Vietnam Study Trip

Hustling and Bustling

By Clement Chua l clement.chua@kenanga.com.my

We recently conducted a study trip to Ho Chi Minh City and Hanoi, Vietnam to observe and understand the country better as a booming manufacturing hub, and what investment opportunities its economy could offer. For this, we met with the key management of several listed companies (namely QL, NTPM, QES, CHINWEL, TECHBND, GAMUDA, JAKS) with site visits to their local plants there. From our meetings, we gathered that generally, Vietnam appears to be a vibrant place for doing business, with a large population (c.95m) and growing GDP per capita (2018: c.USD2,587, 8% 5-year CAGR). Additionally, its young population mix (c.70% aged 40 and below) could progressively bring about higher consumer spending level to the economy. For a different perspective, we also arranged meetings with a handful of government agencies, being the: (i) Hanoi Stock Exchange, (ii) the Ministry of Planning and Investment, and (iii) the State Bank of Vietnam. Representatives from the agencies, however, hold a different view and see growth numbers to be more relaxed in the near term, probable from the crowded macro and global developments seen during the previous years. Factors for past growth could include: (i) relatively lower cost of production, (ii) stability of currency (being pegged to the USD), and (iii) US-China trade war bringing the country to light as an alternative venue for re-shoring. However, the steady catching up of minimum wages would eventually diminish the low production cost advantage presently seen. Additionally, hikes in US fed rates (currently at 2.5%) could possibly draw investors back to the States. Still, at least in the near term, consensus views that economic activities could continue to flourish if the trade war prolongs and intensifies. In our view, we believe that there could be solid growth opportunities to be yielded by any Malaysian companies with businesses there, be it to tap on their large pool of rising income consumers or leaner operations fuelled by its cost advantages and government-backed incentives.

Eyes on the Gold Star. Statistically, Vietnam has been proving itself to be a high-growth society, championing high GDP growth levels (2018 5-year average: 6.5%) against its ASEAN neighbours (2018 5-year average: 4.5%). This is perhaps thanks to the socialist-oriented market economy being viewed as a favoured trading hub for technology and manufacturing-based multinational corporations. The country also appears to be in a sweet spot, with geographical closeness to China allowing for easy trading of resources for its economy while at the same time, largely due to the ongoing US-China trade wars, making it an unlikely beneficiary due to businesses looking to set up operations outside of the Republic to avoid sanctions.

Additionally, Vietnam has a population of c.95m with a young demographic (c.70% being aged 40 and younger). While unemployment rates have registered at a low rate 2.5% (Source: CEIC Data), we gathered that there is much improvement, which could be done on job quality and income, with odd jobs being the primary source of income for the lower-income bracket. With this, we believe that there could be a large labour force readily available for new business (particularly manufacturers) to tap into. Further, minimum wage levels in Vietnam (which are region based) between USD125-180/month *(Source: Vietnam Briefing)* could be attractive for certain MNCs. In comparison, China's minimum wage policies range between USD161-348/month *(Source: China Briefing)*.

(refer to Appendix I for selected statistics with regards to the Vietnamese economy)

In this study trip, we sought to meet with regulators and state government agencies with hopes of obtaining a high-level perspective on the country's economic growth direction. For this, we were able to meet with representatives from the Hanoi Stock Exchange (HNX), the Ministry of Planning and Investment (MPI) as well as the State Bank of Vietnam (SBV). Our meeting with the HNX was to paint a better picture of the capital market scene, while our meeting with the MPI left us with more input on the foreign investment statistics of the country. Lastly, the SBV provided insight on the past challenges faced by the country and state measures in place to ensure sustainability.

We also visited several Malaysian listed companies with operations in proximity to Ho Chi Minh City and Hanoi to obtain updates on the group's performance and outlook while at the same time, hoping to have a hands-on pulse of the Vietnam economy and market environment. The selected companies were **QL (UP, TP: RM5.70), NTPM, QES, CHINWEL, TECHBND, GAMUDA (MP, TP: RM2.85)** and **JAKS**.

Notes from state government agencies

Hanoi Stock Exchange (HNX)

During our visit to the HNX, we met with members of the Strategy and New Products Department, namely Mr. Tran Trong Kien, Deputy Head of the department and Ms. Bui Thanh Ha, Officer. Formerly the Hanoi Securities Trading Center, the exchange was launched in March 2005. The Ho Chi Minh Stock Exchange (HOSE) is under the umbrella of the Vietnamese Ministry of Finance and is regulated by the State Securities Commission. In terms of products traded, both HOSE and HNX are involved with the trading of equities and exchange-traded funds. The HNX offers the added trading of government bonds, treasury bills, derivatives, and a sub-market for equity of unlisted public companies (UPCoM).

UPCoM, mainly comprising of state-owned enterprises, was established to encourage unlisted firms to participate in the securities market while promoting transparency on the financial performances of these businesses. Currently, about 815 companies are listed in the UPCoM exchange, with an estimated 400 more companies yet to make the move, pending regulations by the government to equitise certain industries.

Listing requirements between the exchanges

<table>
<tr><th>Requirement</th><th>HOSE</th><th>HSX</th><th>UPCoM</th></tr>
<tr><td>Capital size</td><td>VND120.0b ≤</td><td>VND30.0b ≤</td><td>VND10.0b ≤</td></tr>
<tr><td>Years in operation</td><td>At least 2 years as a Joint Stock Company</td><td>At least 1 year as a Joint Stock Company</td><td></td></tr>
<tr><td rowspan="6">Profitability</td><td colspan="2">Minimum 5% ROE in the previous year</td><td></td></tr>
<tr><td>Profitable in two consecutive previous years</td><td>Profitable in the previous year</td><td></td></tr>
<tr><td colspan="2">No overdue debt for more than 1 year</td><td></td></tr>
<tr><td colspan="2">No accumulated loss as of the year of listing registration</td><td></td></tr>
<tr><td colspan="2">Complies with the provisions of law on accounting and financial statements</td><td></td></tr>
<tr><td colspan="2">All financial obligations to the State must have been discharged</td><td></td></tr>
<tr><td rowspan="3">Public exposure</td><td>At least 20% of the voting shares should be held by at least 300 shareholders who are not major shareholders, except in the case of a State enterprise converting into a shareholding company in accordance with regulations of the Prime Minister</td><td>At least 15% of the voting stocks should be held by at least 100 shareholders who are not major shareholders</td><td>Owned by at least one hundred investors, excluding professional securities investors</td></tr>
<tr><td>Any member of the Board of Directors, Board of Superviory, Board of Management, Chief Accountant, a major shareholder and affiliated persons must disclose any debts they owe to the company</td><td></td><td></td></tr>
<tr><td colspan="2">Shareholders being members of the Board of Directors, Board of Superviory, Board of Management, Chief Accountant, or any affiliated person must commit to hold 100% of their shares for 6 months from the listing date and 50% of the shares for the following 6 months excluding any shares held by any of the above-mentioned individuals as representative of the State owner</td><td></td></tr>
</table>

