VIETNAM DAILY NEWS

August 20th, 2019

JSI
JAPAN SECURITIES INC.

Table of content

Table of content

Market Analysis

1. Shares move up with strong divergence among large-caps

The VN-Index on the Ho Chi Minh Stock Exchange inched up 0.11 per cent to end the session at 981.03 points.

The index had increased by total 0.58 per cent to finish last week at 980.00 points.

On the Ha Noi Stock Exchange, the HNX-Index edged up 0.23 per cent to end at 102.58 points.

It had lost total 0.43 per cent to end last week at 102.35 points.

Liquidity was modest with 179 million shares worth nearly VND6.4 trillion (US$274 million) traded on the two markets.

The afternoon session witnessed a wide divergence among large-caps' prices.

Stocks such as Mobile World Group (MWG), FPT Corporation (FPT), Vicostone JSC (VCS) and Refrigeration Electrical Engineering Corporation (REE) attracted cash flow and simultaneously gained.

Blue-chips such as Bao Viet Holdings (BVH), PetroVietnam Gas JSC (GAS), Masan Group (MSN), Vinamilk (VNM), Sabeco (SAB), Viet Nam National Petroleum Group (PLX), PVPower (POW), Vinhomes (VHM) and Vincom Retail (VRE) also made gains, helping the indices stay in the green.

The real estate group performed well with many gainers such as Dat Xanh Group (DXG), Ba Ria-Vung Tau House Development Co (HDC), HDBank (HDB), Da Nang Housing Investment Development JSC (NDN), Phat Dat Real Estate Development Corporation (PDR), Thu Duc Housing Development Corporation (TDH) and Nam Long Investment Corporation (NLG).

Meanwhile, petro stocks weakened in the afternoon with PetroVietnam Technical Services Corporation (PVS), PetroVietnam Transportation Corporation (PVT), Petroleum Equipment Assembly & Metal Structure Joint Stock Company (PXS) gained while PetroVietnam Drilling and Well Services Corporation (PVD) and PetroVietnam Construction Corporation (PVC) dropped.

The Vietnamese stock market was driven by the insurance, technology, real estate, securities, food and beverage, construction materials and retail sectors.

Their sector indices rose between 0.06 per cent and 0.51 per cent, data on vietstock.vn showed.

Large-cap stocks dropped with the VN30-Index decreasing by 0.07 per cent to end at 891.78 points.

Foreign investors net bought VND881.19 billion on the HOSE, including Vingroup (VIC) (VND937.96 billion), Vinamilk (VNM) (VND36.43 billion) and Masan Group (MSN) (VND6.73 billion).

The Vietnamese stock market is now under strong fluctuation from the uncertainty of global movements in political and economic conditions, said Le Duc Khanh, director of market strategy department at PetroVietnam Securities (PSI).

The main concern is how the US economy, if it falls, will affect the Vietnamese economy, he said.

That concern is driving the market sentiment and results in the mixed responses among investors, he added.

Macro & Policies

2. Vietnam on the rise for Aussie investors as US-China trade war bites

On Thursday, Prime Minister Scott Morrison arrives in Vietnam, a booming nation of 97 million where growth has remained strong even as its South-East Asian rivals suffer under the pressure of the US-China trade war on regional supply chains. For many Australian investors, it's a clear alternative to China.

Wes Maas, a former South Sydney rugby league player who founded NSW-based construction materials, equipment and services company Maas Group, first saw the potential in Vietnam several years ago.

The company he runs out of Dubbo, which is preparing for a $200 million listing on the Australian Stock Exchange, had already been buying equipment from Vietnam for 18 years. But when its local partner was taken over, Maas decided to go it alone.

The company fast-tracked an initial three-stage plan to build a factory which would make underground mining equipment. Instead, it built the 30,000 square metre plant in one go. The work was completed in eight months. Things have gone much quicker than he expected.

"For us to continue to expand on the world market, finding a skilled workforce to pre-build, prepare or manufacture equipment is almost impossible in Australia today," Maas told The Australian Financial Review.

The factory is based on a vast industrial park just a short drive from Long Tan, the scene of the bloodiest battle for Australian soldiers during the Vietnam War, has sprung up overnight.

Next to the rubber plantations where many Australians lost their lives, car parks are crammed with tens of thousands of motorcycles which are the main form of transport in this bustling South-East Asian country.

