VIETNAM DAILY NEWS

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Market Analysis

1. VN shares move up but liquidity modest

The benchmark VN-Index on the Ho Chi Minh Stock Exchange gained 0.14 per cent to close at 965.93 points.

The VN-Index fell a total of 3.28 per cent over three straight days since last Friday.

Shares of banks, retailers and construction companies became attractive to investors on Wednesday.

The three sector indices gained between 0.8 per cent and 3.3 per cent, data on vietstock.vn showed.

Investors may be looking for short-term earning opportunities in those sectors amid the uncertainty of the global markets.

The Chinese yuan broke its 11-year low early this week amid rising tensions in US-China trade relations, putting pressure on Viet Nam's macro-economic condition and equities market.

However, large-cap stocks performed well enough to cushion the market.

The VN30-Index that tracks the performance of the 30 largest stocks by market value and trading liquidity was also up 0.25 per cent to 868.27 points.

Ten of the 30 stocks in the VN30 basket advanced while 18 declined.

Gainers in the basket included Vietcombank (VCB) (+2.8 per cent), Mobile World Group (MWG) (+3.6 per cent), Vinamilk (VNM) (+0.7 per cent), Hoa Phat Group (HPG) (+1,6 per cent), Novaland (NVL) (+1.2 per cent) and Sabeco (SAB) (+0.3 per cent).

Worries about the uncertainty of the stock market sent trading liquidity to a modest level.

More than 219 million shares were traded on the southern bourse, worth VND7.7 trillion (US$329 million).

According to Sai Gon-Ha Noi Securities Co (SHS), the market recovered with a slight increase, accompanied by modest liquidity, which suggested that today was only a technical recovery.

Risks remain and indices would soon correct if the pillar stocks could not maintain rising momentum, SHS said in its report.

On the Ha Noi Stock Exchange, the HNX-Index was unchanged at 101.89 points.

The northern market index dropped a total of 2.43 per cent in the previous four days.

Nearly 28 million shares were traded on the northern market, worth VND403.5 billion.

According to Bao Viet Securities Company (BVSC), the VN-Index will receive support at 955-960 points and recover in remaining sessions of the week. If so, the index will have to fill in the gap opened yesterday at around 973-978 points.

However, the market will possibly incur strong volatility. If violating the aforementioned support zone, the index will likely drop to deeper support zones in the short term, BVSC said.

The market has faced disadvantages as foreign investors have become net sellers recently. Stock exposure should be maintained at 30-35 per cemt of the portfolio. Investors with high proportions of stocks may take advantage of the market's recovery to lower stock exposure.

They should only buy during the market's strong decline to our aforementioned support zones and focus on basic stocks, large-cap stocks, and sectors with macroeconomic benefits, including fishery, industrial zone real estate and information technology.

Macro & Policies

2. FTAs force Vietnam to reform business environment: Experts

Free trade agreements (FTAs), most of which lower tariff barriers, are expected to create more motivation for Vietnam to reform its business environment, according to local and foreign experts.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA) demonstrate Vietnam's willingness for further international integration, creating new opportunities for the country, said Stephen Wyatt, country head of JLL Vietnam.

In reality, a number of FTAs have largely contributed to Vietnam's strong economic growth over the past time, said Wyatt, who is from a leading professional services firm that specializes in real estate and investment management.

Sharing the same view, Deputy Minister of Industry and Trade Tran Quoc Khanh said FTAs are expected to benefit Vietnam in two major aspects namely volume and quality.

It means that regulations stipulated in the FTAs will force Vietnam to change its regulatory framework and improve the business environment.

In addition, the country will get trade expansion, including higher exports to its partners, especially the EU, lifting the economic growth, he added.

Many experts have predicted that Vietnam would be one of few countries benefiting the most from international trade thanks to the dynamics of global value chains. Indeed, Vietnam attained an economic growth rate of 6.7% in 2018 and fulfilled macroeconomic targets in the year.

But Vietnam should make full use of opportunities offered by FTAs.

Vietnam can only tap potential from the global trade if the economy makes progress itself but not totally depends on outside factors, said Vu Tien Loc, president of the Vietnam Chamber of Commerce and Industry (VCCI). It means that it's important to change the regulatory framework to be in line with international regulations.

