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JAPAN SECURITIES INC.

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Market Analysis

1. Caution may continue dampening market

Main events this week include the US-China talks in Washington on April 3 and the release of US economic data on Monday (local time).

A recessional warning last week sent global stocks and Vietnamese shares down sharply while the US Federal Reserve pulled back expected rate hikes in 2019 amid signs of a global economic slowdown.

Worries about a global recession sent both global and local stocks down sharply early last week. The benchmark VN-Index lost 1.89 per cent (18.64 points) on Monday to break its short-term bottom of 980 points.

"Though it managed to re-claim the 980-point level in the following days, that remained a difficult milestone for the benchmark index as investors were clearly cautious," Sai Gon-Ha Noi Securities (SHS) said in a report.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange (HoSE) shed total 0.80 per cent on a weekly basis to end last week at 980.76 points.

On the northern Ha Noi Stock Exchange (HNX), the HNX-Index finished last week at 107.44 points, losing total 0.60 per cent from the previous one.

Caution is predicted to continue driving the market marginally this week as investors are running out of supportive information.

"The declining liquidity proves investors are standing on the side-lines to observe the market and they are unwilling to come back in when the market prospect is unclear," SHS said.

Average trading volume on HoSE reached nearly 136.8 million shares in each session, down 24 per cent week on week. The figure for HNX was 29.4 million shares, down 28.3 per cent weekly.

Another proof of a caution-based market trade is the discount between VN30-underlying futures contracts and the large-cap VN30-Index, which tracks the performance of the 30 largest stocks by market capitalisation on HoSE.

The four VN30-based futures contracts, which will mature in April, May, June and September, are discounted by at least 16 points from the current level of the blue-chip VN30-Index.

"Investors are betting on the chance of the market's further decline at the moment," SHS added.

The momentum for further recovery remains weak as pillar stocks have been unable to extend their growth rates, BIDV Securities Corp (BSC) wrote in its weekly report.

Among blue chips that declined last week, property developer Vingroup (VIC) lost total 2.3 per cent, Vincom Retail (VRE) was down 1.1 per cent, while residential real estate firm Vinhomes (VHM) gained only 0.4 per cent and steel producer Hoa Phat (HPG) edged up 0.8 per cent.

Capital flow is divided into some specific sectors, which have positive news from annual shareholder meetings and 2019 earnings forecasts, BSC added.

"A part of the capital flows in small-cap stocks but the rate of return for those stocks is high" and that proves their gains would "reach the breakeven points when they organise their annual shareholder meetings," the firm said.

According to SHS, the cash flow is quite weak at the moment, therefore, the market trend is unclear and it needs some trading days to settle down. The VN-Index is forecast to move between 965 and 995 points this week.

2. Vietnam stocks slip on last-minute sales

The benchmark VN-Index on the Ho Chi Minh Stock Exchange inched down 0.23 per cent to close at 980.76 points.

The southern market index gained as much as 0.53 per cent during the day after having risen total 1.35 per cent in the previous two trading days.

The VN-Index finished this week down 0.80 per cent from the previous week.

Nearly 174 million shares were traded on the southern bourse, worth VND3.87 trillion (US$166 million).

The market trading was balanced with 151 gaining stocks, 146 declining stocks and 59 unchanged.

The benchmark VN-Index ended in negative territory as blue chips such as residential real estate firm Vinhomes (VHM), consumer firm Masan (MSN), Vietinbank (CTG) and steel producer Hoa Phat (HPG) were hit by profit-taking pressure.

VHM fell 1.7 per cent, MSN lost 0.8 per cent, CTG edged down 0.9 per cent, and HPG dropped 0.8 per cent.

VHM, CTG, MSN and HPG had rallied total 4.6 per cent, 2.3 per cent, 3.4 per cent and 3.3 per cent in the previous three trading days, respectively.

The large-cap VN30-Index edged down 0.17 per cent to 900.13 points at the end of the day with half of the 30 largest stocks by market capitalisation in the basket declining.

On a sector basis, banks and brokerage firms' shares narrowed their growth. The two industry indices gained only 0.5 per cent each at the end of the day.

The market's performance in the last few days showed capital was flowing to some specific groups of stocks, leading the market divergence, and investors were cautious and uncertain about the market's short-term prospects, Thanh Cong Securities JSC (TCSC) said in its daily report.

"The market is now in the stage that investors find themselves short of supportive news and they are clearly unsure about the short-term," TCSC said, adding the market sentiment had turned negative in the last few trading days.

From BIDV Securities Corp's point of view, Vietnamese stocks are in the cumulative state at the threshold of 980 points.

International and regional economic developments would continue weighing on domestic market sentiment, especially the US-China trade talks, the company said.