Japan and Korean names dominate the warehouses and manufacturing hubs which have sprung up on this site on the outskirts of Ho Chi Minh City since Donald Trump's trade tariffs sent manufacturers looking for alternatives to China. One local textile factory has just advertised for 20,000 new employees.

Maas is among the Australians who are also returning to Vietnam, attracted by the government's open-door policy, free trade agreements and cheap and efficient labour.

The $315 million plant, which has 320 staff including 45 engineers, opened last month. Maas says the biggest attraction was finding a skilled workforce to pre-build, prepare and manufacture the underground mining equipment it exports out of Vietnam around the world. Average wages in Vietnam are around a tenth of Australia's.

Maas is not alone. Thousands of companies have moved to Vietnam as the US-China trade war, rising labour costs and growing political risk takes the shine off China – the world's largest manufacturing base.

The traditional Asian tigers of South Korea, Taiwan, Hong Kong and Singapore have been badly battered by the US-China trade war. The trade-dependent entrepot of Singapore could be in recession by the third quarter of this year. South Korea has seen its flagship electronics exports slump by 22 per cent in the year to June. But Vietnam is on track to this year keep up the GDP growth rate of over 6 per cent that it has maintained since 2000.

There are pros and cons, though, as the country's infrastructure struggles to keep pace with the demands of a growing middle class. "As more manufacturing comes in they will have to spend more money on infrastructure and the port bottlenecks will free up over time. On the flipside as more manufacturing gets diverted to Vietnam it does put more pressure on the infrastructure and power," Maas told The Australian Financial Review.

But for now, the lure of Vietnam is too good for many to resist. Better known to many Australians as a laid-back holiday destination, the South-East

Asian nation is one of the world's few economic bright spots at the moment.

Cheap labour, a young population, high education standards, and government policies which offer tax breaks and other incentives for international firms have seen a surge in foreign direct investment. Executives who have re-located there say it is also a nice place to live. Perfect timing for many of the world's manufacturers as they seek alternatives to Trump's tariffs on Chinese exports.

"Some economies have actually recorded increases in investment. Vietnam, in particular, is close to full capacity as businesses relocate operations there to try to avoid the direct effect of the tariffs," Reserve Bank deputy governor Guy Debelle noted last week.

Prime Minister Scott Morrison heads to Vietnam this week in a trip expected to be focused on investment opportunities, although Hanoi's stand-off with Beijing in the South China Sea means security issues cannot be avoided.

Morrison is not the only one interested in Vietnam at the moment. ANZ chief executive Shayne Elliott took the bank's top management team there last week to meet key customers and have a first-hand look at a market he says is underrated by corporate Australia. ANZ works with about 150 corporates in Vietnam.

"Vietnam has always been one of those places that has always been on the verge of growth but it never quite got there. There were a few false starts along the way but this time it does feel different," Elliott says during an interview in ANZ's offices in Ho Chi Minh City.

"We didn't see the China-US trade war coming but that has reinforced it. A country like this offers diversification to a lot of our customers and it seems to be delivering."

Vietnam granted investment licences to more than 1720 projects in the first six months of the year, up 26 per cent. It's economy grew at 7.1 per cent last year – a 10-year high – although the International Monetary Fund (IMF) expects that to slow this year to 6.5 per cent.

Australia exported $5 billion of goods to Vietnam in 2018, making it the 14th largest destination. It imported $6.1 billion of goods in the same year. Historically, Australia has run a trade deficit with Vietnam but this has been falling since 2009. Despite the surge in foreign investment into Vietnam Australia's contribution remains modest. ANZ says Vietnam accounts for 0.1 per cent of total Australian investment abroad at $2.3 billion.

While Vietnam will never replicate China's demand for Australia's iron ore and coal, there is growing demand from the country's rising middle classes for Australian produce, services and logistics capability.

Australia's SunRice Group, which accounts for 5 per cent of Vietnam's rice exports, acquired a Vietnamese processing mill in the country's south last year and has established breeding programs and works with local farmers to introduce more sustainable and advanced growing practices. While Vietnam is an attractive alternative to NSW's drought-ravaged Riverina where SunRice is based, the company was also attracted by its free trade policies.

"Australia does not enjoy a free trade agreement that covers rice in many of these nations and Vietnam does have access to a number of neighbouring countries. By inserting ourselves in an integrated supply chain in Vietnam it gives us access to markets that we can't get to from Australia currently," SunRice chief executive Rob Gordon says.