Source: Hanoi Stock Exchange

As of this report, we gathered that both the HNX and HOSE have listed 378 shares each with the UPCoM market within the HNX registering 815 listed counters. Overall, manufacturing companies account for the largest proportion of stocks in the HNX (c.32%), followed by the construction sector (c.19%), and trade & hospitality companies (c.15%). At present, the trading of government bonds and treasury bonds are exclusive to HNX, accounting for c.65% of total value traded in YTD-Feb 2019.

On the matter of consolidating the HNX and HOSE, the likely direction is the merger into a single Vietnam Stock Exchange whereby both previous entities would serve as subsidiaries of the new unit.

With its research and development efforts, the HNX looks to encourage market participation, possibly by introducing new market indices for benchmarking purposes. Additionally, they are in the midst of testing the viability of promoting participation within the start-up market. To expand on its fixed income/debt capital products, developments such as opening a centralised market for corporate bonds and further research on debt structures (i.e. zero-coupon bonds, cross currency repo) are in the works. Other research projects also include consideration towards utilising XBRL languages, block chain applications and implementing high-frequency trading.

Commenting on the general health of the Vietnamese economy, the exchange representatives believe that there could be some easing in growth as local banks are restricting loan applications, particularly for construction and infrastructure projects. 2018 saw the issuance of 39 new IPOs with a total market cap for VND21.1t, thanks to the listing of several major corporations (mainly in the airlines space). However, the exchange believes that 2019 could be closely similar to prior years, averaging at VND5.0t with currently 8 IPOs being processed for the year. This is away from the peak of 90 IPOs issued in 2015. We believe that adverse global macroeconomic developments could be causing companies to withhold decisions to list, possibly by production-based businesses.

Ministry of Planning and Investment (Foreign Investment Agency)

Following our meeting with the HNX, we met with representatives of the Ministry of Planning and Investment, namely from the Foreign Investment Agency (FIA) branch. Formerly the State Planning Commission, the Ministry and its related agencies are responsible as the general advisor on building strategies, master plans and plans for national socio-economic development. Other areas of responsibilities also include advising on policies for economic and state management on domestic and foreign investments, assisting the Government to coordinate and monitor the implementation of targets and major balances of the national economy. For this meeting, we met with Mr. Nguyen Viet Cuong and Ms. Vu Hai Ha, co-Deputy Heads of Statistics and Information Division of the FIA.

According to Mr. Nguyen and Ms. Vu, since 1988, up to 27,900 projects in the country had received funding of USD345.0b. 2018 saw up to USD35.0b in funding, thanks to a high influx of investments into manufacturing and real estate. The manufacturing sector appears to be the primary recipient of the said funding since 1988, having received c.60% of total investments, which we believed is backed by the low cost of doing business in the country. Second to this is real estate, which only accounted for 10% of total investments received, which we believe is a budding development as the country begins to develop more complex housing needs.

In terms of region, the Deputy Heads mentioned that most of the inflow was injected towards Ho Chi Minh City, being a key industrial area for the country. Hanoi, despite being the capital of Vietnam, has been seeing mixed investments due to the lower levels of economic activity and population. Key areas needing funding include the healthcare, education, infrastructure and water segments.

Currently, various incentives are being offered to promote investment into the country. Some of which are:

Corporate Investment Incentives

Type	Details
Corporate tax rate	• Preferential tax rates of 10%, 15% or 17% against standard tax rate of 20% • Tax exemption of up to 4 years • Tax reduction of up to 50% for up to 9 years • Incentives based on location (i.e. difficult/specially difficult socio-economic areas, economic zones, high-tech zones, specified industrial zones
Land rental based	• Free land tax and exempted land rental fee for 3 years, 7 years, 11 years or 15 years or for the whole rental period • 50% reduced land tax and exempted land rental fee for 3 years, 7 years or 11 years These incentives are applicable to: ➢ Projects having capital of at least VND12.0t disbursed within 5 years using hi-technology ➢ Projects having capital of at least VND6.0t disbursed within 3 years with an annual revenue of VND10.0t or regularly employs more than 3,000 labours by the fourth year of operations
Import duties	• Exemption of import duty for imported fixed assets for certain projects • 5 years of exemption of import duty for goods, which cannot be produced locally, imported for a manufacturing project in encouraged fields and specially difficult socio-economic areas These incentives are applicable to sectors: ➢ High-tech enterprise-supporting industries ➢ Environmental protection ➢ Infrastructure development ➢ Socialisation projects

Source: Foreign Investment Agency, Ministry of Planning and Investment

Asked on the strength of future investments into the country, representatives are anticipating slower inflow in 2019, possibly of up to USD30.0b (from 35.0b in 2018) partly due to major projects having already been signed and started in 2018. According to the representatives, the largest investment came from Sumitomo Corporation, Japan of USD4.2b for the development of a smart city. Korea and Japan will continue to be the largest investors into the country as they seek to tap into relatively cheaper (i.e. Samsung, Hyosung) business cost environment. Additionally, it is expected that with the ongoing US-China trade war, more business may divest their operations from China to establish plants (mainly manufacturing facilities) in Vietnam.