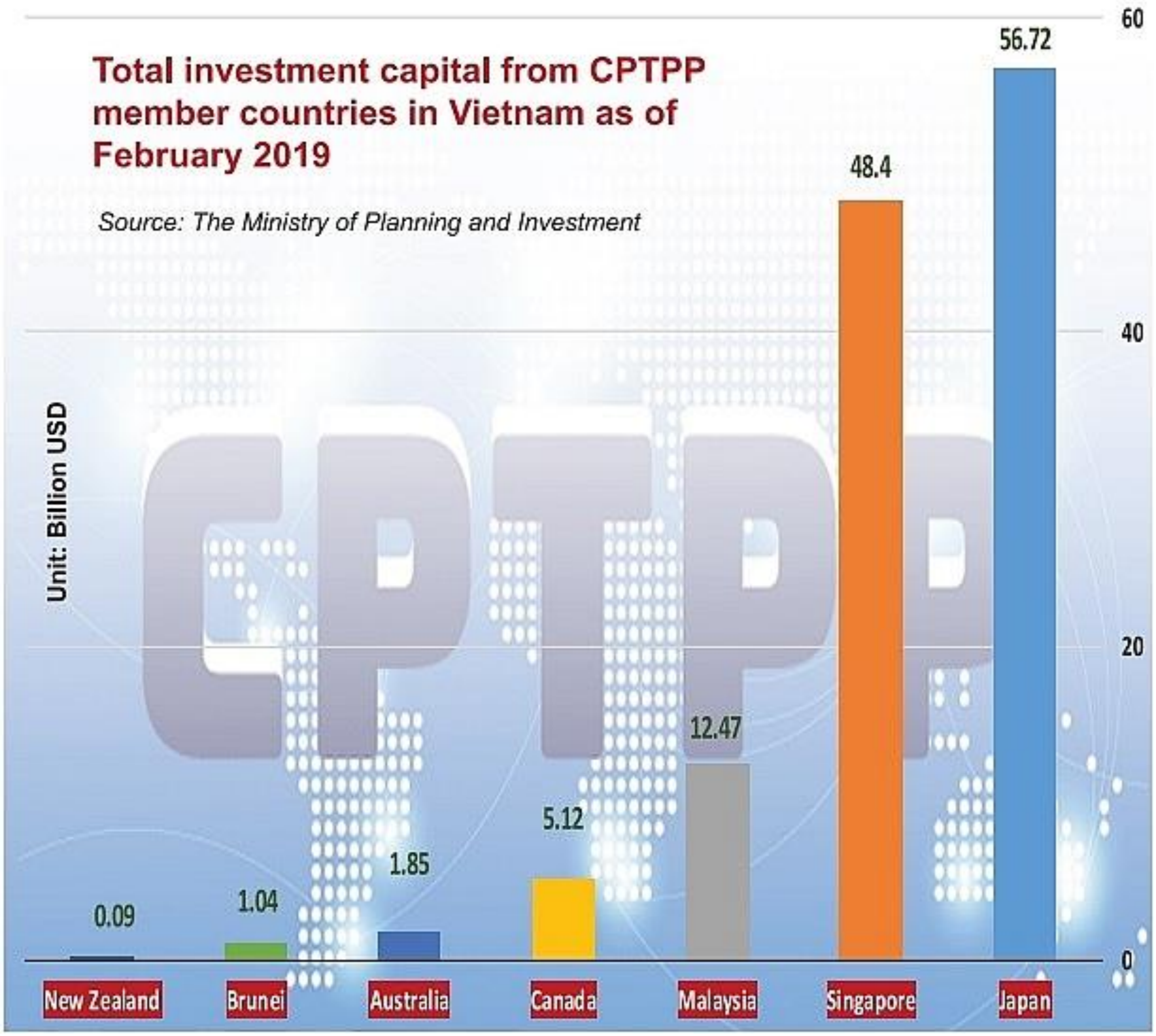
On the Ha Noi Stock Exchange, the HNX-Index struggled to stay positive, ending up 0.09 per cent at 107.44 points.

The northern market index dropped 0.21 per cent on Thursday. It has lost total 0.60 per cent this week.

More than 43 million shares were traded on the northern bourse, worth VND635.7 billion.

Macro & Policies

3. CPTPP offers rising appeal



Last week, a delegation from Singapore's Sembcorp Industries worked with Vietnam's southern province of Binh Duong, with the former's president and CEO Neil MacGregor announcing that the group will invest in new projects with more added value, especially focussing on the application of hi-tech and renewable energy.

As a symbol of the two countries' investment co-operation over the past 20 years, Sembcorp has so far invested in nine Vietnam-Singapore industrial parks, generating jobs for some 200,000 people. Sembcorp's new commitment shows its strong - interest in industrial property in Vietnam.

Boon across many sectors

Sembcorp is one of the success stories of Singaporean investment in the Vietnamese real estate market. Others include CapitaLand and - Mapletree, both prominent names on the real estate market with plans to expand in Vietnam.

"Real estate and construction have traditionally been the big magnets drawing Singaporean businesses to Vietnam. It is forecast that the interest will continue in the future, driven by the newly-effective Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)," Jazreel Lim, president of the Singapore - Business Association of Vietnam (SBAV), told VIR.

Evidently, real estate is among the most interesting sectors in Vietnam not only for Singaporean investors but also other CPTPP members, including those from South Korea, Japan, and Malaysia.

According to Viet Dragon Securities Corporation (VDSC), property is expected to get a big push from foreign investment inflows, driven by the growing demand for industrial parks, high-end buildings, resorts and golf-courses for entertainment, and offices for lease.

In this context, Vietnam's appeal is said to mainly come from manufacturers exiting China for Vietnam and foreign direct investment (FDI) - heading to Vietnam to serve the local and Southeast Asian markets.

Seeing the growth potential, Japanese investors are also venturing further into the sector. As shown in the recent survey by the Japan External Trade Organization (JETRO), the number of new Japanese-invested property and construction projects rose to 33 in 2018 from 19 in 2017. In terms of capital, fresh Japanese investment in real estate made up the largest proportion last year with $4.35 billion, making up 66 per cent of the country's total. The figure in 2017 was $233 million or 3 per cent.

Currently, Japan's Sumitomo and Vietnam's BRG Group are co-operating to develop a $4.2 billion smart city project in Hanoi. Japan's Mitsubishi has recently decided to pour about $500 million into many projects developed by domestic Phuc Khang Group, while Japanese Kajima Corporation is looking for opportunities in offices, residential areas, and other real estate development.

Businesses from Malaysia and New Zealand have also been joining the race. Malaysian names who have been on the local property market for years now include Gamuda Land, Berjaya, IJM Land, Guocoland, SP Setia, and Samling.

"The CPTPP has enhanced Vietnam's position as an attractive location for investment. Vietnam's growing economy offers numerous opportunities for prospective Malaysian investors," said M. - Zamruin Khalid, Malaysian Ambassador to Vietnam.

In addition to property, the CPTPP-driven - competition is forecast to further stiffen in other sectors that can make great gains from the landmark agreement, including textiles and garments, fishery, logistics, agriculture, pharmaceuticals, and finance.

According to VDSC, Vietnam's exports of textiles and garments to CPTPP member countries accounts for 13 per cent of the industry's total export turnover, lower than the 38 per cent to the US. Among the 11 CPTPP member countries, Japan is the top importer of Vietnamese textiles and garments, at around $4.1 billion, or 8.8 per cent of the total.

