VIETNAM DAILY NEWS

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Market Analysis

1. VN stocks fall, mounting sell pressure hits large-caps

The benchmark VN-Index on the Ho Chi Minh Stock Exchange dropped 0.66 per cent to close at 976.05 points.

The VN-Index gained total 1.04 per cent in the previous two days.

Selling pressure increased among large-cap stocks and pulled the market down.

The large-cap VN30-Index lost 1.02 per cent to end at 870.81 points.

Twenty-four of the 30 largest stocks by market capitalisation and trading liquidity in the VN30 basket declined.

The worst-performing large-cap stocks included Eximbank (EIB), food and beverage firm Masan (MSN), property firm Novaland (NVL), DHG Pharmaceuticals (DHG) and steel producer Hoa Phat (HPG).

According to vietstock.vn, the sectors having driven the stock market up recently such as property, banking, food and beverage, pharmaceuticals, and healthcare showed signs of losing momentum.

Those groups of stocks had made strong increases in recent weeks as investors expected those companies to report better quarterly earnings in this season, especially bank stocks.

Among bank stocks that declined, Eximbank (EIB) tumbled 5.5 per cent, Vietinbank (CTG) lost 1.1 per cent, and Techcombank (TCB), VPBank (VPB) and HDBank (HDB) shed between 0.2 per cent and 0.9 per cent.

Meanwhile, Sacombank (STB) ended flat, Vietcombank (VCB), Bank for Investment and Development of Vietnam (BID) and Military Bank (MBB) gained modestly between 0.3 per cent and 0.5 per cent.

The three banks' growth was not enough to offset the losses other bank stocks made. Though bank stocks were running out of momentum, there were no other sectors attractive enough for investors to turn to, MB Securities Co (MBS) said in its daily report.

But the market decline on Thursday should not be a concern because regional markets recorded worse performances, MBS said, adding lower trading liquidity signalled investors were not willing to completely withdraw from the market at the moment.

Nearly 140 million shares were traded on the southern bourse, worth VND3.6 trillion (US$155 million). Of the figure, 127 million shares were exchanged via order-matching transactions, worth VND2.8 trillion.

The figures were lower than those recorded on Wednesday.

According to Thanh Cong Securities Co (TCSC), the decline on Thursday was needed as it calmed investors down from being overexcited.

Capital kept flowing into the market and headed to stocks that fell back to lower price levels, proving investors were quite unnerved, TCSC said.

Therefore, the VN-Index is expected to struggle towards 990-1,000 points with differentiation among groups of stocks in the earnings season, TCSC added.

Some sectors that are forecast to deliver good earnings reports for the second quarter and six months included banking, retail, technology and oil and gas, TCSC said.

Investors may also look for instant profits in the sectors with supportive news like industrial real estate and textile and garment, which may benefit from the ratification of the EVFTA, the company added.

On the Ha Noi Stock Exchange, the HNX-Index struggled to inch up 0.15 per cent to end at 106.74 points.

The northern market index has rallied more than 1 per cent in total after three trading days.

More than 33 million shares were traded on the northern bourse, worth VND555 billion.

Macro & Policies

2. Japanese apparel-maker Matsuoka to build new plant in Vietnam

Matsuoka will establish a wholly owned subsidiary, Annam Matsuoka Garment Co., possibly in August to build and operate the new plant in the north central province of Nghe An.

The new plant will be Matsuoka's fourth plant in Vietnam after establishing one in each of the northern provinces of Phu Tho and Bac Giang and in the southern province of Binh Duong.

Like the three other plants, the new plant will make apparel on an original equipment manufacturer basis, Matsuoka spokesman Michihiro Fukagawa said Tuesday.

Matsuoka hopes to begin operations in Nghe An at an early date, the spokesman said, while adding that details such as the plant's launch date and production capacity have yet to be worked out.

Of the Hiroshima Prefecture-based company's overseas sales in the fiscal year through March this year, China accounted for about 60 percent of sales, Bangladesh 25 percent and Vietnam 10 percent.

The firm's medium-term business plan calls for reducing its reliance on China to around 50 percent by March 2021 by shifting its focus to Vietnam from China, where production costs are on the rise, Fukagawa said.