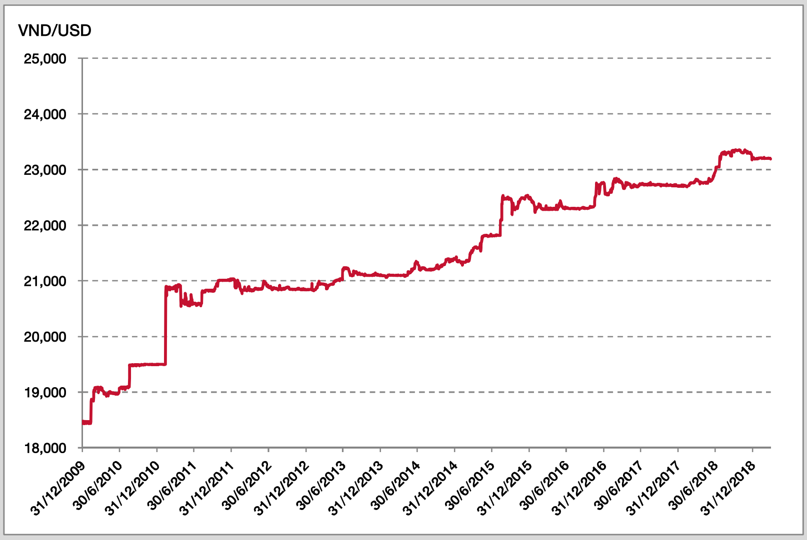
State Bank of Vietnam (SBV)

The SBV serves as the central bank of Vietnam. The key functions of the bank includes: (i) performs the state management of monetary and banking activities and foreign exchange, (ii) facilitates the issuance of money, (iii) acts as the bank of credit institutions and provides monetary services for the Government, and (iv) performs the state management of public services under the jurisdiction of the State Bank. Overall objective of the bank is leaned towards ensuring a stable Vietnamese Dong while ensuring soundness in national banking operations and systems of credit institutions. For our meeting with the SBV, we met with Ms. Nguyen Thi Hong, Director of Foreign Reserves Division.

We gathered that several national targets have been laid out and deemed for ensuring sustainability within the country. For instance, Ms. Nguyen ascribed to having annual inflation rates to linger below 4% would be considered desirable, having previous episodes of inflation levels exceeding 20% in 2011. This resulted in significant tightening of credit controls while also raised the prominence of dollarization measures to reduce the volatility of the local currency. Secondly, national interest aligns to having annual GDP growth targets of 6-7%. Asked if current levels are sustainable from concern of an overheated economy, there is confidence that present levels are sustainable and healthy for the country with the rate of inflows from foreign direct investments and institutional investments, coupled by an overall increase in the need for economic activity. It was also highlighted that a national credit growth of 14% should be reasonable, partly sustained by the abovementioned inflow of funds. During the 2008 financial crisis, Vietnam's credit growth peaked at above 30%.

At present, the country appears to be enjoying a surplus in its current account. With the ongoing trade wars, higher levels of economic activity and expansion of the country's position as a net exporter could threaten exchange rates. With this, the SBV looks to continue accumulating its currency reserves to keep up with its loose pegging to the USD, but also seek for means to diversify through financial instruments. The bank also aims to implement the Basel II framework by 2020, which should improve mitigating controls against credit risks.

VND/USD Trends



Source: Bloomberg, Kenanga Research

Notes from corporates

QL Resources Bhd (QL) – Underperform, TP: RM5.70

We visited the group's integrated livestock farming facility (ILF) in the Tay Ninh province, where we were briefed by Mr. Chia Seong Pow, Executive Director and Mr. Freddie Yap, Head of Investor Relations on the ILF operations and opportunities presented in Vietnam, followed by a tour around the plant. To recap, the QL group has livestock farms in Malaysia, Indonesia and Vietnam.

The plant is currently the only facility in Vietnam, which supports 100% of its local operations. With a total capacity of 850k eggs/day, the main buyers of QL's eggs are horeca (hotels, restaurants, cafe) and fast-food outlets, supermarkets and distributors. A small proportion is also being exported to neighbouring countries (i.e. Cambodia). Based on its total daily output, QL has a 3% market share of the national egg production of c.30m eggs/day. Despite the relatively small proportion, the group has a prominent position in the market as it is the largest single location provider in the country. This is highly sought after, especially by large food operators demanding product quality consistency in larger volumes with timely delivery. This could be their advantage and competitive edge over other players in the market that are predominantly collective contract farms.

To tap into the increasing demand from overall growth in income and consumption, the group looks to expand its production capacity by adding a proposed c.1m eggs/day with the construction of a new layering farm. Management estimates a capex of USD30-35m over the next three years. At the meantime, management does not anticipate the need to expand its feed-mill capacity (current production capacity: est. 40k mt/year) as additional shifts could be introduced to meet any supply shortages from the new farm. Operationally speaking, management presented that the cost of operations is cheaper compared to Malaysian operation due to cheaper utilities and labour costs.

Commenting on their perspective of the Vietnam market, management expects the market to be vibrant from a high population (c.95m) supported by a healthy GDP expansion (6-7%). According to management, the per capita consumption of eggs registered at 120 in 2018, from 50 eggs in 2008. Income growth is expected to be fuelled by commitments from the government to increase minimum wage (2018 saw a hike of c.6%) with an influx of higher quality jobs being introduced from foreign businesses establishing operations, particularly in the rural and developing industrial zones.

On non-Vietnam operations, management guided that the convenience store operations is looking to break even by FY20, as it reaches a desired store base (est. 120 stores), already with outlets expanding outside of the Klang Valley and the opening of a second central kitchen to assist with the expansion. The Marine segment looks to recover with much more favourable weather conditions promoting higher fishing catch rates. The group's palm oil segment is expected to be dragged by weak CPO price trends, but is not a major concern due to its low contribution (<5% PBT) to group earnings.

Analyst's view

Overall, Vietnam's ILF contribution is estimated to account for <5% of revenue and <1% of PBT, mainly driven by the larger marine products contribution (30% revenue, 55% PBT) and other ILF markets (i.e. Malaysia and Vietnam). The former segment should continue to be the leading segment in the near term with a solid recovery to be expected, after experiencing nine consecutive months of sequential weakness. Regardless, with the understanding gathered from the visit, we are more confident of the consumer market in Vietnam as a key region of the group's highly diversified business.

Our current TP of RM5.70 (based on a 40.0x FY20E PER, within the stock's +1.5SD over its 3-year mean PER) leads to an UNDERPERFORM call. We believe the rich valuation is reflective of stronger investors' appetite, attributed to the stock's defensive quality in the consumer staples space. However, we also believe that current trading valuation could be excessive due to its: (i) low dividend prospects at c.1% (vs. best peer's yield of 4%), and (ii) slower earnings growth expectations c.6% (vs. peers' average of +10%).

Feed Mill & Layering Farm

Source: Kenanga Research

Sorting & Packing Lines

Source: Kenanga Research

NTPM Holdings Bhd (NTPM) – Not Rated

For NTPM, we visited its Binh Duong plant within the Vietnam-Singapore Industrial Park where we met with Mr. Lee See Jin, Group Managing Director and Mr. Lee Kuan Peng, Executive Manager for Vietnam. NTPM is a manufacturer of tissue paper (Premier, Cutie, Royal Gold) and personal-care products (Intimate, Diapex). Based on FY18 results, 72% of its RM690.9m sales was domestic, 11% from Singapore, 4% from Vietnam, while the remaining were exports to Australia, New Zealand, United States and the East Asia/Africa region.

