



VIETNAM DAILY NEWS

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Market Analysis

1. VN stocks decline for fourth trading day

Vietnamese shares extended losses for a fourth straight trading day as investors remained pessimistic about the market's short-term outlook.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange (HoSE) fell 0.30 per cent to end Wednesday at 951.13 points.

The VN-Index has lost a total of 1.76 per cent in four straight trading days since Friday.

The benchmark index has slipped a total of nearly 7.20 per cent from its one-year high of 1,024 points made on November 6.

More than 323.4 million shares were traded on the southern bourse, worth VND6.7 trillion (US\$288 million).

As the end of the year is approaching, the market sentiment has remained poor as investors are not willing to buy.

Instead, they tried to offload shares to increase the cash/share portfolio ratio, as local shares declined along with other markets in the Asia-Pacific region.

The VN-Index avoided falling below the support of 950 points but investors were not optimistic about the market's short-term prospects, especially during the year-end period, and looked for the way out of all stocks, ranging from large-caps to small-caps, according to securities firms.

The VN30-Index edged down 0.49 per cent to end the day at 863.16 points. Meanwhile, mid-cap and small-cap indices slipped 0.73 per cent and 0.37 per cent, respectively.

The southern market was dominated by 207 declining stocks while 113 advanced. In the large-cap VN30 basket, 19 stocks lost ground while eight rose.

Among falling large-caps were retailer Mobile World (MWG), property developers Vincom Retail (VRE) and Vinhomes (VHM), steel maker Hoa Phat (HPG) and PetroVietnam Gas (GAS).

The market lacked support from the likes of FLC Faros Construction (ROS), brewer Sabeco (SAB) and Vingroup (VIC), which ended flat.

Vingroup on Wednesday said it will split retail and e-commerce divisions to focus all resources in the technology and industries.

The market is forecast to undergo a rough day in the last two trading days of the week as the VN30F1912 futures will mature on Thursday and exchange-traded funds (ETFs) will finalise their portfolio reviews, MB Securities Co (MBS) said in its daily report.

But the VN-Index is expected to reach the settlement level at 950 points, MBS said, adding the index could go down to 930 points in the worse outlook.

On the Ha Noi Stock Exchange (HNX), the HNX-Index dropped 1.06 per cent to close at 101.80 points.

The northern market index slid 0.31 per cent on Tuesday.

Nearly 42 million shares were exchanged on the northern bourse, worth VND337.7 billion.

Macro & Policies

2. Warburg Pincus recommends Vietnam raise foreign ownership limits to attract investors

Speaking at a meeting with Deputy Prime Minister Vuong Dinh Hue in Hanoi on Tuesday, Geithner, who served as the 75th Secretary of the U.S. Department of the Treasury from 2009 to 2013, spoke highly of Vietnam's efforts to improve the business and investment climate and to develop financial services, such as the digital banking and online payment space.

In response, Deputy PM Hue stated that the Government will consider reducing the State's holdings in a number of joint stock commercial banks to create more opportunities for private investors. Hue said Vietnam is committed to attracting foreign investors, especially in the services sector, to meet its bilateral and multilateral free trade agreements.

Those banks that will be more open to private investors include the Bank for Investment and Development of Vietnam, the Vietnam Bank for Industry and Trade, the Bank for Foreign Trade of Vietnam and the Vietnam Bank for Agriculture and Rural Development, the deputy prime minister said.

He explained that these banks that account for more than 50% of the total credit supply of the

Vietnamese banking sector will have their State stakes lowered to 65% by 2025.

The Government has included in the draft revised laws on investment and enterprises many stipulations on non-voting shares to enable foreign investors to increase their ownership while ensuring risks are controlled, he added.

The two bills will be on the table at the next sitting of the legislative National Assembly in May next year, according to the senior Cabinet leader.

He added that the Government is also studying the issuance of regulations on the special shares to encourage the deeper involvement of private investors in State-owned enterprises and equitized banks to develop the local credit and payment systems. Those shares give shareholders veto power over changes to the company's charter.

