VIETNAM DAILY NEWS

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Market Analysis

1. Shares up on banking, energy stocks

The VN-Index on the Ho Chi Minh Stock Exchange rose 0.99 per cent to end trading at 994.38 points.

The southern market index rose 0.37 per cent to end Tuesday at 984.67 points.

On the Ha Noi Stock Exchange, the HNX-Index increased 0.03 per cent to 103.01 points.

The index increased 0.38 per cent to end Tuesday on 102.98 points.

More than 233.6 million shares worth nearly VND7.4 trillion (US$316 million) were traded on the two markets.

The Vietnamese stock market was driven by real estate, insurance, securities, energy, banking, retail, food and beverage, rubber production, construction, and construction materials.

Their sector indices rose between 0.03 per cent and 2.67 per cent, data on vietstock.vn showed.

Large-cap stocks advanced on Wednesday with the VN30-Index increasing by 0.68 per cent to end at 900.54 points.

Pillars that supported the market included Vietcombank (VCB) (up 4 per cent), Vingroup (VIC) (up 1.2 per cent), PetroVietnam Gas JSC (GAS) (up 2,1 per cent) and Bank for Investment and Development (BID) (up 2.9 per cent).

With the increase of world oil prices, local oil and gas stocks like PetroVietnam Technical Services Corporation (PVS), PetroVietnam Drilling and Well Services Corporation (PVD), Drilling Mud Joint Stock Corporation (PVC) and PetroVietnam Gas JSC (GAS) also advanced.

Future Brent crude oil price rose by 29 cents, or 0.5 per cent, to $60.03 per barrel. Future WTI oil prices rose 13 cents to $56.34 per barrel.

The market was also supported by net buying from foreign investors. They net bought VND113.35 billion on HOSE on Tuesday, including CMC Corporation (CMG) (VND202.95 billion), Cuong Thuan IDICO Development Investment Coporation (CTI) (VND25.44 billion) and Masan Group (MSN) (VND15.84 billion). They were net sellers on the HNX with value of VND59.09 billion.

According to BIDV Securities Company, in favourable conditions, the VN-Index may test the strong resistance of 1,000 points this week.

Industrial real estate developers suffered strong profit taking pressure, which made them fall after strong gains in recent sessions. Decliners included Kinh Bac City Development Holding Corp (KBC) (down 1.6 per cent), Sonadezi Long Thanh Holding Company (SZL) (down 3 per cent) and Industrial Urban Development JSC No 2 (D2D) (down 2 per cent).

Macro & Policies

2. Vietnam: Asia's bright spot amid trade tensions

This assessment was announced yesterday in Hanoi by the researchers of Global Economics and Markets Research, United Overseas Bank (UOB) at a seminar on the Vietnamese economy and its growth dynamics as well as economic trends for the remaining months of 2019.

In the first half of this year, the economy grew by 6.8 per cent year-on-year. All major sectors recorded notable growth, buoyed by manufacturing, construction, and wholesale and retail, which rose by 13, 9.2, and 8.5 per cent, respectively. Tourism also sees a bright outlook with the number of international arrivals surging by 20 per cent.

"We are projecting Vietnam's GDP growth to reach 6.7 per cent [generally in line with the official growth target of 6.8 per cent] and inflation of around 3.4 per cent for 2019. This will rank Vietnam as one of the fastest-growing economies in the world," Manop Udomkerdmongkol, economist of UOB, said.

According to the experts, geographic proximity to China, a young labour pool, competitive wages, multilateral trade privileges, and FDI incentives have helped position Vietnam as an attractive investment destination in Asia, laying out a positive growth trajectory for the country in the years ahead.

In first seven months of 2019, Vietnam has recorded 2,064 new projects, 25 per cent higher than in the same period in 2018, setting a new record.

Referring to the causes, UOB said that following the general trend, relocating production facilities to alternative locations has enhanced the shift of global capital flows to destinations not only in Vietnam but also in other ASEAN countries.

