

FiinPro Data Digest | Issue #2 | February 12, 2020

Corporate Earnings Growth is Slowing Down

Prepared by: FiinGroup's Data Analytics Team

Report Type: Report Briefings for Public Readers

KEY POINTS:

- **Non-financial companies' revenue and profit growth is slowing down:** Net revenue grew modestly by 4.2% while profit-after-tax growth outpaced at 9.3% in 2019. Although accounting profit was up, EBIT and EBITDA growth decelerated in Q4-2019 (EBIT +3.8%, EBITDA +5.1%).
- **The growth quality is deteriorating:** Adjusted EBIT and EBITDA growth fell to -1.5% and -1.1% in 2019. This is the first year since the crisis period of 2008-2012 that EBIT and EBITDA experienced negative growth.
- **In the context of the overall market slowdown, there are still some sectors that maintain good growth,** including Technology and Automobiles & Parts. Some sectors are evaluated as maintaining the growth rate in 2019 such as Pharmaceuticals, Personal & Household Goods, Construction & Materials and Telecommunications.
- **The Banking sector still maintains double-digit profit growth:** 18 listed bank recorded after-tax profit growth of 29.3% in 2019 thanks to the growth of fee income (+30.7%). Basically, the Banking sector has resolved NPLs sold to VAMC.
- **The EPS growth of VN30 companies in 2020 is forecast at 15.3%:** This is a high level compared to the actual growth of 3% in 2019 vs. analysts forecast of 5.4% and management estimates of -1.2%. However, most analysts' reports are published and updated before the impact of the nCoV epidemic.

NON-FINANCIAL COMPANIES

Non-financial companies' revenue and profit growth is slowing down: There were 899 non-financial companies disclosing their business results in Q4 and 2019, showing:

- Net revenue grew modestly by 4.2% while profit-after-tax growth outpaced at 9.3% in 2019.
- In Q4-2019, net revenue only edged up by 1.2% while profit after tax rose by 18.8% y-o-y. It is worth noting that net revenue growth has tended to slow down since Q3-2018.
- Although accounting profit was up, EBIT and EBITDA growth decelerated in Q4-2019 (EBIT +3.8%, EBITDA +5.1%). This is due to the fact that profit growth was mostly contributed by financial incomes from transfers of contributed/divested capital or rises in other incomes.

Figure 1: Annual Net revenue growth in past 10 years

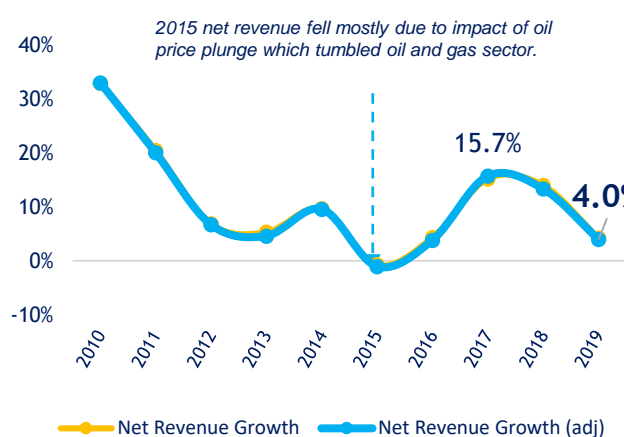
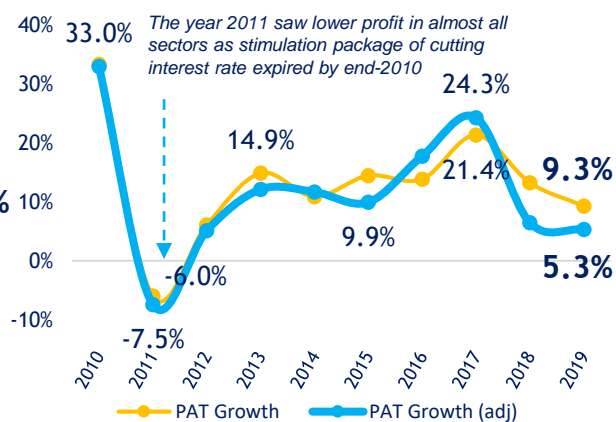


Figure 2: Annual Profit after tax (PAT) growth in past 10 years



Source: FiinPro Platform

Notes: Data is from non-financial companies. The data is adjusted, subtracting revenues from subsidiaries if these companies are consolidated into listed parent companies.

