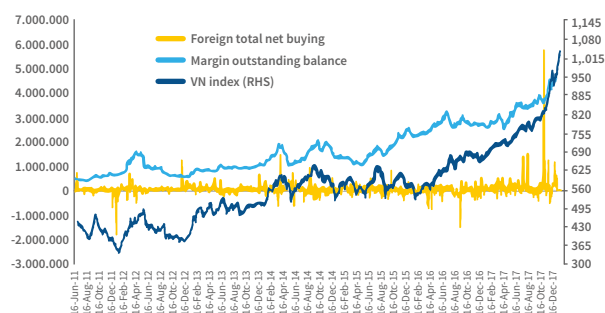


2. STOCK MARKET OUTLOOK 2018

2.1 HSC TARGETS A VN INDEX HIGH OF 1200 DURING 2018

Foreign net buying & Margin vs. VN Index



Source: HSC

In 2018, HSC's most likely case calls for the VN Index to hit a high of 1200 which is about 20 points above its all-time high of 1179.32. We see the 2018 market performance supported by:

1. Second consecutive year of positive foreign buying

- Foreigners will be significant net buyers once again in 2018. Since Q1 last year, we have seen significant foreign net buying offsetting the negative gap between M2 growth and credit growth on an annualized basis.

2. Continued stream of SOE related IPOs and new listings

coupled with a sell down of government stakes in existing listed companies will provide the supply to entice foreign net buying.

3. Strong earnings growth

with HSC calling for EPS growth of 18.2% for the TOP70 companies by market capitalization.

However, while the main factors driving the market higher will be similar to that of 2017, we see some significant differences:

- **Valuations look topy** - As of the end of 2017 the TOP70 earnings forecast show the market trading at a forward 2018 P/E of 18.8xs. The current P/E is just above 19.4xs.
- **More volatility** - We also expect a much more volatile market given these topy valuations and the fact that we are in a global transition year regarding monetary policy.
- **Equitization pipeline not as exciting as 2017** - So far, we do not see any large SOE auctions resembling the scale of Sabeco in the pipeline; hence, the scale of net foreign buying won't be as significant as in 2017.

Until 2016, the so called free liquidity gap (the difference between y/y growth in M2 and credit growth) did a good job of explaining the movement of the VN Index. However,

in 2017, M2 y/y growth spectacularly under-performed credit while at the same time the VN surged. Several factors at play here:

- **Foreign net buying** - the obvious explanation would be foreign net buying which went from negative US\$ (354.08) million in 2016 to a positive US\$ 1.15 billion in 2017. And this seriously understates the net inflow as it doesn't include off exchange deals where the buyers were invariably foreigners.
- **Bank lending to fund margin loans** - greater use of debt to fund margin lending. Brokers have been given far greater access to bank debt in recent years, so much so that arguably the increase in margin lending seen in 2017 was largely debt funded.
- **Lower interest rates were a bonus** - Interest rates rather unexpectedly fell during the year against the expected trend and thus provided an Indian summer of low rates for investors. This helped to add to the buoyant mood in the market.

So how do these market demand drivers line up for 2018?

1. Foreign net buying will likely be less this year

- Vietnam is in a bit of a grey area at the moment. Somewhere between frontier and emerging market status. Now this time last year foreign exposure to the market was unusually low and at a time when large deals were starting to flow; earnings forecasts looked good and there was talk of a possible addition to the MSCI emerging market watchlist. The inevitable happened. We had a flood as some early emerging market funds took the plunge. This year, having already eaten, they are likely to become more choosy. We have seen early signs that some large institutional investors have already filled their proposed allocation towards Vietnamese equities.

2. Margin lending is unlikely to continue to increase at the same pace

- HSC estimates that average margin lending increased by at least 37% last year (we have top 4 broker numbers only to the end of Q3). We roughly estimate that the total current margin lending exposure comes to some 1.4% of total market capitalization (This assumes the top 4 brokers control about 50% of the margin lending market). It has been as high as 1.6% - 1.7% previously according to our historic models, still well within safe limits; however, it cannot continue to expand at the same pace as before.

