
# VIETNAM DAILY NEWS

JSI

JAPAN SECURITIES INC.

**October 24th, 2019**

Table of content

**Table of content**

# Market Analysis

## 1. Large-caps buoy VN shares amid disappointing earnings

The benchmark VN-Index on the Ho Chi Minh Stock Exchange inched up 0.06 per cent to close at 987.79 points.

The southern market index gained 0.37 per cent on Tuesday.

The benchmark index lost as much as 0.17 per cent during the day, before picking up at the last minute.

Trading liquidity slid from the previous day in both volume and value.

More than 179 million shares were traded, worth nearly VND3.5 trillion (US$150.5 million).

The marginally-moving index and lower trading liquidity indicated investors were cautious as there was little supportive news on the market, Thanh Cong Securities Co (TCSC) said in a report.

Local stocks were divided on corporate earnings reports, which are being released and show a clear picture of local firms, TCSC said.

Securities firms have disappointed investors so far with their third-quarter earnings reports.

The brokerage sector index dropped 0.4 per cent on Wednesday, data on vietstock.vn showed.

SSI Securities Corp (SSI), HCM City Securities Corp (HSC) and VNDirect Securities Corp (VNDS) had earlier announced their Q3 earnings dropped from the previous quarter.

The three firms also held the largest market shares in terms of stockbroking activity on the two local exchanges in the third quarter.

Supporting the southern market on Wednesday were some heavyweight stocks.

The large-cap VN30-Index, which tracks the 30 largest stocks by market capitalisation and trading liquidity, rose 0.31 per cent to 919.61 points.

Among the biggest gainers were food and beverage company Masan (MSN), logistics firm and port operator Gemadept (GMD), Thanh Thanh Cong Sugar JSC (SBT) and steel producer Hoa Phat (HPG).

Bank stocks were mixed with gainers being HDBank (HDB), VPBank (VPB) and Military Bank (MBB) while Vietcombank (VCB), Techcombank (TCB) and Vietinbank (CTG) declined.

Investors with an appetite for risk have had troubles in recent days as market conditions remain tricky, VNDS said in a note.

The number of stocks with short-term growth prospects is getting fewer while the number of ground-losing stocks increases, proving investors are having trouble protecting their wealth, VNDS said.

Investors have no reason to jump into the market again now, VNDS added.

Wednesday's recovery does not change the market's short-term downtrend and the upcoming days will be bumpy, the brokerage firm forecast.

On the Ha Noi Stock Exchange, the HNX-Index fell 0.34 per cent to end at 104.14 points.

The northern market index gained 0.47 per cent on Tuesday.

More than 18.6 million shares were traded on the northern bourse, worth VND232.7 billion.

# Macro & Policies

## 2. Shrimp export continues to slow down in 9M2019

Vietnam Association of Seafood Exporters and Producers (VASEP) said Vietnam's shrimp export fell by 7.4% in September to 307.3 million USD.

In the first 9 months of this year, shrimp exports reached US $ 2.4 billion, down 7% from the same period last year, mainly due to poor performance in the first half.

VASEP forecasts that Vietnam's shrimp export for the whole year of 2019 is expected to reach about US $ 3.4 billion, down 4% compared to 2018.

In the first 9 months of this year, Vietnam shrimp export is composed of 69.4% white-leg shrimp, 20.9% black tiger shrimp and the rest was marine shrimp. Whiteleg shrimp export reached US $ 1.7 billion, down 5.8% over the same period last year; black tiger shrimp export was 508.2 million USD, down 16%; Other marine shrimp export reached 236.5 million USD, up 6.3%. Export of processed black tiger shrimp dropped the most by 35%. Export of canned sea shrimp increased the most by 33.5%.

EU market: EU remains Vietnam's largest shrimp export market, accounting 21% of export value. In the first 9 months of this year, shrimp exports to the EU reached US $ 513.4 million, down 20.8% over the same period last year and the number for September was $ 61 million USD, down 23% compared to September 2018. The average price of shrimp exported to these markets decreased by 1 USD / kg YoY

US market: Vietnam's shrimp exports to the US in September 2019 decreased by 18% to 64.7 million USD. In the first 9 months of this year, shrimp exports to this market reached 476.9 million USD, an increase of 1% over the same period last year.

The US is still Vietnam's second largest shrimp import market after the EU, accounting for 19.6% of Vietnam's total shrimp export value to markets.