The deteriorating earnings quality of non-financial companies is more evident when we adjust the impact of consolidation of subsidiaries and calculate growth indicators by excluding data of subsidiaries which have been consolidated into parent companies, specifically:

- Profit after tax in 2019 grew only by 5.3% instead of 9.3% before adjustment.
- EBIT and EBITDA growth declined to -1.5% and -1.1% in 2019 after adjustment. This is the first time since the 2008-2012 crisis that EBIT and EBITDA had negative annual growth.
- A more noteworthy point in our view is that consumer sectors such as Food & Beverage, Retail, Industrial Goods & Services had the growth quality declined or revenues and profit slowed down, including leading businesses. In this report, we point out a number of reasons as well as help investors keep track of important sectors which investors are pinning high hopes on.

NON-FINANCIAL COMPANIES

Sectors with high revenue and profit growth in 2019 compared to the five-year and ten-year CARG include: Information Technology, Telecommunications and Automobiles & Parts. Specifically, these sectors are rated as ACCELERATING in terms of Revenue and Profit.

When we assess the 2019 revenue growth rate of ICB (level 2) sectors in 2019 compared to the five-year and ten-year CARG, the results are as follows:

- 2/16 sectors are classified as ACCELERATE: Information Technology and Automobiles & Parts.
- 2/16 sectors are classified as MAINTAIN: Health Care (Pharmaceuticals) and Telecommunications.
- 12/16 sectors are classified as DECELERATE: including Real Estate, Food & Beverage, Industrial Goods & Services, Construction & Materials, Basic Resources, Personal & Household Goods, and some other sectors.

When considering after-tax profit growth rate with the similar methodology, the results are as follows:

- 3/16 sectors are classified as ACCELERATE: Utilities, Telecommunications and Automobiles & Parts.
- 5/16 sectors are classified as MAINTAIN: Information Technology, Health Care (Pharmaceuticals), Construction & Materials, Retail and Personal & Household Goods.
- 8/16 sectors are classified as DECELERATE: Real Estate, Food & Beverage, Travel & Leisure and some other sectors.

Table 1: Evaluating 2019 Revenue Growth

| No. | ICB Sector | No. of Com | Marcap % Marcap | | REVENUE GROWTH | | | Growth Ranking |
|-----|-----------------------------|------------|-----------------|--------------|----------------|-------------|-------------|----------------|
| | | | 2020-02-11 | | 10-Year CARG | 5-Year CARG | 2019 | |
| | | | VND trn | % | % | % | % | |
| 1 | Real Estate | 84 | 587.7 | 13.7% | 26.5% | 27.3% | 8.0% | DECELERATE |
| 2 | Food & Beverage | 76 | 463.8 | 10.8% | 13.8% | 10.0% | 2.4% | DECELERATE |
| 3 | Utilities | 97 | 315.7 | 7.4% | 9.6% | 4.0% | 4.7% | DECELERATE |
| 4 | Industrial Goods & Services | 139 | 298.4 | 7.0% | 11.4% | 10.2% | 4.8% | DECELERATE |
| 5 | Travel & Leisure | 31 | 131.6 | 3.1% | 11.5% | 12.7% | 0.4% | DECELERATE |
| 6 | Construction & Materials | 180 | 136.3 | 3.2% | 9.2% | 7.0% | 3.7% | DECELERATE |
| 7 | Basic Resources | 73 | 127.8 | 3.0% | 12.9% | 9.9% | 1.7% | DECELERATE |
| 8 | Oil & Gas | 9 | 108.0 | 2.5% | 4.5% | -3.0% | 2.3% | DECELERATE |
| 9 | Telecommunications | 5 | 94.2 | 2.2% | 25.3% | 6.9% | 11.4% | MAINTAIN |
| 10 | Chemicals | 48 | 85.4 | 2.0% | 7.1% | 2.8% | -4.2% | DECELERATE |
| 11 | Retail | 19 | 58.4 | 1.4% | 20.3% | 17.9% | 10.6% | DECELERATE |
| 12 | Personal & Household Goods | 46 | 48.9 | 1.1% | 8.5% | 8.2% | 0.3% | DECELERATE |
| 13 | Technology | 21 | 45.2 | 1.1% | 4.9% | 3.9% | 9.1% | ACCELERATE |
| 14 | Health Care | 30 | 41.4 | 1.0% | 10.1% | 4.1% | 7.5% | MAINTAIN |
| 15 | Automobiles & Parts | 10 | 24.4 | 0.6% | 12.0% | 14.3% | 22.9% | ACCELERATE |
| 16 | Media | 22 | 21.6 | 0.5% | 4.5% | 6.9% | -2.0% | DECELERATE |
| | TOTAL | 899 | 3,030.1 | 70.7% | 12.2% | 7.4% | 4.2% | |
| | Adjusted | 882 | 2,536.5 | 59.2% | 12.2% | 7.0% | 4.0% | |