3. Interest rates likely to increase this year

- we forecast that interest rates will rise by 30 - 50% in 2018.

MACROECONOMIC & STRATEGY 2018 (Cont.)

2.2 MARKET REFORM IS STILL HIGH ON THE AGENDA. ALTHOUGH PROGRESS REMAINS ON THE SLOW SIDE

HSC view on equity market reform timeline

Equity market reform - possible timeline
<p>Done in 2016</p> <p>FOL access lifted for 9 stocks</p> <p>Auction of partial government stakes in some large cap companies in VNM</p> <p>Possible discussion of FOL reform for banking shares</p> <p>Listing of equitised former SOEs - Habeco; Sabeco; Vietnam Airlines and ACV</p>
<p>Done in 2017</p> <p>Another 6 companies lifted their FOL</p> <p>Derivatives market launch offering some VN30 index and bond future products.</p> <p>Private placements and then listing of VPB; Vincom Real estate and KDF</p> <p>Auction of leading IPP Becamex IDC</p> <p>IPO & listing of Petrolimex</p> <p>Listing of Viet Jet Air & Novaland after previous private placements</p> <p>Auction of partial government stakes in some large cap companies such as Sabeco and VNM</p>
<p>Expected within 2018</p> <p>Earliest date inclusion into MSCI emerging market index watch list to be considered</p> <p>Covered warrants - options for individual stocks</p> <p>Auction of further partial government stakes in some large cap companies in VNM; Habeco; BMP and FPT</p> <p>Private placements and/or listing of HDBank; Techcombank; VIB; several other banks and FPT Retail</p> <p>More SOE IPO auctions and listings such as PV Oil; PV Power</p> <p>Possible discussion of FOL reform for banking shares. Another 5-10 companies to lift FOL</p> <p>Possible completion of HCMC & HN Exchange merger</p> <p>Multi account same day buy sell trading offered</p>
<p>Expected within 2019</p> <p>Possible introduction of T+0. Only if liquidity boost is needed</p> <p>Active capital raising by banks as they prepare for Basle 2</p> <p>More SOE IPO auctions; listings and stake sales as Government strives to complete plan</p>
<p>Expected in 2020</p> <p>Earliest date inclusion into MSCI emerging market index to be considered</p> <p>Basle 2 CAR standard to be introduced for banks</p> <p>IFRS accounting standards to be introduced for all listed firms</p>

Source: HSC collection and view

Taking various steps to help overcome the remaining issues preventing MSCI emerging market status is a high priority for the SSC. However it isn't the only one. They have a market to develop and new products to launch. What follows is where we stand on the other key market reform issues.

- **Covered warrants** - these products are expected to launch in Q1 FY2018, after missing the initial launch plan timeline in 2-H FY2017. Namely brokers will create and launch individual covered warrants in a handful of stocks. Expect 2-3 warrants to be launched in liquid names.

- **Stock exchange merger** - The market has been in the in-tray for almost 5 years. Given a recent generational change in the leadership of the SSC and HSX we expect the merger to be given new impetus. Regulator's focus has been more on derivatives and covered warrants, however with these now functioning or close to functioning attention can now return to organizational changes. Hence we expect merger will be executed within FY2018. With a merged exchange headquarters based in Hanoi. Then all equities will be run by HSX, while bonds and derivatives will be run on HNX.
- **Expanded portfolio of futures** - The first bond futures products, Government bond futures are expected to be launched in Q3 FY2018. Then we speculate that some corporate bond futures could be introduced sometimes in late FY2018. However the latter may have to wait on a secondary corporate bond market to emerge first.
- **T+0 kite was floated recently in the media** - the Vietnam Securities Depository (VSD) floated this idea through the media recently. They are apparently studying T+0 and have prepared their IT system to run test on it. SSC still has to take a serious look however. Introducing T+0 might be useful at some point in the future trading of the market is deemed to need a boost in liquidity. But current liquidity is already abundant.

