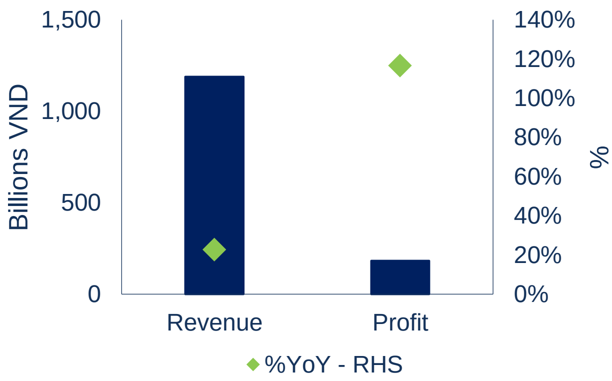
Yarn manufacturing mainly uses automated machines, and as a result, was less affected by social distancing and had stable production capacity even during social distancing. Yarn exports in Q3 2021 reached 476 thousand tons, equal to that of 2020. Operating results of yarn companies also improved, average revenue increased by 23% yoy and gross profit increased by 116% yoy.

Figure 30 - Vietnam's yarn export in 2021 by quarter



Source: GSO

Figure 31 – Operating results of selected yarn companies in 09M2021



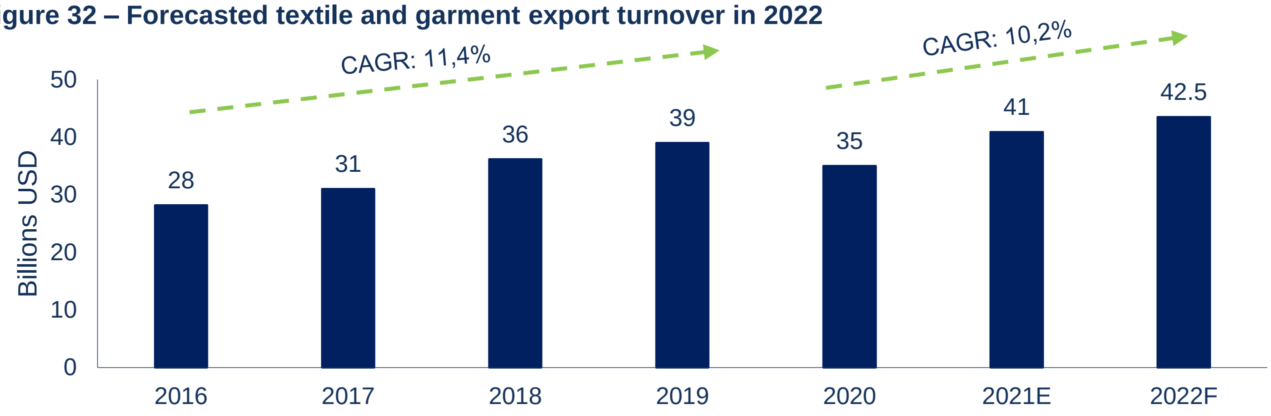
Source: ADS, NDT, HSM, STK financial reports

II. Outlook 2022: Positive outlook as production stabilizes and demand recovers

In 2022, Vietnam textile and garment export value is expected to keep increasing thanks to (1) Stable domestic manufacture and (2) Fully recovered apparel demand globally. According to *Vietnam Textile and Clothing Association (VITAS) forecast* , textile and garment export value may reach USD 43.5 – 43.5 billion USD in 2022, corresponding to about 4.0 – 6.4% growth yoy.

Regarding Vietnam's main export markets, textile and garment demand in the US and Korea will continue to increase steadily along with economic recovery. Consumption demand in the EU and Japanese markets is expected to improve in 2022 as well.

Figure 32 – Forecasted textile and garment export turnover in 2022



Source: VITAS

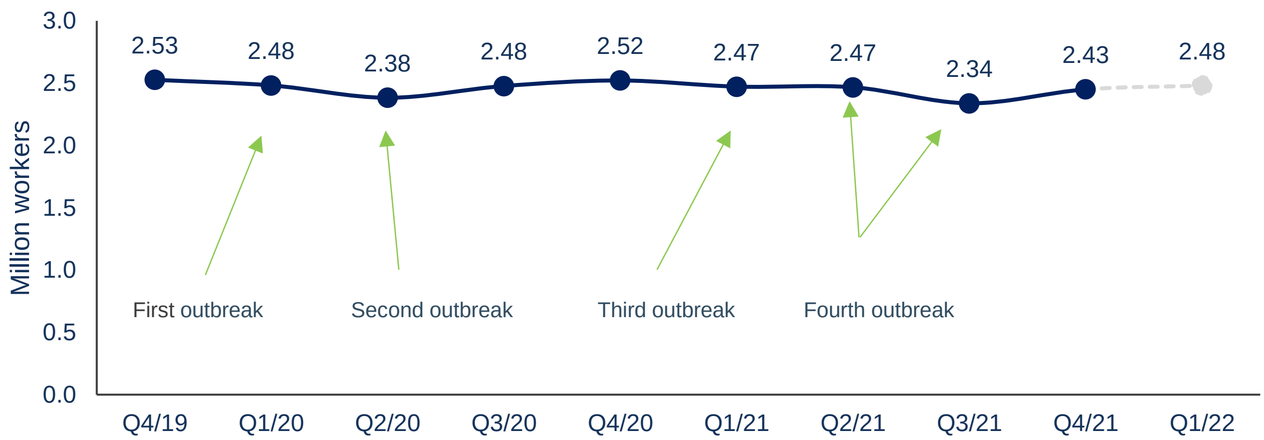
1. Stable domestic production post-social distancing

Vietnam's textile and garment production in 2022 is expected to stabilize thanks to new anti-pandemic policies and labor market recovery.

By the end of Q1/2022, the number of textile and garment workers is expected to rebound to pre-pandemic level, reaching 2.48 million (similar to the situation after the first outbreak in 2020), assuming that the number of textile and garment employees remains at 5% of the total number of employees nationally. Due to its labor-intensive characteristics, textile and garment industry is very dependent on labor force.

Factors supporting textile and garment labor force recovery in the short-term includes: (1) high vaccination rates, (2) increasing welfare and benefits by companies, and (3) supporting policies by the Government. Particularly, starting 01/22/2021 to 31/12/2021, the Vietnam Confederation of Labor had cooperated with businesses to provide vehicles as well as transportation costs for workers to go back to work.

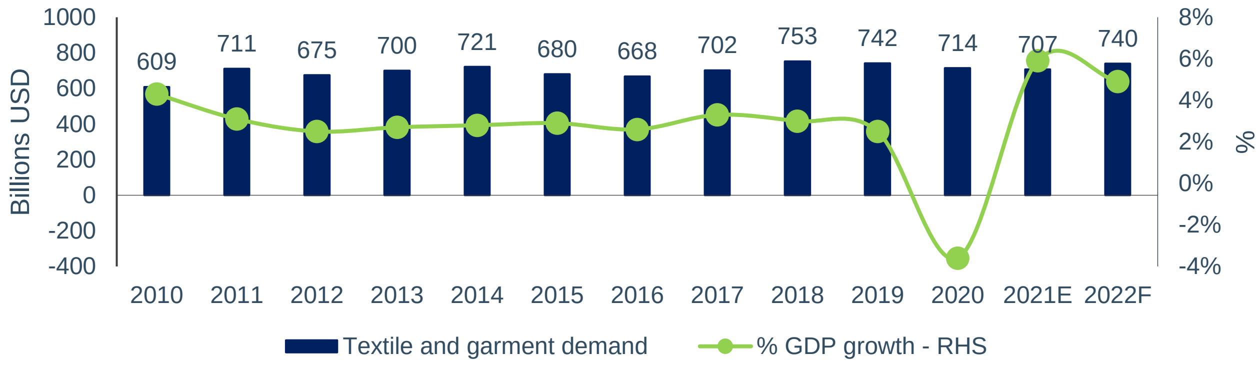
Figure 33 – Number of textile and garment workers



Source: GSO, FPTS estimates

2. Recovery of global textile and garment demand

Figure 34 – Forecasted global textile and garment demand



Source: Vinatex, McKinsey, FPTS research

In 2022, global textile and garment demand is forecasted to recover by 4.7% yoy to 740 billion USD (equivalent to that of 2019) as textile consumption will be stimulated by economic growth post-pandemic lockdown. Main export markets of Vietnam are expected to grow positively, supported by:

(1) **US market** (accounting for 49% of exports in 2021): Export turnover in 2022 is forecasted at 16.8 billion USD, up 7% compared to 2021, thanks to a stable increase in consumption demand and opportunity to increase market share as China's market share decreases.

(2) **Japanese & Korean markets** (accounting for 9.9% & 9.5% of exports in 2021): Export turnover is forecasted to reach 3.74 billion USD (+19% yoy) and 3.32 billion USD (+10% yoy) respectively, thanks to the recovery in consumption demand and easing of rules of origin in the RCEP[3] agreement.

(3) **EU market** (accounting fo 9.9% of exports in 2021): Export turnover in 2022 is forecasted at 3.52 billion USD, up 12% compared to 2021, thanks to consumption demand recovery and export tax reduction as per EVFTA.

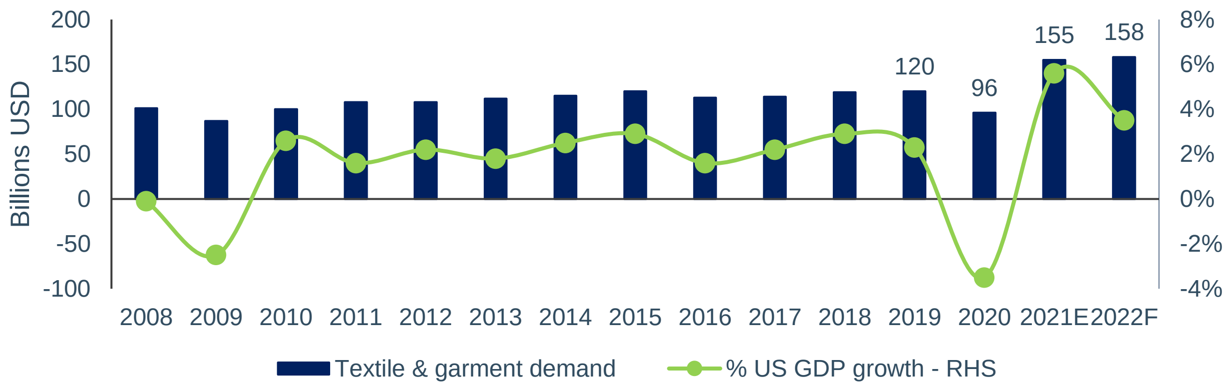
2.1. US market

Vietnam textile and garment exports to the US is expected to keep growing, thanks to:

(1) Demand for textile and garment products in the US will be expected to grow along with the economy. In 2022, the US apparel consumption is expected to reach 158 billion USD, a slight increase of 2%, equal to 2010-2019 averages. Consumer demand will not increase as strongly as in 2021 because US economy is expected to slow down. The Fed forecasts that the US economy will grow by 3.5% in 2022, after a very high growth of 5.6% in 2021.

[3] The Regional Comprehensive Economic Partnership (RCEP, or ASEAN +5) is a free trade agreement that includes 10 ASEAN member countries and 5 other countries including: China, Japan, South Korea, Australia and New Zealand. RCEP was signed on November 15, 2020. The Agreement will officially into force on January 1, 2022.