Source: FiinPro Platform

NON-FINANCIAL COMPANIES

Table 2: Evaluating 2019 Profit After Tax Growth

| No. | ICB Sector | No. of Com | Marcap 2020-02-11 Trillion VND | % Marcap % | PROFIT GROWTH | | | Growth Ranking |
|--------------|-----------------------------|------------|--------------------------------------|---------------|---------------|--------------|-------------|----------------|
| | | | | | 10-Year CARG | 5-Year CARG | 2019 | |
| | | | | | % | % | % | |
| 1 | Real Estate | 84 | 587.7 | 13.7% | 11.3% | 28.4% | 17.3% | DECELERATE |
| 2 | Food & Beverage | 76 | 463.8 | 10.8% | 12.4% | 11.0% | 0.2% | DECELERATE |
| 3 | Utilities | 97 | 315.7 | 7.4% | 10.8% | 0.7% | 14.9% | ACCELERATE |
| 4 | Industrial Goods & Services | 139 | 298.4 | 7.0% | 9.5% | 15.3% | 4.3% | DECELERATE |
| 5 | Travel & Leisure | 31 | 131.6 | 3.1% | 15.0% | 53.0% | -12.3% | DECELERATE |
| 6 | Construction & Materials | 180 | 136.3 | 3.2% | 8.5% | 13.8% | 8.8% | MAINTAIN |
| 7 | Basic Resources | 73 | 127.8 | 3.0% | 6.2% | 19.5% | -22.1% | DECELERATE |
| 8 | Oil & Gas | 9 | 108.0 | 2.5% | -4.7% | 16.6% | 0.3% | DECELERATE |
| 9 | Telecommunications | 5 | 94.2 | 2.2% | 102.6% | -1.8% | 1478.5% | ACCELERATE |
| 10 | Chemicals | 48 | 85.4 | 2.0% | 0.3% | 0.1% | -15.1% | DECELERATE |
| 11 | Retail | 19 | 58.4 | 1.4% | 24.8% | 24.1% | 23.2% | MAINTAIN |
| 12 | Personal & Household Goods | 46 | 48.9 | 1.1% | 9.2% | 13.3% | 3.7% | MAINTAIN |
| 13 | Technology | 21 | 45.2 | 1.1% | 6.9% | 12.9% | 12.5% | MAINTAIN |
| 14 | Health Care | 30 | 41.4 | 1.0% | 8.9% | 6.6% | 2.1% | MAINTAIN |
| 15 | Automobiles & Parts | 10 | 24.4 | 0.6% | -1.5% | 2.3% | 32.1% | ACCELERATE |
| 16 | Media | 22 | 21.6 | 0.5% | -3.1% | -187.5% | -133.9% | DECELERATE |
| TOTAL | | 899 | 3,030.1 | 70.7% | 12.0% | 14.5% | 9.3% | |
| Adjusted | | 882 | 2,536.5 | 59.2% | 9.9% | 12.3% | 5.3% | |