Key positive and negative factors for the Vietnamese stock market in 2018

	Importance level	Likelihood in next 3 months	Likelihood in next 6 months	Likelihood in next 12 months
Macroeconomic changes				
GDP growth to remain fairly stable in 2017	Primary	High	High	High
As inflation accelerates towards 4%	Primary	Low	High	High
Currency to depreciate at a faster rate	Primary	Low	Medium	High
Manufacturing and consumer sectors to grow faster	Secondary	Medium	Medium	High
Recovery in agriculture to continue as prices grow	Secondary	Medium	Medium	High
Mining and resource sector output to fall hard	Secondary	High	High	High
Some movement on regional trade pacts	Tertiary	Low	Low	Medium
Monetary policy changes				
Credit growth and M2 to decelerate slightly in 2018	Primary	High	High	High
Interest rates to increase at a moderate pace	Primary	Low	Medium	High
Liquidity gap to remain negative for now	Primary	High	Medium	Low
Fiscal policy changes and BOP				
Budget deficit to narrow as new revenue sources kick in	Primary	Medium	High	High
Trade surplus to double as export growth accelerates	Primary	High	High	High
Currency reserves to build on BOP surplus	Primary	High	High	High
Decline in ODA will have a minor impact	Primary	High	High	High
FDI to continue to increase	Primary	High	High	High
Structural changes				
SOE equitisation to continue at a steady pace	Primary	High	High	High
Addition of covered warrants and possible exchange merger	Secondary	Low	High	High
Other changes				
Continuing interest in M&A as foreigners look to snap up assets	Primary	High	High	High
Cleanup of bank sector management to continue	Secondary	High	High	High
Regional geopolitical tensions to rise	Primary	Medium	Medium	High
Global stock markets likely to be more volatile as bull market matures	Primary	Medium	High	High
Taper tantrum risk at some of very high	Primary	Low	Medium	High

Source: HSC collection and view

MACROECONOMIC & STRATEGY 2018 (Cont.)

2.3 EQUITISATION PROGRAM CONTINUES INTO 2018. MORE HEADLINE GRABBING IPOs AND AUCTIONS EXPECTED

Private sector listings and other major events coming in 2018

Name	Ticker	Current OTC price	Outstanding shares	Estimated market capitalisation \$US million	Listing timing
Major private sector listings expected in 2018					
Techcombank	TCB	62,000	887,807,871	2,424.8	Q2 2018
Viet Nam Engine And Agricultural Machinery Corporation	VEAM	20,000	1,328,800,000	1,170.7	Q2 2018
Truong Hai Auto	Thaco	56,000	352,500,000	869.6	2018
Yeah1	YEG	NA	24,000,000	Above US\$ 200 million	Q3 2018
Orient Commercial Bank	OCB	15,000	400,000,000	264.3	2H 2018
Switch from Upcom to HSX					
Vietnam International Bank	VIB	24,900	564,442,500	619.1	1H 2018
Airport Corporation of Vietnam	ACV	116,700	2,177,173,236	11,192.8	1H 2018

Source: Media, HSC

The equitization program ended on a high note in 2017 with two highly successful auctions:

- **Sabeco** - 53.59% stake for US\$ 4.8 billion between a single corporate buyer and a solitary retail player.
- **VNM** - 3.33% stake at a consideration of US\$ 395 million to a single buyer.

We have seen a slew of large listings; private placements and stake sale auctions. Involving a massive transfer of equity:

- From government hands into mostly foreign investor hands.
- From private sector hands into mostly foreign investor hands.

FY2018 marks year two of a three-year SOE equitisation plan. And therefore, it will be a year of continuation. Some of the equitisations and listings have already been well signalled. Especially those offcuring in Q1 FY2018. However, as for the calendar for the rest of the year there is the usual guesswork:

- **SOE IPOs** - PV Oil, PV Power and Binh Son Refinery already took place in 1Q2018. Along with one of the EVN power generating companies and then likely Vietnam Rubber Group & Maritime Bank. Then with a table yet to be confirmed we expect VEAM & Thaco to also come to the market. Finally wild card equitisations include Mobifone which may or may not come to the market this year.