The International Monetary Fund's balance of payments analysis also showed a sharp increase in FDI inflows to the ASEAN since the beginning of the third quarter of 2018, when the US-China trade war began to escalate.

"Based on the average FDI inflows to each ASEAN country, it can be assumed that Vietnam and Malaysia are the main beneficiaries of this capital shift," Manop said.

Another strength of Vietnam as an export production base is its excellent network of trade agreements. A total of 13 free trade agreements (FTAs) have been signed and another three are under negotiation. This means that Vietnamese exports to significant parts of the world are free from tariffs, offering opportunities for manufacturers relocating to Vietnam to sell to more partners at minimal cost.

Eliminating import tariffs on goods, particularly the ones traded in the CPTPP and the EVFTA, will push Vietnam towards domestic reforms and enhance the country's competitiveness in the medium term. Besides, they also help improve the quality of FDI, attracting more capital to industries like processing and manufacturing, high-tech applications, clean energy, and financial services.

However, one constraining factor for Vietnam is the relatively large proportion of the labour force engaged in the agricultural sector. This could inhibit the manufacturing sector's speed of development in the near-to-medium term, due to the limited supply of skilled workers.

Over the mid- to long-term, Vietnam is striving for sustainable development by tapping into Industry 4.0 to help improve growth quality and elevate standards of living. According to UOB, the government has shown its resolve and determination in carrying out policies related to Industry 4.0, helping to underpin Vietnam's growth potential in the years ahead.

Regarding monetary policy, UOB predicts that the State Bank will maintain the refinancing rate at 6.25 per cent this year. With current deposit rates, monetary policy continues to create favourable conditions to help GDP grow steadily, and keep prices stable.

To prepare for changes from external factors, according to UOB, it will be important to maintain policies, especially amidst the US-China trade tension.

3. Intra-industry productivity rise essential to boost efficiency

The growth in Vietnam's labour productivity has taken the lead in the region over recent years. Where does the country actually stand when it comes to this area compared to its regional peers?

Labour productivity based on 2018 prices is estimated at VND102 million ($4,435) per labourer, up VND8.8 million ($380) per labourer against 2017. Compared to the 2010 comparative price, the labour productivity of the whole economy last year inched up 5.93 per cent on-year, showing a remarkable increase.

Vietnam has witnessed a fairly high growth pace in labour productivity among ASEAN member countries. Between 2008 and 2017, the rate on purchasing power parity (PPP) based on the 2011 constant grew an average of 4 per cent annually, high compared to Singapore's 0.9 per cent of average annual growth, Malaysia's 1.1 per cent, Thailand's 2.6 per cent, the Philippines' 3.3 per cent, and Indonesia's 3.4 per cent of average annual growth.

However, Vietnam's current labour productivity is rather low compared to some regional peers. Based on the PPP 2011, it stood at $10,232 in 2017, equal to 7.2 per cent of Singapore, 18.4 per cent of Malaysia, 36.2 per cent of Thailand, 43 per cent of Indonesia and 55 per cent of the Philippines. Besides that, the disparity in labour productivity between Vietnam and regional countries is growing.

With the ongoing movements in labour structure transformation, could we expect a breakthrough in the country's labour productivity in the coming time?

The labour transformation from rural to urban areas, from agriculture to the industry and services sector, and from informal to formal sectors will hold on, contributing to bettering the general labour productivity outlook.

This situation, however, may not be prolonged as Vietnam evolves to a higher development level, leading to higher incomes for people in rural areas. A more stable economy will lead to narrowing space for labour structure transformation.

Hence, to shorten the gap in labour productivity compared to other countries, Vietnam needs to bolster it in the business sector, meaning boosting intra-industry labour productivity instead of seeking for higher productivity through labour structure transformation.

Raising intra-industry labour productivity is a contemporary trend that is commonplace in developed economies as higher intra-industry productivity plays a crucial role in raising economic efficiency.

How can the country boost this intra-industry labour productivity in Vietnam's current context given the tiny scale of many businesses, the obsolete equipment and production lines, and limited human resource quality?

