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JAPAN SECURITIES INC.

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Market Analysis

1. National Assembly supports merger of bourses

According to a draft amendment to the Law on Securities, the existence of two exchanges in different cities had become outdated given Viet Nam's efforts to take advantage of Industry 4.0 to strengthen the equity market.

"Merging the two exchanges and basing it in the country's financial hub (HCM City) is the solution," the report said.

The proposed merger has stirred public concern over the past two years.

A number of experts and specialists have supported the idea, saying the merger would remove differences between the two exchanges. It would make requirements the same for companies on both trading bourses.

Besides, the post-merger exchange, which would be called the Vietnam Stock Exchange, would make trading conditions better for both domestic and foreign investors as there were now too many contrasts between the two bourses.

Listing requirements for the Ho Chi Minh Stock Exchange (HoSE) are considered harder than those for the Ha Noi Stock Exchange (HNX).

If a company wants to list shares on HoSE, it must meet standards in terms of information disclosure, corporate transparency, charter capital and corporate governance.

It makes HoSE a reliable source for foreign investors if they want to look for a potential target among nearly 800 listed companies.

There are a number of companies who want to list on HoSE in order to lure more foreign capital.

Ceramics producer Viglacera and PetroVietnam Power Corporation (PV Power) are among the large-cap State-owned enterprises that have moved from HNX to HoSE in 2019.

National flag carrier Vietnam Airlines and the Airports Corporation of Vietnam (ACV) are planning to switch from the Unlisted Public Company Market (UPCoM) – a lower-level exchange on HNX – to trade on HoSE.

However, the report opposes the idea that the two exchanges would continue operating as two subsidiaries of the Vietnam Stock Exchange as it could create overlaps and problems for the Government in managing the three exchanges.

"That won't guarantee the close market supervision the Government must have, especially when the market turns volatile," the report said.

Minimum capital set at VND30 billion

NA deputies on Thursday agreed with the draft law that the minimum charter capital of a public company should be tripled to VND30 billion (US\$1.29 million).

The increase would ensure more companies would survive on the market and individual investors were protected against trade fraud and market manipulation, Deputy Nguyen Van Danh said.

The comment followed the State Securities Commission's penalties on illegal stock trading activities that had been discovered on the market.

One case involved the Central Mining JSC (MTM) where former leaders of the company took advantage of loose listing conditions on UPCoM to manipulate the firm's shares, earning VND56 billion in illegal profits.

Data shows 81.04 per cent of public companies in Viet Nam had charter capital of VND30 billion or more. Therefore, the hike to required minimum charter capital for public companies would have little impact on the majority of public firms.

2. VN-Index drops below 950 points

As falling stocks outnumbered rising ones by 163 to 110, the benchmark index lost 3.2 points, or 0.34%, against the session earlier at 948.21. Stock trade was dismal with volume dipping 4% at 125.8 million shares and value expanding 17% at more than VND3.1 trillion.

Construction firm ROS again led the HCMC market by liquidity with 12.6 million shares transacted, but declined a slight 0.2% at VND30,050 per share. It was followed by steel maker HPG with around seven million shares traded.

SRC, a rubber company who has announced a share auction scheme, went up to its ceiling price for the second straight session, closing at VND28,600 per share on matching volume of 350,000 shares.

Saigon-Hanoi Securities Company in a report said that the market is looking for clues before it can improve.

Top U.S. Federal Reserve officials have warned this week that the global trade war might force the Fed to lower interest rates. But the Vietnamese market has yet to feel any impact of this warning. The decline of stock trade volume suggested that domestic investors were fed up with the current market movements, it said.

According to Thanh Cong Securities Company, the market had yet to get out of the woods.

The escalating U.S.-China trade war and worries over the global economic slowdown would

continue weighing on the local stock market. Local stocks would need to go through some more falling sessions before rising again.

Early this week, speaking to tinnhanhchungkhoan.vn, securities expert Ngo Quoc Hung at MB Securities Company said falling global markets in May resulted from trade tensions.

Last month, the S&P 500 index on the New York Stock Exchange lost 6.6%, the Shanghai Composite Index on the Shanghai Stock Exchange fell 5.84% and the Stoxx600 Index of European stocks edged down 5.7%.

The domestic market followed a similar pattern by decreasing more than 2%. Internal factors showed no positive signs and external factors were deteriorating, which may put the local market under selling pressure early this month, Hung said.

On the Hanoi Stock Exchange, the HNX-Index dipped 0.51 point, or 0.49%, at 103.3. Market trade expanded slightly by 4% in volume and 5% in value to 21.1 million shares worth VND254 billion.

