VIETNAM DAILY NEWS

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Market Analysis

1. Global worries pull VN stocks down

The benchmark VN-Index on the Ho Chi Minh Stock Exchange shed 0.38 per cent to close at 961.98 points.

The VN-Index gained 1.65 per cent on Monday following the signing of trade deals between Viet Nam and the EU and after China and the US agreed last weekend to restart trade talks.

But market sentiment turned negative on Tuesday after US President Trump threatened to slap a US$4 billion tariff on EU-made products.

Across Asia, stocks fell as worries arose after a lower global Purchasing Managers' Index (PMI) signalled the world economy was slowing down.

Investors in Viet Nam retreated to defensive territory and left trading liquidity weak, MB Securities Co (MBS) said in a note. "Investors seemed calm and traded more cautiously."

Weak investor sentiment failed to lift the stock market despite the fact that selling pressure was not strong, MBS said.

More than 138 million shares were traded on the southern bourse, worth VND3.46 trillion (US$148.6 million).

In the VN30 basket, which tracks the 30 largest companies by market value and trading liquidity and often sets the course of the VN-Index, 18 stocks declined while only 11 increased.

Stocks fell even in the sectors that are likely to be boosted by the trade agreements Viet Nam signed with the EU such as seafood processing, garments and textiles and property development.

Foreign investors net-sold nearly VND28.8 billion worth of stocks on HoSE, putting more pressure on the market.

Tuesday's decline showed the recent increases of the VN-Index were not stable, MBS said.

However, it was normal for the market to decline after recording strong gains on Monday and last Friday, the stock brokerage added.

Short-term growth was still projected, Thanh Cong Securities Co (TCSC) said in its daily report. "There will be alternate ups and downs on the way to 970-980 points," it said.

The focus should be put on groups of listed companies that are expected to deliver better quarterly earnings reports in the next few weeks such as banks, retailers, tech firms and textile and garment companies, TCSC added.

On the Ha Noi Stock Exchange, the HNX-Index lost 0.60 per cent yesterday to end at 103.46 points.

The northern market index was up 0.56 per cent on Monday.

More than 23.7 million shares were traded on the northern market, worth VND305.3 billion.

Macro & Policies

2. Vietnam's manufacturing PMI hits 2019 peak again

According to a report launched by IHS Markit on July 1, the Vietnam PMI was 52.5 in June, up from 52 in May. The average PMI reading for the second quarter of 2019 was above that recorded in the opening three months of the year, albeit remaining short of the 2018 average.

For Southeast Asia, the headline index fell below the crucial 50 mark separating improvement from deterioration, staying at 49.7 in June, down from 50.6 in May. It was the first slowdown at ASEAN manufacturing firms in four months but was only fractional.

In fact, five of the seven monitored countries continued to report stronger business conditions, though three of them saw growth weaken compared with the previous month.

Myanmar recorded solid improvement in the health of its manufacturing sector (53) with sharp expansions in output and new orders. Vietnam also saw a strong improvement in operating conditions, with the joint-highest reading (52.5) seen in the year to date, the report said.

Vietnamese manufacturers continued to record solid growth in new orders in June, with the rate of expansion ticking up to a six-month high. Panelists, who conducted the PMI survey, linked the latest rise to the launch of new products and increased customer numbers.

Less positive data was seen with regard to new export orders, which rose at the slowest pace since February. There were some reports that U.S.-China trade tensions had negatively affected export orders.

A rise in new orders was the key factor leading to the 19th successive monthly rise in manufacturing production in Vietnam. The upturn in output was solid and broadly in line with those seen during the rest of the second quarter.

Continued new order growth led to a rise in backlogs of work in June, the first in 2019 so far. Firms responded to higher workloads by taking on extra staff, reversing the decline seen in May.

Alongside job creation, higher workloads also encouraged manufacturers to purchase additional input materials in June. Moreover, the rate of expansion was the fastest in three months.

Commenting on the latest survey results, Andrew Harker, associate director at IHS Markit, said that the Vietnamese manufacturing sector "continues to bob along nicely midway through 2019."

The second quarter of the year saw solid growth that was broadly stable across the period and an improvement on the first quarter. Ongoing strength in demand encouraged firms to fill positions that had been vacated by resigning staff in May, leading to a return to job creation.

One concern outlined by some firms was U.S.-China trade situation, which contributed to the moderation of export growth and weaker business confidence. Where growth was predicted, respondents linked optimism to planned business investment, new product launches and entry into new markets.