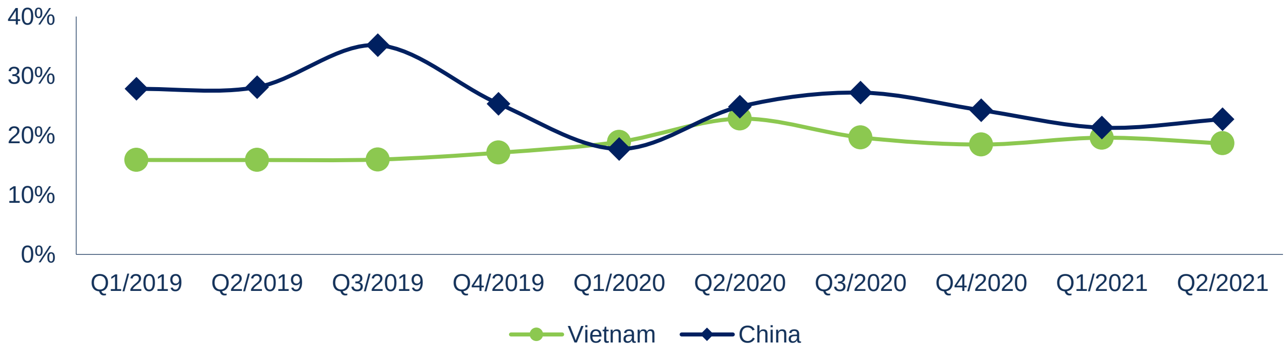
Figure 35 – Forecasted textile and garment products demand in the US



Sources: Vinatex, FPTS estimates

2) Opportunity to increase market share: Vietnam textiles and apparel's market share in the US is expected to reach 23% in 2022, continuing its upward trend since 2019. This growth is partly due to rapidly declining Chinese market share (from 35% to 20% in 2019-2021) as (1) China's textile and garment industry has been focusing on its domestic market, and (2) rapidly increasing Chinese labor costs gradually turning away international order.

Figure 36 – Vietnam and China Textiles & Apparel market share in the US

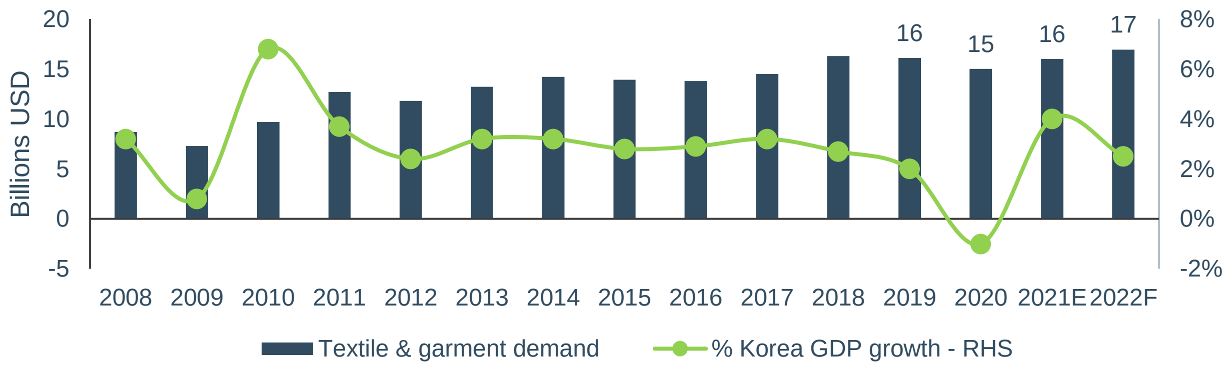


Source: Office of Textiles and Apparels

2.2. Korean and Japanese markets

<u>*Korean market*</u>: In 2022, textile and garment products demand in Korea is expected to reach 17 billion USD, up 6% compared to 2021, supported by the country's economic recovery. Korea's GDP growth is forecast to slow down, reaching 2.5% in 2022.

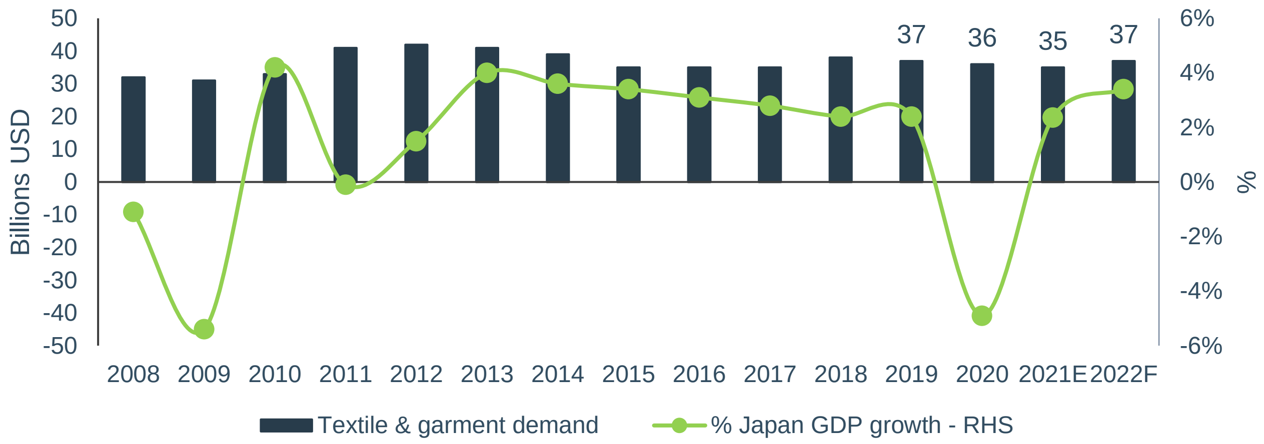
Figure 37 – Forecasted textiles and garment products demand in Korea



Sources: Vinatex, FPTS estimate

Japanese market: Textile and garment demand in Japan is expected to recover, reaching 37 billion USD, up 5% compared to 2021 and back pre-pandemic level of 2019, supported by economic recovery will promote consumption demand. Japan's GDP is estimated to grow by 3.4% in 2022.

Figure 38 – Forecasted textile and garment products demand in Japan



Source: Vinatex, FPTS estimate

Easing rules of origin as per RCEP: RCEP is expected to promote Vietnamese textile and garment export to Korea and Japan through looser rules of origin compared to the current FTAs (VJEPA and VKFTA). Particularly, starting 01/01/2022, Vietnamese companies can use fabrics made in China (30% cheaper than fabrics from Japan & Korea) to cut and sew apparel while still eligible for preferential treatments from the rules of origin.

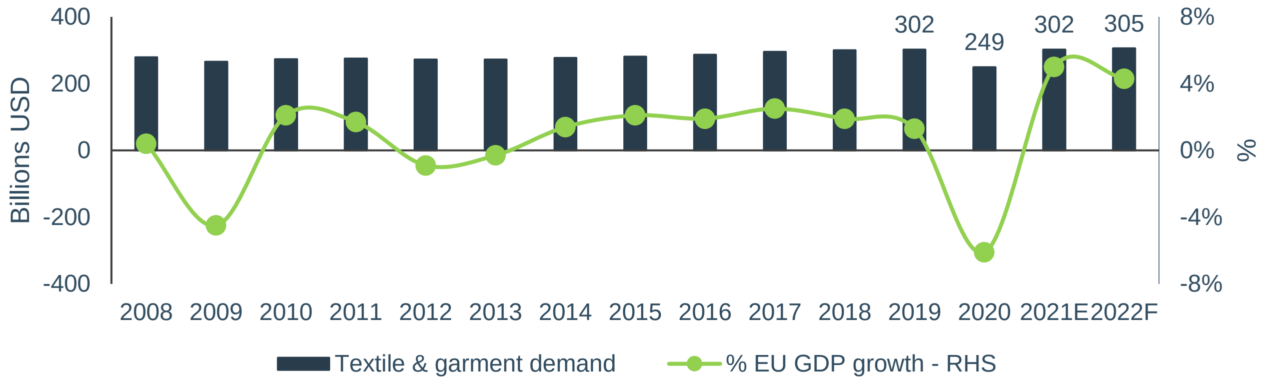
Table 3 – FTAs comparison

	VJEPA	VKFTA	RCEP
Rules of origin	Fabric forward	Sewing forward	Sewing forward
Origin of ingredients	Vietnam, Japan	Vietnam	ASEAN +5
In effect	Yes	Yes	Not yet
Tax rate on Vietnam product	0%	0%	0%
Tax rate on China product			10-12%

Source: FPTS research

2.3. EU market

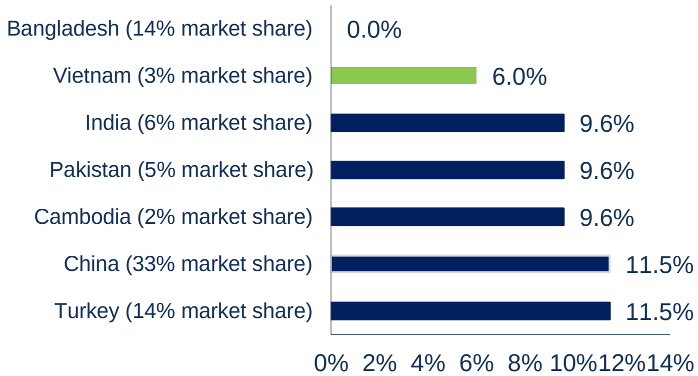
The EU's textile and garment consumption in 2022 is expected to improve with total demand value reaching 305 billion USD, up 1% compared to 2021, supported by recovery of the economy as well as personal income. According to the *Europe Commission's Autumn 2021 Economic Forecast*, most economies in the bloc will recover by the end of 2021 and in 2022. Economic growth in the EU is forecast to reach 4.3% in 2022 as unemployment rate declines and labor market fully recovery.



Source: Vinatex, FPTS estimate

Opportunity to increase market share thanks to **import tax reduction from 8% to 6% as per EVFTA roadmap**: Vietnam now has the second-lowest textile import tax rate among countries with significant market share in the EU, only higher than Bangladesh (enjoying 0% tax thanks to the EBA program). In addition, other competitors no longer enjoy preferential programs such as China at 11.5% tax after GSP tax incentives ended in 2021 and Cambodia at 9.6% post-EBA.

Figure 39 – EU textile products import tax



Source: FPTS research

The EVFTA's rules of origin are currently the biggest barrier for Vietnamese textile and garment companies. Specifically, production materials are required to originate from the EU, Vietnam, or Korea to be eligible for incentives. On the other hand, 50% of raw materials and accessories of Vietnam's textile and garment industry are currently imported from China. Therefore, the ability to take advantage of tariff advantages offered by EVFTA needs to be improved by evaluation of factors affecting domestic production capacity of raw textile and garment materials. The "Strategy for Development of Textile and Footwear Industry from 2021 to 2030" is expected to provide domestic companies guidance to complete material supply chain, including textile-dyeing-apparel, for Vietnam's textile and garment industry.

III. Watch list

Unit: Billion VND	Market capitalization (06/01/2022)	Net revenue 10M2021	Net income 10M2021	Net income %YoY	Gross profit margin	ROE (TTM)	P/E (TTM)
TNG	**3,346.4**	**4,977.6**	**193**	**+31%**	**14%**	**14.4%**	**16.1x**

- TNG is one of the fastest-growing apparel companies in Vietnam with the main business being manufacturing, cutting and making to order.
- In 2021, TNG recorded positive operating results. Net revenue in 10M2021 reached 4977.6 billion VND, meeting 104% of its target for 2021, up 16.7% over the same period. TNG's main revenue came from exporting apparel (accounting for 96% of total revenue). TNG's great operating results came from demand recovery of export markets. In addition, TNG also received orders from companies in Southern Vietnam that could not manufacture due to social distancing. Additionally, TNG also has an investment in industrial real estate that began recording revenue in 2021. The company expects to sell 10% of products in the Son Cam Industrial Park project, earning about 182 billion VND in revenue.
- **Outlook:** Apparel sector is expected to maintain growth momentum thanks to new orders with partners. The company said that it has enough orders for production until the end of June 2022. The real estate segment is expected to record more revenue in 2022 from Son Cam project.

TCM	**4.631,9**	**2.845**	**112**	**-54%**	**16%**	**11,6%**	**24,0x**

- TCM is one of the few companies in Vietnam that has a complete materials supply chain, including yarn – weaving/dyeing – sewing.
- TCM's operating result in 2021 was negatively affected by the pandemic. Revenue in 10M2021 reached 2,845 billion VND, down 54% over the same period. In the first half of 2021, TCM recorded 1,923 billion VND in revenue and 121 billion VND in profit, growing 11% and 5% YoY respectively, supported by recovered apparel demand from export markets. By Q3/2021, because TCM is located in the South, the company was strongly affected by social distancing. Q3 revenue was only 782.9 billion VND, down 20.2% over the same period and 20% compared to the previous quarter. TCM suffered a 2.5 billion VND loss in Q3 due to high costs of "three on the spot" manufacturing. By Q4/2021, TCM's operation has improved due to new orders and gradually stabilizing production. However, recovery has been slow due to worker shortages. The company said that in the first 2 weeks of October, the number of workers returning to work only reached 86%, not yet back up to its full capacity.
- **Outlook:** TCM is expected to fully recover in 2022 when production capacity stabilizes and apparels demand from major markets recovers. Additionally, TCM also has a competitive advantage thanks to a complete materials supply chain that is eligible for the rules of origin of the new generation FTAs such as EVFTA, CPTPP.

