



# VIETNAM DAILY NEWS

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## Market Analysis

### 1. Four bank shares to gain maximum 68 per cent in 12 months: JP Morgan

The New York-based financial institution said in its research that the Vietnamese banks “offered an increasingly rare combination of high and self-sustaining earnings growth.”

“This, with a favourable credit cycle, should lead to significant multi-year returns,” the US bank reported early this month.

In addition, high visibility on nominal gross domestic product (GDP) and current account surplus allows “extrapolation of strong earnings and credit growth in Viet Nam.”

JP Morgan rated shares of the Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank), the Vietnam Technological and Commercial Joint Stock bank (Techcombank) and the Asia Commercial Joint Stock Bank (ACB) at over weight and the Vietnam Prosperity Joint Stock Commercial Bank (VPBank) at neutral.

The banks under JP Morgan's coverage are expected to deliver 15-21 per cent return-on-equity (RoE) ratios in the next two years as “they have started making money on both sides of the balance sheet.”

JP Morgan also highlighted favourable cyclical positioning as a defining feature of the Vietnamese banking system, which managed asset quality problems well in 2012-13.

It spoke highly of the creation of the Vietnam Asset Management Company (VAMC), which

“provided a five-year timeline to write off bad debt” and allowed banks to grow sustainably through being funded against VAMC bonds.

Vietcombank, Techcombank, ACB and VPBank were forecast to record a 12 per cent earnings compound annual growth rate (CAGR) for 2019-21 on the back of a 16 per cent loan CAGR and a 6-13 basis point net interest margin (NIM) compression, as competition in retail loans should crimp yields.

JP Morgan warned the four banks' stock of capital would appear low at a 12.2 per cent capital adequacy ratio (CAR) as they were “transitioning from Basel 1 to Basel 2.”

Meanwhile, high RoE, limited dividend payout rates of 0-17 per cent and reasonable risk-weighted asset growth of 13-19 per cent would ensure capital needs are met.

In addition, credit penetration at 104 per cent of the revised GDP is high, according to JP Morgan, due to “leverage build-up at State-linked companies with low capital efficiency” and a higher consumer leverage that would limit growth and lead to non-performing loans (NPLs).

Other risks JP Morgan pointed out include Moody's placing 17 banks under review for a possible credit rating downgrade due to delayed Government payments, the foreign exchange depreciation lowering USD returns for investors, and the US Treasury's watch over Viet Nam for possible status as a currency manipulator.

### 2. Markets climb with divergence among large-caps

The benchmark VN-Index on the Ho Chi Minh Stock Exchange rose 0.16 per cent to close at 1,018.33 points.

More than 223 million shares were traded on the southern bourse, worth VND4.6 trillion (US\$19.5 million).

The southern index declined 0.8 per cent in the last three sessions.

After three consecutive correcting sessions, the VN-Index recovered as a series of pillar stocks increased, such as Bank for Investment and Development (BID) (+1.9 per cent), Vingroup

(VIC) (+0.4 per cent), Vietcombank (VCB) (+0.4 per cent), PetroVietnam Gas JSC (GAS) (+0.7 per cent), Masan Group (MSN) (+0.7 per cent), Viet Nam National Petroleum Group (PLX) (+0.8 per cent), Hoa Phat Group (HPG) (+0.9 per cent), Vietjet (VJC) (+0.5 per cent), Vietinbank (CTG) (+0.2 per cent), and Mobile World Group (MWG) (+0.3 per cent).

However, selling demand put pressure on other bluechips, including dairy firm Vinamilk (VNM) (-1.4 per cent), real estate developer Vinhomes (VHM) (-0.9 per cent), VPBank (VPB) (-1.1 per cent), Military Bank (MBB) (-0.6 per cent), Khang Dien House Trading and Investment JSC (KDH) (-2.1 per cent), and Ha Noi Beer Alcohol and Beverage Joint Stock Corporation (BHN) (-0.5 per cent).