One of the key contents of the CPTPP is the removal of 95-98 per cent of tariff lines as soon as the agreement enters into force. The remaining tariff lines will be cut over the next seven years, poised to aid the growth and export turnover of the two industries.

The fishery industry also shows bright prospects as the CPTPP member economies annually import about $2 billion, or 23 per cent of Vietnam's total fishery export turnover. As expected, exporters of shrimp, octopus, and tuna will be the biggest winners.

Earlier this month, the Mekong Delta city of Can Tho granted an investment certificate for a seafood processing project to Japanese Marine Foods Corporation. Costing $14 million, the facility is expected to be put into operation in May 2020 with advanced technology and a focus on exports to Japan.

According to VDSC, logistics is also a potential industry for investors, with commodities via Vietnamese seaports forecast to grow by 8-9 per cent annually. In order to grab this potential, a group of Japanese and South Korean investors are seeking opportunities to invest in cold-chain logistics in the Mekong Delta region to meet the growing import-export demand.

Regarding pharmaceuticals, after the EU-Vietnam Free Trade Agreement (EVFTA) and the CPTPP come into effect, pharmaceutical imports and exports from the EU and other CPTPP countries will be duty free. "Consequently, foreign pharmaceutical companies would be able to import pharmaceutical products with lower taxation. The future plan for foreign-invested enterprises in the context of the CPTPP and other free trade agreements is to boost business from importation," said Vaibhav Saxena, legal consultant at Vietnam International Law Firm.

Meanwhile, domestic Vietnamese businesses in agriculture, milk, sugarcane, animal feed, pharmacy, and finance will face more challenges amid the abundant higher-quality food supplies from Australia, New Zealand and others, thus urging them to change their approach to stand firm.

According to statistics from the Ministry of Health, Vietnam imported $3.7 billion worth of pharmaceuticals in 2018, up 8.8 per cent on-year. The figure is expected to rise further in the coming time. Among the 11 CPTPP member countries, Japan, Canada, and Mexico are among the top 20 manufacturers of pharmaceuticals worldwide.

In terms of banking and finance, Japan, Canada, and Australia can now sell financial services to Vietnam without establishing branches there, meaning more pressure in the local market.

Approaching higher-quality FDI

Industry insiders said that in this investment race, foreign investors can compete with their strong expertise in technology and make investments aligned with Vietnam's new FDI strategy, giving priority to the five sectors of hi-tech/ICT, processing and manufacturing, supporting industries, tourism, and hi-tech agriculture.

Looking at the plans of CPTPP members, technology is one of their points of focus in Vietnam. For Japan, the main investments will continue to be in manufacturing, agriculture, logistics, healthcare, technology, banking and finance, and services, focusing on hi-technology.

Similar interests are also seen among Australian businesses in particular. Some are diversifying investment in Vietnam's key sectors like manufacturing, education, services, logistics, and agriculture, with well-known names such as Telstra, BlueScope Steel, and VN Futuremilk.

At present, CPTPP member states make up 27.7 per cent of Vietnam's total projects and 36.46 per cent of the total registered FDI. The country might expect higher-quality FDI inflows from members who can bring in high-technology, capital, and research and development (R&D) expertise that domestic businesses do not have, thus helping change the FDI picture in Vietnam towards bringing in higher added value to the economy, and increasing the competitiveness of its value chain.

For now, Vietnam's new FDI attraction strategy is in the final stage of drafting before being submitted to the Politburo for approval. While clear-cut details are few and far between, not only Sembcorp from Singpore, but many other investors from the CPTPP members are expecting the new strategy to realise Vietnam's high-quality FDI goal, thus further facilitating them in their future expansions.

Sami Kteily - Executive chairman, PEB Steel

The CPTPP helps PEB Steel to expand into three new markets, namely Mexico, Canada, and Peru. Additionally, the CPTPP is aiding Vietnam in becoming a real manufacturing hub and a central part of the supply chain for many companies and products. Foreign investors will continue to pour money in, and expand their businesses in Vietnam. Meanwhile, some industries like seafood and agriculture will export semi-products or final products. Therefore, PEB Steel can benefit from this trend as all investors need factories and warehouses for manufacture.

NGUYEN MINH CUONG - Principal country economist Asian Development Bank

The CPTPP will bring significant benefits to Vietnam through the expansion of market access, and foreign direct investment.

However, the CPTPP will also have to address multiple challenges, which include the development of effective regulatory frameworks for facilitation of trade, investment and intellectual property rights, and labour as well.

More importantly, the CPTPP should be placed in a context when Vietnam is transforming from a low to high productivity economy, and from a low-middle income to high middle income country. it is more important for the country to capture value-addition of the CPTPP in terms of technology transfer and innovation.

Anderson Tan - Chairman, SkillsSG Ventures Pte., Ltd. Singapore

The CPTPP is very beneficial to the skills development business. Direct benefits include more comprehensive intellectual property (IP) protection and more liberalised data-flow among CPTPP members, as well as access to local government training contracts. Firms deal mostly with IP and information products and services, and the CPTPP offers a good environment for businesses to flourish. Besides direct benefits, the reduction of behind-the-border regulatory barriers will be very useful to my business. Transparency and effective procedures are required in skills development. We allow for a quick clearance of skilled manpower and specialist imported training equipment from Singapore. Clear regulatory processes will encourage more confident investment from our stakeholders. A more open market landscape will increase competition from various CPTPP partners, but we believe such healthy international competition can only make SkillsSG Ventures and our stakeholders stronger.

Raymond Mallon - Senior economic advisor, Australia-Vietnam economic reform programme

Under the CPTPP, Vietnam should consider unilaterally adopting economic reforms beneficial to the nation regardless of any trade and investment concessions from other countries.