- **Private sector listings** - Amongst private sector listings HDBank has just listed. And now we expect Techcombank; Ben Thanh Group and Vietnam International Bank to follow in the 1H. Some of these will also involve pre-listing private placements such as HDBank completed in Q4 FY2017.

- **Stake Sales** - Amongst stake sales we expect a sale of the government stakes (partial or full sale) in ACV; BHN; FPT; VGC; BMP and VNM within 2018. Wild card sales may include a partial stake sale in DPM and possibly even GAS.

Compared to the 2017 class of IPOs; private placements; equitisations and auctions the known 2018 events look a little less exciting frankly. We can excuse this partly on the grounds that its early days and we have little visibility on what might come in the 2H.

However the sense of excitement that was generated in 2017 by the sheer number of best of breed stocks that executed important corporate actions (VJC; VRE; VPB; HDB; PLX; VNM; SAB and VGC) will be hard to be better. Although we note important actions in FPT; ACV; BHN; Techcombank; PV Oil and PV Power that are all guaranteed to create a degree of excitement. However, to repeat last year would require telco such as Mobiphone perhaps to come to the market. And the chances of this are still unknown.

Even so, the telcos and various PVN group companies are yet to come. While the selling down of major stake such as GAS expected in 2019 will also attract a lot of interest. And of course over time, the expected timelines of some of these will become a lot clearer.

Major SOE IPOs and auctions expected in 2018

Company	IPO timing	Chartered Capital (VND)	Outstanding Share	Price (VND)	Market Cap in VND 1000	Market cap in US\$ million
Vietnam Rubber Group (VRG)	IPO on Feb 02 nd 2018	40,000,000,000,000	4,000,000,000	13,000	52,000,000,000	2,290.7
Power Generation Corporation 3 (EVNGENCO3)	IPO in February 2018	20,809,000,000,000	2,080,900,000	24,600	51,190,140,000	2,255.1
Binh Son Refining and Petrochemical Company Limited	IPO on Jan 17th 2018 on HSX	31,004,996,160,000	3,100,499,616	14,600	45,267,294,394	1,994.2
PetroVietnam Power Corporation (PV Power)	IPO on Jan 31st 2018 on HNX	23,418,716,000,000	2,341,871,600	14,400	33,722,951,040	1,485.6
Mobifone	IPO in 2018 or 2019	15,000,000,000,000	1,500,000,000	10,000	15,000,000,000,000	660.8
Vietnam Maritime Commercial Joint Stock Bank	IPO on Jan 18th 2018 on HNX	11,750,000,000,000	1,175,000,000	11,900	13,982,500,000	616.0
Vinalines	IPO in 2018	13,961,000,000,000	1,396,100,000	10,000	13,961,000,000,000	615.0
Petrovietnam Oil Corporation (PV Oil)	IPO on Jan 25th 2018 on HSX	10,342,295,000,000	1,034,229,500	13,400	13,858,675,300	610.5
Vientam Cement Industry Co (VICEM)	IPO in 2019	13,005,964,974,843	1,300,596,497	10,000	13,005,964,974,843	572.9
Genco 3	IPO in 2018	12,600,000,000,000	1,260,000,000	10,000	12,600,000,000,000	555.1
Vietnam Northern Food Corporation (Vinafood 1)	IPO in 2018	5,520,334,853,938	552,033,485	10,000	5,520,334,853,938	243.2
Saigon Tourist	IPO in 2018	5,300,000,000,000	530,000,000	10,000	5,300,000,000,000	233.5
Vinafood II	IPO in Q1 2018	5,000,000,000,000	500,000,000	10,100	5,050,000,000	222.5
Saigon Water Co (Sawaco)	IPO in 2018	4,678,307,000,000	467,830,700	10,000	4,678,307,000,000	206.1
Ben Thanh Group	IPO in Q2 2018	1,936,000,000,000	193,600,000	10,000	1,936,000,000,000	85.3
Vinapaco (Apatit)	IPO in 2018	1,500,000,000,000	150,000,000	10,000	1,500,000,000,000	66.1
Lam Dong Water Supply and Sewerage Company Limited	IPO on Jan 15th 2018 on HSX	788,000,000,000	78,800,000	11,000	866,800,000	38.2
					73,717,545,189,515	12,750.7