According to Bao Viet Securities Co, the expectation that the US and China had come closer to a first-phase trade agreement had improved investor sentiment and raised the US dollar sharply.

Meanwhile, safe assets like gold, JPY and CHF were under downward pressure.

However, the trade war's recent developments indicated the actual progress may be below investors' expectations. China wanted the US to withdraw tariffs on Chinese goods, but President

Donald Trump may face strong opposition from domestic political rivals and voters who were against China. This could place declining pressure on the US dollar this week, BVSC said.

The VN-Index is forecast to oscillate between 1,005-1,015 points and 1,024-1,029 points. Overall, the index is expected to approach a strong resistance zone of 1,036-1,042 points in the short term.

The market would continue to widely diverge among sectors, and fall under the influence of the global market. Blue chips and bank stocks would continue to dominate in the short term, BVSC said.

On the Ha Noi Stock Exchange, the HNX-Index gained 0.19 per cent to end at 106.96 points on Tuesday.

More than 24.8 million shares were traded on the northern bourse, worth VND281.1 billion.

On the HNX, large-caps increased, including Vietnam Trading and Construction Development Investment Joint Stock Company (MBG) (+5.4 per cent), the Post and Telecommunication Joint Stock Insurance Corporation (PTI) (+9 per cent), Vicostone JSC (VCS) (+0.7 per cent) and the Viet Nam Construction and Import-Export Corp (VCG) (+0.7 per cent), helping the HNX-Index recover slightly.

## Macro & Policies

### 3. NA discusses risk-sharing policy for PPP projects

Investors have repeatedly proposed the Government share their risks to revenue in PPP projects. The execution of these projects may last tens of years and cause cost overruns, which leaves investors hesitant to get involved in these projects.

The risk-sharing policy for PPP projects includes regulations to adjust fees, costs and contract terms.

As for PPP projects approved by the NA and the prime minister that fail to generate adequate revenue for operations, the Government proposed sharing no more than half of the difference between the actual and committed revenue.

However, investors must also share with the Government no less than half of the additional revenue compared with the committed revenue.

Minister of Planning and Investment Nguyen Chi Dung, on behalf of the Government, in presenting the draft law before the NA, stated that the policy will be applied to PPP projects under the jurisdiction of the NA and the prime minister. However, some NA deputies disagreed, saying the policy should be applied to all PPP projects.

In addition, the draft law has yet to specify the funds that will be used to address risks in PPP projects, NA deputies remarked, wondering whether funding will be sourced from the medium-term public investment plan or the fund for debt payment, as stipulated in the Law on Public Debt Management.

Some deputies even disagreed with the policy on sharing investors' revenue risks, noting that the investors of PPP projects are chosen through auctions, so their businesses must be in line with market principles.

According to the NA's Economic Committee, most investors, especially foreign ones, expect a Government guarantee for revenue during the execution of PPP projects. However, the Government guarantee will be adjusted, in line with the Law on Public Debt Management.

Therefore, the risk-sharing policy can be applied to ensure benefits and increase responsibility between the Government and investors.

To reduce risks related to the risk-sharing policy and ensure the transparency of the draft law, the committee asked the Government to further clarify the policy and the application of the policy to projects under the jurisdiction of ministries, agencies and localities and determine the funds that will be used to address risks in PPP projects.

The NA also required the Government to continue reviewing other regulations in the draft law to amend and supplement unclear and unreasonable regulations.

The draft law includes a regulation that PPP projects must be sizeable ones with a minimum investment of VND200 billion. The regulation is aimed at prioritizing large investment projects to attract local and foreign investors.

According to the Government, PPP projects tend to require significant investment and a long execution timeframe. In addition, the Government is seeking foreign investment in these projects, so these investors must have sufficient capital reserves.

Small projects that require an estimated investment of less than VND200 billion each should be conducted under other investment models with simpler procedures.

The NA's Economic Committee threw its support behind this regulation but demanded further clarity on the foundation to set the minimum required investment for each PPP project at VND200 billion.