For example, reforming regulations to facilitate the development of competitive factor markets will be critical for both efficiency and equity objectives. Reforms to markets for agriculture land-use rights are needed to ensure farmers can benefit fairly from such rights. Reforms that - simplify procedures and reduce administration costs are particularly important for small and medium-sized enterprises that often lack the resources needed to overcome bureaucratic hurdles

4. CPTPP a guarantee of new investment wave

Over recent years, Vietnam has inked and engaged in 12 free trade agreements (FTAs), with the recent adoption of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

The CPTPP is a very special agreement that has - attracted major attention from the public because it is the new version of the original Trans-Pacific Partnership (TPP), considered a “golden standard” of the 21st century but which was on the verge of falling apart after the United States decided not to partake in it.

Thus the signing and adoption of the CPTPP has demonstrated the strong commitment and efforts of the deal's 11 member states in general and of Vietnam in particular.

The implementation of the CPTPP will have great impact on some of the key aspects of the deal.

Specifically, it will help Vietnam boost institutional reform. The acceleration of this reform for Vietnam to build a modern socialist-oriented, market-based economy and integrate further into the global economy requires great efforts from the government. However, it will bring huge benefits to businesses and people when the deal is implemented.

The CPTPP is considered a role-model trade pact of the 21st century and a new-generation FTA, because it not only covers extensive commitments on tariff reduction and removal, but also consists of a large number of commitments relevant to many aspects of the economy, such as state-owned enterprises, subsidy, competition, intellectual property rights, labour, trade union, and the environment.

In the context that we have already seen many FTAs, with import tariffs trending to be reduced to zero, it is the non-tariff factors that are key barriers in international trade and require the most attention.

With a scope of comprehensive commitments including tariff and non-tariff issues, the CPTPP will create strong pressure and impetus for Vietnam, which has the lowest economic development level among other member states, to make greater efforts to partake in this level playing field in a fair manner.

According to the World Bank, the CPTPP membership will help Vietnam increase its GDP by another 1.1 per cent, and export turnover by another 6.9 per cent by 2030.

Whether this will happen or not, and whether Vietnam can benefit from the FTAs, would largely depend on domestic institutional reform, whose pivot is the improvement in the law system, policy transparency, the business climate, and the economy's competitiveness.

The CPTPP will also help Vietnam expand its export markets, balance trade, and attract more foreign investment. Under the CPTPP commitments, member states commit to completely remove 97-100 per cent of import tariff lines for goods sourced from Vietnam. This means that nearly all Vietnamese goods exported to other CPTPP nations will be able to enjoy zero import tax right after the deal comes into force, or under specific roadmaps. Thus, with its biggest commitments to open the domestic market among the FTAs that Vietnam has inked over the past few years, the CPTPP will open wide doors for Vietnam's goods to further enter other CPTPP member states, especially Canada, Peru, and Mexico.

If these markets are exploited well, Vietnam will not only be able to increase exports but will also be able to reduce the over-reliance on a specific export market region.

Currently, Vietnamese exports are still concentrated in a number of major and traditional markets, such as the US, the EU, China, Japan, and South Korea. In the event that these markets have some changes, for example due to the existing US-China trade dispute, it is certain that Vietnam's export-import activities will be more or less influenced.

Thus, in addition to maintaining and strengthening these traditional markets, it is quite necessary for Vietnam to expand to other new markets through the CPTPP, because this will help the country's exports develop in a more stable and sustainable manner.

Not only that, opportunities for made-in-Vietnam goods thanks to the CPTPP will also increase the attractiveness of the country's investment and business climate to foreign investors. In fact, even as the TPP was about to be inked, many foreign-invested projects came to Vietnam in anticipation of opportunities induced by the deal, in terms of tariff incentives and rule of origin.

More importantly, Vietnam's participation in the CPTPP with extensive and comprehensive commitments has manifested the strong - commitment of the Vietnamese government in trade liberalisation and improvement of the business climate. In other words, Vietnam's participation in the CPTPP is a guarantee for foreign investors to pin their hopes in investing in the country.

However, the CPTPP will also increase pressure for Vietnam. When talking about tariff reduction and removal, and opening the service market and public procurement, we also need to know that goods and services from CPTPP member states will also enter Vietnam.

Without thorough preparations, there will probably be risks in narrowed production, loss in market share, and even bankruptcy. However, businesses should not be too worried, because before the CPTPP was signed, Vietnam already acquired FTAs with seven of the 10 CPTPP member states, not to mention other FTAs. The participation in these agreements over the past few years have helped Vietnamese enterprises gradually get used to the country's commitment roadmaps within them.

Data about a rise in exports and imports, and investment over the past few years, showed that Vietnamese businesses have been able to weather the strong competition from FTAs, and they have even taken advantage of the incentives given by the FTAs.

Thus, Vietnam's participation in the CPTPP is surely not a shock in terms of competition for domestic enterprises, especially when a number of CPTPP markets have an export-import structure that can complement the country.

Though there will be a rise in competitive pressure, we can completely weather this - challenge thanks to our vast experience in implementing previous FTAs.

Nevertheless, Vietnam's CPTPP membership will also mean a string of technical trade barriers which will be a major challenge for Vietnamese - enterprises. In the CPTPP, Vietnam's partners are nations with a high economic development level in the Asia-Pacific region. Despite the removal of tariff barriers, we will have to overcome other obstructions which are related to technical - standards for export goods.

If we can overcome these hurdles, our goods can really enter the CPTPP markets. Besides, even when our goods are made available in these markets, we may also have to make preparations for possible risks about trade remedies and anti-dumping tax imposition. Reality showed that over the past few years, Vietnam's goods have faced many relevant cases involving these measures.

In a nutshell, when joining high-standard FTAs and new-generation ones like the CPTPP, we must double down on our efforts. The government must boost institutional reform, and improve the domestic business climate. Meanwhile, local businesses must improve the quality of their goods and services in order for them to both expand markets and keep their market share right here in Vietnam.

The country's participation in the CPTPP will make the FTA playing field more bustling and attractive. However, local businesses are advised to have a better understanding about commitments and rules so that they can perform more professionally.

The CPTPP is clearly providing fuel for Vietnam's international economic integration. However, there is a big need for concerted efforts and actions from government agencies, to the business community and local people, so that this fuel can be converted into energy for the entire economy.