Only three stocks had matching volume of over one million shares each. PVS was the volume leader with nearly 2.2 million shares changing hands. The petroleum technical service firm added 0.5% at VND21,700.

Macro & Policies

3. Automobile industry develops but local part supply still low

The report shows that the volume of domestically-assembled cars was 250,000-260,000 units in 2017 and 2018, of which several types have been exported to foreign countries including, Laos, Cambodia, Myanmar and Central America. The industry has contributed billions of US dollars to the State budget, contributing to reducing the trade deficit and creating jobs for more than 120,000 workers.

However, the localisation rate for cars with nine seats and fewer has reached about 7-10 per cent, concentrating on tyres, seats, mirrors, glass, electrics, batteries and plastic products. Meanwhile, the Government's target was set at 40 per cent in 2005 and 60 per cent in 2010.

MoIT said that up to 80-90 per cent of the main raw materials for components production such as alloy steel, aluminium alloy, plastic beads and hi-tech rubber are currently imported. Every year, businesses have to import about US\$2-3.5 billion worth of parts and spare parts for production, assembly and repair of vehicles. Meanwhile, the localisation rate of regional countries has averaged 65-70 per cent. Thailand alone hits 80 per cent.

“If domestic automakers do not soon put in place effective solutions to improve localisation rates, it will be difficult to compete in the regional market,” said the report.

“The domestic market is small, with consumption of more than 300,000 vehicles [including imported ones] per year, while the number of manufacturing and assembling enterprises is high with 56 units so it has not been attractive for businesses to invest in the support industry.”

In the report, the ministry also emphasised the need to promote the development of the automobile and support industry, in which enterprises can make use of its solutions and policies offered by the automobile industry projects of domestic automakers such as Truong

Hai Automobile Company (Thaco), Thanh Cong Group, VinFast and others.

The ministry said it was planning to submit to the National Assembly amendments to the application of special consumption tax on cars with a high localisation rate (no tax on locally-manufactured parts).

The ministry has built a pilot part supply chain for automobile manufacturers and assemblers at home and abroad, and studied mechanisms and policies to attract investment from multinational corporations investing in large-scale projects in Viet Nam, especially those focused on the brands and models not existing in ASEAN, in order to create conditions for local enterprises to participate deeply in multinational automobile production chains.

According to a ministry report, there are more than 300 enterprises of the country's total 1,800 parts and spare parts manufacturing enterprises participating in the production network of multinational corporations, of which automobile manufacturing and assembly industry reached 7-10 per cent, the remainder being the textile and footwear industry with 40-45 per cent, electronics and telecommunications with 15 per cent and specialized electronics and high-tech industries with 5 per cent.

Chief Representative of Japan External Trade Organisation (JETRO) Hironobu Kitagawa said at a signing ceremony of co-operation between Reed Tradex Vietnam and Jetro held in Ha Noi recently that in 2018, the number of investment projects from Japan into Viet Nam reached the highest level of 630 projects with total investment of about US\$8 billion.

He said nearly 70 per cent of Japanese enterprises had invested in Viet Nam, responding that “They want to expand their business, however, one of the difficulties is the low localisation rate of materials and parts.”

"The localisation rate of Japanese enterprise in Viet Nam is 36.3 per cent, lower than China's rate of 66 per cent and Thailand's rate of 57 per cent. Therefore, our enterprises are forced to import from other countries like Thailand and China," Kitagawa said.

"This is the main cause of increased costs and great risks for Japanese enterprises operating in

the manufacturing sector in Viet Nam, and also the cause of difficulties in maintaining middle and long-term investments in the country," he added.

The JETRO representative also said that restrictions on mechanisms and policies to support the development of small and medium enterprises were one of the existing problems in Viet Nam.

4. Vietnam not pursues currency manipulation for unfair trade gain: C.bank governor

Vietnam does not use its macro policies, including monetary and foreign-exchange policies for unfair trade gain, affirmed Le Minh Hung, governor of the State Bank of Vietnam (SBV).

Hung made the statement in response to a question raised at a hearing held by the National Assembly on June 6 regarding the government's solutions in case Vietnam is added to the US's expanded list of currency manipulation.

On May 29, the US Treasury Department put nine countries, including Vietnam, on its watch list over currency practices.

The US uses three criteria to determine if a country is a currency manipulator. Besides the current account surplus criterion, two other criteria are a bilateral goods trade surplus with the US of at least US\$20 billion; and intervention in the foreign-exchange market that exceeds at least 2% of GDP.

Vietnam has met two of the three criteria, having a trade surplus with the US that has risen over the last decade to reach US\$40 billion in 2018, twice

the threshold of US\$20 billion. Vietnam's current account balance with the US has also been rising over the last decade, reaching a surplus of more than 5% of the GDP in the four quarters through June 2018, more than double the threshold of 2%, the US Treasury said.

