

Dear our Valued Clients,

SSIAM's report on the impact of COVID-19 with the following content:

Status quo:

- Covid is causing a decline in business performance and capital fund flows. The slow down of business was mentioned in the previous reports. Enterprises face with many difficulties in cash flow, in the overall economy, we estimate that 1-1.5% of GDP per fund will be reduced if the pandemic is still not under control.
- In the short term, funds with liquidity problems are the key factors affecting the fall of local stock market and other financial assets. Because of the low short-term interest rates and the spread between terms, many funds have implemented leverage strategies to take advantage of these spreads. When short-term liquidity is problematic, funds must sell other liquid assets to compensate, leading to a sell-off in many different classes of assets, including secured assets. Securities, bonds, gold etc. all fell.
- In the medium and long term, if COVID-19 is under control for a short time, enterprises may recover gradually thanks to cheap money and no inflation pressure. It is likely that there will be a technical recession and a recovery before falling into crisis or a new recession cycle when inflation returns. If COVID-19 is uncontrollably prolonged, causing a series of disruptions, that means many bankruptcies, enterprises would most likely lead to a full crisis.
- In contrast, in terms of buying demand, the domestic market was exposed with relatively much of buying cash flow from internal individual shareholders and the purchase of treasury stocks. In addition to a number of price support fluctuations to avoid the marginal forced sells, it also shows the valuation is attractive enough to attract cash inflows that are standing out of the market to buy back the withdrawn investments, this also comes out for the stocks in SSIAM's portfolio.
- The Governments of China, the USA, Germany, the UK, and Japan also implement stimulus policies pumping money to support the market.
- A number of major economic organizations such as the World Bank, the European Central Bank, and the Asian Development Bank also support the economy by launching their financial support packages for the countries and enterprises affected by the COVID-19 pandemic.

Evaluation:

- Summary of the above factors, we can see that in the short term, the pressure is high but it depends on the liquidity of funds. This liquidity can be settled when:
 - i. Liquidity problem is supported or solved. Statistic of this is actually quite difficult to complete comprehensive, but as per preliminary information, there might have an option strategy of about USD40-50 bn (on a hedge fund scale of more than USD3,000 bn, equivalent to a base value of around USD400-500 bn). The allocation to emerging and frontier markets may be only a small part of this, the ETFs is around over USD6,000 bn. Especially in Vietnam, mainly ETFs and P-notes, option strategies are few and only focused on stocks of Vingroup. The main selling pressure as per our observation, is that ETFs and open-ended funds are redeemed and sold massively.
 - ii. There is cash flow injection buying back these sold out equities. In Vietnam, the current P/E valuation is about 11x trailing, the lowest in many years but still higher than the ones in the previous crisis in 2011-2012, at 9x-10x. The risk of falling in value may be 10-15% as in 2011-2012. In fact, there have been many companies with internal individual shareholders to repurchase stocks, such as the case of MWG, HPG, VNM etc. The total registered number of internal shareholders to buy back and of treasury shares is currently more than VND3,000 bn.
 - iii. The timing of control the COVID-19 pandemic will play a key role in determining whether this would be a technical recession or a real crisis or a new recession cycle. If countries implement good blockade as in the case of China, Korea or hope like in Vietnam, it will take about 2-3 weeks for the epidemic to reach its peak, and it might be over after 1-2 months later. In this case, the whole world would take about 1 quarter to handle the epidemic, thus enterprises may not go bankrupt and can recover their production and business activities. Companies having high debt ratio can still withstand 1-2 more quarters if their bank loans are rescheduled and extended. At this point, the banking system would be affected. If the pandemic is under control in a short time, then a full recovery could be expected as the pandemic is totally gone.

Therefore, in the short term, the domestic market is still under considerable pressure from this selling force although the momentum of the decline is slowing down due to demands at cheap prices, it is not yet estimated that how much the next selling force will remain. As a result, it is possible to take a further risk, we will increase the cash proportion and await to buy back as per recovery.

Best regards,

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