5. Hanoi leads with smart city dream

This month, the city officially issued Action Plan No.66/KH-UBND for the implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This made the capital the first to follow the prime minister's Resolution No.121/QD-TTg on a plan to implement the CPTPP issued in January 2019.

Under Hanoi's action plan, the city will focus on a number of key tasks over the coming period. These include the development of human - resources and competitiveness, policies regarding trade union units in businesses, policies on social security, environmental protection, sustainable development, and raising people's awareness of the CPTPP.

Specifically, the city will boost the application of IT to develop an e-government, thus enabling it to gradually develop into a smart city. In addition to IT, there will be development of hi-tech industrial parks and hi-tech agricultural zones.

The industrial sector of the capital city will also - undergo restructuring and development towards - focussing on in-depth manufacturing, promoting technology innovations, increasing labour productivity, and developing new

industries with high levels of competitiveness.

These changes would serve to increase the added value and the competitiveness of Vietnam, therefore more deeply integrating the country into the global value chain.

Amid this landscape, foreign investment in hi-tech applications will be encouraged, especially into those with operating facilities in the Hoa Lac Hi-tech Park.

To facilitate businesses, Hanoi will be involved in the revision, supplementation, removal, and issuance of legal documents in alignment with commitments to the CPTPP. Among them are Labour Code 2012, the Law on Intellectual Property 2005, documents related to cosmetics imports, a decree on import-export tariffs in line with the CPTPP, and others.

In pursuing its ambitious smart-city goal, Hanoi has announced a list of industries to be prioritised for investment from Japan, South Korea, Singapore, the US, the EU, the UK, Australia, and New Zealand.

It is hoped that increased levels of investment from these countries will enhance the transfer of technology in management during the smart city's development, thus allowing for future high-quality foreign direct investment (FDI).

With an action plan in place, the capital is likely to add to its attraction, thus enabling it to lure in between $10-15 billion worth of FDI during the 2018-2020 period which can help the city realise its socio-economic development goals for 2020.

Currently, Japan's Sumitomo and Vietnam's BRG Group are co-operating to develop a $4.2 billion smart city project in Hanoi. This mammoth project is expected to be a driving force for the city to welcome other new investments in the months to come.

According to the Ministry of Planning and Investment's statistics, as of February 20, 2019, Hanoi ranked second among cities and provinces in Vietnam in terms of FDI attraction, with 5,219 projects registered with $33.21 billion, after Ho Chi Minh City (8,263 projects registered at $45 billion).

6. Hanoi targets more Japanese investment

According to Hanoi's foreign direct investment (FDI) attraction strategy, the capital will target high-quality investment capital focussing on supporting industry development projects, hi-tech manufacturing and agriculture, bio-technology, infrastructure development, research and development, banking and financial services, and human resources development. This will contribute to increasing added value to the city's social-economic development in a sustainable manner.

In this strategy, Japan is one of the major foreign investors that Hanoi is targeting to attract. The city aims to lure Japanese funding in IT solutions, the environment, hi-tech agriculture, energy and more.

As part of efforts to encourage these moves, the Hanoi-Japan investment promotion conference will take place on March 29 in the city, attracting over 120 Japanese delegates and leaders of ministries, cities and provinces, as well as Vietnamese businesses. A number of memoranda of understanding on investment and business will also be announced at the event.

7. Japan taking FTAs seriously

Japanese investors started taking interest in Vietnam back in 1986, with the number of -companies entering the country increasing year by year, and now reaching more than 3,000 in number.

According to statistics from the Vietnamese Ministry of Planning and Investment (MPI), Japan ranked first among countries and territories with investment in Vietnam, with the total registered capital of $8.59 billion in 2018, accounting for 24.2 per cent of the country's total.

Looking forward, Vietnam remains an attractive investment destination for Japanese businesses thanks to its stable economic growth, political stability, market scale, cheap labour costs, and growth potential. The latest fiscal year (FY) 2018 survey on the international operations of Japanese companies in Asia and Oceania released in this month by JETRO Hanoi showed that about 70 per cent of Japanese companies in Vietnam have plans to expand operations in the future, mainly driven by revenue growth and high growth potential. They are learning about free trade agreements (FTAs) that best benefit them. Specifically, 65.3 per cent of Japanese companies in Vietnam make a profit, and for those with operations since before 2010, the rate is around 80 per cent.

Vietnam is increasingly deeply integrating into the global market by signing many FTAs. There are more Japanese businesses mulling over investment, shifting from China and Thailand to Vietnam to benefit from the agreements, especially including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as well as to ease risks from the US-China trade tensions.

FTA application

The CPTPP is an important deal to Vietnam and Japan which can help companies of the two countries boost business and investment activities.

At present, Japanese companies in Vietnam are still learning about this agreement with the majority not yet aware of it, especially small- and medium-sized enterprises (SMEs).

For other FTAs, the latest survey shows that 47.5 per cent of Japanese companies in Vietnam said that they apply agreement regulations, down 1.4 percentage points from the previous survey. The majority of the FTA-applied companies are reported among those having export-import activities.