Moreover, many NA deputies said the contractors and investors associated with PPP projects should be appointed carefully as many of those with limited financial capacity have committed violations during the execution, management and operation of projects, leading to slow progress and cost overruns.

They also proposed supplementing criteria to assess the financial capacity of investors.

According to the NA Economic Committee, investors in PPP projects must be chosen through auctions, in line with the law. The appointment of investors and contractors should be minimized to prevent vested interests, losses and the selection of unqualified investors and contractors.

Under the draft law on PPP investment, limited and joint stock companies that are established to

execute PPP projects must focus solely on their assigned tasks. They can issue corporate bonds to raise capital for their projects.

The NA asked the Government to review regulations on corporate bond issuance in the Laws on Enterprises and Securities to ensure the unification of the legal system and to propose detailed regulations on the requirements for enterprises and procedures to issue corporate bonds.

#### 4. Vietnam's coal, crude oil imports surge on rising energy demand

Vietnam has one of the fastest-growing economies in Asia, backed by robust exports and foreign investment. Economic growth this year is expected to surpass the government's target range of 6.6%-6.8%, as the country benefits from the Sino-U.S. trade war.

The strong growth has boosted demand for coal. Imports of the commodity, mostly from Australia and Indonesia, during the January-October period more than doubled from a year earlier to 36.8 million tonnes, valued at \$3.25 billion, the Customs Department said in a statement.

The imported coal will mostly be used for the country's growing fleet of coal-fired power plants, which will still play a key role in its power generation mix for the years to come even as Hanoi promotes renewables.

The country's crude oil imports rose 80.6% from a year earlier to 6.8 million tonnes during the period, the department said.

Once a key export earner for Vietnam, crude oil output of the country has been declining recently

as its reserves fall at existing fields and as China's increasingly assertive stance in the region hampers offshore exploration.

Government data showed crude oil output in the first ten months of this year fell 7.2% from a year earlier to 9.3 million tonnes. Meanwhile, its coal output rose 10.5% to 37.9 million tonnes.

The Ministry of Industry and Trade said in July Vietnam will contend with severe power shortages from 2021 as demand outpaces construction of new plants, with electricity demand expected to exceed supply by 6.6 billion kilowatt hours (kWh) in 2021, and 15 billion kWh in 2023.

Vietnam will need an average of \$6.7 billion a year to expand its annual power generation capacity by 10% between 2016 and 2030, the ministry had said.

Tuesday's customs data also showed Vietnam recorded a trade surplus of \$9.01 billion during the first ten months of this year, widening from a surplus of \$7.24 billion a year earlier.

#### 5. Open mindset needed for public-private partnership law: PM

An open mindset is needed when it comes to drafting the Public-private partnership (PPP) Law to attract investment from all players, according to Prime Minister Nguyen Xuan Phuc.

A specialized law on PPP is an urgent matter, Phuc said at a discussion session on the draft PPP law,

which has been submitted to the National Assembly for consideration for the first time

According to Phuc, all fields, except for security and national defense, must be open for investment.



“A simplification of legal procedures would help maintain a positive investment environment, but an old mindset is restricting the country’s economic development,” said Phuc, adding foreign investors pay much attention to issues related to laws and regulations.

Meanwhile, Phuc said due to the lack of awareness about legal protection, domestic investors are still hesitant to pour money in PPP projects although locals hold huge idle resources.

“With the PPP projects, benefits would be divided among the state and investors. Prosperous people will lead to a strong country,” Phuc said.

Phuc also requested greater deregulation and transparency during the bidding process, as the state role in this case should be limited to drafting regulations and monitoring the process.

Nguyen Duc Kien, vice chairman of the Economic Committee under the National Assembly, said it is essential to maintain the principle of “the state is a fair partner of investors”, meaning that both the state and enterprises are on the “same boat” with equal risks and benefits.

However, a number of National Assembly deputies expressed concern over the risk sharing mechanism mentioned in the draft law.

