Top picks under Covid-19

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Our top picks during the pandemic are a broker (HCM), a bank (VCB) and property developers (VHM and KDH), which represent the largest sectors by index weighting. VNM is a heavyweight consumer staples (dairy products) firm, whereas PNJ represents consumer discretionary. Also, we have included Vietnam's dominant steel manufacturer (HPG), which could be an interesting play on a fiscal recovery program and the resurrection of stalled public infrastructure projects.

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The market finally exited its freefall, with all three indices posting small gains on substantially improved market breadth, with 193 losers vs 168 gainers during the week. However, we do not believe that the strong net selling by foreign investors is over, and relatively low turnover declined (-25% week-on-week) fails to convince us that the current bounce is an indicator of a sustained return of risk appetites so early in a global recession. This suggests that the overall risks remain to the downside, in our view. We thus continue to recommend a focus on quality names, as defined by strong balance sheets and cash positions, dominant brands, and strong management teams.

We believe that the government's move to delay tax payments for certain industries by three months reflects their view of the likely duration of the economic impact – or at least the worst of it – on Vietnam Inc. This three-month deferral is based on the assumption of the outbreak being under control domestically by mid-May, which seems reasonable in light of the relatively low number of infections here to date. Obviously, the demand shock from Vietnam's key export markets is likely to last longer than that, but the coronavirus is only likely to boost the trend of diversifying manufacturing from the model that has been adapted since China's WTO accession, and Vietnam should remain a key beneficiary of industry migration. For details on our overall strategy and market views, please see Vietnam: Combatting Covid-19 and our latest strategy weekly, Flattening after the freefall.

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Overall, we think the broader themes for Vietnam remain intact despite the current headwinds. We thus continue to prefer domestically focused businesses over those reliant on external markets. The rapid growth of the middle class, driven by a strong emphasis on education, ongoing urbanization, and increased wealth among a relatively young population base, remains the key attraction of the Vietnam opportunity in our opinion. Covid-19 represents a challenge here as elsewhere, but it is extremely unlikely to derail the story in the longer term.

As such, we present the following stock ideas. These are all businesses that strong balance sheets and cash flow through the cycle. Some of them are high Beta (i.e., there could be short-term downside risk for a broker (HCM) if the market continues to sell down) but we believe that all will survive the current environment and perhaps even emerge stronger given that weaker players in their respective industries may not be able to continue operations. Vietnam is really a stock-picker's market so we do not find sector allocation recommendations to carry much weight here. We have included only one bank (VCB) and two property developers (VHM and KDH), which represent the two largest sectors by index weighting. VNM is a heavyweight consumer staples (dairy products) firm, whereas PNJ represents consumer discretionary. In addition, we have included Vietnam's dominant steel manufacturer (HPG), which could be an interesting play on a fiscal recovery program and the resurrection of stalled public infrastructure projects.

Ticker	Company	Div. yield (%)	P/E (x)	Debt/equity (x)	Comments
VHM VN	Vinhomes	1.7%	8.6	0.41	► Residential property leader, by a wide margin. Proxy on middle-class home ownership aspirations. ► Refocusing from high-end/luxury segment to mid-end, the main target for Vietnam's real residential demand. ► Early monetization of its vast land bank by engaging in block sales/land sales is increasing the speed of capital returns.
VCB VN	Vietcombank	1.3%	9.9	NMF	► Market leading deposit franchise allows for high and stable NIM without undue credit risk. ► Client base is largely corporate (limited SME exposure and extremely low unsecured consumer exposure). ► Valuations are not optically cheap, but this is the quality play in the banks. This is not the time to be seeking out higher risk at a lower valuation, in our opinion.
VNM VN	Vinamilk	4.1%	17.3	0.18	► Dominant player in Vietnam's growing dairy market. ► Moving toward higher margin premium products (yoghurt, formula milk, and fresh milk). ► Very solid management and target of long term foreign strategic shareholders (Jardine).
POW VN	PV Power	3.9%	5.6	0.59	► A proxy on Vietnam's rapidly growing demand for electricity amid the shortage of supply. ► Diversified production capacity to provide for smooth revenues when any single source of power is disrupted by input constraints or weather. ► Long-term purchasing power agreements mean that POW is not exposed to input costs.
PNJ VN	Phu Nhuan Jewelry	3.9%	9.1	0.57	► Vietnam's dominant branded jewelry retailer. ► High margin branded products with a predominantly domestic focus. ► Plenty of room for growth on industry consolidation and as government policy limits sales of gold bars.
KDH VN	Kang Dien House	2.6%	9.6	0.10	► Strong financial structure: low financial leverage and large cash position. ► International partnerships shores up funding for the firm's big projects. ► Beneficiary of the burgeoning middle class: Focus on affordable and mid-end housing.
HCM VN	Ho Chi Minh City Securities	7.7%	7.3	0.56	► Key beneficiary of increased institutional investor activity in Vietnam in the years ahead ► Confidence in management's ability to execute while managing the operational risks. ► Rational blue ocean strategy of focusing on HNWIs and foreign institutional investors.
HPG VN	Hoa Phat Group	5.3%	6.5	0.77	► Vietnam's largest steel producer is steadily consolidating market share. ► Beneficiary of the restart of infrastructure projects as the government seeks to boost Covid-19-impacted economic growth.

					► We expect Chinese competition to persist, but we think it will be limited by government actions to ensure a viable domestic steel industry.

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