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2021 in review:

The fourth Covid-19 wave in Vietnam has negatively affected Vietnam's Aviation Industry:

- **Air transport and passenger service sector:** Due to domestic flights suspension, the number of passengers carried by Vietnam's airlines in 2021 decreased by 58.7% yoy. Domestic flights resumed in October 2021, but the recovery rate was quite slow. In December 2021, revenue passenger kilometers (RPK) of Vietnam's airlines was equal to 8% of the April 2021 level (before the fourth wave of Covid-19 pandemic).
- **Air cargo terminal sector** was negatively affected by the pandemic because (1) pandemic outbreak disrupted production chains and (2) domestic flights suspension reduced cargo transport volume. However, cargo volume recorded a strong recovery when production activities and domestic flights resumed.

Outlook 2022:

- **Air transport and passenger service sector** is forecast to recover as domestic and international routes will be gradually reopened. The number of domestic passengers in 2022 is expected to be equal to 96.8% and 75% of the levels of 2020 and 2019 respectively. The number of international tourists in 2022 is predicted to increase by 86.5% YoY, back to about 19.5% of 2019 level.
- **Air cargo terminal sector** is expected to have a positive outlook thanks to Vietnam's forecasted trade growth of 14.1% in 2022.

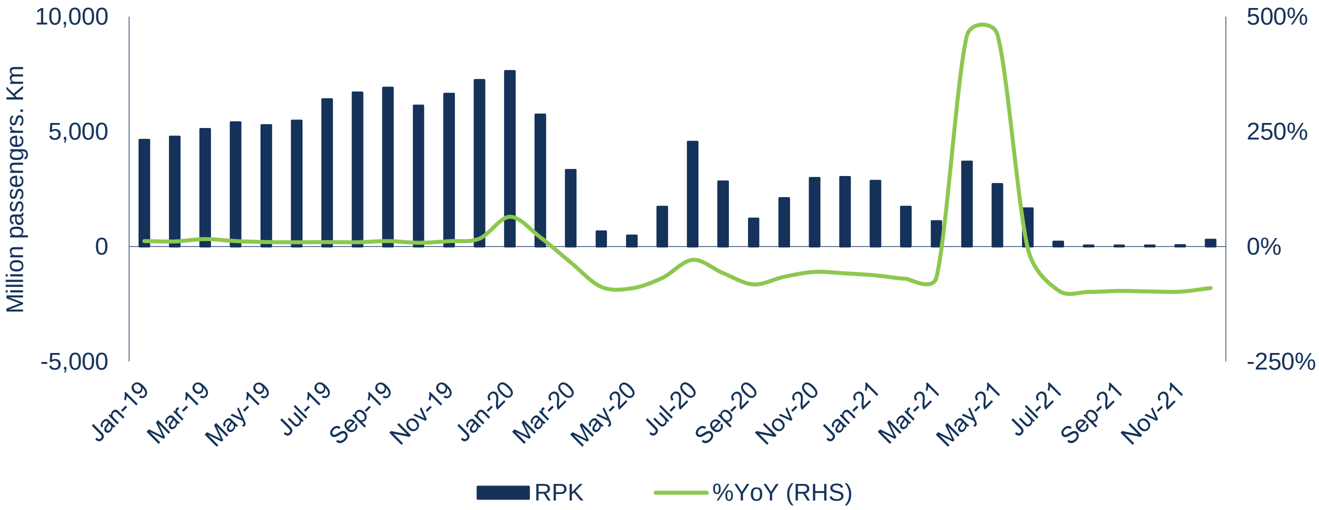
D. AVIATION INDUSTRY – DOMESTIC AND INTERNATIONAL ROUTES RESUME

I. 2021 in review: Negatively affected by the fourth wave of Covid-19

1. Air transport sector: slow recovery when domestic routes reopened

Revenue Passenger Kilometers (RPK) declined sharply, then recovered slowly when domestic routes reopened. Domestic routes suspension caused a sharp decrease in RPK from May 2021 to September 2021 (September's RPK was only 1.2% of April 2021 level – before the fourth wave of Covid-19). RPK then recovered when the Ministry of Transport allowed some domestic routes to resume with low flight frequency on October 10, 2021 but very slowly. In December 2021, RPK was equivalent to 8% of the April 2021 level.

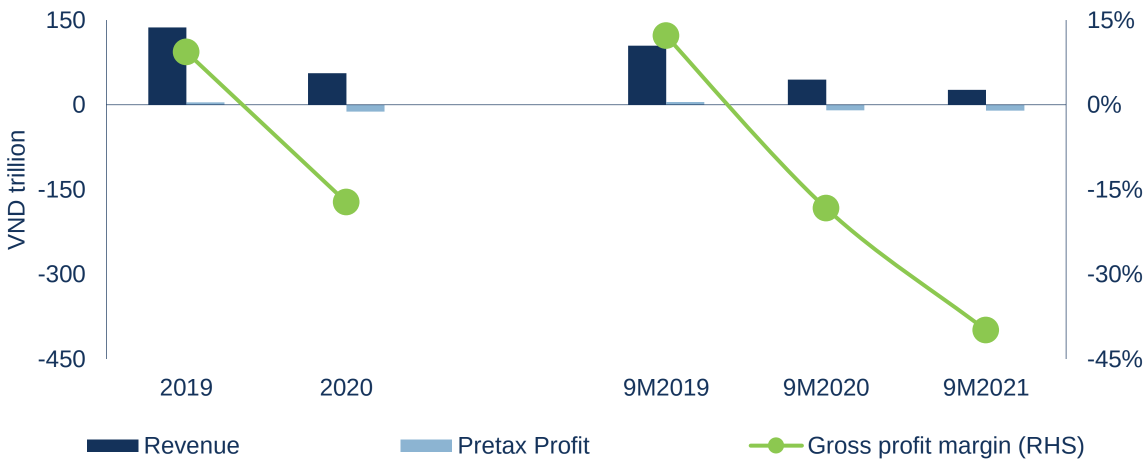
Figure 40 – Revenue Passenger Kilometers (RPK) of Vietnam's airlines



Source: GSO, FPTS research

Operating results plummeted. In the first 09 months of 2021, RPK dropped sharply, causing total revenue of air transport segment to decrease by 40.1% yoy. 09M2021 pretax profit suffered a VND 10,566 billion loss, an additional loss of 8.6% over the same period last year. The reasons include (1) the decrease in RPK and (2) unavoidable expenses such as aircraft rental, depreciation, maintenance expenses, etc. Pretax profit recorded a lower decrease compared to the revenue due to the transfer of VJC's shares in Pacific Star Investment and Development Company to related parties, which caused VJC's financial income to rise by 3.1 times over the same period.

Figure 41 – Operating results of air transport segment



*Source: HVN and VJC financial reports. *Revenue and profit from sale and lease back are excluded.*

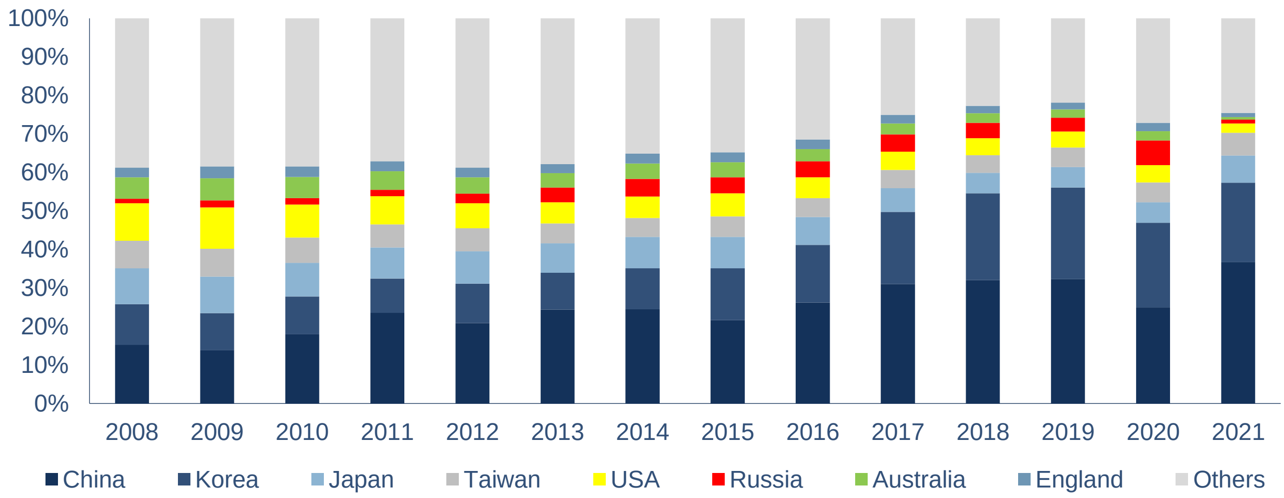
Increasing debt and issuing shares to maintain liquidity. Vietnam Airlines issued stock to raise capital by 7,961 billion VND (of which 6,895 billion VND came from State Capital Investment Corporation). Vietnam Airlines signed credit contracts with 03 commercial banks, including SeABank, MSB, and SHB, with a total loan limit of 4,000 billion VND. These are two supports under the aid package of VND 12 trillion that the National Assembly approved in 2020. Regarding Vietjet Air, the company issued bonds with a term of three to five years, receiving VND 6,000 billion and sold treasury shares, receiving VND 2,350 billion. The air transport segment's loans and obligations under finance leases at the end of Q3 2021 increased by 10% compared to the beginning of the year.

The above is the general operating results of the air transport segment. In 2021, air passenger and air freight transports had differentiated changes, so we analyze these two segments in the two different parts as below:

1.1. Air Passenger Transport: Developing international market to reduce aircraft excesses and take an advantage of declined aircraft prices and slots at international airports

In 2021, Vietnam's airlines launched new international routes to major markets such as the US, Russia, Australia, and the UK. Specifically analyzed below:

Figure 42 – International visitors to Vietnam by country



Source: GSO, FPTS research

1.1.1. Vietnam Airlines launched nonstop flights to the US to reduce aircraft excesses

On Nov 28, 2021, Vietnam Airlines operated the first regular direct flight from Ho Chi Minh City to San Francisco (USA). Before the pandemic, the US was the 5th largest country by the number of international visitors to Vietnam, accounting for 4.1% of the total number of international visitors to Vietnam (and ABOUT 2.5% in 2021). However, the US is a competitive market as the airline must compete against about 20 foreign airlines operating one-stop flights through transit points such as Korea, China, Japan, Singapore, etc.

To operate non-stop flights to the US, the number of seats supplied of Vietnam Airlines' current wide-body fleet (e.g. Boeing 787) must be reduced to 220 - 230 seats (~80.3% - 83.9% of the total number of seats). As a result, this route is expected to operate at a loss. Vietnam Airlines is negotiating with Airbus to restructure its fleet and select suitable aircraft to operate the Vietnam-US route. Vietnam Airlines launched the route to deal with aircraft excesses (Vietnam Airlines is estimated to have an excess of 30 out of 104 aircraft in 2022), thereby reducing losses compared to not using these aircrafts at all.

