VIETNAM DAILY NEWS

August 27th, 2019

Table of content

Table of content

Market Analysis

1. Market's best performers lose steam due to difficulties

Tien Giang Province-headquartered Hung Vuong Corporation (HVG), leading exporter of *tra* and basa catfish, saw its shares plummet to an all-time low of VND2,520 per share on August 20 after the company announced a loss of VND129 billion (US$5.5 million) in after-tax profit in Q3 this year.

The firm continues to suffer heavy losses due to a series of simultaneous problems such as rising interest expenses and feed costs.

HVG did recover strongly after the US Department of Commerce officially imposed zero per cent tariffs on Vietnamese shrimp exporters last week. In just three trading days, HVG soared by 15 per cent to VND2,910 per share.

Binh Son Refining and Petrochemical Co Ltd (BSR), the operator of the $3 billion Dung Quat Oil Refinery in the central province of Quang Ngai and the first oil refinery in the country, is also facing the same situation.

Last year, BSR recorded an all-time peak of VND 20,900 per share on September 27. However, due to the fluctuation of oil price which harmed all oil refineries in the world, including traders and distributors, BSR dropped sharply, hitting its lowest level on Monday of VND9,300 per share, down 125 per cent since September 27, 2018.

BSR's business was also strongly affected by oil prices since October last year. Its gross profit in the fourth quarter of 2018 witnessed a loss of VND812 billion, which made the company's after-tax profit fall VND1 trillion.

BSR targets to earn VND2.9 trillion in post-tax profit in 2019, down by 18 per cent against 2018.

In early 2018, BSR reported a successful initial public offering (IPO) with a complete take-up of the offered shares.

The sale, organised on the HCM Stock Exchange, is Viet Nam's biggest initial public offering (IPO) last year. The company offered 242 million shares, equalling 7.79 per cent of its charter capital at the initial price of VND14,600 ($0.64) apiece.

The average selling price was VND23,043 ($1.01), 57.8 per cent higher than the initial price.

After the IPO, BSR earned VND5.57 trillion ($245.26 million) in proceeds, 1.5 times higher than its expectations.

The IPO reported a record in the number of investors registering to join the auction with over 4,000 investors, as well as in the registered shares as over 651.78 million shares were registered to be bought, 2.7 times higher than the offered volume.

Hoang Quan Consulting Trading Service Real Estate Corp (HQC) saw its price fall continuously since in the last five years by 360 per cent.

HQC hit 2015-peak of VND6,200 per share in October 2015, then ceaselessly fell and searched for new bottoms over the next four years. HQC fell to all-time low of VND1,350 on Monday.

The Bank for Investment Development of Viet Nam's Securities Company (BSI), once a leading securities company in Viet Nam, now is seeing stock price standing at the lowest level in three years, hovering around VND7,000 per share.

Baoviet Securities Company (BVS) also has fallen deeply compared to last year, down by 82 per cent since early 2018.

BVS did achieve good business results in the second quarter compared to 2018, with post-tax profit up by 13 per cent against Q1. However, BVS still seems to be slow down in the race to maintain its position on the stock market.

2. VN stocks drop on global pressures

The benchmark VN-Index on the Ho Chi Minh Stock Exchange dropped nearly 1 per cent to close at 982.88 points.

The benchmark index gained a total of 1.27 per cent last week.

Nearly 189.8 million shares were traded on the southern bourse, worth VND4.33 trillion (US$186.4 million).

The VN-Index started the trading day in the negative territory as investors responded to US President Donald Trump's threat to impose more tariffs on Chinese products.

Despite Trump walking back his comments and hailing Chinese President Xi Jinping following his threats, investors in Viet Nam's equity market were uneasy on worries about further escalation of the trade war between the two sides and the world's economic growth prospects.

Statements from the US and China showed the two sides would not step down to resolve the disputes and the conflict between the two largest economies may last longer than expected, Sai Gon-Ha Noi Securities (SHS) said in a report.

The sectors that pulled the Vietnamese stock market down on Monday included insurance, healthcare and pharmaceuticals, energy and mining, securities, banking, agriculture and food and beverage.

Those sector indices fell by between 0.8 and 2.2 per cent, data on vietstock.vn showed.

Large-cap stocks also performed poorly as the VN30-Index lost 0.89 per cent to end Monday at 892.48 points.

.

In the VN30 basket, 22 of the 30 largest stocks by market capitalisation and trading liquidity declined, including Coteccons Construction (CTD), PetroVietnam Gas (GAS), dairy producer Vinamilk (VNM), brewer Sabeco (SAB), aviation firm Vietjet (VJC) and Vietcombank (VCB).

Foreign investors net sold more than VND197 billion worth of shares on Monday, which "was a negative point for the Vietnamese market," SHS said.