Source: FiinPro Platform

At the request of our foreign customers, we conducted a number of research and analysis reports to give answer for the question: “Why does Vietnam F&B sector have such a low growth rate despite the local rising incomes and purchasing power?” The situation is not only seen in F&B with famous brands like Vinamilk (VNM) and Masan (MSN) but also in Retail sector with MWG having same store sales growth (SSSG) decline. After having conducted various independent research reports for foreign investors seeking to penetrate into Vietnam for years, we think that there are two major reasons as below:

- Firstly, it is about the market saturation in some major traditional products of these companies, especially in urban areas, while potentials of new products as well as rural markets have not yet fully tapped. Our data shows that VNM's growth has been driven by the sales of fresh/liquid milk over the years while its powder milk products faced a fierce competition from imported brands, especially in high-end market segment.
- Secondly, it is about the competition with foreign brands and the imported ones, especially in high-end SKUs or market segment. The rising purchasing power and affordability of Vietnamese people has supported the growth of F&B sector, but this is also making a reversal impact on domestic companies at the same time. Having better incomes, consumers are switching their interests to luxury or imported products in high-end segment where local players need more time to dominate.

BANKS

Figure 5: NIM growth and fee income growth

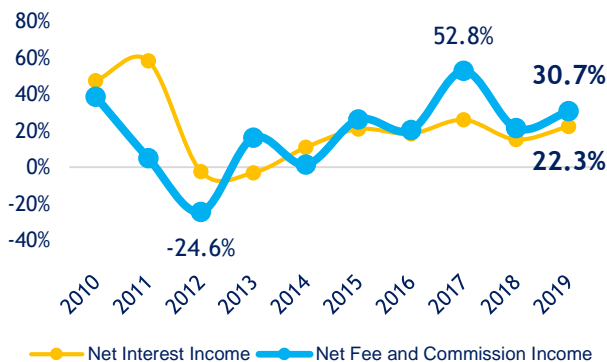
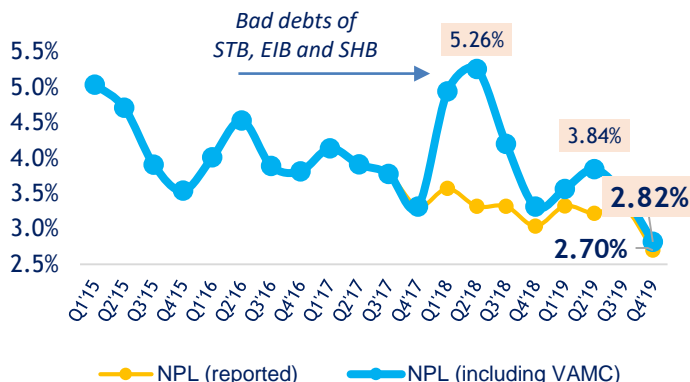


Figure 6: NPL ratios in the past 5 years



Source: FiinPro Platform

Note: NPL is calculated by total debts of Group 2 - 5, NPL including VAMC is added bonds issued by VAMC

The Banking sector still maintains double-digit profit growth

For the financial sector, in this issue, we only analyze performance of 18 listed banks and do not cover insurance and securities companies, investment funds. This group of 18 banks accounts for a combined 67.4% of total outstanding loans of the banking system and has a credit growth of 15.5%, higher than the whole sector (13.5%).

- 18 banks recorded an after-tax profit growth of 29.3% in 2019.
- Profit growth mainly came from the improvement in net profit margin (NIM) at 30 basis points to 3.4% from 3.1% in 2018. Improving NIM of banks mainly came from retail lending growth, including consumer finance at some banks through subsidiaries such as VPBank, HDBank, MBBank and more recently SHB.
- Corporate loans growth tended to fall and stood at as low as 7.8% in 2018. Personal credit growth also tended to decrease, but it was still high at 23.3% in 2018.
- Fee income of these banks grew strongly at 30.7% and the improvement was mostly contributed by the three banks, namely VIB (144.6%), VPB (84.2%) and Tien Phong Bank (58.6%). Three major state-owned commercial banks experienced strong growth in fee income: Vietinbank (46.5%), VCB (26.6%) and BIDV (20.6%).
- Other activities including securities investment/trading (mainly government bonds), foreign exchange trading, gold and dividend income only grew by 5.4% in 2019.