The government proposed two options for risk sharing mechanism in terms of revenue. Firstly, the government would bear the maximum of 50% of losses between the actual revenue and the committed one in the contract. Secondly, the

investors commit to share with the government not less than 50% of the difference in revenue between the actual and the committed figure.

A National Assembly deputy in Hanoi said such mechanism is unfair and inappropriate, as investors must bear all risks, if any, and should be applicable to special projects only.

Nguyen Van The, minister of Transport, said the risk sharing mechanism is necessary for PPP projects. In build-operate-transfer (BO) transport projects, investors normally request the government to ensure revenue and share risks, as well as a foreign currency exchange guarantee system.

The minister, however, said the percentage in the mechanism could be subject to further consideration.

Minister of Planning and Investment Nguyen Chi Dung said a guarantee mechanism for investors is one of the most controversial issues during the process of drafting PPP law.

Dung added it is vital to mobilize capital from private sources for major infrastructure projects as state capital is limited. “But if policymakers only think of the best for the state, it will be difficult to attract private investors,” asserted Dung.

“As concern about risks of a PPP project is not settled, the objective of raising funds from private investors would not be achieved, so a risk sharing mechanism is necessary,” Dung stressed.

## **6. CBU automobile sales grow stronger than locally assembled cars**

Over the past 10 months, more than 106,000 imported CBU cars were sold, while sales of cars assembled in the country totaled some 153,000 units, taking the total number sold in the period to over 259,000 vehicles, up 16% compared with the same period last year.

Sales of passenger cars rose sharply by 26% to exceed 190,000 units. Meanwhile, commercial and special-used vehicle sales dipped 2% and 27% at over 64,700 and nearly 5,500 units, respectively.

According to VAMA, October alone saw over 28,900 cars being sold, comprising some 21,000 passenger cars, 7,200 commercial automobiles and 365 special-use vehicles, up 2%, 11%, 14% versus the previous month, respectively.

Of these, the sales of locally assembled automobiles edged down 3% month-on-month at roughly 16,300 units, while the consumption of imported CBU cars surged 16% to stay at 12,500 units.

Car manufacturers and traders have forecast that the gap between sales of imported CBU and locally assembled vehicles could be narrowed in the coming months, as CBU vehicles are exempt from import duties. Moreover, the local automobile

market has barely made any headway, especially in the supporting industries, making domestically assembled cars less competitive than CBU vehicles.

## 7. Year-end promotions heat up e-commerce market

The year-end online shopping frenzy has kicked off with giant local and foreign players like Lazada, Tiki, Sendo, and Shopee rolling out promotions since the middle of last month.

Advertising platform Criteo said the year-end shopping season usually begins with 10.10 sales.

“Singles’ Day, November 11, remains the key shopping festival and post-Singles Day sales ride on the festivity’s traction,” Steven Tuan Nguyen, its senior regional manager for Southeast Asia, said.

“As we approach the year-end holidays, there is also a spike in online retail as part of the celebration. This sustained sales season presents retailers more opportunities to engage their audiences.”

While Singles’ Day is still among Vietnam’s biggest shopping festivals, the others include Black Friday, Cyber Friday and 12.12, he said.

He expected the trend this year to be similar to last year when Singles’ Day saw a 64 percent increase in online retail sales and 23 percent increase in online retail traffic. The traffic peaked at around noon and from 9pm to 11pm on November 11.

Of all the key shopping seasons, Black Friday had the highest conversion rate with an increase of 53 percent.

The top performing product verticals were fashion and luxury though it has been noted that mass merchant sales grew significantly on Black Friday as well.

Criteo predicted: “Given the momentum from Singles’ Day to the remainder of the year, retailers who are looking to expand in these countries should consider prolonging their promotional

efforts until December. This can help drive sales when shoppers have a level of interest due to year-end festivities and are most engaged.”

E-commerce companies are in a rush to organise promotions.