These limitations are really great challenges to Vietnam's economic development generally, and boosting labour productivity particularly as the GDP growth of a nation cannot be high and sustainable if growth was just based on simple work, low labour skill, and technology level.

Trade liberation and Industry 4.0 both provide opportunities for Vietnam to narrow the gap in labour productivity with other countries, but also bring the danger of Vietnam being left behind, unless it has a proper development direction with effective measures.

To push up economic development through higher labour productivity rather than heavily reliance on intensive labour, capital, and natural resources, the government needs to soon establish the National Productivity Committee, with a specific body which works on labour productivity, and whose core function is to combine forces to motivate labour productivity like those in place in Japan, South Korea, and Singapore for example.

Moreover, it is important to build and successfully implement the national strategy on labour productivity improvement, with general and specific targets in each period.

This must be a launch pad for higher labour productivity movements across the economy in which priority will be given to labour-intensive sectors such as textiles, equipment manufacturing, and electronics, while some localities become pioneers, from there deploying on a macro scale.

4. Direct imports for pharma groups

The Vietnamese pharmaceutical market was aroused recently when French-invested Sanofi Vietnam received the certificate of eligibility for a pharmacy business from the Ministry of Health (MoH) to directly import drugs to the country.

"With the certificate, Sanofi Vietnam is among the multi-national corporations (MNCs) to get such a ticket in line with Decree No.54/2017/ND-CP dated 2017, guiding the implementation of the Law on Pharmacy 2016," a senior MoH official told VIR.

"To get the certificate, Sanofi Vietnam and others have to meet the conditions regulated in Decree 54. Accordingly, the most important thing is to have qualified warehouses, or contracts with local Vietnamese companies to hire such warehouses," he said.

Sanofi Vietnam has imported the first batch of - vaccines of meningococcal meningitis – a serious disease in Vietnam.

The global healthcare leader, which is said to hold about 4 per cent of the Vietnamese pharmaceutical market, already has three factories in the country, supplying 80 per cent of its products sold in Vietnam.

MANUFACTURING COMPETITION

According to Vaibhav Saxena, a lawyer at Vietnam International Law Firm, although the licence creates a "legal corridor" for Sanofi to import drugs in Vietnam, it is only applicable for drugs-importing activities. Meanwhile, other activities related to the distribution of drugs and medicinal ingredients in Vietnam are restricted in Decree 54. Such restrictions pose an obstacle for Sanofi Vietnam and other MNCs to access the pharmaceutical market as a wholesaler or join in other related activities such as tenders. Foreign-invested enterprises (FIEs) have to contract with local wholesalers to distribute imported products to hospitals, pharmacies, and retailers.

In spite of this, competition in local manufacturing is forecast to stiffen due to a significant increase in supply, putting high pressure on locally-made pharmaceuticals from domestic enterprises and FIEs who have been expanding manufacturing in Vietnam to benefit from the country's supporting incentives.

Evidently, Vietnamese drugmakers are predicted to suffer from the competition. Even the biggest drugmakers such as Hau Giang Pharmaceutical JSC and Domesco and Imexpharm Pharmaceutical JSC (IMP) are not exceptions. They are investing in upgrading factories to GMP-EU standards to increase revenue from ethical drugs, meaning tenders of prescription drugs. In the meantime, FIEs' imports often target brand name pharmaceuticals which are the subject to Group 1 as prescribed by doctors.

For example, IMP – the fourth-biggest drugmaker – is now operating three plants, including a high-tech plant recently put into operation, and is now developing a further high-tech facility, with its opening scheduled for 2020. IMP's factories focus on manufacturing of western medicines, aiming to venture further into tenders of Group 1.

In fact, the volume of imported drugs in Vietnam has grown in recent times after more MNCs, including Zuellig Pharma Vietnam (ZPV) and DKSH Vietnam, got their certificates.

According to the MoH, the country's total value of domestically-made drugs rose 10.2 per cent on-year in 2018 to $2.4 billion, making up 46.6 per cent of total drug spending, while the total value of imported drugs ascended 8.8 per cent to $3.7 billion. It is estimated that the country imports around 55 per cent of total demand.