Management shared that their presence in Vietnam is small (3% market share) but growing steadily. It is supported by its plants production capacity of 10k mt/year (total group production: 120k mt/year) of which c.15% of its sales are exports. Primarily, the group's clientele consists of general trade and modern trade channels with a small proportion of capacity allocated for OEM customers. However, currently the region is registering operating losses (c.RM18m in FY18), owing to unfavourable raw material prices (i.e. virgin pulp) and heavy depreciation. It is estimated that virgin pulp prices are presently lingering at rates of c.USD700/mt, from USD850/mt in 2018 when surging demand in China caused a spike in prices. In 2017, the price was recorded at c.USD550/mt.

In the pipeline for Vietnam, the group looks to begin commissioning two new paper machines (one in 2QCY19 and one in 3QCY19, both previously earmarked for 4QCY18) to increase plant capacity to 50k mt/year. This would provide the group sufficient capacity towards its aspirations to double its sales per annum. Management believes that it should be able to achieve this with the various government certifications obtained as a stamp of quality as well as being environmental friendly, of which the local population has become more conscious about. Additionally, with the better economies of scale and higher degree of automation from these new machines, management anticipates that its Vietnam operations could achieve breakeven during the next 2-3 years.

Commenting on their perspective of the Vietnam market, NTPM management also sees consumer spending to be healthier with the rise in minimum wages. Additionally, new public housing projects also look to improve the quality of living, which could also translate to more quality conscious consumption habits. According to management, the average consumption of tissue and personal-care products per capita in Vietnam is estimated to be 1.25kg/year, as compared to Malaysia's which is estimated to be 4.5kg/year. On top of that, the greater population size of Vietnam points to the potential market size for NTPM going forward.

Analyst view

The group's Vietnam operations seem highly dependent on the launching of its paper machines, which commissioning has been delayed on several occasions. Even with this, there is high urgency to ensure that a larger demand could be drawn in order to ensure that operations are not persistently derailed by overheads. Additionally, rising minimum wage may also diminish and eventually eliminate the current cost advantage at a certain point.

Currently, sales strategies appear to be heavily driven by its sales force, with less dependence on marketing and advertising. While the group's market share is still relatively small (at 3%), the growing income and population of the country should still be sufficient to support an expansion in sales numbers if they are able to maintain their domestic position. That being said, meaningful results may be a long-term endeavour as the overall Vietnam operation only contributes c.4% to group sales while operating costs may persist to overrun profitability.

Warehouse Storage Area & Paper Machines

Source: Kenanga Research

Packing Lines

Source: Kenanga Research

New paper machines in progress

Source: Kenanga Research

QES Group Bhd (QES) – Not Rated

The management of QES; Mr. Liew Soo Keang, Executive Director and Mr. Tan Meow Shong, Vietnam General Manager hosted a meeting to discuss the group's performance since its listing in March 2018 and Vietnam operations together with its group strategies going forward. QES is involved in the distribution, manufacturing and provisions of engineering services for inspection, test, measuring, analytical & automated handling equipment. Applications for the group's products are mainly aimed towards the electrical & electronics (E&E), automotive and semiconductor industries. The manufacturing segment entails the production of automated handling and inspection equipment according to client specifications. As of Mar 2019, the group has over 11,000 units installed base of equipment (as compared to 10,300 in Mar 2018).

For its FY18 performance, the group registered flattish revenue of RM193.1m (+1%) as fewer equipment sold from its key distribution segment (c.80% of total revenue) was offset by better results from its manufacturing segment. This was partly due to previous lumpy orders of spare parts delivered in FY17. At the meantime, with the rise in semiconductor activities, the group delivered more of its Automated Post-Wire Bond (PWB) Inspection and Advanced Wafer Measurement systems. This resulted in a poorer sales mix that led to a lower PATAMI of RM14.1m (-6%).

While its business in Vietnam is still small (c.10% of group revenue, which is mainly distribution based), management expects the coming implementation of 5G to benefit the group with Vietnam being one of the key regions for outsourcing semiconductor manufacturing. Management hopes to tap unto this with the planned launch of its Center of Excellence demonstration lab by end CY 2019. Locally, the large automotive segment will continue to be the primary catalyst for the operations here given the growing demand for automobiles in the country. However, on hindsight, the ongoing trade war between US and China has stirred uncertainties amongst its customers which led to several orders being withheld.

Coming away from this, the group aims to improve its position with initiatives such as: (i) expanding distribution footprint (new industries and region), (ii) enlarging manufacturing scale for a greater presence in the technology space (outsourcing could be a viable option), (iii) R&D into new products to enable penetration into newer industries, and (iv) potential re-entry into China after the group's exit in 2008. In addition to this, management looks towards digitalisation of its equipment maintenance processes (by CY20) which should enable quicker and more efficient servicing of customers' equipment.

Analyst view

While QES's main distribution segment may see softness on hindsight, the recurring maintenance income (c.20% of revenue) should at least provide some degree of sustainability for the group as its equipment installed base subsequently expands. This is further supplemented by the long service periods (up to 10 years) and implied distribution "exclusivity" in the group's operating regions from its suppliers given their limited distribution channels. While management aspires to expand its manufacturing income stream (possibly with the opportunity to establish to strong brand presence), the group remains as a predominantly distribution-based company and may not meaningfully change the dynamics of the group's operating structure. We do believe that maintaining a higher proportion of distribution sales would be beneficial for the group on the back of higher margin returns.

Chinwell Holdings Bhd (CHINWEL) – Not Rated

For CHINWEL, we first hosted a meeting with Ms. Tsai Chi-Yun, Executive Director to discuss the recent 1H19 results and outlook for the group before visiting the plant in the Dong Nai Province where we met with Ms. Tsai Chia-Wen, Vietnam Marketing Manager who briefed us on the operations in Vietnam. CHINWEL is a manufacturer of carbon steel fasteners (i.e. screws, nuts and bolts), wire and steel bars. Production plants are located in Penang and in Vietnam, with key servicing industries ranging from highway guard rails, power transmission towers, furniture and other applications. The group mainly exports to the European market, the ASEAN region and the United States. During the last 1H19 results, the group registered revenue growth of 14% YoY but PBT only increased by 13% YoY following lower sales to the European region, which fetches better margins.