Japan market: Vietnam's shrimp exports to Japan reached US $ 444.7 million, down 1.9% from the same period last year. In the Japanese market, although the export volume was stable and the demand of the market did not increase, the average export price decreased by 1 USD / kg from 12 USD to 11 USD, making the export value to this market down.

China market: Shrimp exports to China increased by 7.2% to US $ 382.3 million in the first 9 months of this year thanks to continuous positive growth from July to September..

## 3. Loans to BOT infrastructure projects pose risks of bad debts: Governor

The governor of the State Bank of Vietnam (SBV) has been concerned about a large amount of outstanding loans for build-operate-transfer (BOT) and build-operate (BT) infrastructure projects at risk of turning to be non-performing.

Some VND53 trillion (US$2.27 billion) had been loaned to BT and BOT projects is likely to be restructured and become non-performing due to low revenues compared to initial financial plans, Governor Le Minh Hung raised the issue at the 8th sitting of the 14th National Assembly (NA), which opened on October 21, the Saigontimes reported.

In the year to September, bank loans for BT and BOT infrastructure projects edged up 1.85% against the end of 2018, making up 1.4% of the total outstanding loans, statistics by the SBV showed.

He pointed out that many BOT and BT projects had been completed and opened to traffic, but their commercial value fell far short of expectations.

To soon solve the problem, the governor proposed the government to (1) issue proper policies on mobilizing resources to develop transport infrastructure; (2) take different measures to mobilize long-term capital for the projects; (3) tackle problems relating to toll collection and the launch of electronic toll collection throughout the country.

Unsolved issue

In 2017, the SBV repeatedly warned commercial banks of risks including non-transparency and investors' weak financial capability from BOT and BT transport projects, according to the Doanh Nhan Sai Gon magazine.

A central bank report released in 2017 showed that four banks namely BIDV, Vietcombank, VietinBank and SHB had provided large fundings for BOT transport projects, accounting for 91% of their total outstanding loans in some certain periods of time.

As of end-July 2019, outstanding loans for BOT transport projects was lower to VND99 trillion (US$4.25 billion) following the central bank's request on tightening lending to this kind of projects.

However, currently about 30 BOT transport projects are insolvent.

Many bank experts have warned that loans to BOT and BT transport projects poses risks due to a long-term duration which doesn't match banks' short-term lending.

Dr. Can Van Luc, chief economist of BIDV, said capital for BOT transport projects must come from other sources in the capital market but not banks which focus on short-term deposit and lending.

The capital should include 15-20% from the investor, 40-50% from banks, 20-25% from bonds (both government and corporate ones), and the remaining from international organizations, he said.

## 4. Vietnam to become Asian production hub: experts

Amidst escalating US-China trade tensions, Vietnam is expected to become a major Asian destination for foreign investors thanks to its location, policies and human resources, experts have said.

Speaking at the recent 7th International Precision Engineering, Machine Tools and Metalworking Exhibition & Conference (MTA Hanoi 2019) in Hanoi, Tee Boon Teong, General Director of Informa Markets in Vietnam, noted that foreign direct investment in Vietnam had exceeded 26 billion USD in the first nine months of this year.

The figure showed that Vietnam has become a major production hub in Asia, and a destination of choice for multi-national companies amidst investment shift and production expansion due to the prolonged US-China trade tensions, he said.

Executive Director of Global Economics and Market Research at Singapore's United Overseas Bank (UOB) Suan Teck Kin said Vietnam is among the fastest growing economies in Southeast Asia. It is also an important strategic market for many businesses, including such firms like UOB.

He said the production sector in Vietnam is attractive for foreign firms despite challenges as they are trying to diversify their markets to minimize risks.

Commenting on foreign firms' investments in Vietnam, Hans Kerstens, Head of Sales and Marketing at DEEP C Industrial Zones Vietnam, said that Vietnam is the second biggest open market in the world after Singapore as the country has signed a number of bilateral and multilateral free trade agreements.

This is one of the advantages Vietnam has to attract FDI, contributing to turning the country into a production hub in the region, he added.

## 5. Domestic automobile industry in need of policies to raise competitiveness

Vietnam needs to issue special policies for the automobile industry to catch up with other countries in the ASEAN region, said experts at a conference held in Hanoi on October 22.

Hosted by the Central Institute for Economic Management (CIEM), experts discussed solutions to complete tax policies and financial support to boost the development of the industry of automobile and auto parts.