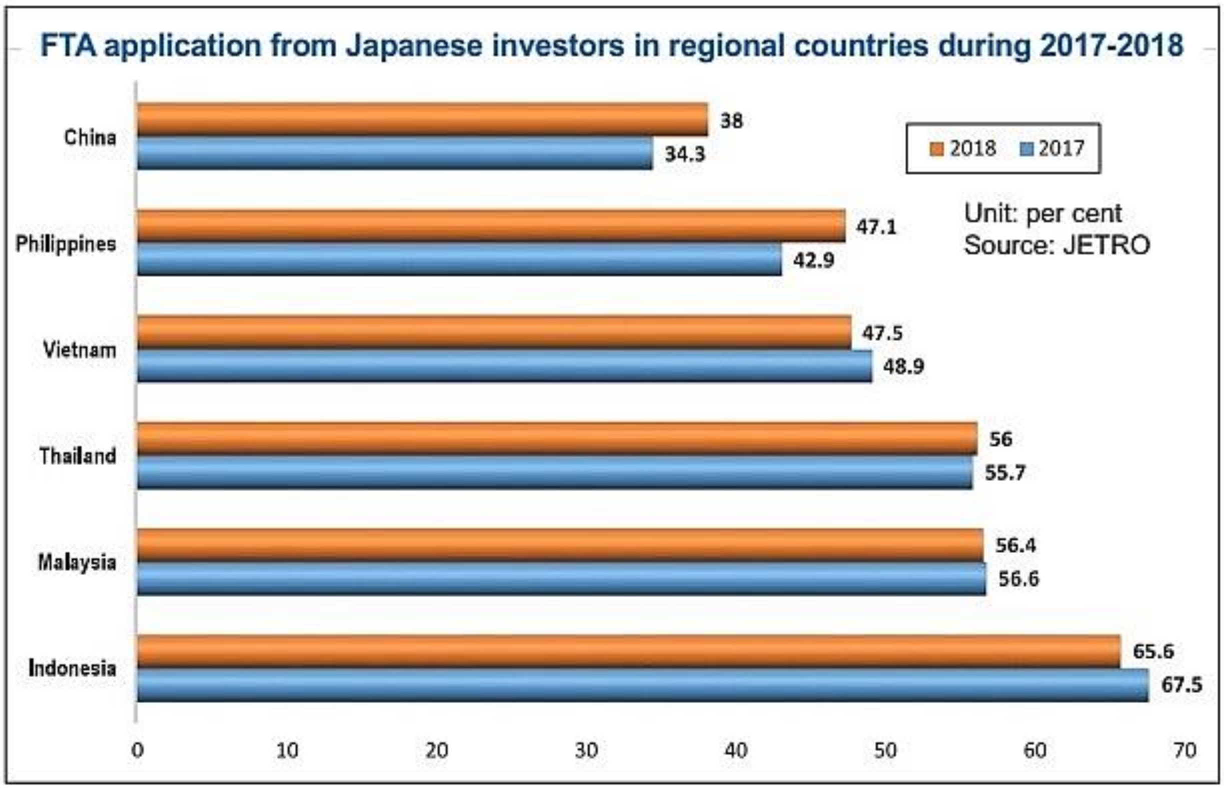
In comparison with other regional countries, the application of FTAs among Japanese companies in Vietnam is slightly higher than those in the -Philippines and China, while lagging behind those in Indonesia, Malaysia, and Thailand.

In terms of business scale, large-scale businesses tend to concentrate more on FTA application than SMEs. Accordingly, 55.2 per cent of large-scale companies said they apply FTAs, while the threshold among Japanese SMEs is 41.1 per cent.

Surprisingly, 40.7 per cent of Japanese companies in Vietnam have no plans to apply FTAs, of which 35.4 per cent are large-scale ones and 45 per cent are SMEs. At the same time, 9.4 per cent of the large-scale companies are considering applying FTAs, while the rate among SMEs is 13.9 per cent.

Japanese companies in Vietnam in textiles and garments, foodstuffs and processed agro-products, trading, machinery, and plastics have higher FTA application rates than others. Specifically, the rate is 83.3 per cent in the textile and garment sector, followed by foodstuffs and processed agro-products (72.7 per cent), trading companies (57.1 per cent), machinery (52 per cent), and plastics (47.6 per cent).

Though the FTA application rate among Japanese companies in Vietnam fell in the 2018 survey, it is not a concerning issue. Simply, they are making considerations into which mechanism of FTAs they should follow to most benefit from because Vietnam has signed a raft of agreements.



Business plans of Japanese investors in some nations during 2017-2018

Country	Expand operations (per cent)		Narrow operations (per cent)		Maintain operations (per cent)		Exit (per cent)	
	2017	2018	2017	2018	2017	2018	2017	2018
Vietnam	69.5	69.8	0.9	0.9	28.8	28.7	0.8	0.6
Thailand	47.2	52.2	2.3	2.8	50.1	44.5	0.5	0.5
Malaysia	51.3	54.0	2.7	4.2	45.6	41.1	0.4	0.8
Indonesia	51.4	49.2	3.2	4.6	45.2	45.3	0.2	1.0
China	48.3	48.7	5.9	5.1	44.3	44.8	1.5	1.5

Business movements

Japanese companies have tended to invest in small-scale projects of $5 million in Vietnam, accounting for 90 per cent of the total, while ventures of over $5 million increase in the - manufacturing sector.

In comparison with previous years, there might be no big change in the investment scale of Japanese companies in Vietnam this year. The majority of Japanese companies in Vietnam are SMEs. And in the coming time, more Japanese SMEs will expand in the country.

The number of Japanese-invested projects in services has tended to increase, but in terms of investment capital, that in the manufacturing - sector remains of a higher scale.

Manufacturing retained the most attention of Japanese investors in Vietnam in 2018, and the high interest in the sector will continue. It is ruled that the more the economy develops, the more the third industry of services develops compared to the second industry of manufacturing, and Japan is not an exception. Thus, Vietnam should have policies to attract Japanese investment in manufacturing in its targeted areas.

Regarding export and import activities, Japanese companies in Vietnam tend to head to domestic consumption, while the "100 per cent export" form of previous years tended to narrow.

Newly-registered Japanese investment in major projects concentrates in the north, making up 80 per cent. Meanwhile, the number of projects in the south accounts for half of the total, with the number of projects in the northern and central regions tending to increase.

At present, Japanese perspectives about the improvement in the localisation rate will make Vietnam even more attractive. As shown in the survey, Vietnam's localisation rate has gradually increased since 2010, and in 2018 it rose to 36.3 per cent from 33.2 per cent in 2017, making it the highest rise among the surveyed countries.

While seeing positive changes, regulatory risks remain high among Japanese companies in Vietnam. As shown in the survey, while the four other risk items, including rising labour costs, cumbersome tax procedures, complicated licensing procedures, and infrastructure, all fell, with regulatory risks going in the opposite direction.