However, its intervention in the foreign-exchange market was lower than 2% of the GDP.

According to Hung, the US Treasury report did not name any nation that has manipulated its currency, while Vietnam has provided additional data aimed at showing it was not holding down the value of the dong.

Vietnam has been consistent in its policies of stabilizing macro-economic conditions and controlling the inflation rate, Hung stated, adding Vietnam would continue to work with the US on this matter.

Bloomberg previously report the US had refrained from labeling Vietnam a currency manipulator based on new data the country provided the Treasury Department.

5. Why Singapore, Malaysia, Vietnam Were Added to U.S. Currency Watchlist

Singapore made the list because of its large current account surplus and net foreign currency purchases of at least \$17 billion in 2018, equivalent to 4.6% of GDP, according to the Treasury. Malaysia and Vietnam were cited for

their bilateral trade and current account surpluses.

Countries with a current-account surplus with the U.S. equivalent to 2% of gross-domestic product are now eligible for the list, down from 3%. Other

thresholds include persistent intervention in markets for a nation's currency, and a trade surplus of at least \$20 billion. Countries that meet two of the three criteria are placed on the watch list.

Being labeled a currency manipulator doesn't come with immediate penalties but can rattle financial markets.

Trade Imbalance

Trade surplus of Vietnam, Malaysia with U.S. among largest in Asia



Source: Bloomberg

The Treasury said Singapore should undertake reforms that will lower its high saving rate and boost low domestic consumption, while striving to ensure that its real exchange rate is in line with economic fundamentals, to help narrow its large and persistent external surpluses. It also welcomed Singapore's pledge to report more intervention data, while acknowledging that currency adjustments are its main monetary policy tool.

Singapore's central bank said in a statement that "it does not manipulate its currency for export advantage." The Monetary Authority of Singapore uses the exchange rate to ensure price stability and can't use it to gain an export advantage or achieve a current account surplus, it said.

Malaysia Intervention

"Singapore's monetary policy adjustments are primarily made through its currency, hence, intervention activities are relatively heavier," said

Christy Tan, head of markets strategy at National Australia Bank. "I doubt it will have a meaningful impact," she said.

Malaysia was cited for its bilateral trade surplus with the U.S. of \$27 billion last year and its current account surplus of 2.1% of GDP. The Treasury noted Malaysia intervened in foreign currency markets in both directions in the past, and had net sales of foreign exchange equivalent to 3.1% of GDP last year to resist the depreciation of the ringgit.

Malaysia's central bank said the country supported free and fair trade and didn't have unfair currency practices, adding that inclusion on the list had no consequences for the country's economy.

"The ringgit exchange rate is market-determined and is not relied upon for exports competitiveness," Bank Negara Malaysia said in a statement.

Trade War

The other two Asian countries on the list are Japan and South Korea. India was removed from the watch group, given that it's met only one of the three criteria -- a "significant" bilateral surplus with the U.S. -- for two straight reports.

Vietnam was at risk of meeting all three of the Treasury's new criteria for the currency manipulator tag. The Treasury excused Vietnam's recent currency intervention, citing movements in both directions and net foreign exchange purposes that had "reasonable rationale" to rebuild reserves.

Kim Hwan, an economist at NH Investment & Securities in Seoul, said U.S.-China trade tensions may have played a role in the Treasury's move. The fact that Singapore, Vietnam and Malaysia are added to the list "indicates the U.S. is continuing to pressure China," said Kim. "These countries are all Southeast Asian countries that have close economic correlations with China."

Japan was urged to enact structural reforms that would ease the public debt burden and trade imbalances, and South Korea was called on to limit currency interventions even as it was applauded for fresh disclosures on those actions.

6. Sharp considers moving laptop computer production from China to Vietnam to avoid U.S. tariffs

Laptop PCs are among items that would be affected by the planned fourth round of U.S. tariffs on Chinese goods.

Last month, Sharp officials said the company is considering transferring the production of multifunction printers in China to Thailand.

At present, Sharp makes all of the group's laptops in China.

If the tariffs are implemented, Sharp would likely transfer the production of U.S.-bound laptops to Taiwan temporarily, according to the sources.

The move would be followed by a transfer to Vietnam, where the group is building a PC plant slated to begin operations in the second half of fiscal 2019, the sources said.

The group's monthly laptop production for the U.S. market stands at about 10,000 units, which is some 10 percent of its total laptop output.

Sharp runs its PC business through Dynabook Inc., formerly called Toshiba Client Solutions Co., which Sharp acquired from Toshiba Corp. in October last year.