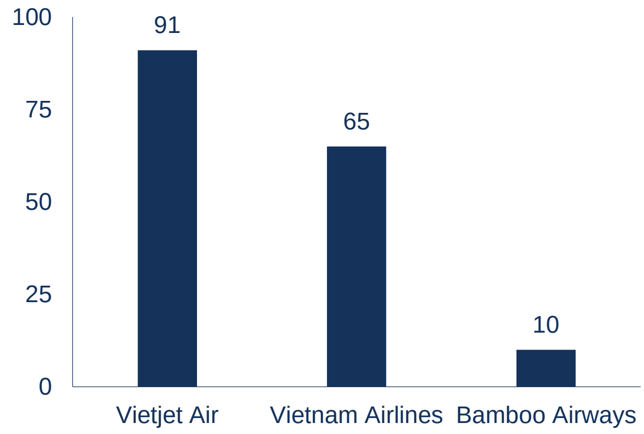
1.1.2. Vietjet Air launched nonstop flights to Russia, taking advantage of reduced aircraft prices

On Dec 02, 2021, Vietjet Air announced direct flights connecting Hanoi, Ho Chi Minh City and Nha Trang with Moscow (Russia), planned to operate starting mid-2022. These routes to Russia are the firsts in Vietjet Air's strategy of expanding operations to the European market. Before the pandemic, the number of international visitors from Russia ranked 6th in Vietnam, accounting for 3.6% of the total number of international visitors. In 2021, Russia accounted for 0.9% of international visitors to Vietnam.

The average flight time for each route is about 10 hours (with two additional hours for transit on the Ho Chi Minh City-Moscow route). This is the longest route compared to the current routes of Vietjet Air (the longest current flight time is 5 hours 30 minutes). All these routes will be operated with wide-body A330-300 aircraft. According to *Ishka* (a company specialized in providing aviation consulting services), the price of an A330-300 aircraft decreased by about 21.8% compared to the pre-pandemic level, because (1) the Covid-19 pandemic caused an excess of A330-300 aircraft and (2) airlines tended to switch to modern aircraft such as the A350.

1.1.3. Bamboo Airways expanded its flight network to Asia, Europe, Australia and the US to take advantage of airport slots

Figure 43 – The number of international routes of major airlines in Vietnam



Source: FPTS research

Bamboo Airways' number of international routes is much lower than that of Vietnam Airlines and Vietjet Air because Bamboo Airways (1) just entered the market in 2019 and (2) has been affected by the pandemic in 2020 and 2021. On the other hand, according to *Bamboo Airways*, Covid-19 caused a sharp decrease in the number of flights, making it easier to get slots at international airports than before the pandemic. Therefore, Bamboo Airways has expanded its international network to cover international airports like Vietnam Airlines and Vietjet Air. In particular, Bamboo Airways plans to operate routes to China, Korea, Japan, Taiwan, Southeast Asian countries, Europe (UK, Italy, Germany, Czech Republic) and Australia.

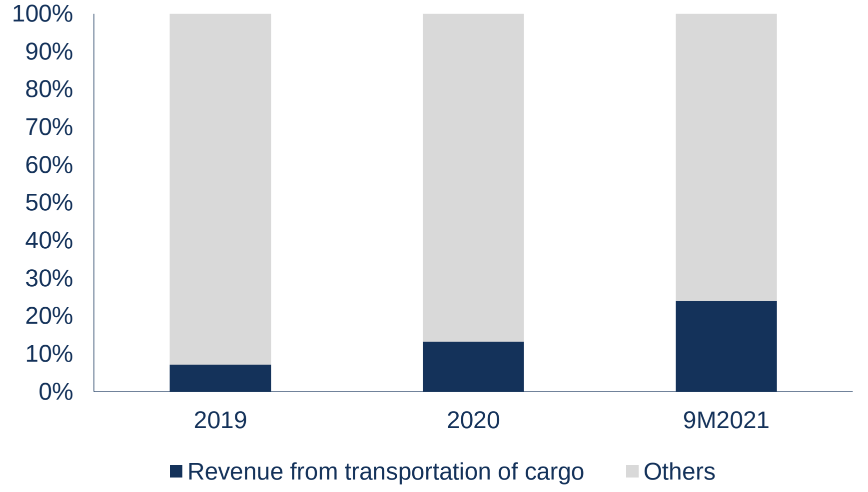
Among the routes mentioned above, Bamboo Airways announced nonstop air routes to London (UK) and Melbourne (Australia) with regular operation starting from the beginning of 2022. Regarding the route to the US, Bamboo Airways has been granted 12 charter flights but has not yet been allowed to fly regularly.

1.2. Air Freight Transport: IPP Air Cargo proposed to enter, increasing competitive pressure

Competitive pressure will increase if IPP Air Cargo enters the market. In June 2021, IPP Air Cargo Joint Stock Company, chaired by Mr. Nguyen Hanh (also the Chairman of the Board of Directors of SAS), proposed to establish a cargo airline. The airline is expected to operate both domestically and internationally with five freighters and will transport about 115 thousand tons of cargo in the first year of operation, equivalent to 10.3% of Vietnam's air cargo volume in 2020.

Vietnam’s airlines might be negatively affected. Since the Covid-19 pandemic started, freight transportation has become an important source of revenue for airlines. For example, the proportion of freight revenue of HVN increased from 7.1% in 2019 to 24% in 9M2021 (VJC’s figures are not included because VJC does not disclose freight revenue).

Figure 44 – The proportion of freight transport in total revenue of HVN

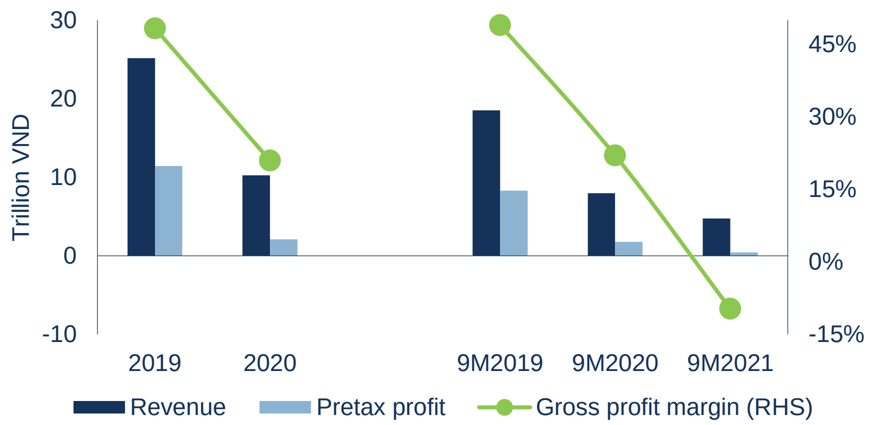


Source: HVN

The Ministry of Transport of proposed that establishment of new airlines will only be considered after 2022 once the aviation market has recovered. The delay in the consideration of the establishment of the cargo airline is aimed at minimizing the supply-demand imbalance since the pandemic started. IPP Air Cargo is preparing procedures related to the application for an air transport business license and researching to invest in freighters.

2. Passenger Service Sector: affected by fourth Covid-19 wave

Figure 45 – Operating results of selected passenger service companies



Source: ACV, AST, SAS, SGN, CIA, MAS, NCS financial reports

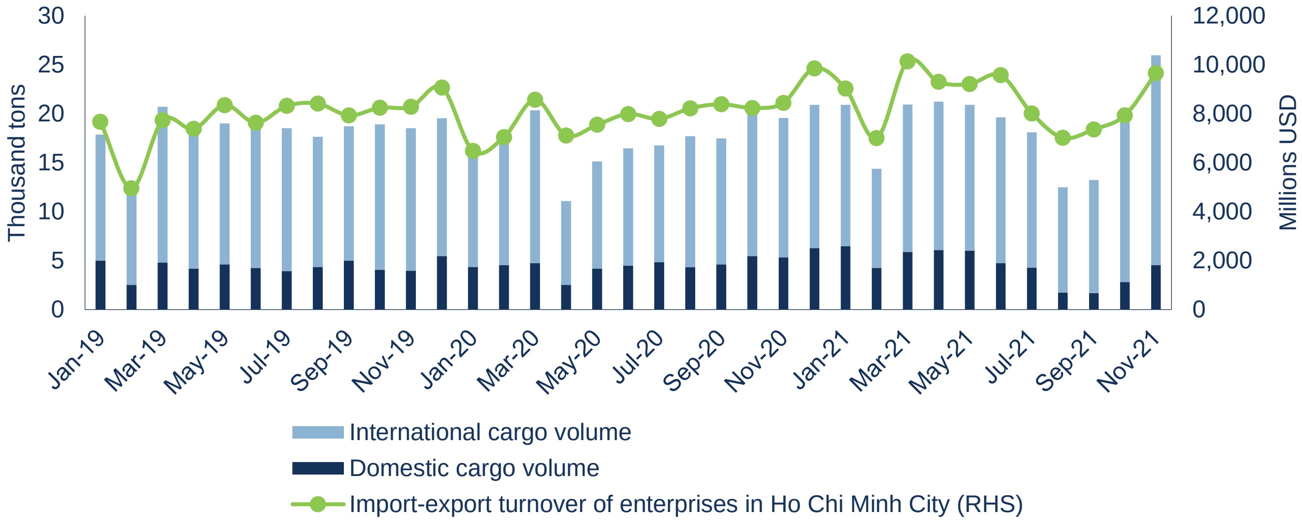
The sharp decrease in the number of passengers negatively impacted operating results of the sector. In 2021, the number of passengers was 15 million people (-58.7% YoY). Revenue in the first 09 months of 2021 declined by 40.7% YoY to 4,732 billion VND. Meanwhile, the sector had to bear unavoidable costs, including depreciation, ground rental, labor costs, etc. This caused pretax profit to diminish by 75.5% YoY.

3. Air Cargo Terminal Sector: quick recovery when manufacturing activities resumed

In the first 04 months of 2021, air cargo terminal sector recorded positive growth thanks to increasing import and export turnover of Vietnam (+29.5% YoY). However, the sector has been affected by the fourth wave of Covid-19 since May 2021, because:

(1) Manufacturing activities in Ho Chi Minh City were disrupted as Covid-19 cases surged, negatively impacting SCS and TCS (both operate at Tan Son Nhat International Airport). Import and export turnover of Ho Chi Minh City in July 2021 decreased by 16.3% compared to the previous month and continued declining in August 2021 by 12.5%. Manufacturing activities were resumed thanks to the pandemic being gradually controlled. As a result, in September 2021, SCS's cargo volume began to recover (+6.1% compared to August). In October, the cargo volume recovered to before the fourth wave of Covid-19 and subsequently recorded strong growth of 26.2% in November.

Figure 46 - SCS cargo volume and import and export turnover of companies in Ho Chi Minh city by month



Source: GSO, FPTS research

Air cargo terminal firms at Noi Bai International Airport, including NCT, ALS and ACSV, were not affected by production chain disruption because Covid-19 was well controlled in Northern Vietnam. Import and export turnover, especially of electronic products and components in the Northern region (with Samsung, Foxconn, LG, etc. factories), grew strongly by 16.8% YoY in 2021, which positively impacted air cargo terminal firms at Noi Bai International Airport.

(2) Domestic flights suspension reduced cargo transport volume. Domestic cargo volume accounted for 29.2% of total air cargo volume of Vietnam in 2020. Domestic cargo volume recovered from October 2021 thanks to domestic flights resumption, but quite slowly. ALS was the only air cargo terminal firm not affected by this as it currently only serves international airlines.

In the first 09 months of 2021, the air cargo volume of NCT and SCS increased by 9.1% YoY. The two companies' revenue and pretax profit increased 13.6% YoY and 17.2% YoY, respectively.