Gordon, who did due diligence on 30 potential sites in the Mekong Delta last year, says its 260,000 paddy tonne mill in Vietnam now plays a key role in the company's plans to increase global demand for its branded rice product. It has 800,000 tonnes of milling capacity in Australia as well as operations in the United States and PNG.

He believes Australia is still to tap its potential as a food exporter to the region, although he does not back the concept of Australia becoming Asia's food bowl.

"I've always thought we would be more likely to be the delicatessen of Asia. Food bowl suggests we will provide the staples but Australia's resources and its reputation for being clean and green and the skills that our farmers have mean there is great opportunity for us to provide very high value products and provenance to the more discerning palates in Asia. I don't think we are about producing cheap food for food security," he says.

Vietnam's booming tourist trade and rising middle classes means demand for Australian produce is also on the rise.

In District 2, a short drive from Ho Cho Minh City's bustling centre, Robert Ameln is inspecting boxes of Tasmanian salmon in one of the cool rooms of a newly opened warehouse.

Ameln runs the local operations for Food Source International, a Middle Eastern-based group importing Australian produce.

He says protein-loving Vietnamese have a high consumption of pork, chicken and beef and many do not trust their own produce which means they love Australian produce.

"The train is leaving the station now and now is the right time to invest and build something up in Vietnam," says Ameln, who moved his family from Sweden to Vietnam because they liked the country while travelling. "It is not easy if you are looking for short-term investment, it is a long term play."

The company sells to hotels and restaurants, trucking ice-packed containers of premium beef and other produce to far-flung corners of the country. It sells 70 tonnes of Australian produce to Vietnam.

Australian logistics giant Linfox is also investing in Vietnam. The company, which has had a presence in Vietnam for 13 years, opened a 100,000-square-metre site earlier this year in the country's north. It is one of the largest warehouse and distribution centres in northern Vietnam, offering 70,000 pallet positions. It is double the size of anything Linfox has in Australia.

"The ability of the government, the economy compared to other South-East Asian economies is impressive. Vietnam is not only ticking the boxes, there is nothing but upside as far as the country is concerned," says Scott Croll, the general director of Linfox in Vietnam. He says consumers would buy shampoo in small sachets just a few years ago. Now they can afford to buy bottles of shampoo.

Jodi West, ANZ country head for Vietnam, says Vietnamese workers also have a real "hunger" to succeed. She is surprised that more Australian firms are not investing in a country where the foreign investment is dominated by Asian countries. "There is a prevalence of Asian companies here doing well that have taken a long term strategic position to invest here and there are more coming," she says.

However, risks remain as Trump threatens to pull the triggers on tariffs and concerns that Vietnam's infrastructure and power capacity cannot cope with its economic success.

3. Annual car sales to reach a million in 2025

The Ministry of Industry and Trade said this in a new report, adding that there is a rising demand among people to switch from motorbikes to cars as the country's GDP per capita increases.

GDP per capita rose 8.3 percent against 2017 to $2,587 last year.

Passenger car sales in the last five years have grown 30-40 percent a year. However, the car industry's localization rate remains low at 40-55 percent for trucks and buses, and 7-10 percent for passenger cars, according to the ministry.

As most parts produced in the country are simple with low technology and value, the car industry lacks supply of components and has to import large volumes of car parts every year.

Among 1,800 car parts manufacturers in the country, only 300 are equipped to join the supply chain of multinationals, it said.

A weak-performing support industry has made Vietnam's automobile production costs 10-20 percent higher than those of imports from other ASEAN countries.

This is why Vietnam is seeking to support local manufacturers. The Ministry of Industry and Trade is considering removing the special consumption tax on car parts produced in the country, which would apply for 5-10 years, covering cars with 9 seats or under.

It is also considering tax incentives for electric cars to promote the production and consumption of such vehicles.

Vietnam last year issued a decree to limit car imports in a bid to promote local auto manufacturing. As a result, the number of imported cars fell 20 percent, while VinFast, a unit of conglomerate Vingroup, became the country's first fully fledged automaker in October by introducing its first two car models.

Car consumption in Vietnam last year was 288,683 units, up 6 percent from 2017, of which 68 percent were passenger cars, according to the Vietnam Automobile Manufacturers Association (VAMA).