Matsuoka sees Vietnam as a key production base for casual apparel bound for Japan and China, the spokesman said, adding that the firm's Bangladesh arm manufactures inner wear and working wear.

3. Vietnam Is Receiving Diverted U.S. Orders From China. That Doesn't Mean It's Winning the Trade War

According to data from Japanese investmentbank Nomura, Vietnam is the largest recipient of product orders diverted from thefeuding nations, as importers attempt to avoid trade war tariffs. The value oforders divertedto Vietnam in the first quarter of the year was equivalent to 7.9% of theSoutheast Asian nation's GDP. Meanwhile the second largest recipient, Taiwan,only took on additional orders equal to 2.1% of GDP.

President Donald Trump sees that shift as evidence the trade war is working. On Monday morning after Beijing revealed China's slowest quarterly economic growth in 27 years—rising just 6.2% over the second quarter last year, when the trade war began—Trump tweeted out, "The United States tariffs are having a major effect on companies wanting to leave China for non-tariffed countries. Thousands of companies are leaving."

In fact, manufacturers have been emigrating from—or, more often, expanding beyond—China for years. The trade war has added some impetus to that movement, but not every industry can afford to be so flexible.

Stanley Chao, managing partner of All In Consulting, which advises small- and medium-sized enterprises on how to do business with China, says there are a lot of smaller, specialized manufacturers that are stuck in China because nowhere else has an adequate supplier ecosystem.

"They're waiting for bigger players to make a move so that they can piggyback off of the larger companies into new markets," Chao says. "That's exactly what they did in the past. They piggybacked into China." Despite media reports, Chao adds, bigger companies aren't rushing to leave China. It can take years to develop new supply chains and, ultimately, China will continue to be a valuable market.

Why Vietnam?

For those that can expand, however, Vietnam is an attractive destination. Wages are low, education is relatively high, and Hanoi has struck Free Trade Agreements with most major economies, as both a sovereign state and as a member of ASEAN. The EU ratified a free trade agreement with the Southeast Asian nation just last month, which will see duties removed on 99% of Vietnamese imports over the next seven years.

At home, the government has invested heavily in promoting high tech manufacturing, opening three multi-billion-dollar science parks across Vietnam's major cities—Danang, Hanoi and Ho Chi Minh—and is opening three new Special Economic Zones at port towns, to add to the 18 SEZs it already has. It should be noted, however, that the new trio of SEZs have seen stiff opposition from protestorswho worry about Chinese industries snapping up land on Vietnamese soil.

“The pace of Chinese investment has definitelyaccelerated in recent months, to the point where there are buses of Chineseinvestors literally running around industrial parks and pointing at plots ofland saying, ‘I want this, I want that,’” says Alberto Vettoretti, managingpartner of Asia-focused consultancy Dezan Shire & Associates.

According to the consultancy, China rose from seventh to fifth place among Vietnam's leading foreign direct investment contributors in 2018, pumping $2.4 billion into the economy. In the five months through May, China's rank increased to fourth place; it would be a clear winner if its ranking incorporated investment from Hong Kong, which has injected over $5 billion of capital into Vietnam so far this year.

Entering the Sinosphere

The surge in Chinese investment has pros and cons for Hanoi. Some investors are bringing legitimate business, hiring opportunities and advanced tech. Others, however, are simply speculating on the real estate market as Vietnamese factory space reaches a premium. Worse yet, a number of buyers are opening tariff-dodging assembly plants where Chinese components are repackaged and exported to the U.S. in an illegal practice known as 'transhipping.'

Vietnam's customs agency vowed to crackdown on transhipment after finding “scores” of such cases in June, but the violation had already caught the attention of the "Tariff Man” himself.

"A lot of companies are moving to Vietnam, but Vietnam takes advantage of us even worse than China. So there's a very interesting situation going on there," Trump said in an interview with Fox Business on June 26. Trump went on to declare that Vietnam was the “single worst abuser of everybody.”

The U.S. commerce department slapped a 400% levy on Vietnamese steel imports at the beginning off this month, since it suspects the material has origins in other countries. Whether the U.S. will ratchet up more pressure on Vietnam is unclear. “No one has a crystal ball,” Vettoretti says. For now, the best thing or Vietnam to do is take advantage of its moment in the spotlight and put some of that increased investment to good use.