But according to securities firms, there were still some positives as some groups of stocks performed well despite the pressure.

The market's overall performance was not too negative, VNDirect Securities Corp (VNDS) said in a note.

Sellers did not want to exit the market as soon as possible despite being under pressure from international markets, while buyers were willing to buy assets, the company said.

The Vietnamese stock market was still positive compared to international exchanges and the short-term prospects were preserved, VNDS said.

On the Ha Noi Stock Exchange, the HNX-Index was down 0.43 per cent to end at 102.81 points.

The northern market index was up a total of 0.88 per cent last week.

Nearly 22.3 million shares were traded on the northern market, worth VND279 billion.

Macro & Policies

3. Solar power struggles to gain traction despite rapid development

At a seminar on August 24, Vo Quang Lam, deputy general director of Vietnam Electricity Group (EVN), noted that the total power capacity of Vietnam is 48,000 megawatts. However, only 39,000 megawatts of electricity is being utilized, the local media reported.

With demand for power growing by 10% each year, 43,000 megawatts of electricity will be needed next year.

Solar power can help meet part of the demand, while the country currently depends on coal-fired and gas-fired power and hydropower.

Under the adjusted National Power Development Plan VII, the total solar power capacity was expected to reach 850 megawatts by 2020, but the current capacity is already 4,500 megawatts and will hit 7,700 megawatts by 2020.

In addition, it takes eight to 10 months to build a renewable power plant but three to five years to develop a transmission line, raising difficulties in connecting these plants to the national grid, Lam added.

Ha Dang Son, director of the Center for Energy and Green Growth Research, stated that the country's hydropower potential is almost exhausted, so Vietnam should diversify its energy resources.

Lam noted that EVN will continue asking the Government to remove obstacles to attract more investors to the energy sector.

4. PE investors scout for deals in Vietnam's renewable energy sector

Private equity investors are increasingly evincing interest in Vietnam's renewable energy sector as the country, which has long relied on coal and hydropower for electricity production, seeks private investments in alternative resources.

Renewable energy emerged as one of the most preferred sectors for investments in the country in 2019 as it took the third slot after fintech and education, according to a Grant Thorton survey.

The upward move is significant given that in 2018, renewable energy took the 10th place in terms of the most attractive investment sector in the country, as per the survey. This year, the sector has taken a slot ahead of health care, e-commerce and logistics.

"100 percent foreign ownership is allowed in energy production. Wind and solar energy projects, in particular, are absolutely booming -- more active than anything I have seen in my 28 years' working here," said Fred Burke, managing partner of Baker & McKenzie Vietnam.

The country has granted tax relief incentives for green energy projects and has published a national power development plan, which aims to create modern, sustainable and reliable energy services by 2030.

Pham Trong Thuc, director of the Ministry of Industry and Trade's department of renewable energy, said that focus will be given to companies that have proven technologies in hydropower, wind power, solar power, biomass energy and biogas.

"Vietnam's objectives include increasing the proportion of domestically-manufactured equipment value in the renewable energy field up to 30 percent in 2020 and 60 percent in 2030, and being able to export in 2050," he said.

The country is facing a rising demand for energy, growing at 13 percent a year since 2000 and is projected to continue to grow at 8 percent through 2030, according to International Finance Corporation (IFC).

While the Sustainable Energy Promotion Fund will be established and financed by the state budget, Thuc said, Vietnam wanted to mobilize external capital to finance future supply.

Vietnam's power system will require about $10 billion investment each year until 2030 to fulfill the country's targets, according to Electricity of Vietnam's estimates. So, a major challenge is to find the right partners who can commit this huge capital.

Investors in Vietnam's green energy have been more mainstream players. These include both sovereign funds and strategic groups making acquisitions or forming joint ventures such as German ASEAN Power, B.Grimm Power, Trina Solar, Schletter Group, Sunseap International, Gulf Energy Development, InfraCo Asia Development, GE Renewable Energy, and Doosan Heavy, among others.

Meanwhile, some private equity transactions that have been sealed in the sector include Dragon Capital's funding in Pacifico Energy Group that made headlines most recently, Vietnam-Oman Investment's backing the $48 million BCG-CME Long An 1 solar energy plant, and IFC's investment in Phong Dien, Vietnam's first private grid-connected solar farm.

General private equity firms have also started to look at opportunities in this industry. VinaCapital, the local $1.8-billion asset management firm, said in an email that it is currently evaluating opportunities in the sector even as it has not wrapped up any renewable energy deals so far.

IFC and Armstrong S.E. Clean Energy Fund invested in Phong Dien, developed by Gia Lai Electricity, for an 18 percent stake in 2016. The 35-megawatt plant currently generates about 60 million kilowatt-hours, enough to power about 35,000 homes a year, IFC said.