In the FY 2017 survey, 46.9 per cent of interviewees named regulatory framework as risks, but in 2018 it pushed up to 48.2 per cent, a rise of 1.3 percentage points. It shows poor results for incompletion of a legal framework and a lack of transparency in performance. In comparison with other regional countries, the 48.2 per cent is lower than Laos, Indonesia, Cambodia, and Myanmar.

To attract more Japanese investors in the future, the Vietnamese government should deal with legal risks and further develop supporting industries in order to increase competitiveness.

8. Singaporean businesses line up to enter Vietnam

According to the Vietnamese Ministry of Foreign Affairs, bilateral trade turnover between - Singapore and Vietnam doubled over the past decade to reach S$20.9 billion ($15.51 billion) in 2018. Besides, Singaporean investment in Vietnam are diversified in various geographical regions and sectors, including services, processing and manufacturing, and real estate.

The Vietnamese Ministry of Planning and Investment reported that as of February 20, 2019, Singapore remained the top investor from the ASEAN bloc and third-largest foreign investor in Vietnam, with the total registered investment capital hitting $48.4 billion for 2,190 projects.

Amid the recent move to increase regional integration within Southeast Asia, Singaporean investors are continuing to fund Vietnam's various sectors with attractive prospects.

Norman Lim, president of the Singapore Business Group (SBG), told VIR that Vietnam signing a wide range of bilateral and multilateral free trade - agreements such as the Comprehensive and Progressive Agreement for Trans- Pacific Partnership (CPTPP) has enhanced the local - investment environment, as well as facilitated funding from foreign companies, including those from Singapore.

He further noted that Singaporean investment spans many sectors such as oil exploration, industrial manufacturing, agriculture, and forestry and seafood processing. It also, most notably, is involved in the fields of infrastructure, business services, and real estate. This has stimulated economic growth in the country by generating more jobs, and production enhancement leading to an increase in Vietnam's total exports.

Real estate investment from Singapore

Among different sectors which have seen funding in Vietnam, Singaporean investors are big fishes in real estate development.

Singapore's CapitaLand has been present in Vietnam for more than 20 years, with more than 8,600 residential units in 15 projects, 6,300 serviced apartments in 24 projects, two integrated developments, and a portfolio of around $1 billion across seven major cities in Vietnam.

According to CapitaLand Vietnam's CEO Chen Lian Pang, Vietnam plays an important role in the - corporation's development strategy as the third-largest market for CapitaLand in Southeast Asia, after Singapore and Malaysia.

"Vietnam is a key growth market for CapitaLand and we are seeing strong demand for vibrant, high-quality live-work-play spaces due to rapid urbanisation and the evolving lifestyles of young and mobile Vietnamese people. Harnessing our vast experience across different real estate types, this upcoming integrated development will offer best-in-class practices in homes, offices, and malls, which will attract young Vietnamese urbanites, multinational companies, and local startups," Chen said.

Another big name from Singapore, Mapletree Investments, has grown to be one of the largest Singaporean real estate companies in Vietnam by capital, with a portfolio of about $1 billion in assets under management since first investing in this market in 2005.

According to Wendy Koh, regional CEO for Southeast Asia at Mapletree, Vietnam is currently the group's largest Southeast Asian market outside of Singapore.

Other giant property developers from Singapore, such as Keppel Land and VSIP, have also invested - billions of USD into the country.

Mergers and acquisitions on the rise

Besides direct investment, Singapore investors have also been active in Vietnam's merger and acquisition (M&A) market with numerous mega deals in existence.

The largest initial public offering last year was that of luxury residential property developer Vinhomes, of which Singapore's sovereign wealth fund GIC Private Limited recently acquired a stake. The deal made Singapore the largest investors in Vietnam's M&A market in the first six months of 2018.

Meanwhile, CapitaLand recently agreed to buy a controlling stake in developer Ascendas-Singbridge in a deal which would value the target company at S$11 billion ($8.13 billion). A part of this fund will be poured into the Vietnamese market.

In March last year, CapitaLand announced the acquisition of two projects in Ho Chi Minh City, which will be targeted for completion by 2021.

According to Australia's Institute for Mergers, Acquisitions and Alliances (IMAA), Singaporean investors wrapped up 86 M&A deals in Vietnam between 2007 and 2017 with the total value of $1.86 billion.

Yeu Huan Lai, senior portfolio manager at Nikko Asset Management, said that Singaporean financiers are eyeing local companies which benefit from Vietnam's rising affluent class and stronger demand for consumption. Besides real estate development, capital flowing from Singapore will channel into Vietnam's consumer sectors such as food and beverages, tourism, consumer finance, retail, and energy.

Interest expands to SMEs

Lim of SBG noted that due to the impact of the CPTTP, the trend of Singaporean investment to Vietnam has recently expanded from large business groups to small- and medium-sized enterprises (SMEs).

"Along with large corporations, there are also SMEs flocking into Vietnam. The main reason is that the government of Singapore is pushing SMEs to go abroad to fund new ventures," Lim cited.

When all of these SMEs look around neighbouring countries, Vietnam emerges as one of the most promising investment destinations. Most of the SMEs are specialised in the service industry such as in supply chains, and legal and accounting services. In addition, some SMEs are also bringing Singaporean cuisine to Vietnam by opening franchise restaurants here, Lim added.

According to HSBC Singapore's latest report, the most significant kickers of the CPTPP will be the liberalisation of service sectors and the staving off of cross-border data restrictions, two significant commercial pain points for SMEs, which make up around half of Singapore's economy.

Furthermore, Singaporean investment is further expected in Vietnam's technology and e-commerce sectors. Singapore-based Grab is ramping up expansion efforts in the market beyond ride-hailing. Meanwhile, Singapore's e-commerce platform Shopee is stepping up its operations in Vietnam to capitalise on the lucrative market.

"Vietnam has all the ingredients for a thriving e-commerce economy thanks to a young population, and growing Internet and smartphone adoption. In particular, the younger generation of Vietnamese is tech-savvy so shopping online has become a daily norm," said Lim.