4. Lotte Card expanding presence in Vietnam

According to its latest regulatory filings posted on the Credit Finance Association's website, the company extended credit worth $72 million to Lotte Finance Vietnam, June 24. Lotte Finance Vietnam is Lotte Card's Vietnamese operation that was launched in December.

The regulatory filings showed that the purpose of the credit extension was to guarantee payment of the local subsidiary's debts.

As the parent company having high credit rating stands surety for the subsidiary, Lotte Finance Vietnam, which needs more money for its business expansion there, has been able to get loans at lower interest rates.

Market observers expect the recent financial support will boost the profitability of Lotte Card's Vietnamese subsidiary.

They also anticipate that Lotte Card will continue its cooperation with Lotte affiliates, despite the MBK Partners-Woori Bank consortium's acquisition of the credit card company.

In May, Lotte Group agreed to sell its 80 percent stake in the credit card unit to the consortium. As the third-largest shareholder holding the remaining 20 percent stake, however, the conglomerate has been involved in management of the card firm.

According to market observers, the consortium is expected to allow Lotte Card to team up with Lotte affiliates, considering the group's 10 years of work in the Vietnamese market.

Since it opened an office in Vietnam in 2009, the fifth-largest credit card company in Korea has gone all out to expand its presence in the Southeast Asian country.

In April, Lotte Card became the first Korean card firm to launch a credit card business in Vietnam. In 2018, it launched customer loan and installment finance services there.

5. Textile, dyeing projects unwelcome in many localities

At a seminar in HCMC on July 17, on the sustainable development of the apparel sector, Giang noted that the sector is now depending on imported materials as many domestic firms have focused on the garment making stage. Only a few firms have invested in the textile and dyeing stages.

The country spends some US$18.5-19 billion on input material imports per year.

Meanwhile, Vietnam must meet strict requirements on origins to benefit from the free trade agreements that it is a party to, including the European Union-Vietnam Free Trade Agreement (EVFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. For example, under the EVFTA, the European Union requires Vietnam to use locally produced fabrics for its apparel products.

However, investors in textile and dyeing projects are finding it hard to pick a location for their projects due to the localities' refusal to cooperate.

Giang said the situation would hinder the local textile and garment sector from enjoying tax incentives in importing markets.

He confirmed that only a few textile and dyeing projects pose a high risk of environmental pollution and called on textile and garment enterprises to put more efforts into protecting the environment to gain the confidence of the Government, environment management agencies and authorities of localities.

According to economic experts, localities' concerns over environmental pollution being triggered by textile and dyeing projects are reasonable. However, if localities continue turning down these projects, Vietnam will face difficulties in meeting the input material demand and will waste tax incentives in many markets.

They proposed enhancing control over these projects. Further, investors must apply advanced technology to secure production and protect the environment.

6. Project delays cause power undersupply

At a meeting of the Ministry of Industry and Trade on July 17 on important national power projects, Phuong Hoang Kim, director of the Electricity and Renewable Energy Department, under the Ministry of Industry and Trade, said that the annual demand for electricity will increase by 8.6% by 2020, Tuoi Tre Online newspaper reported.

According to the adjusted National Power Development Plan VII, the country expects to generate 21,650 megawatts of electricity by 2020.

Kim noted that power projects are now divided into three categories: those funded by Vietnam Electricity Group (EVN), Vietnam Oil and Gas Group (PVN) and Vietnam National Coal and Mineral Industries Group (TKV); those developed by independent power producers; and those executed under the build-operate-transfer format.

However, PVN and TKV have failed to ensure the progress of their projects, posing a high risk of a power shortage in the 2021-2025 period, Kim added.

He said regulations in the Planning Law also hinder the formulation and execution of power projects. Specifically, the plan for nearly 400 projects is facing obstacles. The obstacles to the Tay Bac, Bac Lieu, Ca Na and Long Son projects have been reported to the competent agencies, but these agencies have yet to take any action.

Further, these projects have encountered difficulties in site clearance and construction due to overlapping and complicated administrative procedures.