Although manufacturers remained optimistic that output would increase over the coming year, the level of confidence dropped sharply in June and was the lowest since February.

3. Vietnam can position itself to be regional tech hub

Vietnam can position itself as an alternative rather than a direct competitor with Singapore to be the regional tech hub with its investment in technologies, eased business conditions, and skilled workforce, a global expert has said.

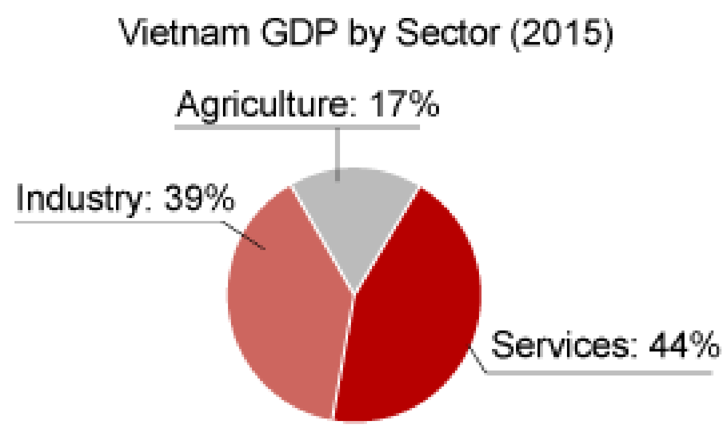
First of all, the government has recognized the potential of investing in technology and taking the lead in regional digital development and fruits that have been seen, said CFO of Singapore-based private holding company Kusto Group.

New high-tech parks have been established in Hanoi, Ho Chi Minh, and elsewhere, and the benefits of teaching computer science at school are beginning to bear fruit, the expert told The Business Times.

For large electronics corporations who are already moving manufacturing from China to Vietnam, the ability to employ skilled staff may mean these big players make longer-term investments.

Meanwhile, smaller-scale entrepreneurial investors focus on start-ups whose business particularly includes online services and fintech.

These fields offer foreign investor more room to diversify their investment portfolio in their global operations, according to the expert.



Vietnam's GDP by sectors in 2015. Photo: EC-LEDS

Secondly, infrastructure investment and eased business conditions will be decisive in ensuring that Vietnam can fulfill this potential.

Indeed, the country has risen from 104th place in the World Bank's Ease of doing Business Rankings in 2007 to 68th place in 2017, proving that the country can continue to develop a supportive environment for these crucial elements.

Thirdly, the middle class is growing to reach around 44 million by 2020, and the figure will be more than double by 2030.

A robust and competitive workforce serves as one of Vietnam's greatest assets.

In reality, a large workforce with competitive wages will boost production and consumption and act as a driver for growth.

This factor has driven foreign firms' investment in infrastructure, including high-end real estate sector, office, hospitality, and industrial property in big cities of Hanoi and Ho Chi Minh City.

Given the opportunities in this sector, investors are able to leverage their positive experience across their operations.

Accordingly, the signs of Vietnam's dynamic transition are visible from the construction of infrastructure and value-added manufacturing to the increasing number of housing and mixed-use real estate projects.

Much of that economic success is attributable to the government's policies that have brought greater predictability to the investment climate which has attracted long-term foreign direct investment.

In addition, more than a million people are added to the workforce annually, giving the country a "golden population structure.".

4. Lychee revenue in Bac Giang reaches 60-year high of US$262.6 million

The total revenue from lychee was VND5 trillion in 2016, VND5.3 trillion in 2017 and VND5.8 trillion in 2018.

Farmers in the province have not had to bring their lychee to the market. Traders came to their gardens to buy the fruit.

Bui Van Canh in the province's Luc Ngan District said they had a bumper lychee crop with high prices this year. There is now a lack of lychee to sell to Chinese traders as it is the end of the season.

The lychee output this year in the province reached more than 90,000 tonnes with record prices of VND30,000-50,000, even VND80,000 per kilo.

A farmer could earn profits of several hundreds million Vietnamese dong for their lychee gardens. Some households planting lychee with organic methods enjoyed much higher profits as people were paying up to VND200,000 for a box of 12 lychees with stamps of traceability.

Tran Van Hanh, a famer in Giap Son Commune said it was easy to sell lychee this year. Their organic lychees were offered for sale for the first time with higher prices.