Figure 47 – Cargo volume of NCT and SCS

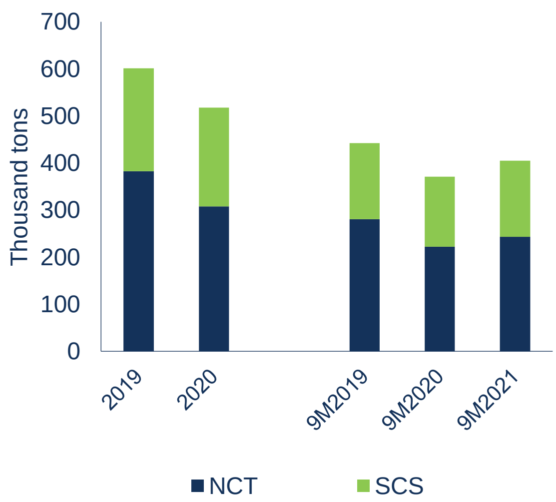
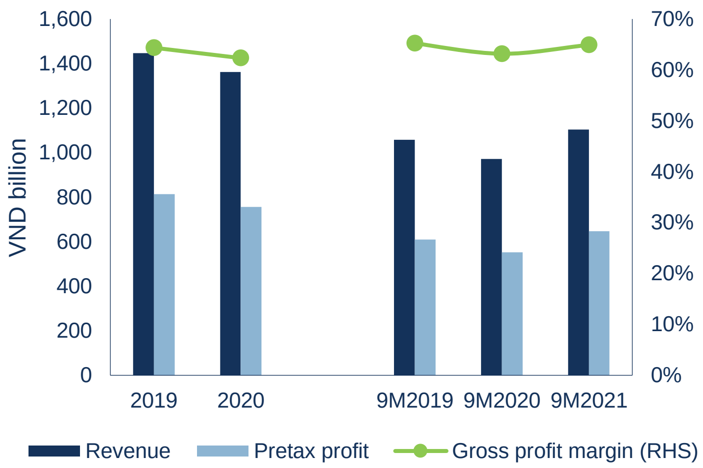


Figure 48 – Air cargo terminal segment operating results



Sources: NCT and SCS financial reports

II. Outlook 2022: Strong recovery due to domestic and international routes resumption

1. Air transport and passenger service sector: recovering as routes gradually reopened

Vietnam has recently moved from “Zero Covid” to “Living with Covid” by relaxing lockdowns, border controls, and movement restrictions, etc. In addition, Vietnam is among the countries with the highest vaccination rates in the world. In particular, as of 06/01/2022, about 57.44% of Vietnam’s total population were fully vaccinated and 76.04% of the population received one shot of the Covid-19 vaccines. As a result, domestic and international routes will be gradually reopened in 2022.

Domestic market will continue to recover in 2022 when the pandemic situation is expected to be under control. According to Vietnam Airlines, domestic passenger volume is estimated to be equal to 96.8% of 2020 and 75% of 2019.

International market:

On November 3, 2021, the Government promulgates the Temporary Guidance on piloting welcoming international tourists to Vietnam. The roadmap is divided into 3 phases.

The first phase	The second phase	The third phase
• Starting from November 2021 • Piloting welcoming international tourists under package tours in Phu Quoc city, Khanh Hoa, Quang Nam, Da Nang and Quang Ninh.	• Starting from January 2022 • Expanding the pilot program to welcome more international tourists and connecting destinations. International tourists can travel multiple destinations after completing the itinerary at the first destination within 7 days (at first, the pilot program connects Kien Giang, Nha Trang, Da Nang, Quang Nam and Quang Ninh, and can connect a few other localities).	• Based on the pandemic situation and the results of the first two phases, the Government will decide to fully reopen to the international tourism market.

Source: Ministry of Culture, Sports and Tourism, FPTS research

The Government has agreed to add Ho Chi Minh city and Binh Dinh to the list of provinces that are piloted to receive international tourists. According to the Ministry of Culture, Sports and Tourism, by the end of December 2021, Vietnam has welcomed over 15,000 foreign tourists (less than 1% of the pre-pandemic level).

In addition to foreign tourist flights, the Government has allowed reopening regular international flights (for multiple purposes such as visiting relatives, returning home, trading, etc.) to countries with high vaccination rates from Jan 01, 2022. In the first two-week phase, the Government has granted flight slots for domestic carriers to eight destinations: China, South Korea, Japan, Taiwan, Thailand, Singapore, Laos, Cambodia and USA. In the second phase, the domestic carriers will operate services on additional routes, including Europe, Australia, Hong Kong, and Malaysia. These markets accounted for about 91% and 88.8% of international tourists in 2019 and 2022, respectively. International flights in this period will depart from and arrive at Tan Son Nhat and Noi Bai Airports.

On 16/12/2021, the Ministry of Health proposed Guidelines on Covid-19 testing and isolation for people entering Vietnam from Jan 01, 2022. Accordingly, entrants who are fully vaccinated and have tested negative for Covid-19 can self-monitor their health and self-quarantine at place of residence, significantly supporting the aviation industry.

According to *Fitch Solutions forecast*, the total number of international tourists of Vietnam is estimated to reach 4.9 million, an increase of 86.5% YoY, equivalent to 19.5% of the pre-pandemic level in 2019. By 2025, the number of tourists to Vietnam will recover to the same level of 2019.

Figure 49 – Number of international tourists of Vietnam in the period 2014 - 2025F

Source: Fitch Solutions, FPTS research

2. Air Cargo Terminal Sector: optimistic expectations thanks to Vietnam's trade growth

According to *IATA's forecast*, in 2022, with a positive outlook on the world trade situation (2022F: +5.6% YoY) and passenger flights gradually resumed, the volume of cargo transported by airlines globally is expected to grow by 4.7% YoY, which is at the same level as the growth rate in the period 2009-2018 of 4.6% per annum. Furthermore, Vietnam's trade growth is estimated to be 14.1% thanks to Vietnam's participation in free trade agreements, particularly the Regional Comprehensive Economic Partnership (RCEP) effective starting 01/01/2022 (according to *Fitch Solutions*).

Figure 50 – World air cargo volume

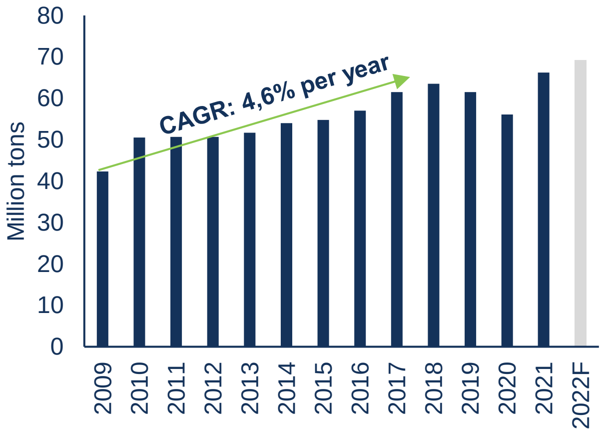
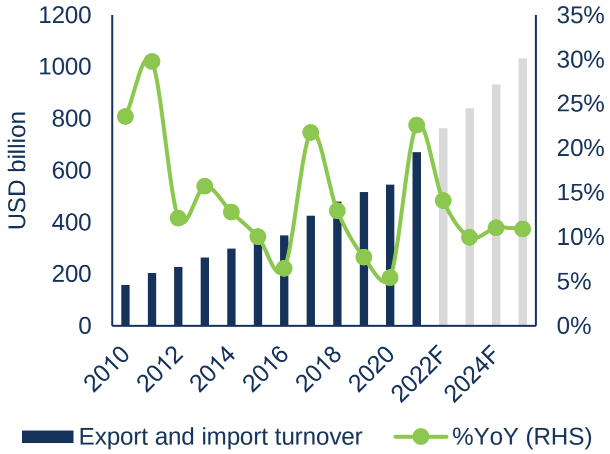


Figure 51 – Export and import turnover of Vietnam in 2009 - 2025F



Sources: IATA, Fitch Solutions, FPTS Research

III. Conclusion

Vietnam's aviation industry will be **IMPROVED** in 2022. Vietnam has recently moved from "Zero Covid" to "Living with Covid" by relaxing lockdowns, border controls, and movement restrictions, etc. In addition, the pandemic is expected to be under control as Vietnam is among countries with the highest vaccination rates globally. As a result, domestic and international routes will be gradually reopened in 2022. Air cargo terminal sector will also have a positive outlook thanks to Vietnam's expected trade growth of 14.1%.

IV. Watch list

Unit: Billion VND	Market capitalization (06/01/2022)	Revenue 09M2021	Net income 09M2021	Net profit %YoY	Net profit margin	ROE (TTM)	P/E (TTM)
SCS	**7,860.5**	**576.39**	**405.58**	**+20.8%**	**70.4%**	**45.0%**	**15.6x**

- SCS is a cargo terminal company at Tan Son Nhat International Airport with a market share of 33.1% in 2020. Its main business is to operate a cargo terminal with airlines being the main customers.
- In the first 4 months of 2021, SCS' cargo volume increased sharply by 18.5% YoY. The reasons include (1) growth in Vietnam's import and export turnover and (2) Vietjet Air and Bamboo Airways increased domestic freight transport to compensate for the decrease in passenger numbers. From May 2021, SCS began to be affected by the fourth wave of Covid-19. The cargo volume rebounded strongly when production activities and domestic flights were resumed. 11M2021, SCS's cargo volume increased by 10.1% YoY. In addition, a decrease in available freight tonne kilometers (AFTK) caused air freight rates to increase. As a result, SCS increased the price of cargo handling services. The number of charter flights (with higher service fees) rose in 2021, positively affecting SCS.
- **Outlook:** SCS has the advantage of being able to expand the design capacity by 75%. The capacity expansion is expected to be implemented in 2022. TCS (SCS's competitor) operated at 110% of its design capacity in 2019 and 94.2% of its design capacity in 2020 (decreased due to the Covid-19 pandemic). Operation beyond design capacity is forecasted to continue in 2022 when cargo volume recovers.

NCT	**2,182.2**	**527.16**	**168.64**	**+9.3%**	**32.0%**	**55.0%**	**9.9x**

- NCT is a cargo terminal company at Noi Bai international airport with the greatest market share of 51.1% in 2019. Similar to SCS, NCT's main business is to operate cargo terminals with big airlines being its primary customers. With the advantage of being a subsidiary of HVN, NCT gets the volume of cargo from the parent company. HVN accounts for about 17.6% of Vietnam's air freight market share in 2020.
- In 2021, Vietnam's import and export turnover, especially of electronic products and components (from Samsung, LG, Foxconn, etc.), grew by 16.8% YoY, positively impacting NCT. However, with about 50% of NCT's cargo volume from HVN, the operating results were negatively affected due to the suspension of domestic flights as a result of the fourth wave of the pandemic. In 2021, NCT's cargo volume increased by 10.6% YoY.
- **Outlook:** NCT has the advantage of renting a new CT2 cargo terminal at Noi Bai International Airport, increasing the design capacity by 50%. NCT has a plan to put the CT2 into operation in June 2020, but the plan has been delayed due to the Covid-19. The remaining capacity of ACSV and ALS is quite low, leading to congestions during peak seasons. In addition, domestic and international routes will be gradually reopened in 2022, helping the cargo volume of HVN (the largest customer of NCT) recover.

VJC	**67,051.5**	**10,209.87**	**193.61**	**N/A**	**1.9%**	**1.6%**	**56.4x**

- VJC is an air transport company, operating under the low-cost airline model (LCC). VJC accounted for 43.4% and 41.7% of the market share of Vietnam's domestic passenger transport in 2019 and 2020, respectively. It also accounted for 17.9% and 18.9% of the market share of Vietnam's international passenger transport in 2019 and 2020, respectively. VJC's competitive advantage is its lower cost per available seat kilometer (CASK) compared to other LCC carriers in the region.
- In 2021, the suspension of domestic flights negatively affected VJC's operating results. In October 2021, some domestic flights were resumed, but the recovery rate was quite slow. The number of flights of VJC in 2021 declined by 47.4% YoY. Net income in the first 9 months of 2021 reached VND 193.61 billion, an increase of VND 1,118 billion compared to the same period in 2020, due to the transfer of VJC's shares in Pacific Star Investment and Development Company to related parties, which caused VJC's financial income to rise by 3.1 times over the same period.
- **Outlook:** With the resumption of domestic and international routes in 2022, passenger volume and operating results of VJC are expected to recover from the trough in 2021.

PHARMACEUTICAL INDUSTRY

OPTIMISTIC RETAIL PHARMA GROWTH
RECOVERING HOSPITAL PHARMA EXPECTATION

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2021 in review:

- No API shortage was recorded, although prices of certain API used in Covid-19 treatment surged.
- Within 9M 2021, pharmaceutical consumption in the retail channel grew robustly at >10% yoy as (i) demand for Covid-19 prevention products increased and (ii) consumers' shopping habits gradually expanded to e-commerce channels instead of being limited within the traditional walk-in pharmacies and drugstores.
- Sales in the hospital channel decreased by approximately 07% yoy due to falling hospital visiting rate during social distancing in cities and provinces.