A separate HSBC report showed that overall investment into the ASEAN region until 2020 is expected to rise amongst Singaporean-based companies, with Vietnam to be a key beneficiary.

Winfield Wong, country head of Wholesale Banking at HSBC Vietnam said, "Whilst Vietnam's growing consumer base is already well recognised by Singaporean companies, the report shows that many Singaporean companies are looking to double down on the demographic dividend."

"Beyond this, Vietnam's manufacturing sector is now entering a higher-end space. So while many corporations may base their treasury and other back-office functions in Singapore, a lot of revenue-making operations are being driven into Vietnam. This is only expected to ramp up with the country's widening along the supply and value chain," he added.

9. Pharma firms look to future

After facing a difficult year in 2018 due to increased competition within the sector, CVI Cosmetic & Pharmaceutical Co., JSC (CVI), a relatively-young player in the pharmaceutical industry, is investing more in technology. It is also developing its marketing process, as well as its business and sales governance in preparation for the upcoming opening of its new high-tech factory in Hanoi's Hoa Lac Hi-Tech Park in late 2019.

"In 2019, we will invest heavily in new and advanced medical technology for the new factory. Instead of concentrating on functional products which have a low market protection, we will venture further into others with a higher market protection such as traditional medicines. We aim to increase traditional medicines to 30 per cent of our total products in 2019 and then to 50 per cent beyond," Phan Van Hieu, chairman of CVI, told VIR.

Thus far, CVI has signed a co-operation agreement with the Korea Testing & Research Institute which will enable it to export products to 100 countries worldwide.

Along with young players in the sector, giant drug producers such as Domesco, Vietnam's third-largest listed drug maker, Hau Giang Pharmaceutical JSC (DHG), the country's biggest publicly-traded drug maker, and Imexpharm, the country's fourth-largest drug maker, are making similar moves. They are giving priority to innovations in technology as well as research and development to stand firm amid new challenges emerging from the enforcement of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

According to a reliable source, Imexpharm, whose 48.96 per cent stake is owned by foreign stakeholders, is going to put into operation its Vinh Loc hi-tech antibiotic plant in Ho Chi Minh City, costing VND180 billion ($7.82 million) in late 2019. This will go along with the hi-tech Binh Duong pharmaceutical plant, which is set to cost VND370 billion ($16.8 million), in early 2020. Both meet the standards set out by EU-GMP certification.

"With our new facilities, we aim to increase revenue from prescription drugs (ETC) to make up 40 per cent of our total revenue in the future. We also aim to get 50 per cent from over-the-counter, non-prescription drugs, and the remaining 10 per cent from exports," said a source from Imexpharm.

Similarly for Traphaco (TRA), the country's second-largest publicly-traded drug maker, its annual investment in research and innovation activities make up 3 per cent of the company's revenues from production.

"For our sustainable development strategy between 2017 and 2020, we aim to develop our production technology to be among the most advanced in the nation and on par with global standards. We have equipped our new western factory with the latest modern technology," said a TRA leader.

At present, State Capital Investment Corporation, Magbi Fund Ltd, and Super Delta Pte., Ltd, are TRA's biggest shareholders with stakes of 35.67, 24.99, and 15.12 per cent, respectively.

Industry insiders said that the move is a way for drug makers to venture further into the profitable segment of ETC which is currently dominated by multinational corporations.

Due to growing competition, 2018 was a challenging year for domestic pharmaceutical companies. The difficult year saw a number of giant drug markers fail to meet their business targets. TRA reached consolidated revenues of VND1.8 trillion ($78.3 million), meeting just 75 per cent of its yearly target, and a 4 per cent drop on-year. Moreover, the company also saw consolidated after-tax profits of VND157 billion ($6.83 million), fulfilling just 51 per cent of its yearly target, and equal to just over 65 per cent of 2017's figure.

This uninspiring outlook was also seen at DHG, a company which has Japan's Taisho Pharmaceutical Holdings as a major shareholder with a 32 per cent stake. The company made consolidated net revenues of VND3.88 trillion ($168.7 million), down 4.43 per cent on-year./.

Corporate News

10. CII: New urban area project

↑ 0.00%

On March 27, 2019, the Board of Directors of Hochiminh City Infrastructure Investment Joint Stock Company (CII) allowed CII to cooperate with other partners to research and invest in New Urban Area Project with an area of 315 heactares in Dong Nai province and nearly the highway Hochiminh City – Long Thanh – Dau Giay.

The following is the land use plan:

Plan	Ratio	Area (m2)
Residential land	30%	945,000
Land for traffic	25%	787,500
Land for greenery	23%	724,500
Water surface	12%	362,250
Utilities	11%	330,750
Total	**100°/o**	**3,150,000**

Estimated investment expense: 7,626 billion dong.

11. CDN: Notice of record date for AGM 2019

↓ -0.54%

1. Issuer: Danang port Joint Stock Company
2. Stock code: CDN
3. Par value: VND10,000/share
4. Record date: 10/04/2019
5. Ex-date: 09/04/2019
6. Reason:
   General Meeting of Shareholders 2019
   Exercise rate: 01 share – 01 voting right
   Time: expected from 26/04/2019 to 10/05/2019
   Place: to be informed later
   Agenda:
   + Summary report on production and business activities in 2018;
   + Orientation of production and business plan 2019;
   + Operation report of the Board of Directors in 2018;
   + Report on activities of the Supervisory Board in 2018;
   + Audited financial statements for 2018;
   + Profit distribution and dividend payment for 2018;
   + Election of the Board of Directors, Supervisory Board for the term of 2019 - 2024;
   + Remuneration for the Board of Directors and Supervisory Board in 2019;
   + Select auditing unit in 2019;
   + Some other related issues.

Research Team: **Tsugami Shoji** *Researcher* jsi@japan-sec.vn

Disclaimer:

Japan Securities Incorporated – JSI

Address: 14F, TNR Tower, 54A Nguyen Chi Thanh, Lang Thuong, Dong Da, Hanoi

Tel: (024) 3791 1818 *Fax: (024) 3791 5805*

Email: info@japan-sec.vn

Website: www.japan-sec.vn