For instance, Lazada’s Singles’ Day promotion attracted the participation of over 1,000 brands, and 11 million products and hundreds of promotion codes worth 11 billion VND were offered to customers.

According to Lazada, Singles’ Day plays an important role in the development of e-commerce companies and has become popular in Vietnam.

Shopee announced the return of the 11.11 Big Sale, saying it would be its largest ever.

It began in all seven Shopee markets in the middle of October with millions of sellers, brands and industry partners taking part.

Chris Feng, its CEO, said: “We launched our first 11.11 shopping event in 2016 and localised this global phenomenon for people in our region. It has since evolved tremendously as more sellers, brands and partners celebrate this special day with Shopee.

“We spent months preparing for this year’s event from curating the very best deals with sellers and brands to optimising delivery processes with logistics partners in every market.”

This year, there will be free shipping daily across the entire duration of the sale.

Shopee recorded 11 million orders on November 11 last year, a 24-fold increase from the first 11.11 sale in 2016.

As Shopee successfully localises the 11.11 phenomenon in Southeast Asia and Taiwan, November 11 is becoming a major day of shopping in the region.

Feng said: “Shopee has ignited the year-end shopping season after our record 9.9 Super Shopping Day and, most recently, a successful 10.10 shopping event.

“November 11 marks the peak of this exciting period and we invite everyone to join us at Shopee 11.11 Big Sale.”

After Singles' Day, there will be Black Friday and Cyber Friday.

Criteo said in its report that Singles' Day is still the biggest event in markets such as Singapore, Malaysia and Taiwan, while in Indonesia it is 12.12.

In Vietnam, Single's Day has become a significant event but Black Friday has the highest surge.

Last year, the latter saw online retail sales and traffic increases of 149 percent and 61 percent, respectively, while 12.12 saw increases of 97 percent and 34 percent./.

## 8. Vietnamese products taking on the world

Vietnamese products have entered over 200 markets around the world including markets with strict import regulations and standards such as the EU, Japan, the Republic of Korea and the US, according to a recent report released by the Ministry of Industry and Trade.

Vietnam has also quickly improved its ranking among export economies. The country jumped 24 places to rank 26th among the world's largest exporters last year from 50th place in 2007.

In 2007, Vietnam had only 14 markets with export-import turnover value exceeding 1 billion USD, with the only 10 billion USD market being the US. By the end of the last year, the country had four 10 billion USD markets and 31 markets with 1 billion USD in export-import turnover.

In addition, Vietnamese products have found their way into markets in different parts around the world. Last year, 23.4 percent of Vietnamese products (in term of value) were exported to markets in America, 18.4 percent to Europe and 53.6 percent to Asia, compared to 2007's figures, which were 13.4 percent, 15.2 percent and 65.8 percent, respectively.

By the end of October, the US remained Vietnam's biggest importer followed by China, ASEAN, Japan and the RoK. Export value to relatively new markets such as Russia, New Zealand and Canada has increased year-on-year by 13.9 percent, 12.5 percent and 30.9 percent, respectively.

The report, however, pointed out shortcomings and limitations of Vietnamese products such as low level of diversification among agricultural exports and high vulnerability to changes in markets.

The ministry said it has made a number of recommendations to the Government to help build the country's strategy to boost exports for the 2015-20 period, with a focus on increased diversification of products and new markets.

Vietnam's exports were estimated at over 217 billion USD during the first ten months of 2019, up 7.4 percent annually, or 82.5 percent of the year's target, staying on track for a growth rate of 7-8 percent for the year.

Trade surplus was estimated at 7.05 billion USD, higher than the 6.83 billion USD recorded last year.

The ministry's data showed 29 groups of commodities raked in over 1 billion USD with five of them earning more than 10 billion USD, namely mobile phones and spare parts (43.5 billion USD), electronics, computers and accessories (28.8 billion USD), apparel (27.4 billion USD), footwear (14.6 billion USD), and machinery, equipment and tools (14.6 billion USD). Together they accounted for 59.4 percent of the country's total exports.