To be clear, the more Vietnam changes its legal framework, the better integration into the global trade it makes.

In terms of state management, it requires a better business environment which both demonstrates Vietnam's commitments to the global treaties and enables businesses to grasp opportunities.

Local firms, meanwhile, need to change the corporate governance as it provides the framework for attaining a company's objectives and encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

EVFTA - the bonanza for Vietnam

The EVFTA is considered a breakthrough for Vietnam thanks to the benefits it will bring about, but challenges remain ahead, according to Dr. Dinh Truong Hinh.

Advantages: EVFTA would help Vietnam expand its export market to a broader zone which account for 15% of the world's market, reduce the prices of home appliances in the Vietnamese market, boost foreign direct investment (FDI) and production, and change legal framework including rules and transparency, Hinh said in an article posted on BBC.

Challenges: Big European firms would increase control of the Vietnamese market; Vietnam's goods must pass requirements on health protection, environment, and intellectual property before reaching European customers; Vietnam is ineligible to support its companies, unlike the ways which Japan, South Korea, and Singapore (three countries in Asia that have FTAs with the EU) were allowed to do before.

What should Vietnam do?

To make full use of the opportunities, Vietnam needs to encourage private firms to raise productivity by partnering with its peers or foreign-invested enterprises (FIEs) and by raising hi-tech proportion, Hinh has suggested.

If the companies fail to connect one another, the final products would be less value-added due to less knowledge sharing.

In addition, the government needs to reduce the role of state-owned enterprises (SOEs); to treat all business fair, mostly direct and indirect exporters; to boost the development of clusters; to invest more in plug-and-play industrial parks and hi-tech parks; to encourage business partnership through sub-contracts; to incentivize foreign investment in upstream and downstream projects; to encourage the partnership between FIEs and domestic businesses through joint ventures; and to develop social relations and relationship with foreign partners.

3. Vietnam sees US$55 billion in M&A deals made in a decade

Total value of mergers and acquisitions (M&A) deals in Vietnam in 2018 hit US$10.2 billion, marking a big jump from just US$1.1 billion 10 years ago, leading to an accumulated value of US$55 billion in the past decade, according to Vu Dai Thang, vice minister of Planning and Investment.

Over the past 10 years, M&A activities in Vietnam have been growing strongly and become an indispensable part of the investment – business ecosystem in Vietnam, Thang said at the M&A Vietnam 2019 Forum on August 6.

In addition to a record-high value, the number of M&A deals has been increasing rapidly in all economic sectors, from the private, foreign-invested to state sectors, attracting both foreign and local investment funds, as well as non-specialized investors such as business and tech firms.

According to Thang, the government has been pushing for economic restructuring based on a revision of growth model towards greater efficiency and economic competitiveness.

During this process, a priority is given to reform in public investment, the finance-banking system and stateowned enterprises (SOEs). Regarding the latter, there has been measures to promote speedy privatization and divestment process, Thang added.

In the last three years, privatization and divestment in the state sector have resulted in proceeds of over VND200 trillion (US$8.6 billion), nearly double the amount in the prior five year-period, Thang continued.

Throughout these activities, local and foreign investors have purchased and owned major stake holding in state firms such as Vinamilk or Saigon Beer Alcohol Beverage (Sabeco).

The government's push for privatization and divestment in a transparent and fair manner would lead to more attractive products for the M&A market, opening the door wider for investors having interest in acquiring stakes at SOEs, Thang asserted.

Additionally, Vietnam identifies the private sector as a driving force for the economy, as such, it aims to perfect the legal framework and policies for a better business environment.

New factors supporting M&A activities

Business-related laws such as the Investment Law, Law on Enterprises, Securities Law and Construction Law, among others, would soon be amended to remove restrictions and overlapping regulations, cutting business costs for enterprises joining the market.

Moreover, new laws, including the Law on Support for Small and Medium Enterprises, Public-Private Partnerships Law (PPP), are expected to create a solid legal foundation for the private sector participating in various business and investment activities, Thang continued.

More importantly, the Politburo, the most powerful policital body in the country, is scheduled to issue a new resolution on attracting FDI until 2030 that stresses the importance of foreign investment to Vietnam economy in competing and cooperating fairly with other economic groups.