Cao Van Hoan, vice chairman of Luc Ngan District People's Committee, said the lychee quality this year has been the best so far. Therefore, they earned more despite lower output than last year.

This has been the first year the district applied pilot planting of organic lychee on an area of 20ha, providing clean and safe products. The application of a modern production process helped Luc Ngan lychee increase selling prices three to seven times over those of previous years.

The provincial Department of Industry and Trade said around 50,000 tonnes of lychee were sold to China so far this year.

Luc Ngan lychee was exported to 30 countries and territories, mainly to China with 90 per cent of the total and some demanding markets such as EU, the US, Russia, Canada and Japan.

The lychee is a well-known fruit from the northern province of Bac Giang.

5. Vietnam's economy shows signs of slowing down

The WB said in the report that amidst rising global headwinds, Vietnam's real gross domestic product (GDP) growth has decelerated to a still robust 6.8% in the first quarter of 2019 from a vibrant 7.5% pace in the same period of 2018.

Slower growth reflects several factors. Agricultural output declined due to the outbreaks of African swine fever and a fall in international prices.

Weaker external demand moderated the growth of the export-oriented manufacturing sector as well as overall export performance, even though Vietnam seems to have benefitted from some trade diversion due to the ongoing trade tensions between China and the United States.

Domestic investment appears to slow, resulting from subdued credit growth and continued consolidation in public investment.

Other macroeconomic indicators, such as more sluggish credit growth, subdued inflation and slower import growth are further signs of a cyclical moderation in economic activity.

By contrast, service sector activity continues to be relatively strong, signaling sustained buoyancy in private consumption.

Despite a recent uptick in headline inflation, price pressures have remained subdued, moderated by credit growth. The headline consumer price index rose by 2.9% year-on-year in May 2019, up slightly from 2.6% in January 2019, driven by hikes in administered prices for electricity and fuel and moderate food price increases.

The State Bank of Vietnam maintained a prudent monetary policy stance to support its twin goals of sustaining macroeconomic stability and supporting overall economic growth. Credit growth is estimated to have slowed to some 13% year-on-year in March 2019, reflecting tighter credit policy.

Sustained fiscal discipline and robust growth supported a further decline in Vietnam's public debt-to-GDP ratio. The public debt-to-GDP-ratio has fallen from a peak of 63.7% in 2016 to an estimated 58.4% in 2018, based on the Ministry of Finance's definition, and is on track to continue to decline and remain below the legislated debt ceiling of 65%.

Taking advantage of favorable domestic market conditions, rising investor confidence and lower yields, the Government has continued to shift into longer-dated domestic debt instruments, while also reducing the average interest rate.

GDP for 2019 projected at 6.9%

Despite signs of cyclical moderation in growth, Vietnam's outlook remains positive, according to the report.

After peaking at 7.1% in 2018, real GDP growth in 2019 is projected to decelerate by 0.5 percentage points, led by weaker external demand and the continued tightening of credit and fiscal policies. Nevertheless, real GDP growth is forecast to remain robust with a slight deceleration to 6.5% in 2020 and 2021.

While core inflation is expected to be contained by slower growth, further adjustments in administered prices (utility tariffs and fees for health and education services) as well as the impact of African swine fever and slower agricultural production on food prices will keep headline inflation at the current levels but below the official inflation target of 4%.

The current account surplus is expected to ebb as a share of GDP, reflecting a significant fall-off in external demand. Continued fiscal restraint is expected to support further incremental reduction in the budget deficit and public debt-to-GDP over the forecast horizon.