The EU is now the largest importer of pharmaceuticals to Vietnam, from which Germany is the second-biggest importer. It is projected that the EU-Vietnam Free Trade Agreement (EVFTA) will bring more business and investment opportunities to EU pharmaceutical businesses in Vietnam and stiffening market competition.

“Together with the country's open import policy, the deduction in import tax on EU pharmaceutical products will attract other investors to import such products in Vietnam which may push the competition up in Vietnam's pharmaceutical market in an upright graph,” said Saxena from Vietnam International Law Firm.

According to the World Trade Organization Centre at the Vietnam Chamber of Commerce and Industry, pharmaceuticals imports from the EU into Vietnam will be more favourable, accessible, and direct under EVFTA commitments. Moreover, competition in tenders for groups of pharmaceuticals to open to EU bidders in ethical drugs will also be strengthened further.

HOT RACE BEGINS

According to the MoH, Sanofi Vietnam is not the first MNC to get the licence, with predecessors including ZPV, DKSH Vietnam, and others.

ZPV has already received its licence to import drugs, vaccines, and special controlled drugs in compliance with the new regulations. Marc Franck, chief executive at ZPV said, “Zuellig Pharma is already importing healthcare products of reputable multinational pharmaceutical companies for sale to local distributors. These include not only products currently being imported into Vietnam but also new products.”

“On top of importing directly, ZPV is also transferring new innovative technology to the MoH, such as its cold chain packaging solution, eZCooler, to maintain product quality during transportation and to deliver the best temperature-controlled vaccines under the expanded immunization program in Vietnam.”

Seeing huge growth potential of a market where drug spending per capita continues to rise, more MNCs are now in the race to make a similar move.

“Most of the MNCs in Vietnam are now applying to get such a licence to import drugs to Vietnam directly. Novartis and GlaxoSmithKline may be in the queue,” said the MoH official.

The fact that the MoH has given official permission to FIEs to implement their rights to import drugs is very positive progress and is also motivating Germany's B. Braun Vietnam to make use of the import rights for pharmaceuticals in Vietnam.

Torben Minko, managing director of B. Braun Vietnam said, “We remain interested in investing in Vietnam while establishing long-term partnerships and bringing high-quality and affordable medicine to patients in Vietnam. Currently, we are closely following up on this matter to take further specific steps.”

The trend of seeking licences to make direct imports to Vietnam intensified after Decree 54 was made effective. Before that time, the right of the FIEs to import drugs was not recognised.

The full legal basis for an FIE to apply for the -certificate of satisfaction of conditions for drug import activities comes with Decree No.155/2018/ND-CP dated November 12, 2018 amending Decree 54 (effective from November 2018), and Circular No.36/2018/TT-BYT dated November 22, 2018 on goods storage practice for drug and drug materials (effective from January).

Industry insiders attributed the trend to the huge growth potential in the market, with double-digit growth forecast in the next five years, reaching an estimated $7.7 billion in 2021 from the current $5 billion. Moreover, the EVFTA will add to its attraction.

5. Fruit and vegetable exports to China plummet in July

This was the strongest decline among Vietnam's top 10 export markets for fruits and vegetables, with China the biggest market.

In the first seven months of the year, Vietnam exported $1.6 billion worth of fruits and vegetables to China, down 8.1 percent year-on-year, according to Vietnam Customs.

China was the biggest importer of Vietnamese fruits and vegetables in the seven-month period, accounting for 70 percent, but this was down from 74.9 percent last year.

While the export value of fruits and vegetables to Thailand and the United Arab Emirates also declined, that of other major importers surged double digits.

The U.S., Vietnam's second biggest buyer with 3.7 percent share of export value, bought 13.6 percent more fruits and vegetables, followed by South Korea (up 13 percent) and Japan (up 25.9 percent).