Overall, the group could be a benificiary of the US-China trade war as certain buyers have moved away from China-made products and seek neighbouring countries for alternative suppliers, particularly for distributor of DIY goods. However, an ongoing antidumping investigation in the US on certain construction-based goods was sparked after some other Asian manufacturers flooded supplies at prices below that of the local US producers. Management commented that this has led to various clients from there reducing orders until the investigation is cleared, to which management is hopeful orders could normalise by end CY19. Meanwhile, the establishment of new galfan (carbon steel) wire lines, which could begin production by FY19, would allow the group to cater to wider market needs while also commanding higher prices.

Asked on the key differentiating advantages that the group possesses, management claims to have an edge over its competitors with its low delivery lead time. This mainly thanks to the group's larger-scale production capabilities and warehousing facilities that allow for more effective storage planning and production ahead of order placements. CHINWEL is seen to operate at an average lead time of c.60 days for international deliveries, in contrast to c.90-120 days on average from the competing outfits. It also helped that the group is able to ascertain an order visibility of up to 3 months, well within its 60 days delivery.

During our visit to the Dong Nai plant, which entirely manufactures fasteners, we sighted the packaging facilities there to have a better understanding of the sorting and packaging processes. Currently, operations there still heavily rely on a manual workforce, due to the large variations in terms of package quantity and design required by its customers. The plant currently employs up to 420 staffs with half allocated to the packaging lines.

Commenting on their perspective of the Vietnam market, Ms. Tsai described that the growing economic needs of the country, mainly in the construction sector should be good for the fasteners market. However, out of its monthly production capacity of 6k mt, only 1% is being sold to the Vietnam market, with the remaining being exported to key locations. This is mainly due to cheaper products (albeit of lower quality) from China being highly assessable in the local market. In terms of competing with this, management mentioned that while there is a growing awareness by customers on paying more for quality goods, its focus is still predominantly on the export markets where growth potential remains the highest. To improve the performance of its Vietnam operations, the group would be adding a new plating line by 2019 to expand its product range.

<u>Analyst view</u>

CHINWEL appears to be highly diversified between its export markets (Malaysia makes up c.35% of total sales). However, mixed developments from these markets could signal uncertainty to its future earnings, being; (i) Brexit causing uncertainty amongst its European customers, (ii) anti-dumping investigations by the US and the ongoing trade wars, and (iii) growing development in China may soon result in it as being an importer of more quality materials. Being a net exporter, the group remains a beneficiary of a weaker ringgit. The shorter lead time provided by the group also enables more fluid communication of costs in the event the raw material prices demonstrate volatile swings.

Techbond Group Bhd (TECHBND) – Not Rated

We met with Mr. Lee Seng Thye, Managing Director of TECHBND at the group's Binh Doung Province plant. TECHBND is involved in the development and manufacturing of industrial adhesives and sealants, which also operates a plant in Shah Alam, with an estimated total annual capacity of c.12k mt for water-based and hot-melt adhesives. The Binh Doung plant, on the other hand, produces only water-based adhesives and possesses an annual capacity of c.6k mt. The group mainly sells to manufacturers and distributors for applications in woodworking, packaging and construction.

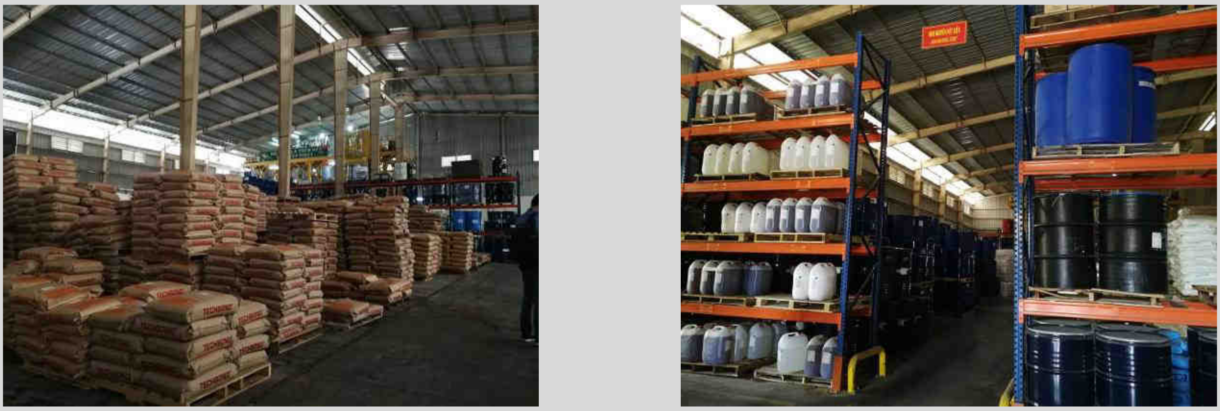
The Vietnam market currently is the single largest segment for the group, contributing more than 50% of group revenue. In anticipation of the growing demand, c.70% of the RM40.0m raised in the IPO proceeds was earmarked for the relocation of the plant to the Vietnam-Singapore Industrial Park and to expand production capacity by nearly fourfold. Management expects the plant to complete by 1QCY20 and could be commissioned in the following quarter. In addition, a new polymerisation facility to be installed there would be a first for the group and could introduce cost savings. Further benefits from this expansion are in the form of tax incentives, which should provide 2 years of corporate tax exemption followed by 4 years of reduced corporate tax rates of 10% for its Vietnam business.

Commenting on their perspective of the Vietnam market, management sees growing opportunities in the country, particularly in the furniture/woodworking sector, which makes up c.60% of the group's sales. Driving this segment in Vietnam could be the rise in commercial and residential developments with the rising income of the population. Management adds that it is able to cater to wider application requirements on the back of various certifications of quality awarded by Dutch, German and Japanese standards.

<u>Analyst view</u>

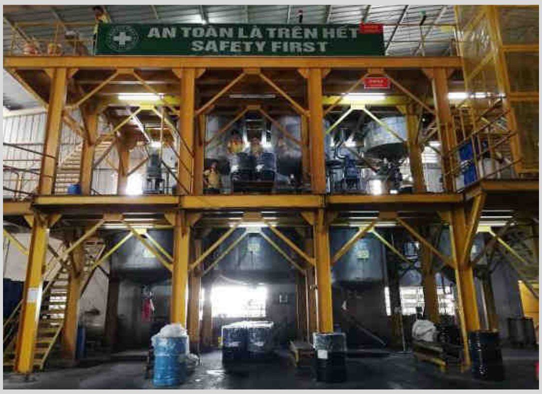
Overall, the group looks to be riding on an expansion phase, still fresh off its IPO in Dec 2018. The group's diversified client base and wide application allows it to ride on multiple industry growth cycles, particularly in Vietnam which we believe could be a key growth region for multiple businesses. Further, an overall dedicated plant to cater to the Vietnam market could ensure that demand and its order fulfilment continues to be timely and organised. The group looks to be another net beneficiary of strong USD rates with Malaysian sales only accounting for c.20% of group revenue, with natural hedging from its raw materials (i.e. petrochemical compounds) which are also procured in USD.