According to CIEM deputy head Nguyen Thi Tue Anh, the production of automobile and auto parts is one of six key industries of Vietnam.

She said it was needed to clarify the situation, inadequacies and limitations in the implementation of policies as well as proposing solutions while motivating businesses to develop.

Statistics from the Ministry of Industry and Trade shows the country's automobile business has grown rapidly in recent years. The number of locally-assembled vehicles has annually risen 10 percent in the period 2015-18, reaching 250,000 units in 2018.

Weak production is one of the reasons the industry failed to cope with the competition on tax cuts, which was eliminated for cars from ASEAN countries last year.

After nearly 20 years of development, there are only segments of passenger cars and trucks meeting local targets of localisation rate (local part supply) at 20 percent and 45 percent, respectively.

In term of car with less than nine seats, the localisation rate reached an average of 7-10 percent, much lower than the set figure. The locally-produced products are simple such as tires, seats, mirrors and batteries. Meanwhile, the localisation rate of countries in the region has reached an average of 70 percent, even 80 percent in Thailand.

Nguyen Trung Hieu, head of Policy Department under Vietnam Automobile Manufacturers Association (VAMA), said that by the end of 2018, the country had 358 automobile-related manufacturing enterprises with 50 automobile assembling units, 45 enterprises producing chassis, bodies and trunks and 214 auto parts.

This figure is much lower than other countries in the region such as Malaysia and Thailand, he said.

Hieu added the domestic support industry enterprises have good capacity in some areas such as moulds, bicycle and motorbike components and standard mechanical components.

The automobile industry is about 20 years behind countries in the region such as Thailand and Indonesia, so there should be special policies to encourage businesses to make breakthroughs, Hieu said.

Nguyen Thi Hai Binh, an expert from the finance ministry's Institute of Financial Strategy and Policy, said it is necessary to focus on studying and planning policies to encourage businesses.

Binh also proposed to exempt special consumption tax on domestically-produced goods, which are not imported from foreign countries, in addition to incentives relevant to land and credit to develop automobile manufacturing complexes in chain.

According to Deputy Chairwoman of Vietnam Association of Supporting Industries Truong Thi Chi Binh, it needed to give more credit incentives to help support industry firms raise competitiveness, like the fund for small and medium enterprises that has given priority to manufacturing and supporting industry firms.

## 6. Deposit Interest Rates Around 9%/year Seen at More Banks

There are some banks offering deposit interest rates from 8.8% -10.2%/year now. However, the conditions to enjoy this interest rate is either the volume of hundreds of billions or 15 month - 2 year terms.

Saigon Commercial Joint Stock Bank (SCB) announced October 22 to issue 469 day deposit certificates, interest rate up to 8.9% / year, interest payment at the maturity. The product has the face value of VND 100 million, VND 200 million, VND 500 million, VND 1 billion and VND 2 billion. Owners of long-term SCB 469-day certificates are free to transfer at any SCB's transaction offices nationwide and the certificates of deposit can be used as collateral at SCB and other credit institutions.

SHB Bank announced the highest deposit interest rate of 9%/year, applied for deposits of VND 500 billion or more and 13-month term.

VietCapitalBank: the highest deposit interest rate is over 10%/year. The bank announced the issuance of certificates of deposit for individual customers with a face value of from VND 10 million, for institutional customers from VND 100 million with 4 fixed terms: 24 months, 36 months, 48 months and 60 months with corresponding interest rate of 9.5%/year, 9.8%/year, 10.0%/year and 10.2%/year. In addition, deposit interest rates at the counter are up to 8.6%/year, while online deposits up to 8.7%/year.

VIB, in mid-August, announced the issuance of a 61-month deposit certificates with interest rate of , 9.1% per annum, minimum deposit is only 10 million. The interest payment is made every 12 months.

NamABank issued 7-year deposit certificates with the first 12 month interest rate of 8.2%/year, the second 12 month interest rate of 8.5%/year and the third 12 month interest rate of 8.9%/year. The interest rate for online deposits at this bank has also reached 8.7%/year, applied for 36 month term.

CBBank lists the highest savings interest rate at the counter of 8.8% year, applied for 15 - 60 month tenors.

VietABank is still implementing the preferential interest rate program until the end of October with the highest interest rate up to 8.7%/year for 12 month terms either via counters or online.

## 7. State budget revenue in 2016-2020 period estimated to reach set goal

According to the ministry, budget collection is expected to reach 24.4% of GDP, surpassing the target of 23.5%.