Outlook 2022:

In 2022, Vietnam's pharmaceutical consumption is expected to reach ~140 trillion VND (+09% yoy), supported by the following assumptions:

- Retail pharmaceutical growth rate is anticipated to slow down at 5-8.5% yoy, contributed by the stable demand for (i) Covid-19 prevention products and health supplements such as vitamins (C & B-complex) and herbal products, and (ii) Covid-19 treatment products including symptom treatments (antipyretics, pain relief, cough medicines, etc) and antivirus treatments.
- Hospital pharmaceutical sales is anticipated to recover and grow at a rate of 8-10.5% yoy, thanks to (i) increasing hospital visits after lifted social distancing measures and (ii) treatment demand for post-Covid-19 conditions.

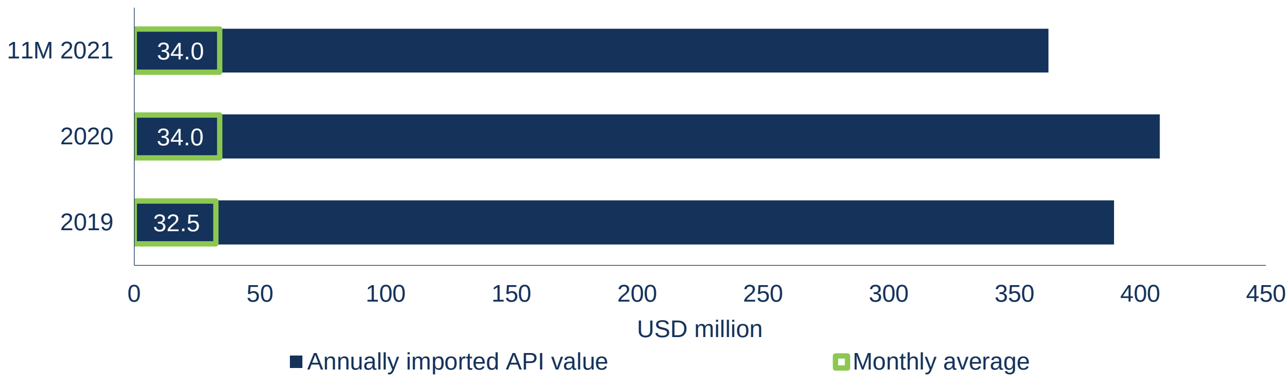
E. PHARMACEUTICAL INDUSTRY – GROWTH FROM COVID-19 PREVENTION PRODUCTS AND EXPECTED HOSPITAL VISIT RATE RECOVERY

I. 2021 in review: Prolonged impacts from repeated Covid-19 outbreaks

1. Supply sources recorded no disruption; prices of certain API hiked

1.1. API sources remained stable, of which China continued to be a major supplier

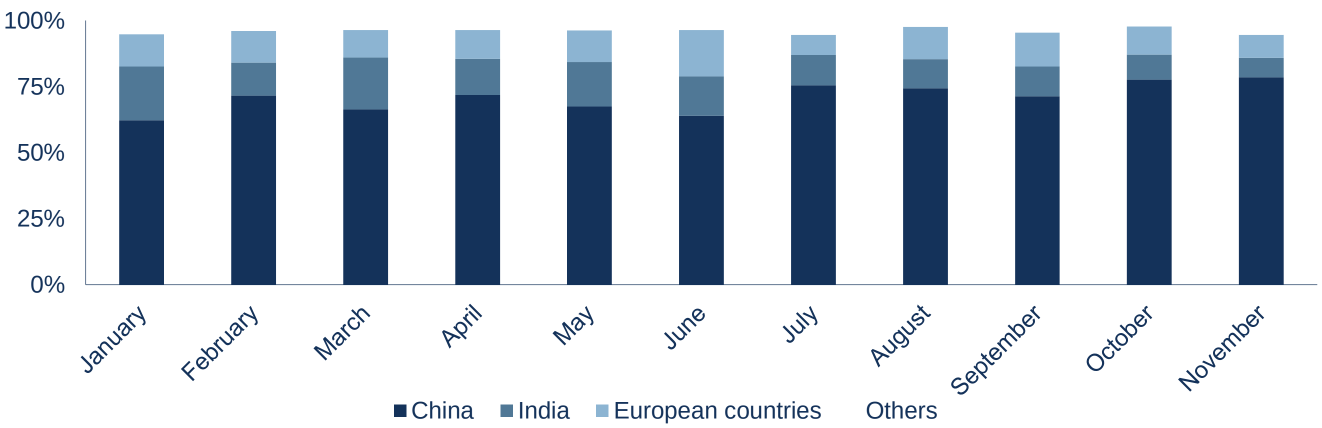
Figure 52 – Vietnam's imported API value 2019 – 2021



Source: General Department of Customs, FPTS research

Within 11M 2021, the total value of imported API reached 363.3 million USD. The monthly average value was 34.0 million USD, comparable to those in 2019 and 2020.

Figure 53 – Imported API source breakdown (2021)



Source: General Department of Customs, FPTS research

After having managed pandemic containment at <15,000 new Covid-19 cases and <10 new Covid-19 deaths in the past year (as of November 2021), China remained an important API partner for Vietnam. On average, Chinese API manufacturers had contributed to ~70.2% of Vietnam's monthly API import.

Indian imported API value had dropped slightly since mid-2021 due to the Covid-19 outbreaks in the country. However, Indian manufacturers remained accounted for a large proportion of 14.1% of imported API in Vietnam.

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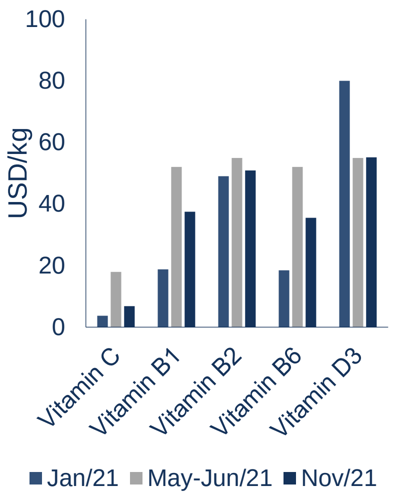
1.2. Prices of API used for Covid-19 treatment surged in mid-2021

Figure 54 – Vitamin price fluctuations



Source: VITIC, FPTS Research

In Q2 and Q3 2021, increased demand for certain API used in Covid-19 treatment and prevention boosted their prices. Toward Q4 2021, different API price movements were recorded as follows: (i) prices of stockpiled API used in preventive measures tended to decrease while (ii) prices of API used in Covid-19 treatment and emergency remained high.

In Q2 and Q3 2021, prices of imported API hiked due to the sudden Covid-19 prevention and treatment demand, including antipyretic and analgesic API (increased by 45-50%), anti-inflammatory API (increased by 10-50%), C and B-complex vitamins (increased by 20-40%).

By Q4 2021, prices of vitamin and antibiotic API had decreased slightly as the stockpiling demand faded after the social distancing lift. However, prices of those API used in Covid-19 treatment and emergency had not shown any weakened signs, including some anti-inflammatory API (increased by 5-6% compared to Q2) and vasopressor API (increased by 10-12% compared to Q2).

2. EU-GMP approval process for manufacturers prolonged

2.1. EU-GMP approval procedure updates

EU-GMP approval process of manufacturers located in non-EEA countries (outside Europe Economic Area) showed little progress due to specialists' repeated travel delays. According to an update in late Q3 2021 from the Directorate-General for Health and Food Safety (European Commission), Heads of Medicines Agencies (HMA), and European Medicines Agency (EMA):

- **For expiring EU-GMP certificate extensions**: Auto-extension clauses for 2022 are permitted to ensure the continuity of imported pharmaceuticals.
- **For new EU-GMP certificate applications**: Distant assessment may be allowed for manufacturers located outside EEA. If the manufacturers' facility does not pass the distant assessment, "a clock-stop will be triggered until an on-site inspection is possible" (*EC, HMA, EMA, 2021*). The pharmaceutical agencies underlined that certain prioritizing, postponing, or reducing measures would be applied on a case-by-case basis.

2.2. EU-GMP approval progress for Vietnamese manufacturers

- **For 17 EU-GMP certificates issued before 2021**: Manufacturers owning these certificates faced no risk of expiration in 2022.
- **For current EU-GMP applications:**
  - Distant assessment approval: In May 2021, Davipharm's tablet and capsule factory were approved for EU-GMPDA (DA: Distant Assessment) certified by the Competent Authority of Poland.
  - Other existing applications: Several other factories located in Vietnam applying for EU-GMP certificates include: IMP4 (IMP's non-beta-lactam facility), STADA-VN (PME's non-beta-lactam facility), Bidiphar CNC (DBD's injectable cancer treatment facility). According to a recent update from Vietnam's Ministry of Health on January 2022, these factories have been approved for WHO-GMP for operations in Vietnam. Therefore, products manufactured in these factories are available for bidding activities in tiers 3-4-5 in the hospital channel; however, yet to be ready for tiers 1-2 and export to developed pharmaceutical markets.

3. Robust growth was recorded in the retail channel while social distancing hindered hospital pharmaceutical sales for domestic manufacturers

Within 9M 2021, pharmaceutical consumption in Vietnam reached more than 100 trillion VND, increased by approximately 2.0% yoy. The sale proportion from the retail channel and the hospital channel accounted for 62% and 38%, respectively.

- Retail pharmaceutical sales reached approximately 60 trillion VND (+12% yoy), boosted by (i) increased spending on Covid-19 preventive products and (ii) the emergence of e-commerce shopping methods.
- Hospital pharmaceutical sales reached approximately 40 trillion VND (-07% yoy), mainly undermined by a decreased hospital visit rate during social distancing restrictions in Q2 and Q3 2021 (not including Covid-19 inpatient cases).

3.1. Demand for Covid-19 prevention products and increasing e-commerce consumption habits boosted retail pharmaceutical sales

3.1.1. Spending on Covid-19 prevention products grew strongly

Within 9M 2021, demand for Covid-19 prevention, symptom treatment, and health supplement products grew strongly due to repeated Covid-19 waves. Spending on protective products (medical masks, protective clothing, etc.) and symptom treatment products (antipyretics, analgesics, cough and cold medicines, etc.) grew >105% compared to the first Covid-19 wave in 2020. Cough and cold medicine sales grew >20% yoy in 1H 2021 and B-complex vitamin sales [(4)] grew approximately 150% yoy in Q3 2021.

3.1.2. E-commerce methods emerged in the retail channel as traditional pharmacies were negatively affected

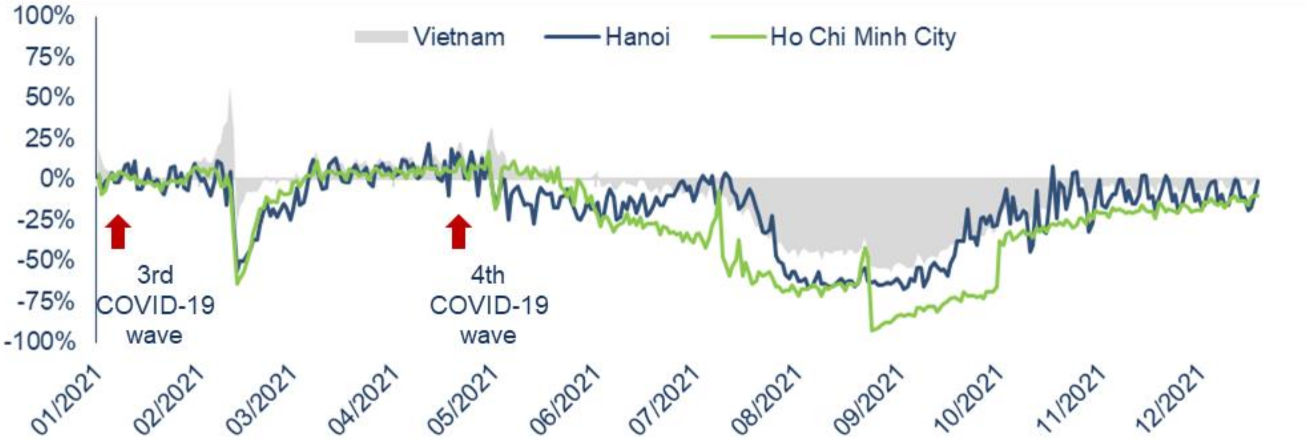
Traditional pharmacy sales were hit by (i) the prolonged social distancing measures as a result of repeated Covid-19 waves in 2021 and (ii) consumers' concern about the virus contracting risk when having direct contact at walk-in pharmacies and drugstores.