Storage areas



Source: Kenanga Research

Water-based adhesive mixer



Source: Kenanga Research

Gamuda Bhd (GAMUDA) – Market Perform, TP: RM2.85

For GAMUDA, we visited both sites of its property development subsidiary, Gamuda Land within the country, namely Celadon City in Ho Chi Minh followed by Gamuda City in Hanoi.

Celadon City, Ho Chi Minh City

During our visit to Gamuda City, we met with Mr. Wyeren Yap, General Director and Mr. Angus Liew, Deputy General Director of Gamuda Land. Being the first and biggest township developer in Ho Chi Minh City, Celadon City (c.80 hectares of development land) with an estimated gross development value (GDV) of USD1.2b saw a great increase in its apartment prices; first launching was at USD900/sqm to present rates of USD2,000/sqm. This is further backed by the construction of a new AEON mall in the township, which is highly valued by the locals. Additionally, the ongoing works for the Ho Chi Minh City Metro should improve connectivity for residents there, with Celadon City having assess to 4 planned metro stations, linking with 2 metro lines.

It was highlighted that the majority of the house buyers are from the local population, with only up to 5% being foreigners. According to management, purchases by foreigners would result in the land title being of a 50-year leasehold status, until it is sold to a Vietnamese citizen which would convert the land title to freehold status.

Currently, the final phase of Celadon City is open for sale, being apartment units within the Diamond Precinct. Management anticipates offered units could be fully sold within the next two years, given the favourable reception of its apartment units. In anticipation of the complete sale of Celadon City, management hopes to look for other development and land acquisition opportunities elsewhere. However, any steps forward require thorough feasibility studies and approval from the Group's upper management.

Display of Celadon City, Ho Chi Minh City

Source: Kenanga Research

Gamuda City, Hanoi

For Gamuda City, we met with Mr. Cheong Ho Kuan, Chairman of Gamuda Land. Gamuda City is being leased with two parcels of c.80 hectares land, with the first parcel nearing 80% completion of its planned development for a GDV of USD2.5b. Unlike Celadon City which only offers apartment units, the Gamuda City township offers for sale apartments, terrace housing and bungalow units. Much like Celadon City, average selling prices progressively rose with apartments being priced from USD900/sqm in 2012 to USD1,500/sqm at present. Foreigners also make up a small fraction of the homeowners in the township.

With regards to the second parcel of land, due to reclamation process, management anticipates the commencement of development could be in another 2 years. As of our visit, it was estimated that 80% of the planned development has been completed, amounting to a GDV of USD2.5b. Presently, up to 3,000 units of Gamuda City properties were sold.

Gamuda City, Hanoi

Source: Kenanga Research

Summarising Gamuda Land management's perspective of the Vietnam market, management is upbeat of the development opportunities in both major cities of the country. This is premised on the young population of 70% below the age of 40 and a changing wealth environment and consumption lifestyle. This is further demonstrated by the small proportion of units taken up by foreigners despite having better financial means. Competitors (i.e. Vingroup, Capitaland Vietnam) are also seeing an untapped potential in the property market, hence causing a potential mushrooming in supply of homes (mainly apartment units) in the near term. However, management is not overly concerned about this given the large population of c.95m which is deemed to be still severely short of proper housing complete with infrastructure and facilities. Still, balance will need to be sought to prevent an oversupply situation, particularly for high-end units.

Analyst view

Following our recent post-GAMUDA's 1H19 results briefing, management appears confident on the construction outlook within Malaysia underpinned by potential projects like ECRL, KVDT, RTS, Pan Borneo Sabah, MRT3, PTMP and some privately funded infra projects (airports). While we concur with the management's view on the prospects of the above-mentioned projects, we deem that the timeline for the award of the project could take up to 9 months or longer. As for its highway concessions, management remains hopeful for a deal with the government that they would be able to agree at a fair price for the potential takeover which is expected to take place within this year.

Based on the 1H19 results, Gamuda Land made up 40% and 22% of the group's revenue and operating profits, respectively. Currently, Vietnam properties have achieved total sales of RM760.0m in 1H19. This looks to be at least within the group's RM1.5b FY19 target for the segment. Overall, it is expected that sales from Vietnam could account for c.40% of total sales from the group's property division.

Our SoP-driven TP of RM2.85 implies a 11.9x PER on our FY19E, which is slightly higher as compared with our construction stock universe ascribed multiple range of 6-11x. We believe that the slight premium is justified given the stable recurring income from its concessions, albeit the potential takeover by the government. We believe the current price levels for the stock is overdone, projected by what we think is market's overly bullish expectations of the revised project value for the ECRL. It is likely that the new tender rates could be at more unfavourable margins for contractors which could subsequently undermine earnings delivery. Nonetheless, we will relook at our recommendation for the stock with any new developments subsequent to this report's release.

SOP Valuation

Sum-of-Parts	Stake	Methodology	Value (RM'm)
Construction	Various	FY19 PER of 10x	1,190.6
Property	Various	RNAV (70% discount)	2,274.2
Concessions	Various	Various	3,560.6
Others			
Gamuda Water	80%	FY19 PER of 10x	405.0
Sub Total			**7,430.4**
Cash proceeds from warrant conversion			1,425.3
Total			**8,855.7**
No of shares			2,468.0
Unexercised Warrant			617.0
Fully diluted of shares			**3,085.0**
Fair Value/share			**2.85**
FY19 EPS (sen)			**24.0**
Implied Fwd-PER (x)			**11.9**

Source: Bloomberg, Kenanga Research

JAKS Resources Bhd (JAKS) – Not Rated

For our last corporate visit, Mr. Steven Ang, Chief Financial Officer of JAKS, provided us a tour of the upcoming coal fired thermal power plant project in the Hai Doung province, which is a 30%-joint venture with the China Power Engineering Consulting Group Co Ltd (CPECC). The JAKS group as a whole is primarily engaged in water supply and infrastructure construction projects, supply and trading of building materials and steel-related products. The entry into the power segment was a means to minimise cyclical risks of its other segments.