The budget collection and spending structure has also shifted in a positive direction with the increasing proportion of domestic collection and decreasing proportion of revenue from crude oil, the ministry said.

The State budget overspending is also estimated to gradually decline to reach 3.6-3.7% of GDP in the 2016-2020 period and is expected to be equivalent to 3.44% of GDP in 2020 alone.

In addition, indicators regarding public debt and Government debt have been improved compared to 2016. Public debt is estimated to reach 54.3% of GDP and Government debt is estimated to equal 48.5% of GDP by 2020.

Although the public debt to GDP ratio has tended to decrease, many risks still remain. If the disbursement of loans stays on schedule, public debt may increase by 1.7-1.8% of GDP, the Finance Ministry said.

The ministry also noted that the financial handling of a number of State-owned enterprises and the implementation of the Government's guarantee commitment to some important projects, such as NghiSon oil refinery and Vinashin, will create a significant impact on budget and public debt.

# Corporate News

## 8. HPG: Business performance in Quarter 3.2019

**↑ 1.16%**

Hoa Phat Group Joint Stock Company disclosed its business performance in Quarter 3.2019:

- Revenue of the Group: VND15,350 billion
- Profit after tax: VND1,794 billion.

After 09 months, Hoa Phat Group Joint Stock Company achieved 66% of revenue target and 84% of profit after tax target for 2019 with VND5,655 billion.

## 9. VPBank reports substantial profit growth in nine months on expense cut, asset improvement

**↑ 1.14%**

Pre-tax profit in the first three quarters rose 17.5 per cent year on year to VND7.2 trillion (US$309.6 million), the bank reported on October 21.

The bank reported its total revenue increased 19.1 per cent year on year to VND26.3 trillion in the nine-month period.

If abnormal income gained from insurance deals was excluded, VPBank posted a 23.9 per cent and 36.6 per cent increase of revenue and profit in nine months, respectively.

VPBank reported net interest income accounted for the biggest part of its total revenue, which rose 23 per cent year on year to VND22.4 trillion. The bank's total lending increased by 14.7 per cent in nine months from last year's figure. The rate was higher than the sector's average of 8.4 per cent.

Meanwhile, income from financial services soared 93.4 per cent yearly to VND1.94 trillion.

The figures showed VPBank had been doing well to diversify its income streams and lessen dependence on net interest.

Improved quality of assets

As of the end of September 2019, the non-performing loan (NPL) rate was 3.10 per cent, which was down from last year's September-end rate of 4.24 per cent.

The bank's NPL rate includes the rate of the consumer lender FE Credit, which fell to 5.21 per cent at the end of the third quarter from last year's 6.36 per cent.

VPBank alone cut its NPL rate to 2.45 per cent in the nine-month period.

One of the ways to settle NPLs or bad debts is to sell them to the Vietnam Asset Management (VAMC) in return for VAMC bond notes.

VPBank said it had curbed the value of VAMC bonds to below VND908 billion in September from VND3.1 trillion at the end of 2018.

The bank expected keeping a low NPL rate and enhancing the settlement of VAMC bonds in 2019 would help improve the quality of assets, assuring stable profitability for the bank in the future.

Improved operation

Combined operation expenses in the first nine months increased by 17.3 per cent from a year ago but it was lower than revenue growth of 19.1 per cent.

That helped reduce the cost-income ratio (CIR) to 34.7 per cent at the end of the third quarter from 35.8 per cent recorded in the first half of the year.

The result was achieved by changing the operation model in the nine-month period, the bank said.

The parent bank could optimise all operation expenses, keeping expenses growing by 11.6 per cent year on year and reducing operation costs by 4.3 per cent on a quarterly basis. The parent unit's CIR was reduced to 38.8 per cent at the end of September from 41.3 per cent made at the end of June.

Solid profit growth also helped lift efficiency indicators at VPBank.

The return-on-total asset (ROA) ratio at the end of September was 2.3 per cent, a 0.2 percentage point higher than the rate made in the first six months.

The return-on-equity (ROE) ratio was 20.4 per cent in the third quarter, up from 19 per cent recorded in January-June period.

In addition, the Basel II capital adequacy ratio was still higher than the State Bank of Vietnam (SBV) standard of 8 per cent.

The improvement of operation efficiency and asset quality would be a profound basis for VPBank to continue growing in the last quarter of the year and months to come.

**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*