Under the new FDI strategy, Vietnam gives priority to quality projects with high added-value, using advanced and environmentally-friendly technologies.

The government intends to pilot new management models for innovation and creative business activities, especially in a fast-changing world with new technologies arising from the Fourth Industrial Revolution.

These positive factors are opening a new era for M&A activities in Vietnam to become a major investment channel in the coming time, Thang concluded.

4. Policy reform is key to unlock Vietnam's M&A future

In the first panel discussion at yesterday's Vietnam M&A Forum 2019 in Ho Chi Minh City, policymakers and industry experts have talked at length about legal reforms that can push the M&A market forward.

Regulators' viewpoint

According to the experts, foreign investors look forward to higher levels of transparency and corporate governance at Vietnamese firms, especially when it comes to state-owned enterprises (SOEs). This ranges from information on land usage, the rights and obligations of investors, and the disclosure of financial data to the foreign ownership limit.

Dang Quyet Tien, head of the Corporate Finance Department at the Ministry of Finance (MoF), acknowledged that information disclosure remains an issue at Vietnamese SOEs – partly because of differences in Vietnam's accounting standards and the International Financial Reporting Standards. The lack of quality information can discourage investors from doing M&A with the companies, said Tien.

“We're addressing these issues in the revised Securities Law. We're also revamping the process of hiring valuators for M&A transactions, most notably on the issue of land usage. Not stopping there, before 2025, we'll require major companies in Vietnam to use international standards in financial reporting,” the official talked of legal reforms already on the horizon.

When asked about the delays that are plaguing SOE equitisation in Vietnam, Le Song Lai, deputy general director of State Capital Investment Corporation (SCIC), explained that the state investor wants to follow international standards, as well as improve transparency. Companies also want foreign investors with experience in their field, which also delays the process.

“Last November, we received a list of 19 groups and conglomerates which are in the pipeline for equitisation, mostly in power, telecommunications, oil and gas, and agricultural production. State capital at these firms is VND800 billion ($34.78 million),” said Ho Sy Hung, deputy chairman of Vietnam's Committee for State Capital Management.

Regarding legal reforms on the stock market, Pham Hong Son, deputy chairman of the State Securities Commission, stressed that the revised Securities Law will force companies to list immediately after their initial public sale – which is aimed at providing liquidity and transparency for investors.

“We're also considering the option of non-voting shares and non-voting depository receipts,” said Son.

Concerns of foreign investors

Experts and investors in the first panel emphasised that foreign investors remain greatly interested in Vietnam's M&A market. Tamotsu Majima, senior director at Recof Japan, said that the number of M&A deals between Vietnam and

Japan during the past years has increased remarkably, especially in manufacturing and services.

Similarly, Stefano Pellegrino, chief secretary of the European Chammber of Commerce in Vietnam, said that membership at the EuroCham has been increasing thanks to the EU-Vietnam Free Trade Agreement. He expected this trend to continue.

"European investors are known to be socially and environmentally friendly, as well as willing to offer technological know-how. These are their strengths in the Vietnamese M&A market," said Pellegrino. Notable sectors of interest are wide-ranging, from renewable energy, pharmaceuticals, logistics, as well as oil and gas to manufacturing and consumer goods, most of which are affected by the trade deal.

Market consultants at the panel discussion said that transparency is highly valued by investors, and buyers will study market data and the potential partner very carefully before making the next step. This is especially true for Japanese investors.

"Japanese investors need to have a vision for post-merger and integration 3-5 years after the deal, which can be difficult unless there are in-depth dialogues between the partners. This will lay down the foundation for successful M&A, contributing to successful post-merger operations and integration," said Masahiro Kotaka, managing director of KPMG Japan.

On behalf of her clients, Vo Ha Duyen, partner at Vietnam International Law Firm (VILAF), said that the New Law on Competition might scrutinise M&A deals that have combined sales of $85 million. This can result in more processing time for lawyers and consultants and delay the speed of M&A deals in Vietnam, as more and more deals are crossing this threshold.

5. TTI wants to develop $650 million plant in Vietnam

In the framework of the meeting with Prime Minister Nguyen Xuan Phuc, TTI's chairman Horst Julius Pudwill expressed the corporation's ambition to develop a plant and an R&D centre with the target of making Vietnam its new manufacturing base.