To provide some colour, the plant is designed to generate an output of 2 x 600 MW under a build-operate-transfer model after 25 years with the Vietnamese government, with total construction project revenue to JAKS of RM1.89b to be recognised over phases of completion. Currently estimated to be 55% completed, management anticipates that it is able to commission the first of its two turbines possibly by the end of 2019. The second turbine should then be set to be completed 6 months after this. This is ahead of the initial handover deadline to the Vietnamese Government of November 2020. Addressing any contingencies in place to prevent delays, management mentioned that the integral equipments (i.e. turbines, boilers) for the plant are already on-site, with non-foreseeable issues to source smaller components. Building materials for the plant are also easily sourced from local suppliers. Furthermore, CPECC management and supervisors are consistently on the grounds to monitor the progress closely.

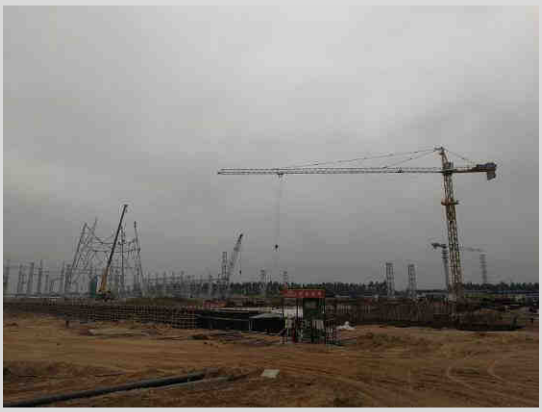
Assuming the full commissioning of the plant, an expected 15,000 mt/day of coal is to be consumed to support a minimum utilisation required of 77% for both turbines. The supply of coal has been committed to be backed by the local coal authority, which is well facilitated with the construction of an inland port/jetty close to the site. Additionally, coal storage areas are being built to store up to 10 days' worth of fuel, in the event of any hiccups in delivery. Charging on units of power produced, assuming the plant is able to keep up with the minimum utilisation requirement; the project is expected to yield up to USD120.0m/year of net-of-tax profits.

Concerning the group's other operations, management hopes for their property development segment to achieve operating breakeven as it has secured more tenants for its EVOLVE Mall. Other avenues for consideration may be to bid for construction projects in Vietnam, having already established a presence here.

Power plant foundation – front and rear

Source: Kenanga Research

Switch yard & cooling station



Source: Kenanga Research

Coal Storage Area & Coal and Limestone Jetty

Source: Kenanga Research

Sketched Master Plan

Source: Kenanga Research

Analyst view

With the completion and full commissioning of the power plant, the group is slated to receive associate profit of c.RM150m/year for the next 25 years. Further, the plant is expected to enjoy tax incentives for the first 6 years of operations. This would skew the group's business portfolio to be mostly energy-based, after recognising the last mile of the power plant's outstanding bill (only 46% billed in 4Q18 results, RM1.02b unbilled as of now, estimated to account for 70% of its total order-book), which should also be a significant boon to the near-term earnings profile. Key risks would be from any hiccups, which may delay the completion of the project until after its Nov 2020 deadline. We are less optimistic on the group's property segment as footfall and tenants appear to be only picking up slowly despite its strategic location.

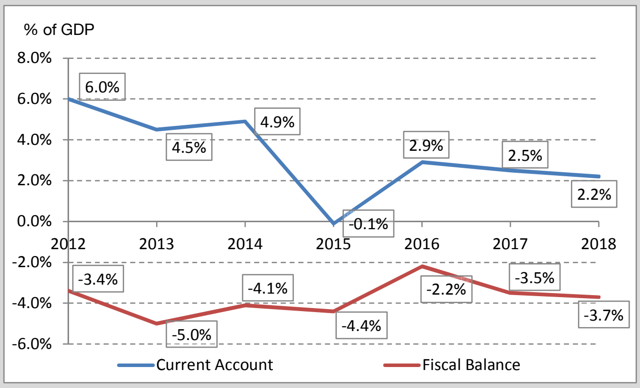
Closing Comments

We ended our trip with a better perspective on the Vietnamese market. While the country appears to be on the road to being a notable economic partner, there are also challenges to overcome. To summarise, we see stimulants to be in the form of: (i) relatively lower cost of production, (ii) stability of currency (being pegged to the USD), and (iii) US-China trade wars bringing the country to light as an alternative hub for manufacturing and administration. However, national agendas to improve standard of living with higher minimum wages would eventually diminish the low production cost advantage currently enjoyed by manufacturers. Furthermore, we believe that there could be a possibility of investors withdrawing funds back in the US as hikes in federal reserve rates (currently at 2.5%) could lead to changes in investment and capital strategies. During our trip, we also understand that it has been exciting past years for the country, but there is a lack visibility in the near future for new and larger investments as major greenfield initiatives (i.e. the Ho Chi Minh City metroline) kick start and the past years of strong investments could mean easing ahead due to a heated-up economy. Nonetheless, consensus views aligned that there should be continuous economic expansion if the trade war between US and China prolongs and intensifies. Assuming that such is true, we are at least confident that the nation should have the resources and manpower to back its efforts as an up-and-coming developing nation. In our view, we believe that there could be solid growth opportunities to be yielded by any Malaysian companies with businesses there, be it to tap on their large pool of rising income consumers or leaner operations fuelled by its cost advantages and government-backed incentives.

In summation, while there could be hurdles ahead, we believe that there could be solid growth opportunities to be yielded by any Malaysian companies with businesses there, be it to tap on their large pool of rising income consumers or leaner operations fuelled by its cost advantages and government-backed incentives.