The World Bank Group's investment arm has also invested $75 million in an infrastructure-focused listed green bond by Philippine power company AC Energy, which will develop wind and solar projects in Vietnam that total up to 360MW.

"IFC has identified 60MW of rooftop solar opportunities in a number of factories, highlighting the potential in Vietnam's manufacturing sector," it wrote in a commentary.

Private equity investment in renewable energy is expected to swell up soon, as Macquarie Capital, the Australian group that has a long history investing in the sector, is setting up an office in Vietnam, per an article on the government portal.

The office will be "responsible for researching large-scale renewable energy projects, especially offshore wind, coastal wind and solar energy projects as well as waste-fired energy projects," the article said.

Considering the tremendous $10-billion capital requirement each year, Vietnam needs a silver bullet.

However, most of the financial investors have not ramped up their activities yet as the sector is still at a nascent stage of growth and is yet to witness a renewable energy exit. In addition, the feed-in-tariff has also been brought up as a major issue.

"To be eligible for the current feed-in tariff, approved solar projects must reach their commercial operation dates by the end of 2020. This leaves developers a tight window in which to execute a project," said a report by McKinsey & Company.

Purchase power agreement in Vietnam is not bankable for renewables, making financing, especially for foreign investment more challenging, the report added. "The current renewable purchase power agreement comes as a "take-it-or-leave-it" option, which limits the ability of project developers to offset key project risks."

"The government has warned that the country could face an annual electricity shortage of up to 12 million megawatts per hour by 2023. Shortages could begin as early as next year," IFC said.

Several changes are underway.

Based on available historical data, annual investment in renewables was as small as under $300 million between 2011 and 2015, but increased significantly to $682 million in 2016. In total, Vietnam witnessed investments in the sector at nearly $2.4 billion by 2016, according to UNDP.

The development network last year surveyed 13 respondents who were ready to pour investments into Vietnam's renewable energy, including $200m in equity and $7 billion in debts.

In addition to several already funded developers, SolarBK, GIC Corporation and Tan Hoan Cau are some names that are paving the way for Vietnam's renewables development.

DealStreetAsia is a financial news site based in Singapore focused on corporate investment activity in Southeast Asia and India. Nikkei recently announced the acquisition of a majority stake in the company.

5. Vietnam urged to screen FDI inflows from countries having territorial disputes with Hanoi

Government agencies must step up efforts to screen FDI inflows for their possible implications to national security, particularly those from countries having territorial disputes with Vietnam, according to Nguyen Mai, chairman of the Vietnam Association of Foreign Invested Enterprises (VAFIE).

There is always a possible link between investment activities and espionage, as any country in the world would jump at the opportunity to acquire valuable information for their own interests, Mai said in an interview with VnEconomy.

Mai made the statement in reference to the Politburo's Resolution No.50 which provides guidance on perfecting the legal framework and policies towards greater efficiency in foreign investment until 2030.

In the resolution, Vietnam's supreme decision-making body has requested local authorities to ensure national security alongside its economic impacts of foreign investments.

To fulfill this objective, Mai suggested each city and province be given more autonomy and responsibilities in evaluating FDI projects, while enhancing supervising activities both in terms of technologies and the human factor to prevent environmental disaster similar to that of Formosa Ha Tinh Steel Corporation which happened in April 2016, leaving serious consequences on the livelihood and the maritime environment.

Mai expected Vietnam's stricter regulations in attracting FDI projects would not put off potential investors looking for long-term business opportunities in Vietnam, as the country has been taking measures to ensure the lawful rights of foreign companies.

To deal with investors having limited financial capabilities, high risks of transfer pricing and trade frauds, Mai said government agencies must be selective in approving FDI projects and set up efficient mechanism to supervise the implementation process.

According to Mai, Vietnam's improving relations with the US and the signing of EU – Vietnam Free Trade Agreement (EVFTA) would open the doors for more investment capital from developed countries. So the decision is in the government's hands to choose the most appropriate investment projects to Vietnam's development strategy, Mai stated.

After the issuance of Resolution No.50, Mai urged the government to speed up the economic reform process, as time is essential in a fast-changing world.

The Politburo sets target for FDI commitments in the 2021 – 2025 period at US$150 – 200 billion, averaging US$30 – 40 billion per year, and disbursement of US$100 – 150 billion during the period.

In the 2026 – 2030 period, FDI commitments would reach US$200-300 billion and disbursement of US$150 – 200 billion.

The rate of enterprises using advanced and environmentally-friendly technologies, as well as modern corporate governance to increase by 50% by 2025 and 100% by 2030 against 2018.

The rate of labor force undergoing training in the economy is expected to jump from 56% in 2017 to 70% in 2025 and 80% in 2030.