Source: Media, HNX, HSX

Listed stock divestments - list of expected government divestments from stocks in 2018

Company	Current market price	Number of shares outstanding	Expected Percentage of Divestment	Market Capitalisation in VND 1000	US\$ amount million	Value of the stake in VND 1000	US\$ amount million
Airports Corp of Vietnam (ACV)	119,000	2,177,173,236	20.0%	259,083,615,084	11,413.4	51,816,723,017	2,282.7
BECAMEX	31,000	1,317,000,000	48.6%	40,827,000,000	1,798.5	33,359,741,700	1,469.6
PV Power	14,400	2,341,871,600	49.0%	33,722,951,040	1,485.6	27,555,023,295	1,213.9
Petrolimex (PLX)	75,000	1,158,813,235	24.9%	86,910,992,625	3,828.7	21,606,072,767	951.8
Vietnam International Commercial Joint Stock Bank (UPCOM)	24,900	564,442,500	20.0%	14,054,618,250	619.1	11,484,028,572	505.9
PV Oil	13,400	1,034,229,500	65.0%	13,858,675,300	610.5	11,323,923,588	498.9
Habeco	139,500	231,800,000	31.7%	32,336,100,000	1,424.5	10,250,543,700	451.6
Vinaconex	23,100	441,710,673	57.8%	10,203,516,546	449.5	8,337,293,370	367.3
LienViet Post Joint Stock Commercial Bank (UPCOM)	13,500	750,000,000	20.0%	10,125,000,000	446.0	8,273,137,500	364.5
Tien Phong Bank	10,000	584,210,000	20.0%	5,842,100,000	257.4	4,773,579,910	210.3
Orient Commercial Joint Stock Bank - OCB	10,000	400,000,000	20.0%	4,000,000,000	176.2	3,268,400,000	144.0
Vinapharm	20,900	237,000,000	65.0%	4,953,300,000	218.2	3,219,645,000	141.8
Vinatex	11,400	500,000,000	53.5%	5,700,000,000	251.1	3,048,360,000	134.3
Vietnam Steel Corp	7,500	678,000,000	57.9%	5,085,000,000	224.0	2,945,232,000	129.7
Bao Minh Insurance Corporation (BMI)	35,500	91,354,037	51.0%	3,243,068,314	142.9	2,649,911,119	116.7
Thai Nguyen Iron and Steel JSC	11,100	284,000,000	35.0%	3,152,400,000	138.9	2,575,826,040	113.5
Viglacera Corp (VGC)	27,200	427,000,000	20.6%	11,614,400,000	511.6	2,394,889,280	105.5
Tien Phong Plastic Joint Stock Company (NTP)	66,200	89,240,302	37.1%	5,907,707,992	260.3	2,191,759,665	96.6
Binh Minh Plastics Joint Stock Company (BMP)	83,000	81,860,938	29.5%	6,794,457,854	299.3	2,005,044,513	88.3
FPT Corporation (FPT)	60,000	530,878,729	6.0%	31,852,723,740	1,403.2	1,895,237,063	83.5
Hanel	10,000	192,600,000	29.0%	1,976,000,000	84.8	558,540,000	24.6
Vietnam Machinery Installation Corporation Lilama	13,200	79,726,104	46.9%	1,052,384,573	46.4	493,357,888	21.7
Hanoi Plastics	85,500	6,500,000	81.7%	555,750,000	24.5	454,103,325	20.0
Total:				592,801,761,318	26,114.6	216,480,373,310	9,536.6