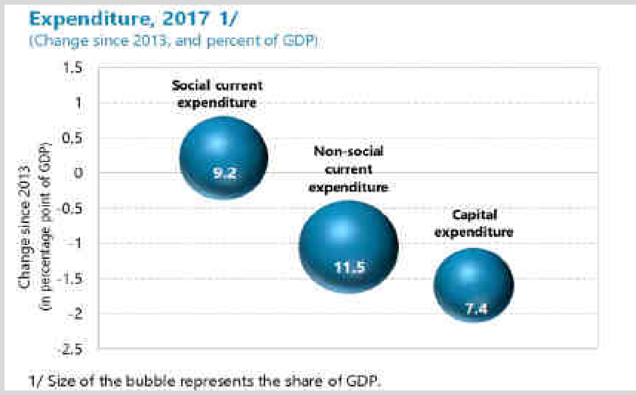
Thoughts of investment risks in Vietnam. Taking a more macro-perspective, we consider possible investment and economic risks investors may face when evaluating opportunities in Vietnam. Concerning economic stability, we refer to the nation's current account and fiscal balance. Since 2012, the country has been experiencing surplus in its current account (save for 2015), possibly supported by a strong manufacturing-fueled economy and re-shored foreign MNC-owned factories. While it appears that the quantum of surplus is diminishing, we believe that this could be in part due to the growing construction activities drawn by greater infrastructure projects being rolled out. With regards to Vietnam's fiscal balance, we see that the country averages a net spending of c.3.8% during the last 7 years. Proportion of expenditure appears to be mostly allocated to non-social current spending, again likely to fuel the development of infrastructure within the country. During the tabling of the country's 2019 budget in November 2018, the government looks to reduce its budget deficit to 3.6% from 3.7% in 2018, leaning on savings from restructuring and streamlining personnel costs and tighter loan control (Source: VietnamNet). Judging from the stability and direction of the national statistics above, **it is reasonable to expect few threats to economic security** as long as the state government continues following through with national development plans. While we do not wish to comment on the political landscape of Vietnam, **having a single-party socialist republic could enable necessary policy changes** to happen more fluidly in protecting socioeconomic interest. While the move to de-dollarize the economy to promote trade looks to be an ongoing agenda, **the current loose pegging to the USD should provide some stability to foreign exchange rates** to investors. We believe this could provide the Vietnamese Dong some leverage when positioning its trade deals, particularly with China and the Renminbi growing in importance in global transactions.

Current and Fiscal Balances (as a % of GDP)



Source: Bloomberg, tradingeconomics.com

Proportion of expenditure (from 2017's budget)



Source: IMF

Appendix I

Economic Snapshot

2018 Real GDP *(base year 2010)*

Top 10 Industries	VND'b	% Proportion	2018 Growth Rate	5y Average Growth Rate
Industry: Manufacturing	640,171.8	18.3%	13.0%	6.4%
Product Tax Excluding Product Subsidy	395,615.7	11.3%	6.1%	6.1%*
Agriculture	372,265.7	10.7%	2.9%	1.4%
Service: Wholesale, Retail Sales & Motor Vehicles	338,854.7	9.7%	8.5%	0.8%
Construction	224,464.0	6.4%	9.2%	8.3%
Industry: Mining and Quarrying	207,783.7	5.9%	-3.1%	-1.9%
Service: Financial, Banking & Insurance Activities	202,486.3	5.8%	8.2%	7.1%
Service: Real Estate Activities	169,109.3	4.8%	4.3%	3.3%
Industry: Electricity and Gas	149,427.0	4.3%	10.4%	9.3%
Service: Accommodation & Food Service Activities	131,383.1	3.8%	6.8%	5.2%
Other Industries	661,837.7	18.9%	6.5%	6.1%
Total	**3,493,398.9**	**100.0%**	**7.1%**	**6.6%**

** Based on a 4y average*

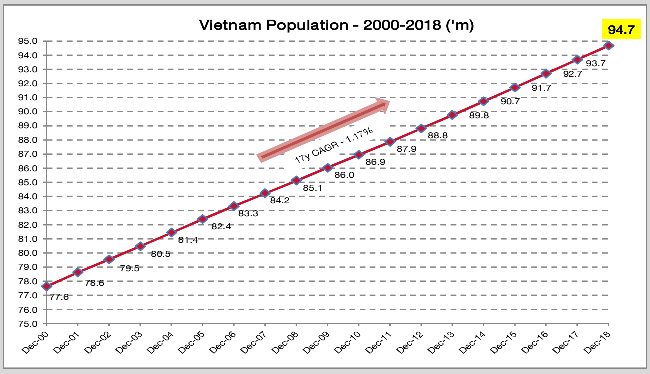
2018 Key Trade Partners

Top 10 Exporters	USD'm	Top 10 Importers	USD'm
USA	47,509	China	65,350
China	41,366	South Korea	47,217
Japan	18,850	Japan	18,889
South Korea	18,207	Taiwan	13,222
Hong Kong	7,940	USA	12,717
Netherlands	7,067	Thailand	11,959
Germany	6,872	Malaysia	7,437
India	6,536	Indonesia	4,929
United Kingdom	5,775	Singapore	4,528
Thailand	5,498	India	4,112

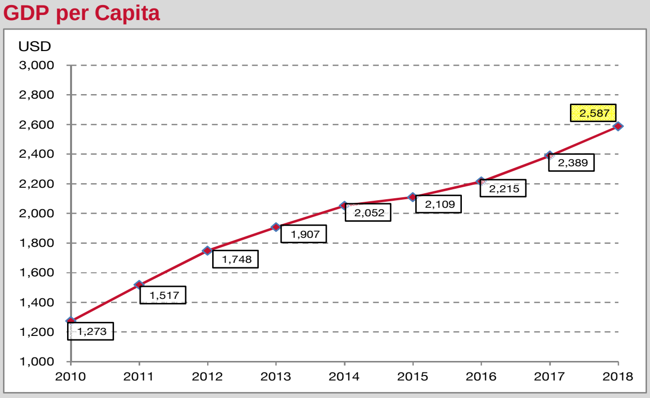
Source: General Statistics Office of Vietnam, CEIC Data

Population Statistics

Population Growth

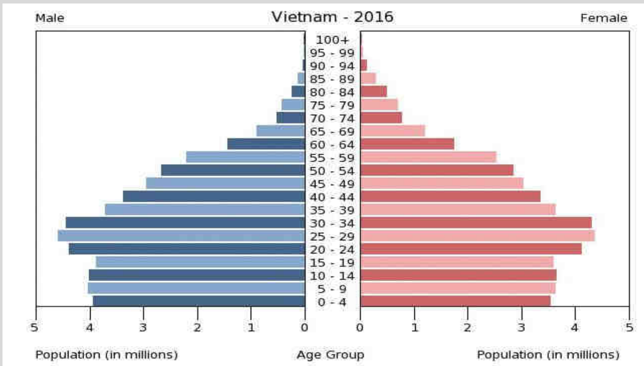


GDP per Capita



Source: General Statistics Office of Vietnam, CEIC Data

Age Demographic in 2016



Source: Indexmundi, CIA World Factbook

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

Chan Ken Yew
Head of Research