In addition, 89 solar farms with a combined design capacity of roughly 4,500 megawatts were put into operation. However, this boom in solar farms has caused an overload of the national grid.

The ministry will consider importing more electricity from the neighboring countries of Laos and China.

Minister of Industry and Trade Tran Tuan Anh agreed that the power shortage risk is high. He ordered a review of the liability of investors in power projects that are lagging behind schedule.

He asked the ministry's subordinates to accelerate the progress of projects by improving their execution methods, ensuring an adequate capital supply, applying technology and paying attention to amendments to regulations.

As for hydropower plants, the minister asked the Electricity Regulatory Authority of Vietnam and the Industrial Safety Techniques and Environment Agency to work with the Ministry of Agriculture and Rural Development to review the process to operate reservoirs.

According to the deputy head of the ministry's Energy Saving and Sustainable Development Department, Trinh Quoc Vu, large enterprises account for some 40% of the country's energy consumption volume, so the sector should seek solutions to encourage them to save energy, Mot The Gioi news site reported.

He said that the department will cooperate with EVN to have enterprises sign commitments to save 10% of their energy consumption volume this year.

7. Vietnam PM asks "super committee" not to be admin burden on enterprises

Vietnam's Committee for State Capital Management (CSCM), dubbed as the super committee, must create favorable conditions for enterprises' further development, instead of being an administrative burden, according to Prime Minister Nguyen Xuan Phuc.

Timing is essential in a market economy, requiring the CSCM to be responsive and quickly address enterprises' concerns, Phuc said in a meeting with the CSCM on July 17.

Launched last September, the CMSC is tasked with managing state capital at 19 leading state-run groups and corporations with a combined capital of VND1,000 trillion (US$43.02 billion) and assets of over VND2,300 trillion (US$98.96 billion).

Phuc requested the CMSC to continue cooperating closely with 19 corporations and groups, while focusing on improving capabilities and efficiency in the committee's operation.

Additionally, Phuc urged the committee to enhance supervision at those under its administration, preventing losses of state capital and assets during their operations, especially in the privatization and divestment process.

Phuc requested government agencies to consider the committee's proposal in deregulating certain aspects for enterprises, delegating them appropriate responsibilities.

Nguyen Hoang Anh, chairman of the CMSC, said the committee is piloting the communication system connecting with 19 enterprises, which would serve as a basis to set up indicators and software for enterprises supervision.

A report from CMSC said most enterprises under its management have been profitable, with an increase in revenue and pretax profit of 15% and 21%, respectively.

Topping the list of 19 SOEs is state investment arm State Capital Investment Corporation (SCIC).

The remaining 18 SOEs were formerly run by four ministries which are the Ministries of Industry and Trade (MoIT), Transport (MoT), Agriculture and Rural Development (MARD), and Information and Communications (MIC). Most of the names on the list are enterprises belonging to the MoIT and MoT with six groups and six corporations.

Of the 19 on the list, the state now holds a 100% stake in 14 SOEs. These include Electricity of Vietnam (EVN) and PetroVietnam, the two largest state-owned conglomerates in terms of stockholder equity (VND431 trillion (US$18 billion) and VND205 trillion (US$9 billion), respectively, according to their 2016 audited reports. The two have total assets of VND770 trillion (US$33.8 billion) and VND692 trillion (US$30.3 billion) as of 2016, respectively.

Corporate News

8. Construction giant reports lowest quarterly profit in 4 years

↓ -1.33%

This was the third consecutive quarterly decline in profits, and was the lowest profit figure in the last four years. Coteccons is a leading company in the construction industry which builds skyscrapers and major factories. It was the main contractor for Landmark 81, the country's tallest building.

In the first half-year Coteccons's revenues and pre-tax profits were VND10 trillion ($431.7 million) and VND393 billion ($17 million), down 20 percent and 55 percent respectively.

But since 2018 the rising costs of construction materials as well as increasing competition in the industry has squeezed its margins.

As of Thursday morning, Coteccons's shares were trading at VND105,100 ($4.54) on the Ho Chi Minh Stock Exchange (HoSE), down over 6 percent compared to the previous session. The shares were trading for over VND200,000 ($8.63) in January 2018.

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