Source - Media, HSC

2.4 EARNINGS WILL CONTINUE TO GROW NICELY IN 2018.

TOP70 earnings by sector

Sector earning	Net Profit					%y/y			
	FY2014	FY2015	FY2016	FY2017e	FY2018F	FY2015	FY2016	FY2017e	FY2018F
Financial service	33,666,647	32,106,789	35,378,307	44,955,716	65,851,098	-5%	10%	27%	46%
Consumer	13,278,666	20,473,397	19,379,856	23,582,966	26,656,094	54%	-5%	22%	13%
Manufacturing	4,662,837	5,644,465	9,797,567	10,124,328	12,775,104	21%	74%	3%	26%
Real Estate	6,465,407	6,227,505	10,562,351	15,108,238	18,552,054	-4%	70%	43%	23%
Energy	20,412,209	17,358,825	15,244,070	14,330,400	16,077,437	-15%	-12%	-6%	12%
Technology	1,701,928	2,060,156	2,113,805	2,476,794	2,762,790	21%	3%	17%	12%
Transportation	2,990,771	3,388,437	9,713,437	11,036,089	13,481,645	13%	187%	14%	22%
Pharmaceuticals	619,052	681,611	811,280	879,490	942,019	10%	19%	8%	7%
Logistics	779,043	681,618	632,875	2,694,926	753,386	-13%	-7%	326%	-72%
Utilities	1,403,977	812,272	801,022	1,182,906	1,049,160	-42%	-1%	48%	-11%
Retails	2,405,113	4,092,673	6,004,572	5,766,116	6,795,038	70%	47%	-4%	18%

Source: HSC's Analyst forecasts

HSC forecasts EPS growth of 16.7% for the VN TOP70 in 2018. Like 2017 also we are expecting consistent gains from sales growth all the way down to EPS growth. This breaks the pattern of the past where strong sales growth was often dissipated by falling margins or dilution on the way down to EPS. This was not the case in 2017, although in the second year of an earnings cycle the chance of dilution increases as some listed firms may look to boost equity.

- Sales growth will decelerate slightly on last year; although the initial projections are not that dissimilar to what we were expecting at this time in 2017.
- We expect to see moderate GPM gains mainly due to a further improvement in financial sector earnings and efficiency gains elsewhere due to economies of scale. It's also important to note that the class of 2017 SOE listings should start to show efficiency gains also.
- Our assumptions for net profit margins are almost unchanged on last year. Mainly due to expectations that gains higher up will be offset by higher interest expenses.
- EPS growth will decelerate on last year partly due to dilution and partly as we do not forecast extraordinary gains according to standard practice.

By sector we see earnings growth for 9 out of the 11 sector that we look at:

- **Financial services look set for another good year as decent top line growth is coupled with lower provisioning. Brokers and insurers also set to grow.** Financial services should have another good year as banks; brokers and insurers benefit from the continued low inflation growth environment. Loan growth should continue at roughly the same pace as last year. Then we see a moderate increase in interest rates which are positive for financials in general and bank NIMs in particular. **Top sector picks include VCB, MBB, HDB, EIB, VIB, BVH, BMI and SSI, with LPB as the wild card.**
- **Prospects for consumer names look more mixed, although most companies will show decent earnings growth.** Consumer names are showing a fairly mixed picture for 2018. Amongst the core consumer names, we expect VNM and SAB will show decent growth this year given long term secular growth trends. However, the numbers for MSN and KDC will be pulled down to one-off gains in 2017. We believe that in 2018, consumption of FMCG products will grow broadly in line with GDP growth given (1) rising per capita income, (2) ongoing urbanization and (3) still a relatively low penetration rate for several product segments compared to countries in the region. **Top sector picks include MSN, VNM, MWG, LTG and GTN, with HAG as the wild card.**