In the first seven months of 2019, FDI commitments totaled US$20.2 billion, down 13.45% year-on-year, while the disbursement of FDI projects reached US$10.55 billion, up 6.63% year-on-year.

Out of 95 countries and territories investing in Vietnam in the January – July period, Hong Kong (China) took the lead with US$5.44 billion. South Korea came second with US$3.13 billion, while the third and fourth places belonged to Singapore and mainland China with US$960 million and US$440 million, respectively.

In terms of fresh projects in Vietnam in the first seven months of 2019, China was the largest investor pouring US$1.79 billion into 364 projects, followed by South Korea with 600 projects worth US$1.47 billion and Japan with US$1.12 billion in 257 projects.

6. Vietnam steps up work to help longan enter Australian market

The information was released at a Vietnam - Australia business connection conference held in Sydney last weekend, which gathered leaders of 7 Vietnamese localities – Tuyen Quang, Hai Duong, Quang Binh, Khanh Hoa, Dak Lak, Dong Thap, and Can Tho – and representatives from over 40 Australian firms, investment funds, and business associations.

Nguyen Phu Hoa, head of the office, said following the Australian Department of Agriculture's recent announcement of import requirements for fresh longan from Vietnam, his office has held discussions with Vietnamese localities that grow the fruit and businesses from both sides.

Vietnam has so far exported lychee, mango, and dragon fruit to the Australian market.

According to Hoa, the office will support exporters of Vietnamese farm produce in completing related paperwork and liaison between agencies and businesses of the two countries, while carrying out a series of activities to promote Vietnamese longan in the Oceania country.

The official unveiled that the office has built new plans to provide practical aid for Vietnam's export, which include the establishment of a customer support hotline for consumers of Vietnamese products in Australia and a Vietnamese club that offers information to Australian firms.

He also informed the conference that the SunRice Australia, which consumes 5 percent of Vietnam's total rice exports, has completed its assistance plan for Vietnam under a sustainable rice production programme. The plan aims to help Vietnamese rice meet international standards, thus allowing the group to purchase more Japonica and Indica rice from Vietnam in the next 10 years.

At the conference, Tom Robb, CEO of The Robb Group, an Australian company that specialises in corporate and capital advisory services, said better-than-ever cooperation opportunities are opening up for Vietnamese and Australian enterprises.

Graham Kinder, Vice President of the Australia Vietnam Business Council, said strong collaboration has been recorded between localities of both nations across all fields from trade to culture and education.

7. HCMC cracks the whip on projects

A report tabled at a meeting chaired by vice chairman of the city Peoples Committee, Tran Vinh Tuyen last week showed only 26 per cent of the funds earmarked for this year of VND33.17 trillion (US$1.42 billion) had been disbursed in January-July, far below the target of 50 per cent.

Only 13 districts of the 24 districts had a disbursement rate of over 50 per cent. District 11 had the lowest rate of 4 per cent.

A district Peoples Committee official said the outlay for this year was VND101 billion ($4.35 million), mainly for four key schools and childrens cultural houses. The district received the money late, resulting in slow disbursement, he explained.

Nguyen Thanh Phuong, deputy chairman of the Phu Nhuan Peoples Committee, said the district had disbursed only VND13 billion out of VND88 billion planned to disburse this year.

The money for some large public projects, including upgrades to the district Peoples Committee office, had been delayed this year, he said.

He blamed the slow spending on tardy land acquisition for some projects, delayed completion of administrative procedures and slow final settlement in other projects.

But the district would disburse 95 per cent by year-end, he said.

According to district leaders, since usually land compensation is paid in September and October, the disbursement rate is very high in the latter part of the year.

Tuyen asked why the disbursement rate was different in each district, saying while he understood that each is in a different situation, their leaders need to again review the reasons for slow disbursement.

He instructed the leaders of the 11 districts with disbursement rates of less than 50 per cent to submit to the city Peoples Committee reports on each project, explaining the reasons for the slow progress and suggesting solutions to speed up disbursement.

He also called on all project management boards to carefully manage their funds.

He instructed the Department of Planning and Investment to organise a seminar in October to discuss the management of the State budget.

He wanted the Department of Natural Resources and Environment to work with the Ministry of Natural Resources and Environment to reduce the time it takes to pay compensation for land and resettlement assistance.

This would reduce the time taken to acquire land and speed up work, thereby also speeding up public spending, he added.

CORPORATE NEWS

8. CMG: BOD approves to change the number of outstanding shares

↓ -2.57%

CMC Corporation (CMG) changed the number outstanding voting shares of major shareholders after the result of private placement from 74,999,866 shares to 99,999,866 shares. Accordingly, based on the result of private placement, the ownership ratio of major sharesholders changed as follows:

File Attachment

20190826_CMG-190826-BOD-approves-to-change-the-number-of-outstanding-shares--PV.pdf

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