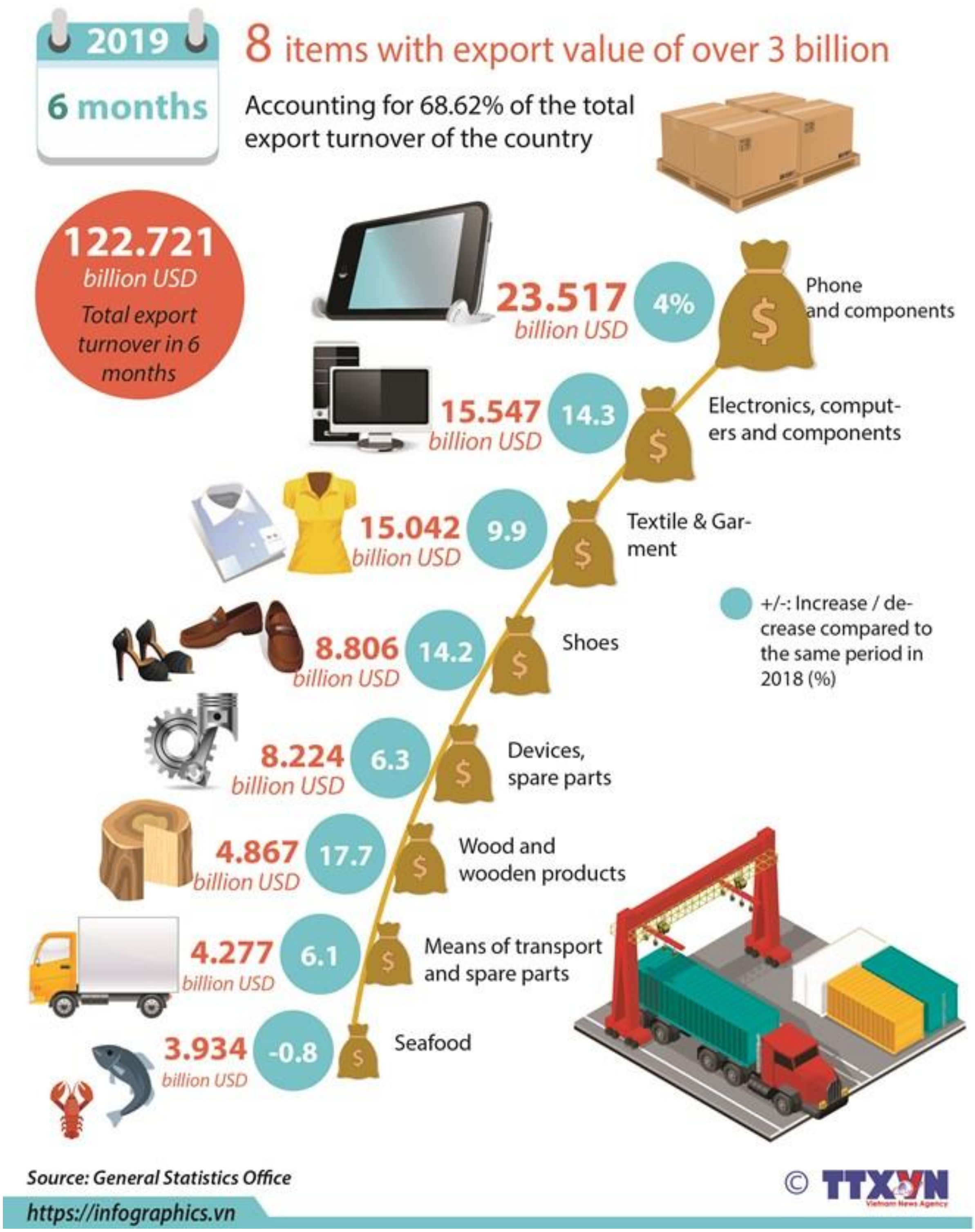
Risks have intensified, reflecting heightened global uncertainty amid the re-escalation of trade tensions and rising financial volatility. A further escalation of global trade tensions, heightened global and regional geopolitical uncertainty and rising volatility in global financial markets could disrupt trade and financial flows and lead to a further slowdown in growth outturns.

These external risks are compounded by domestic vulnerabilities, including potential slippages in fiscal consolidation and State-owned enterprise and banking sector reform, which could undermine investor sentiment and growth prospects.

“Vietnam needs to prepare to adjust its macroeconomic policies in case some of these risks materialize and lead to a deeper than expected downturn,” said Ousmane Dione, the World Bank country director for Vietnam, at the launch of the report.

He added that Vietnam will continue to push for deeper structural reforms, enhance export competitiveness and further deepen trade integration through bilateral and regional agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the EU-Vietnam Free Trade Agreement.

6. Total export turnover of the first 6 month of 2019



7. Agriculture exporters suffer as China rules tighten

Nguyen Van Thinh, deputy chairman of Nui Thanh District in the central province of Quang Nam, said the district has 930 tons of dried squid that it cannot export.

China used to import this squid via unofficial channels, but with the recently tightened import policy, the country only accepts traceable dried squid through official channels, leaving tons of the seafood product stuck at ports, he said.