Basically, the Banking sector has resolved NPLs sold to VAMC

Non-performing loan (NPL) ratio of listed banks was lowered to 2.82% (including VAMC bonds outstanding, the figure excluding VAMC was 2.7%). This is the lowest rate in the last 5 years.

- By the end of Q4-2019, only 7/18 listed banks had not yet settled VAMC bonds with a total outstanding loans of over VND6.3 trillion, of which Eximbank (EIB) accounted for 70%, followed by HDB and BAB with 7.7% and 7.5% respectively.
- This is a good signal for the whole banking system as asset quality is getting better. However, to evaluate asset quality, we need to consider many other factors such as the quality of the securities and bond portfolios.

VIETNAM STOCK MARKET VALUATION

- **Stock market valuation is attractive**, P/E and P/B is at 14.46x and 2.16x respectively, which is lower than those when VN-Index hovered around 700. The 2019 actual EPS growth of VN30 is 3% versus 5.4% that we estimated earlier. 2020 EPS of VN30 companies is forecast to grow 15.3%.

Figure 7: Forecast and actual EPS growth (adjusted) of VN30 companies in 2019

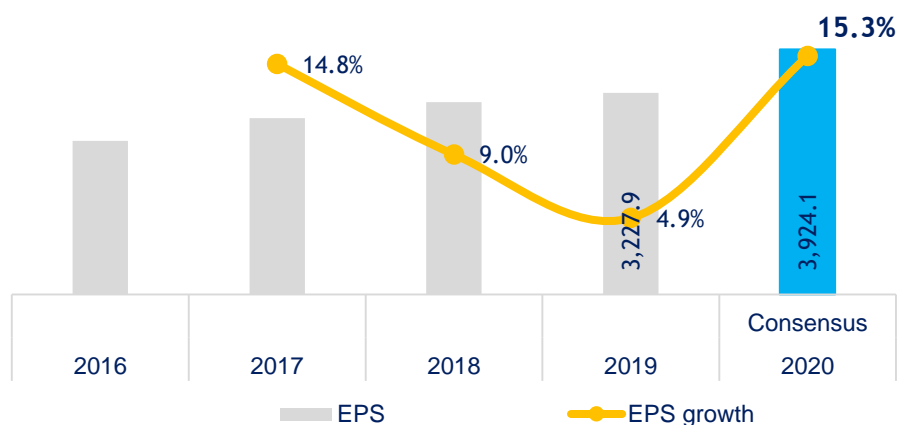


Source: FiinPro Platform

Note: This is the VN30 stock basket before being updated on February 3, 2020. Later POW and PLX were added instead of DPM and GMD. Mgt Est. ~ Management Estimates

- **EPS growth of VN30 is forecast at 15.3%**, much higher than actual figure of 4.9% in 2019.
- However, this number needs more consideration and there will be many changes due to: (1) Companies have not yet released the audited financial statements for 2019 and (2) The analysis reports we have compiled are not the latest ones.

Figure 8: Forecast of EPS growth (adjusted) in 2020 of VN30 group companies



Note: This is the current VN30 stock basket (updated on February 3, 2020 after omitting DPM and GMD and adding POW and PLX).

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FiinGroup (previously StoxPlus) is Vietnam's pioneer and leading provider of financial data, business information, industry research and other data-driven analytics services.

Established in March 2008 and entered into strategic capital and business alliance with Nikkei Inc. (Japan) since September 2014, FiinGroup is the main service provider to almost all local and foreign financial institutions through subscribed fintech platforms, company and industry research.

FiinGroup currently has more than 100 staff working at Hanoi Head Office and HCMC Branch.