7. Vietnam may face power supply shortage after 2020

Meanwhile, there was no backup power supply for the 2018-2019 period, according to a representative of the Electricity and Renewable Energy Authority at the Ministry of Industry and Trade.

The Block B-O Mon gas and Ca Voi Xanh (Blue Whale) projects are reportedly behind schedule by nine months to a year, while the Kien Giang 1 and 2 thermal power projects will not be completed in the 2021-2025 period. Similarly, the

O Mon III project, rescheduled for completion in 2025, will fail to meet this target.

Further, hundreds of solar projects reaching completion have yet to be connected to the national grid due to unresolved problems related to finance and power infrastructure.

The total commercial electricity output listed in the master power plan is forecast to reach 235 billion kWh by 2020, or even 245 billion kWh, according to the Ministry of Industry and Trade.

During the 2019-2020 period, the sector plans to put into service some 6,900 MW of electricity generated from coal-fired, hydropower and renewable power plants.

In addition, 47 solar power projects with a total capacity of 2,300 MW were connected to the national power grid as of May 30, remarked Vo Quang Lam, vice general director of the Vietnam Electricity Group, adding that 49 more projects are scheduled to be connected to the grid this month, providing a total of some 5,000 MW of power for the sector.

Given the supplementary volume of electricity, the sector might meet the national demand for power in the short run, stated the ministry. However, it will have to call on additional power generation from fuel-fired power plants, at a total output of 1.7 billion kWh this year and up to 5.2 billion kWh in 2020, to ensure an adequate power supply for the country.

Also, the sector may experience some pitfalls with power generation, as some power generators may fail to meet operation requirements or lack input

materials such as coal and gas, posing a risk of a power shortage after 2020.

The total power capacity put into service from 2016 to 2030 will reach an estimated 80,500 MW, which is 15,200 MW lower than the target figure in the master plan, resulting in a shortage in the power supply of 17,000 MW, mainly in the 2018-2022 period.

To remove the obstacles, the ministry proposed the Government and relevant agencies quickly adopt appropriate policies to enable the projects to be put into operation.

Hoang Quoc Vuong, deputy minister of Industry and Trade, in a statement proposed the country purchase additional electricity from Laos and China.

For a long-term plan to ensure an adequate power supply, the ministry proposed the Government draw up appropriate and reasonable power prices to attract more investment in the power sector, select qualified investors and create favorable conditions for them to execute renewable power projects as planned.

8. Vietnam's car localization rate remains low: ministry

The localization rate for cars with nine seats and fewer has reached about 7-10 percent, concentrating on tires, seats, mirrors, glass, electrics, batteries and plastic products. Meanwhile, the Vietnamese government's target was set at 40 percent in 2005 and 60 percent in 2010, local daily newspaper Vietnam News on Thursday quoted the ministry's report sent to Vietnam's top legislature for discussion and direction as saying.

Up to 80-90 percent of main raw materials for production of automobile components such as alloy steel, aluminum alloy, plastic beads and hi-tech rubber are currently imported.

Every year, Vietnamese businesses have to import about 2-3.5 billion U.S. dollars worth of parts and spare parts for production, assembly and repair of

vehicles. Meanwhile, the localization rate in regional countries has averaged 65-70 percent, with the rate of 80 percent reported in Thailand.

"The domestic market is small, with consumption of more than 300,000 vehicles, including imported ones per year, while the number of manufacturing and assembling enterprises is high with 56 units, so it has not been attractive for businesses to invest in the support industry," said the report.

The ministry said it was planning to submit to the top legislature amendments to the application of special consumption tax on cars with a high localization rate (no tax on locally-manufactured parts).

The ministry has built a pilot part supply chain for automobile manufacturers and assemblers at

home and abroad, and studied mechanisms and policies to attract investment from multinational corporations investing in large-scale projects in Vietnam, especially those focused on brands and models not existing in Southeast Asia.

According to the Vietnam Automobile Manufacturers' Association, more than 288,600

automobiles were sold in the Vietnamese market in 2018, up nearly 6 percent from 2017. Specifically, the sale of locally-assembled automobiles rose 11 percent, and that of imported vehicles dropped over 6 percent.

Corporate News

9. DHA: Record date for remaining 2018 cash dividend

↑ 0.00%

File Attachment

Record date for remaining 2018 cash dividend of Hoa An Joint Stock Company as follows:

[20190606_DHA-190606-Record-date-for-remaining-2018-cash-dividend.pdf](#)

10.D2D: Record date for 2nd 2018 cash dividend

↓ -0.95%

File Attachment

Record date for 2nd 2018 cash dividend of Industrial Urban Development Joint Stock Company No.2 as follows:

[20190606_D2D-190606-Record-date-for-2nd-2018-cash-dividend.pdf](#)

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