The group sees that Vietnam offers numerous investment opportunities thus, and are looking to increase its investment to manufacture products for export, while simultaneously developing German-standard training schools to improve the quality of the Vietnamese engineering workforce. Besides, TTI hopes that its investment will be a basis to encourage satellite companies to relocate to Vietnam to join its supply chain.

Notably, the plant will have a total investment capital of $650 million which focuses on manufacturing hand-held power tools with integrated technology for designing and manufacturing control devices, power electronic transformers for the power industry, mechanical engineering, and the Internet of things.

Besides, the group also wanted to open a vocational training school worth over $24 million in District 9 and plans to build the second German House in Ho Chi Minh City.

It is not the first time TTI expressed its interest in developing facilities in Vietnam. Earlier in February, TTI announced plans to invest in a solar panel manufacturing plant and an R&D centre in SHTP. However, at the time, the proposed investment capital was $150 million only, much lower than the latest offer.

6. Foreign fashion brands impose multiple safety requirements on apparel sector

A source from the workshop on "Promoting safer working conditions for factory workers in the apparel and footwear industry," said that the new requirements from major brands and distributors have put local enterprises under pressure.

The apparel and footwear sectors play a key role in the country's economic growth, bringing US$36.3 billion in export revenue in 2018.

The sectors are expected to book US$40 billion in export revenue this year. With growth rates ranging from 12% to 16% per year in the 2010-2018 period, the sectors ranked second or third in terms of the country's overall export revenue.

Vietnam has signed various free trade agreements with developed countries, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union-Vietnam Free Trade Agreement (EVFTA), allowing Vietnamese enterprises, including textile, garment and footwear firms, to strengthen their cooperation with foreign partners in production and export.

Despite the range of opportunities for business expansion and growth, the local apparel and footwear firms have faced multiple challenges, especially in meeting international commitments and complying with regulations on labor, environment and production safety, to develop the sectors sustainably.

Huynh Tien Dung, director of the Sustainable Trade Initiative (IDH), said that the greatest difficulties facing Vietnam on signing the CPTPP and EVFTA involved labor and sustainable development.

As such, to make the most of the free trade agreements, domestic enterprises should focus on meeting international requirements and standards, Dung said.

Factories that supply products to many brands and distributors have run into severe hardships because of the new requirements, he stressed.

To support Vietnamese firms in fulfilling the requirements on building safety, set by international brands and distributors, IDH has cooperated with some foreign brands and distributors such as Bestseller, Gap, Li&Fung, Target, VF Corporation and Walmart to develop a common set of criteria on safety at textile, garment and footwear production facilities and has launched Life and Building Safety, an industry-wide program to promote safe manufacturing in the apparel and footwear value chain.

7. Vietnam faces bumpy road to be attractive destination for hi-tech investors

Vietnam will have to do much with its supporting industries and workforce if it wants to lure better high-tech foreign investments, experts said.

According to Nguyen Duc Thanh, director of the Vietnam Institute for Economic and Policy Research, the best companies in the US, Europe and Japan are not picking Vietnam but instead have moved to other regional countries like Malaysia, Indonesia, and Thailand, where developed supporting industries and highly-qualified human resources are already in place.

Vietnam mainly receives capital from firms with medium technology and a simple workforce, Thanh said. In other words, investors still don't bet Vietnam is a reliable destination for tech giants.

Nguyen Van Toan, vice chairman of the Vietnam Association of Foreign Invested Enterprises, said that the high quality investment inflow from the US and EU in Vietnam remained hardly noticeable compared to the country's total FDI and the overseas investment capital of these investors in the world and ASEAN countries over the past years.

In fact, Vietnam in recent years has continuously seen a sharp increase in investments from Asian investors, but giants from the US and EU are still absent in Vietnam.

According to data from the General Statistics Office, American investors registered to invest just US$180 million in Vietnam in the first half of this year. So far, the world's number-one economy has committed only some US$10 billion in Vietnam, compared to US$300 billion in committed FDI in Vietnam.

Investment by European countries to Vietnam has been almost imperceptible as well compared to their potential. They had invested only some

US$24.67 billion in Vietnam by the end of last year.