During the 4th Covid-19 wave since late April 2021, grocery and pharmacy visitors' volume dropped heavily compared to the 1st Covid-19 wave in early 2020 nationwide. In late Q3 2021, grocery and pharmacy visitors' volume in Hanoi and Ho Chi Minh City (the combination of which accounted for >55% of Vietnam's total pharmaceutical consumption) had dropped by 28% and 66% compared to early 2020, respectively.

In Q4 2021, the grocery and pharmacy visitors' volume gradually recovered after a series of social distancing restrictions were lifted. As of December 2021, the recorded visitors' dropped rates fluctuated between -19% to 0% in Hanoi and between -19% to -10% in Ho Chi Minh City compared to early 2020.

[(4)] B-complex vitamin group includes B1, B2, B3, B5, B6, B7, B9, B12; each of these has its distinctive functions to human organs and systems such skin, hair, nails, the nervous system, digestive system, and immune system.

Figure 55 – Percentage changes in grocery and pharmacy visitor volume compared to early 2020

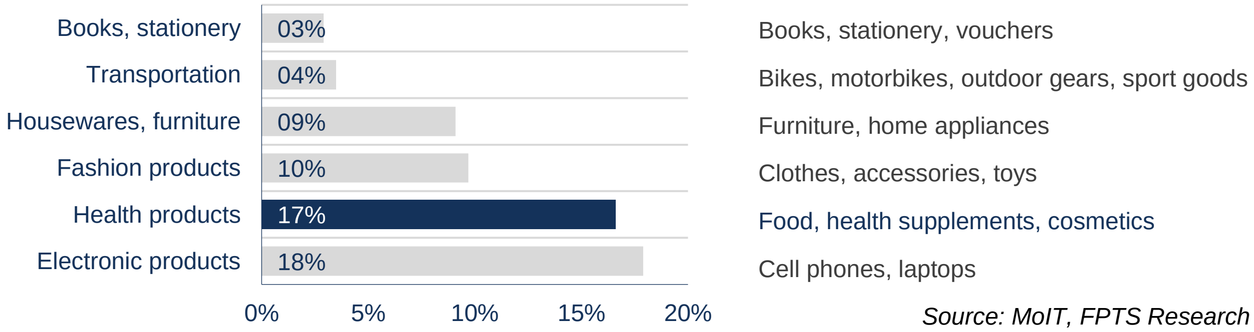


Source: Google Mobility Report, FPTS research

Since the start of the pandemic in 2020-2021, e-commerce has gradually become a preferred method in the retail channel for non-prescribed (OTC) pharmaceuticals, Covid-19 prevention products, and health supplements:

- Suppliers, including both manufacturers (DBD, TRA, DHG, etc.) and distributors (Pharmacity, Phano, etc.), developed e-commerce system to directly approach end users via online and social media platforms. These platforms provide opportunities for (i) manufacturers to find consumers without spending on commission and traveling, and (ii) distributors to expand distribution network and cut down on rent expenses.
- More than 50% of consumers were willing to gradually switch their OTC drug purchasing habit to e-commerce method. As a result, health product sales accounted for ~16.6% all online transactions in 2020.

Figure 56 – Major product breakdown from online transactions



Source: MoIT, FPTS Research

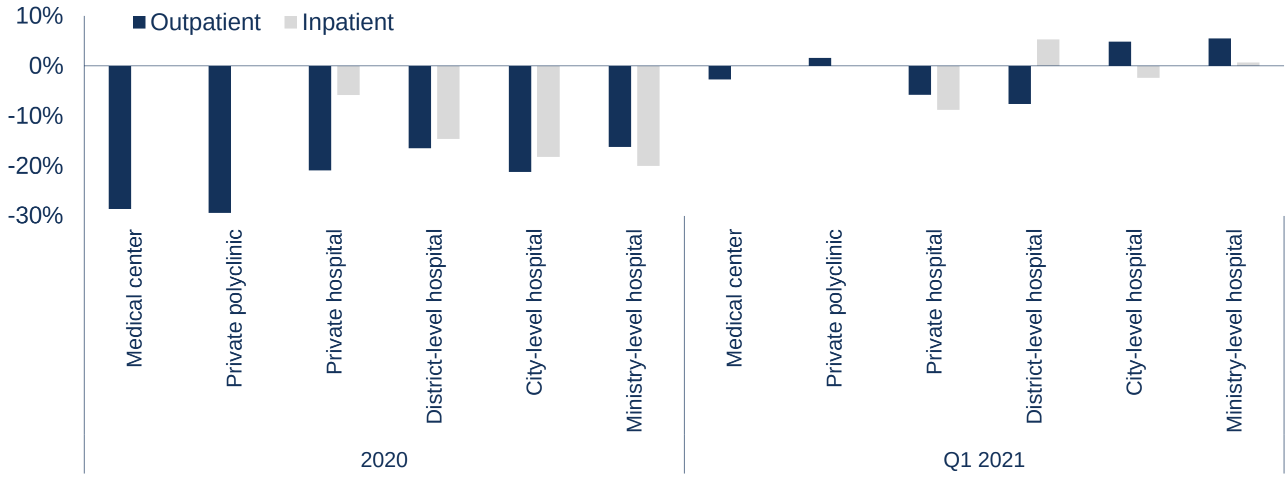
3.2. Hospital pharmaceutical consumption dropped despite demand for Covid-19 treatment drugs

3.2.1. Hospital pharmaceutical consumption hurt by prolonged social distancing

Within 9M 2021, hospital pharmaceutical consumption reached approximately 40 trillion VND (-07% yoy). Several drugs saw dropped sales, such as those used for bone and joint diseases (-14% yoy), immunosuppressant (-23% yoy), cephalosporin (-35% yoy), vaccines (not including Covid-19 vaccines, -55% to -35% yoy).

Since the beginning of the pandemic in 2020-2021, the national hospital visit rates recorded significant decreases, especially those from outpatients, not only in Vietnam but also in other parts of Southeast Asia. According to Ho Chi Minh City's Department of Health, hospital visit rates dropped by 40-60% in 2020 and Q1 2021 compared to those in the pre-Covid-19 period.

Figure 57 – Percentage changes in hospital visit rate in Ho Chi Minh City



Source: *Ho Chi Minh City Department of Health, FPTS research*

Social distancing restrictions played an important role in recent dropped hospital visit rates. Although the Ministry of Health's confirmed that medical treatment demand is among the necessities during Covid-19 social distancing, we believed that patients had a tendency to delay their hospital visits until after the social distancing period because of the follows:

- Concern about cross infections in hospitals and complicated procedure when being on the streets, and
- Chronic disease (high blood pressure, cancer, diabetes, etc.) medical re-examination demand fell in central and provincial hospitals as patients were encouraged to self-purchase drugs at lower tier hospitals.

3.2.2. Covid-19 treatment drug demand remained high

In 2021, Vietnam recorded more than 1.7 million new cases. Prevention and disease treatment drugs remained high, which fluctuates between 3,000-9,000 billion VND. Some drugs see significant increases as follows (as of 1H 2021):

Table 4 – Growth of several drugs required for Covid-19 treatment

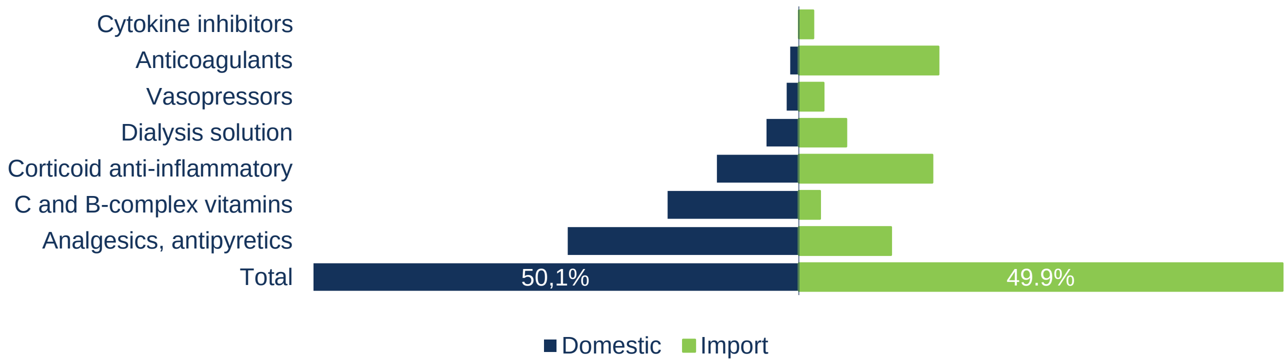
Drug group	Examples	% yoy
Non-narcotic analgesics and antipyretics	Salicylic Acid and derivatives Pyrazolone (Phenazone, Metamizole, Aminophenazone, etc.) Anilides (Paracetamol, Phenacetin, Bucetin, Propacetamol)	+27%
Anticoagulants	Heparin group (Heparin, Enoxaparin, Nadroparin, v.v.)	+158%
	Xa factor inhibitors [5] (Rivaroxaban, Apixaban, Edoxaban)	+330%
Corticosteroid	Mineralocorticoids (Aldosterone, Fludrocortisone, Desoxycortone) Glucocorticoids (Betamethasone, Dexamethasone, Prednisolone, etc.)	+25%

Source: IQVIA, NIH, WHO, FPTS research

[5] Xa factors are proteolytic enzymes, which contribute to the prothrombin and thrombin transformations. Thrombin holds an important role in the coagulation process reactions.

Domestic and imported Covid-19 treatment drugs accounted for 49.5% and 50.5% of the total hospital pharmaceutical sales, respectively. While domestic products mainly focus on antipyretics, analgesics and multivitamins; imported products include anticoagulants, immunosuppressants, and anti-inflammatory, and vasopressor drugs.

Figure 58 – Shares of domestic and import drugs used for Covid-19 treatment in Vietnam (9M 2021)



Source: Ministry of Health, FPTS research

II. Outlook 2022: Growth led by Covid-19 prevention spending and hospital visit rate recovery

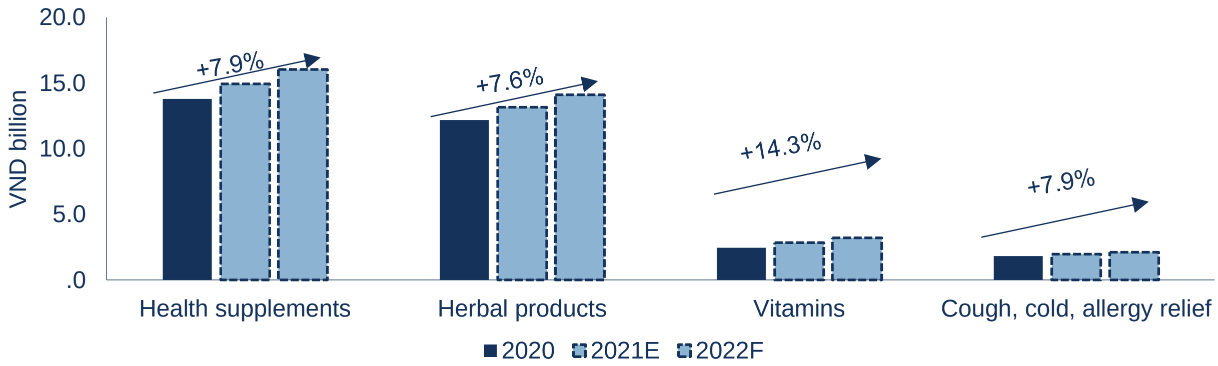
1. Growth led by Covid-19 prevention spending and hospital visit rate recovery

Pharmaceutical spending is anticipated to increase as Vietnam learns to live with Covid-19: (i) new mutated virus variants would likely prevent the disease from completely disappear in 2022-2023; instead, force human to find solutions to live safely with the existence of virus; and (ii) post-Covid-19 conditions formed in previous Covid-19 patients would drive higher hospital visit demand. In 2022, we expect Vietnam's total pharmaceutical spending to reach 141.3 trillion VND (+9.2% yoy), led by (i) immune booster and Covid-19 prevention products in the retail channel, and (ii) demand for treatment of endocrine disorders, cardiovascular and respiratory diseases, etc. as a result of post-Covid-19 conditions.