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- **Manufacturing had a fairly difficult in 2017. Prospects for this year look a lot better overall.** Manufacturing had a rather indifferent year in 2017 as they caught in whipsaw of rising and then falling raw material prices, which left some taking a hit from high priced raw material inventories. This year prospects look a bit better, partly on a low base effect and partly as key companies such as HPG are expected to see a decent increase in earnings in 2018. **Top sector picks include HSG, HPG, AAA, PHR, and DRC, with Thaco as the wild card.**
- **Real estate sector earnings to grow nicely in 2018, as real estate cycle hits a peak.** For FY2018, we expect earnings for real estate developers to still grow strongly this year as the last of the projects which saw strong pre-sales in the period FY2015-2017 will be handed over and recognized as earnings. In FY2018 we forecast:

 - ▶ Total sales of the 6 listed developers that we follow which accounts for 82.7% of total market cap of the whole sector will increase by 47% y/y to VND 161.8 trillion and that NPATMI will increase by 38% y/y to VND 11.5 trillion;
 - ▶ Pre-sales expected to increase significantly by 70% to 38,546 units, including apartments and townhouses & villas, with total contracted sales expected to increase 30% y/y to VND 127.9 trillion given more affordable products launch into the market;
 - ▶ Following the launch of a total of 57,213 units (+473% y/y) as some large developers such as VIC, NVL and DXG have an aggressive launch program for 2018. **Top sector picks include VIC, NVL, DXG, KDH, NLG, SJS, VRE, CTD, CII, REE, FCN, KBC, VGC.**
- **Resource sector should show earnings improvement this year given a higher oil price and low base.** We expect resource stocks will have a better year in 2018, as we estimate average crude oil price will improve to US\$ 60/bbl (+10% y/y), or well above the break-even point of US\$ 55/bbl for Vietnamese oil & gas operators. With higher prices and aging fields, we expect to see a major boost to capex for E&P activities and estimate it will increase by around 15% to VND 23 trillion in FY2018. This is good news for downstream service providers such as PVD and PVS. Other players such as GAS will benefit from capacity increases as new pipelines are being added after a long delay. **Top sector picks include GAS, PVD and PV Oil, with DPM as the wild card.**
- **Transportation & Logistic sector will see decent growth in FY2018 earnings.** We expect transportation and logistics sector earnings to expand in FY2018, especially in the aviation sector, given tremendous growth in passenger and cargo numbers. The key drivers are (1) Strong growth in exports and imports which help underpin earnings at logistic companies (2) continued strong growth in passenger and cargo volumes. According to the Vietnam Administration of Tourism, the number of foreign tourists visiting Vietnam is expected to increase 24% y/y to 16 million tourist this year. Against that, we have to factor in higher fuel costs which will affect most companies in the sector. However, with the exception of ACV, most valuations in the sector are still fairly reasonable. **Top sector picks include VJC and VSC, with HVN as the wild card.**
- **Utility sector will see mixed performance in 2018, with PV Power IPO the main event.** For the period 2017-2020, according to the Vietnam Power Development plan 7, Vietnam's electricity consumption is forecasted to grow at a CAGR of 10%. The increases in material price (coal & gas price) might hurt power companies' margin. However, proposed increase of up to 10% in competitive generation market ceiling price should reduce this impact. We see mixed earnings prospects in FY2018 for the Top 70 utility players. Thermal power players should see a recovery from a low base in FY2017, while hydropower player performance may suffer as we leave the strong rainfall patterns of 2017 behind. **Top sector picks include PV Power and NT2.**
- **Technology sector outlook looks good.** Technology stocks are heading for a better year in 2018. IT expenditure, either domestic or global, will enjoy strong growth, especially the expenditure for enterprise software and IT services as enterprises move further into digital and cloud. In global markets, hardware budgets are expected to decrease while budgets for software and hosted/cloud-based services are expected to increase strongly. Meanwhile, in the domestic market, software budgets, especially of those in financial sector and public services are expected to grow quickly, while hardware budgets might increase at a modest rate but still claim to the largest share of IT expenditure in 2018. Domestic budgets for hosted/cloud-based services will increase fast but still account for a small portion in total IT budget. **Top sector picks include FPT and CMG, with Yeah1 as the wild card.**