These figures, when compared to Asian countries pouring capital into Vietnam such as South Korea with $59 billion, Japan with $49.8 billion, are very modest, Toan said, attributing the restriction to the country's poor capacity to absorb the capital inflow due to the limited qualified labor force, underdeveloped supporting industries and infrastructure, and multiple barriers when it comes to the investment environment.

Toan questioned when the investors bring the capital and technology to Vietnam. But how Vietnam does to absorb that capital, what to do with human resources do to keep up with technology, and infrastructure development are the bigger concerns.

Tough work

With limited resources, this is now time for Vietnam to consider placing importance on high-quality capital in order to elevate its labor qualification, technology and protect the environment.

However, he said, under the country's current legal system, FDI selection will certainly be a very tough job as it cannot be done with a subjective mind but must adhere to a system of legal documents with very specific criteria.

Currently, even some clear definitions, such as what high technology is, what source technology is, and how priorities should be given, are not yet available, Toan said, adding this has led to the fact that localities mainly approve projects by just 'looking' at the investors, not at their project quality.

As regards FDI attraction in the coming period, Toan suggested the criteria for foreign capital attraction should be established on the basis of science. To do so, it is essential to build a qualified team who can define what high technology is, what source technology is, and formulate specific policies for each type of production and business.

He expected Vietnam's strategy for FDI attraction in the new era, which is being drafted by the Ministry and Planning and Investment, will include more effective FDI selection policies to enable the country to acquire high technology, source technology and high-quality human resources.

Corporate News

8. Stock market briefs on August 7, 2019

↑ 0.00%

HCMC – FLC Group JSC (FLC) has offered nearly 300 million shares for its existing shareholders at VND10,000 each at a 422-for-1000 ratio. The issue is expected to help increase FLC's charter capital from VND7.1 trillion to VND10.1 trillion. The shares will be sold within 90 days, starting August 5. The proceeds will be invested in the group's property projects and used to increase the charter capital of its Bamboo Airways from VND1.3 trillion to VND2 trillion.

HANOI – Hanoi Beer, Alcohol and Beverage Joint Stock Corporation (BHN) has reported its after-tax profit of VND240.86 billion last quarter, the highest since the last quarter of 2017. However, its net revenue declined 16.5% year-on-year to more than VND2.4 trillion.

HCMC – Vietnam Joint Stock Commercial Bank for Industry and Trade (CTG) will issue VND500 billion worth of unsecured inconvertible bonds in two private placements. The seven-year bond will come with a face value of VND1 billion each and a fixed coupon of 8% per year. The share sale was set to be made this quarter and the next.

HCMC – Tran Thi Dan Thanh, the wife of Nguyen Quang Hoa, chairman of Thien Nam Trading Import Export JSC (TNA) has offloaded all her 514,000 TNA shares, or a 1.5% stake.

HANOI – South-East PetroVietnam Fertilizer & Chemicals JSC (PSE) has announced August 9 as the ex-dividend date to pay a cash dividend of 8% for shareholders. The record date will be August 12 and the payment will be made from August 30.

HANOI – Vinaconex Investment And Tourism Development JSC (VCR), a subsidiary of Vietnam Construction and Import-Export Corporation (Vinaconex), has issued VND300 billion worth of bonds via a private placement for Vinaconex. The 24-month bonds can be converted into shares and has a face value of VND100,000 each. The issue is aimed at raising capital for the Cai Gia-Cat Ba tourism and urban area project, which requires an estimated total investment of more than VND10.9 trillion.

HCMC – An Phat Securities Joint Stock Company (APG) will issue more than 850,000 shares to pay a 2018 dividend of 2.5%. The issuance will be made this quarter and next.

9. CTD: Board resolution on share buyback

↓ -2.57%

According to the Board resolution dated July 31, 2019, the Board of Directors of Coteccons Construction Joint Stock Company approved to buy back 86,300 shares as treasury shares from the employees resigned.

10. DXG: Record date for 2018 stock dividend & stock issuance

↓ -5.30%

On August 05, 2019, the Hochiminh Stock Exchange issued Announcement No.1046/TB-SGDHCM about the record date of Dat Xanh Group Joint Stock Company as follows:

File Attachment

20190807_DXG-190807-Record-date-for-2018-stock-dividend--stock-issuance--PV.pdf

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