Agriculture produce is also facing difficulties. Durian prices in the Central Highlands province of Lam Dong have fallen 36-42 percent to VND35,000-45,000 ($1.49-1.92) per kilogram as traders have not been able to export a large amount of this fruit to China.

Farmers in the province are selling their durian alongside the national highway or sending them to Ho Chi Minh City to sell at lower prices just to break even.

The situation is even worse for jackfruits. Their prices have fallen 77-93 percent to VND5,000-18,000 ($0.22-0.78) per kilogram in the southern province of Hau Giang compared to the peak of VND70,000-80,000 ($2.99-3.42) per kilogram in the first quarter. Prices have plunged as large quantities of the fruit do not qualify for China exports.

New regulations on Vietnamese fruit and seafood imports, introduced early this year, require agricultural products to have their origins (region, producer, etc.) declared to Chinese customs.

From May 1, fruits wrapped in hay or other materials that may contain harmful microorganisms are not accepted.

Local farmers are struggling to meet up the new standards. Although changes to China's imports policy this year were announced earlier last year, farmers' lack of knowledge of the issue has resulted in their produce being declared unfit for export.

Lai The Hung, head of the Lam Dong Crop Production and Plant Protection Division, said that only 800,000 origin stickers for durian have been registered. Many farmers have overused plant protection substances, which fails to meet export standards, he added.

Nguyen Van Kiet, head of the agriculture department in Chau Thanh District, Hau Giang Province, said that they have discouraged jackfruit cultivation because demand is too dependent on China.

However, in the last two years, demand through unofficial channels surged, resulting in the area for jackfruits doubling over last September. So, with China exports becoming difficult, local farmers struggle to sell their large harvests, Kiet said.

China's new requirements have caused fruit and vegetable exports from Vietnam to decrease by 6.3 percent year-on-year in the first quarter of 2019 to $680 million, throwing in doubt the $10 billion export goal Vietnam has set.

China is a crucial export market for Vietnam's agriculture produce. It accounted for $2.58 billion, or 73.3 percent of Vietnam's total fruit and vegetable exports, in 2018.

Corporate News

8. DIG: Report on the use of capital from private placement

↓ -1.50%

Development Investment Construction Joint Stock Corporation reports the use of capital from private placement in 2016 as follows:

I. Result of private placement:

1. Stock name: Stock of Development Investment Construction Joint Stock Corporation
2. Stock code: DIG
3. Stock type: common stock
4. Par value: VND10,000/share
5. Offering volume: 6,500,000 shares
6. Total mobilized proceeds: VND65,000,000,000
7. Cost of sale: 0
8. Auditing fee: VND15,000,000
9. Total net proceeds: VND64,985,000,000
10. Beginning date of the private placement: December 16, 2016
11. Ending date of the private placement: December 29, 2016

II. Plan for the use of capital from private placement:

1. Plan for the use of capital: to invest in Long Tan Tourist Urban Area Project in Nhon Trach district, Dong Nai province.
2. Progress of capital use:

- Total disbursed amount until June 29, 2019: VND64,985,000,000
- Purpose: to pay expenses to prepare the project, compensation for clearance.
- Remaining amount until June 29, 2019: VND0

9. Standard Chartered PE sells 8.2% stake in Loc Troi Group, ending five-year investment

↑ 2.19%

Loc Troi Group's shares (LTG) are trading around VND23,000 (nearly $1) per share on the Unlisted Public Company Market (UPCoM). The foreign fund is expected to earn about VND153 billion (US$6.6 million) from the divestment.

SCPE started investing in Loc Troi Group at the end of 2014, spending $90 million to purchase 21.5 million LTG shares, equivalent to more than 34 per cent of the firm's capital. It sold nearly 17 million LTG shares, or 25.2 per cent, to Marina Viet Pte Ltd in 2016.

Contrasting with SCPE, Augusta Viet Pte Ltd bought nearly 4.6 million LTG shares, owning 5.71 per cent of the company. The deal was completed last week.

Four investors hold more than 61 per cent of Loc Troi Group's capital, including Marina Viet (25.2 per cent), An Giang Provincial People's Committee (24.15 per cent), Kingsmead Vietnam and Indochina Growth Master Fund (6.02 per cent) and Augusta Viet.

The group has planned a 26 per cent increase in net profit this year to VND521 billion ($22.4 million). Earnings per share is expected at VND5,484.

It also decided to delay the shifting of shares to the Ho Chi Minh Stock Exchange to next year due to unfavourable business developments this year.

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