1.1. Retail channel: Demand for Covid-19 prevention products preserve

Retail pharmaceutical spending is expected to reach ~80 trillion VND (increasing by 5.0-8.5% yoy), led by (i) Covid-19 prevention products including vitamins (C and B-complex), herbal products, health supplements, and (ii) products that support Covid-19 home treatment such as cough, cold symptom treatment medicines, analgesics, antipyretics, ant allergic, anti-inflammatory, and immunosuppressants, etc.

Figure 59 – Growth forecast for some retail pharmaceuticals (2020 – 2022F)



Source: EUI, FPTS research

1.2. Hospital channel: Strong growth driven by hospital visit rate recovery and demand for post-Covid-19 condition treatment

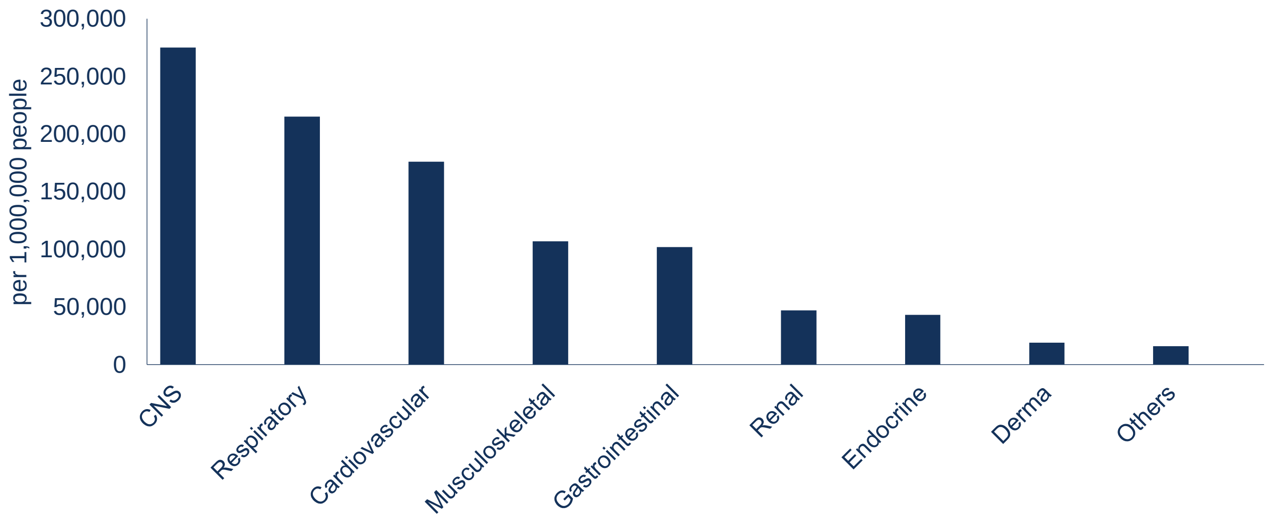
Hospital pharmaceutical consumption is expected to reach 60 trillion VND (increasing by 08-10.5% yoy), driven by (i) recovered hospital visit rates, and (ii) demand for post-Covid-19 treatment.

Hospital visit rate recovered after social distancing restrictions were lifted. At the beginning of Q4 2021, the number of patients visiting hospitals increased after a prolonged period of social distancing. In Ho Chi Minh City, hospitals recorded robust visiting increases between 50-600% as of October 2021 compared to the social distancing period. We expect the hospital visiting figures to further recover in 2022 due to the following reasons:

- Covid-19 patients are to be treated at home: Some cities and provinces have allowed F0 with no symptoms or with mild symptoms to self-treat at home using symptom relief medicines, vitamins, and antivirus drugs. Patients can request to be moved to hospitals when noticing more serious symptoms [6].
- Hospitals are to be classified when treating COVD-19 patients' based on their severity: Some cities and provinces have begun to apply the "03-level" model, in which: the 1st level is used for patients with mild symptoms, the 2nd level is used for patients with more serious symptoms, and the 3rd level is used for intensive care/resuscitation for severe Covid-19 cases.

Demand for post-Covid-19 treatment conditions: According CDC's observation, previous Covid-19 patients would likely face risks at least 02-03 post-Covid-19 conditions including multi-organ diseases (dysfunctions in heart, lungs, kidneys, skin, bran, etc.) or certain autoimmune diseases (the immune system attacks healthy cells in the body), which could last weeks or months after recovering from Covid-19. Based on IQVIA's estimation, we calculated the approximate breakdown of post-Covid-19 condition number of cases in Vietnam per 1.000.000 patients as follows:

Figure 60 – Breakdown of post-Covid-19 conditions per one million patients



Source: IQVIA, FPTS research

For each of the above conditions, we anticipate the corresponding supplement and drug class to have a positive growth prospect in 2022, include those treating central nervous system, respiratory, cardiovascular, musculoskeletal, and digestive system diseases.

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[6] Symptoms that need to be reported to medical personnel include: breathing difficulty, increased respiratory rate, SpO2 falls below 96%, rapid onset of >120 beats/min or less that 50 breaths/min, low blood pressure, severe chest pain, altered consciousness, cyanosis, loss of eating ability, high fever in children, etc. (*MoH, FPTS Research*)

2. Other monitoring factors

2.1. API price fluctuations

Although API shortage is barely considered a threat for Vietnamese pharmaceutical manufacturers in 2022, API price fluctuations need to be monitored closely. Prices of API used in Covid-19 prevention, treatment, and emergency such as vitamins, analgesics, antipyretics, anti-inflammatory, vasopressor, anticoagulants, etc. tend to positively related with the global pandemic changes.

2.2. EU-GMP certificate applications

Recent WHO-GMP certified factories, including those of IMP, PME, and DBD, are expected to commercialize their products in Vietnam and qualify to bid in tiers 3-4-5 in the hospital channel in 2022. However, as their EU-GMP approval process prolongs and greatly depends on European pharmaceutical agencies' availability, these factories are yet to have their products bid in tiers 1-2 and exported in 2022. We will update the EU-GMP approval process as more information becomes available.

III. Conclusion

We expect the overall Vietnam's pharmaceutical market to be **IMPROVED** in 2022 thanks to the following reasons:

- API shortage no longer serves as a threat to Vietnamese pharmaceutical manufacturers;
- Retail pharmaceutical demand is expected to maintain and different retail methods emerge;
- Hospital visit rates are expected to recover in cities and provinces and further boosted by demand for post-Covid-19 condition treatment.

IV. Watch list

<table>
<tr><th>Unit: Billion VND</th><th>Market capitalization 06/01/2022</th><th>Net revenue 09M2021</th><th>Net income 09M2021</th><th>Net income % YoY</th><th>Net profit margin</th><th>ROE (TTM)</th><th>P/E (TTM)</th></tr>
<tr><td rowspan="2">DHG</td><td>14,983.5</td><td>2,909.7</td><td>605.8</td><td>+14.5%</td><td>20.8%</td><td>22.5%</td><td>18.4x</td></tr>
<tr><td colspan="7">
Within 9M 2021, DHG’s revenues reached 2,909.7 billion VND (+14.4% yoy), in which the revenue from manufacturing operations was ~2,498.9 billion VND (+10.1% yoy), accounted for 86% of total revenues.

Retail channel: a prolonged period of pandemic triggered Covid-19 prevention product stockpiling, including symptom relief medicines (antipyretics, analgesics, cough and cold reliefs), health supplements, and immune boosters. Thanks to its marketing strategy that focused on certain customer groups, DHG was able to increase sales for major products including Hapacol and Bocalex. Moreover, DHG was able to expand its retail product portfolio with several health supplements and medical equipment such as Hoshi (collagen), Yunpro (digestive enzymes), Mitoyo (antipyretic stickers).
Hospital channel: DHG’s Japan-GMP tablet and capsule production lines helped boost DHG’s hospital pharmaceutical sales in tiers 1-2. DHG’s total hospital sales reached 292.5 billion VND (+90,3% yoy), in which tiers 1-2 sales grew by 34 times compared to 9M 2020.

DHG’s gross profit margin reached 1,372.8 billion VND (+10.5% yoy). Its margin decreased slightly from 48.8% (9M 2020) to 47,2% (9M 2021) due to (i) increased packaging costs, and (ii) increased prices of imported API such as Paracetamol (+72.6% yoy), vitamin C (+103% yoy), etc.

DHG’s selling expenses increased by 12.1% yoy as the manufacturer spent on marketing strategies in the retail channel. However, its selling expenses to revenues ratio decreased from 18.3% (9M 2020) to 18.0% (9M 2021) as (i) effective marketing strategies for certain customer groups and (ii) reduced costs for intermediary distributors. As a result, DHG’s net income reached 605.8 billion VND (+14.5% yoy).

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<tr><td rowspan="2">TRA</td><td>3,776.1</td><td>1,589.5</td><td>196.0</td><td>+38.6%</td><td>12.3%</td><td>20.8%</td><td>13.9x</td></tr>
<tr><td colspan="7">
Within 9M 2021, TRA’s revenues reached 1,589.5 billion VND (+21.6% yoy). The company’s manufacturing sales reached 1,298.9 billion VND (+19.3% yoy), accounted for >80% of total revenues, in which retail pharmaceutical sales accounted for 80-90%. As the pandemic prolonged, TRA actively expand the markets for its traditional products and newly developed products:

TRA continued to expand its traditional product markets to different targets, including (i) bottled Boganic tea entered the beverage market in supermarkets and grocery stores, and (ii) health supplements entered e-commerce channels.
As stockpiling demand grew for Covid-19 prevention products, TRA actively offered new products to the market, including Traphaton (vitamins, supplements), Boganic Premium (liver detox, immune booster), eye and nose drops. Additionally, the company promoted its pandemic strategic products such as Antot Thymo, T-B mouth wash, and Natri Clorid.
In Q4 2021, TRA started to commercialize Acid Ursodeoxycholic (UDCA) transferred from Daewoong Pharmaceutical. In August 2021, TRA and Daewoong continued their

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partnership as another technology transfer contract was signed, in which 12 new products had been planned for commercialization for Vietnam's market after 02-03 years.

TRA's sales from distributing operations was 288.3 billion VND (+33.1% yoy), which mostly came from health supplements and medical equipment TRA distributed for its South Korea's and Japan's partners, including Curcumin Fast (CJ), Hinom (JW Holdings), Gomzat (Daewoong Pharmaceutical), etc.

TRA's gross profit margin reached 53,6%, remaining identical to that of 9M2020 as TRA had a complete control over its herbal supply sources.

- TRA's selling expenses increased by 19.2% yoy, distributed mostly for selling representatives and marketing costs. The manufacturer's selling expenses to revenues ratio decreased from 27.2% (9M 2020) to 26.7% (9M 2021); as a result, its net income margin increased from 10.8% (9M 2020) to 12.3% (9M 2021).

DMC	**1,875.3**	**1,041.4**	**105.0**	**-22.3%**	**10.1%**	**11.4%**	**12.4x**

Within 9M 2021, DMC's revenues reached 1,041.4 billion VND (+3.3% yoy). The company's manufacturing sales was 516.7 billion VND (-18.3% yoy), accounted for 49.6% of total revenues. The major reasons behind its dropped manufacturing sales were (i) the manufacturer's inflexible product portfolio that benefit little from the pandemic, and (ii) limited distributing methods in the retail channel:

- DMC's major manufactured products belong to the antibiotics, cardiovascular and diabetes treatment group, which were not among the stockpiled medicines during social distancing.
- As traditional pharmacies were heavily impacted by social distancing, many manufacturers began to connect to customers via e-commerce platforms. DMC, however, focused on maintaining a network of traditional pharmacies and drugstores. Its selling and promotion expenses increased by 138.4% yoy as a result of DMC's efforts in keeping existing customers and finding new customers.

DMC's sales from distributing operations reached 524.7 billion VND (+39.5% yoy), accounted for 50.4% of total revenues. The majority of distributed products are pandemic prevention products such as medical masks and protective clothes, which were manufactured with OEM method.

- DMC's gross profit reached 275.4 billion VND (-11.7% yoy). Its gross margin dropped from 30.9% (9M 2020) to 26.4% (9M 2021), caused by changes in the revenues breakdown: distributed products having lower margin of 11.1% increased, while manufacturing revenues having high margin or 42.1% declined.

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