4. Steep plunge in rice exports to China as import rules tighten

Prices for Vietnam's 5 percent broken price fell 1.47 percent to $335-345 a ton Thursday from $340-350 last week, Reuters reported.

The plunge has happened after China began applying stricter regulations on agriculture imports. Vietnamese traders say that Chinese importers are unable to buy rice from Vietnam because of new technical barriers China has erected.

The largest importer of Vietnamese agriculture produce has been increasingly tightening import regulations because Vietnamese exports to China have a history of problems, including counterfeit certificates, declarations and orders, the Ministry of Agriculture and Rural Development had said in a report last June.

Vietnamese goods has also been violating quality standards for agricultural products set by China, it said.

Vietnam's Ministry and Industry and Trade recently said it would organize several trade promotion trips this year to boost rice exports.

Rice exports to China will likely face more challenges next year as its imports are forecast to decline by 2.94 percent from this year to 3.3 million tons because of abundant domestic supply, the U.S. Department of Agriculture said in a report earlier this month.

From January to July, agriculture exports to China fell by 10 percent year-on-year to $3.35 billion, according to Vietnam Customs.

5. Vietnam to auction new 4G spectrum as telecom speeds fall

The Ministry of Information and Communications is preparing to auction the 2.6 gigahertz (GHz) band, which will have higher data-carrying capacity but shorter reach than the current 1.8 GHz.

The ministry said that the bandwidth available in the 1.8 GHz band is lower than actual demand, resulting in lower 4G speeds, and a new band would allow better speeds for telecom firms and national security needs.

The auction will be open to existing network operators and new ones, if any, and winning bidders need to start operating within two years or lose their license.

Existing operators need to have at least 5,000 base transceiver stations in the new spectrum within that timeframe, while a new operator would have to establish at least 4,250.

The current 1.8 GHz band is being used by the three largest telecom operators, Viettel, VinaPhone and MobiFone.

Vietnamobile uses the 2.1 GHz band, and has along with Viettel called for the auction of the 2.6 GHz band.

Vietnam's internet speed ranks 75th in the world, lower than Malaysia and Thailand, according to a report by internet performance database M-Lab released last year.

6. Bac Lieu promotes use of renewable energy in shrimp farming

The “Conference Promoting Renewable Energy Investment for Vietnamese Shrimp Industry” was held on August 17 by the Vietnam Fisheries Society (VINAFIS) in collaboration with the Bac Lieu provincial People's Committee, the management board of the project “Sustainable and Equitable Shrimp Production and Value Chain Development in Vietnam (SusV),” GRAISEA Project, International Collaborating Centre for Aquaculture and Fisheries Sustainability (ICAFIS), Oxfam Vietnam, and World Wildlife Fund (WWF) Vietnam.

It is inevitable to use renewable energy in shrimp farming as it helps save electricity, cut costs and promote the industry's sustainable development, heard the conference.

In 2017, the total aquaculture production area of 10 southern provinces – Ca Mau, Soc Trang, Bac Lieu, Kien Giang, Tra Vinh, Ben Tre, Tien Giang, Long An, Ba Ria - Vung Tau and Ninh Thuan – spanned 428,495 hectares and the production consumed nearly 12,000 million KW.h.

To 2020, the total area is expected to be 651,266 hectares with electricity demand increasing by 30 percent compared to 2017's, which will result in electrical overload while current investment in electricity fails to keep up with such rapid growth.

According to the Southern Power Cooperation (EVNSPC), most of the shrimp farming households use electricity for lighting their farms, frequently causing overload for the regional grid. Additionally, there is a lack of an effective coordination mechanism among sectoral authorities to properly manage power supply infrastructure, power efficiency and safety, and the environment.

To solve the problem, EVNSPC Deputy Director General Nguyen Van Ly proposed a grid-connected solar power system in shrimp cultivation to be studied and put into use. The system will not only generate power for on-site consumption but also reduce the amount of electricity used from the national grid and CO2 emissions, and cut costs.

VINAFIS President Nguyen Viet Thang added that the system will also help reduce temperature for shrimp ponds.

Vice Chairman of the provincial People's Committee Vuong Phuong Nam said Bac Lieu has 12 companies, two organisations and 318 households implementing intensive and semi-intensive shrimp farming using electricity.

The province has worked to develop renewble energy with the Bac Lieu wind power plant put while other 15 wind power project with a combined capacity of nearly 3,000MW are being reviewed by the Ministry of Industry and Trade for approval.

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