Should the current trend continue, 2019 looks to be the fourth consecutive year the Vietnamese economy shifts from a deficit to a trade surplus./.

## Corporate News

### 9. FWD Group to buy Vietcombank-Cardif Life Insurance

↑ 0.44%

The transaction, which is subject to regulatory approvals, is a part of a distribution agreement between Vietcombank and FWD Group to establish an exclusive 15-year bancassurance partnership.

We had earlier reported that FWD Group was about to close a \$400-million acquisition of VCLI. The deal is part of a bancassurance transaction which could be worth up to \$1 billion, with the \$400-million amount as an initial payment from the insurer for exclusive rights to sell its products at the Vietnamese bank's branches.

FWD plans to integrate VCLI into its existing business in Vietnam after the transaction is approved and completed.

In the meantime, VCLI will continue to operate as before, through all its existing channels. VCLI customers will not be affected by the transfer of ownership to FWD.

"This transaction and partnership with Vietcombank will take our Vietnam business to the next level and boost our ambitions to build a leading bancassurance franchise across the region

as we continue to change the way people feel about insurance," said FWD Group CEO Huynh Thanh Phong.

Established in 1963, Vietcombank is one of the leading commercial banks in Vietnam with total assets of \$50 billion and highest market capitalization among credit institutions listed on Vietnam's stock market.

Vietcombank Cardif posted total revenue of 485.2 billion dong (\$20.8 million) in 2018, representing a 49.3 per cent year-on-year growth. However, its losses after tax grew threefold over 2017 to 37.96 billion dong last year.

FWD entered Vietnam in 2016 through the acquisition of Great Eastern's Vietnam business for S\$48.2 million (\$35 million). In 2017, FWD Vietnam partnered with Nam A Bank as part of a 15-year bancassurance agreement.

Last year, UK-based financial services group Prudential plc sold 100 per cent of its consumer finance business in Vietnam Prudential Vietnam Finance Company Limited (PVFC) to Shinhan Card Co., Ltd., a subsidiary of the Korean Shinhan Financial Group for a consideration of \$151 million.

### 10. Stock market briefs Nov 12, 2019

↑ 2.80%

HCMC – Dat Xanh Real Estate Service Company, a unit of Dat Xanh Group (DXG), has sold all 14.3 million shares at LDG Investment JSC, equivalent to 5.95% of the company's capital. The shares were sold in block deals at VND12,400 each, higher than its current market price of around VND11,300.

HCMC – Vietnam Dairy Products Company (VNM) said it has secured 5,500 hectares of land in Laos for raising dairy cows. By the end of 2020, VNM

expects this cow farm to raise 8,000 cows, of which 4,000 will be EU-certified organic cows. Currently, the firm's own dairy cows now number around 30,000, in addition to 100,000 cows owned by farmers.

HCMC – Licogi 16 Company (LCG) plans to issue 4.9 million shares to pay a dividend at a 5-for-100 ratio for 2018. LCG will also pay a cash dividend of VND700 per share for last year. The company made a consolidated net profit of VND153.4 billion

on revenue of VND1.7 trillion in January-September this year, up 54.5% and 9.3% year-on-year, respectively.

HANOI – Masan Resources Corporation (MSR) plans to pay a 2018 dividend of 10% in shares, meaning shareholders will receive 10 new shares for every 100 shares held. With more than 899.3 million shares in circulation, MSR will issue around 89.93 million new shares. The payment will be sourced from the undistributed

accumulated after-tax earnings of the company as of December 31, 2018.

HANOI – Agribank Securities Company, a major shareholder of Vinaconex Tourism Investment and Development Company (VCR), will sell 391,000 VCR shares from now to December 11. The investor now owns over 3.99 million shares in VCR, or an 11.27% stake. From October 8 to November 6, the investor offloaded over 650,000 VCR shares out of the total registered volume of 1.04 million shares.

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