According to the Fruit and Vegetables Association (VinaFruit), Vietnam's fruit and vegetable exports will continue facing difficulties in the last months of 2019 as a result of uncertainty caused by the escalating U.S.-China trade war, dampening investment and commercial activities.

Exports to China are unlikely to improve, as the country is tightening its regulations on fruit imports. In May, China began requiring Vietnamese traders to provide stamps of origin, area code and phytosanitary certificates for the fruits that they export.

Vietnam exported fruits and vegetables worth $2.3 billion in the first seven months of the year, a year-on-year decline of 1.8 percent, Vietnam Customs reported.

6. Robust economy underpins stable outlook for banks: Moody's

"We expect Viet Nam's real GDP growth to moderate to 6.7 per cent in 2019 and 6.5 per cent in 2020 from 7.1 per cent in 2018, but even at these projected rates the country will still remain the fastest-growing economy in Southeast Asia," says Rebaca Tan, a Moody's Assistant Vice President and Analyst.

According to Moodys, while export growth so far has been robust, a possible significant slowdown in global trade or an economic slowdown in the country's major trading partners will pose risks to Viet Nam's export-led economy. However, any slowdown in exports will be offset by strong investment and domestic consumption, which will be underpinned by favourable demographic factors, including a large working-age population, increasing urbanisation and income growth.

"Viet Nam's banks have been cleaning up their balance sheets, supporting asset quality, and we expect the system-wide problem loan ratio to decline to 4.8 per cent at the end of 2020 from 5.1 per cent at the end of 2018," Tan said.

Moodys report showed that the problem loan ratio has steadily declined from a peak of 9.8 per cent at the end of 2015, as a result of problem asset recoveries and write-offs, as well as credit growth. The ratio will decline more gradually in 2019 than it did during 2017-18 because credit growth will be steady, around 14 per cent set by the central bank.

Capital ratios should remain broadly stable over the next 12-18 months, supported by growth in retained earnings, although a number of banks will need to raise capital to meet stricter Basel II capital requirements while sustaining asset growth.

Profitability will improve as the banks increase their lending to the higher yielding retail and small- and medium-sized enterprise (SME) segments, while credit costs will remain stable as banks continue to make provisions against legacy problem assets.

The government will continue to provide support when needed, mainly in the form of liquidity assistance and regulatory forbearance, as it has done in the past.

CORPORATE NEWS

7. Stock market briefs August 21, 2019

↑ 0.00%

HCMC – Thanh Thanh Cong-Bien Hoa Company (SBT) plans to issue VND2.4 trillion worth of convertible bonds in a private placement. The debt will come with a minimum term of three years and a face value of VND1 billion per bond. The yield will be negotiated with investors. SBT also plans to add eleven new business lines, mainly in the livestock and cultivation fields, excluding sugarcane, thus increasing the total number of its business fields to 42. The sugar firm approved a plan to buy two million shares, or a 41.65% stake, of Tan Dinh Import-Export JSC (Tadimex). After the purchase, Tadimex will become an affiliate of SBT.

HCMC – PetroVietnam Gas Corporation (GAS) has announced to pay its remaining 2018 cash dividend of VND1,300 per share and advance a 2019 cash dividend of VND1,000 per share. The ex-dividend date is August 29 and the payment date is set for September 30. This is the first tranche of the company's total 2019 cash dividend guidance of VND3,000 per share.

HANOI – Ocean Hospitality & Service Company (OCH) had an audited consolidated loss of VND53.6 billion on revenue of over VND403 billion in the first half of this year, compared to a loss of VND27.5 billion on revenue of VND409.9 billion in the first half of 2018. Ocean Group (OGC) has registered to buy 6.8 million OCH shares between August 20 and September 16. Earlier, OGC bought two million shares of OCH between June 18 and July 10, raising its holding in OCH to 56.5%.

HANOI – Phan Thi Mai Lan, vice chairwoman of CEOO Group (CEO), has registered to sell 800,000 CEO shares from now to September 20 via put-through trade. Currently, Lan now owns 1.18 million shares in the property group, equal to a 0.46% stake.

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