He urged Warburg Pincus to expand its investment in infrastructure, advanced technology, new materials, renewable energy, supporting industries and information technology.

3. 93percent of Korean firms satisfied with investments in Vietnam: survey

Up to 93 percent of the businesses from the Republic of Korea (RoK) are satisfied with their investments in Vietnam, according to a recent survey conducted by the Korea Trade and Investment Promotion Agency (KOTRA).

The agency said Korean firms have high hopes for Vietnam's growth potential and highly evaluate the skills and diligence of workers.

Vietnam is considered a favourable investment destination, and the RoK's wave of investment is continuing, KOTRA said.

It revealed that about 90 percent of the RoK-invested projects are carried out by small-and medium-sized enterprises, focusing on the processing and manufacturing industry, garment-textile, and footwear.

According to Naturan Co., Ltd, an RoK garment-textile company, Vietnam has posted high and stable economic growth for many years, and has a young and dynamic population.

It added that the RoK's New Southern Policy has determined the Association of Southeast Asian Nations in general and Vietnam in particular as priority markets.

Since the Vietnam-Korea Free Trade Agreement (VKFTA) took effect in 2015, two-way trade has increased remarkably.

Bilateral cooperative ties have been enhanced, not only in trade but also in investment and services.

The RoK's investment has also expanded to other fields such as retail, finance, green energy, agriculture, real estate, and food processing.

Vice Chairman of the Vietnam Chamber of Commerce and Industry (VCCI) Vo Tan Thanh said the Vietnamese Government will focus on improving policies to attract foreign investment while protecting that investment and intensifying state management.

Vietnam will also offer preferential mechanisms for projects that use modern and environmentally-friendly technology, he added.

4. Vietnam's Economy Expanded by 6.8 Percent in 2019 but Reforms are Needed

The latest Taking Stock, the World Bank's bi-annual economic report on Vietnam released today, emphasizes the resilience of the Vietnamese economy. GDP growth has continued to be driven by a strong external sector with exports expanding by about 8 percent in 2019 – nearly 4 times faster than the world average. The country has also remained an attractive destination for foreign investors, with foreign direct investment (FDI) inflows averaging US\$3 billion per month. In addition, private consumption has emerged as an important contributor to GDP growth as the result of an expanding middle-income class and rising wages. Private firms also increased investment by 17 percent during the same period.

Prospects for the short to medium term are good as the World Bank forecasts a GDP growth of around 6.5 percent over the next few years. Vietnam's economic fundamentals appear robust, and the government has built some fiscal space through its prudent fiscal policy. However, the country is not completely immune to external shocks as demonstrated by the gradual decline in export growth from 21 percent to 8 percent between 2017 and 2019. This decline in export growth has been even more pronounced in non-US markets, up by only 3.6 percent during the first 11 months of 2019. Greenfield FDI has also slowed by about 30 percent over the past two years, even if it has been compensated by an increase in mergers and acquisitions.

To account for these external risks, and to bring an additional engine of growth to the economy, the report recommends making the development of a strong and dynamic private sector a priority.

However, many firms operating in the domestic market face severe obstacles preventing their expansion, with the most pertinent being access to credit.

“Addressing the financing constraint of firms should receive the greatest attention from policy makers if Vietnam wants to continue on its trajectory of rapid and inclusive growth and reach high-income status in the coming decades,” said Ousmane Dione, World Bank Country Director for Vietnam.

The report advocates for the development of well-functioning capital markets as a foundation for Vietnam's future prosperity. As experienced by many countries in the world, including in East Asia, well-functioning debt and equity markets can help finance the domestic productive sector and complement lending from the banking system and diversify sources of financing. They also contribute to the resilience of the financial system as a whole by ensuring deeper liquidity and diversifying risks.

While capital markets have expanded rapidly in Vietnam over the past few years, they remain 1.5 to 2 times smaller than in Thailand and Malaysia respectively, and are largely dominated by a few big players, including the government. The report suggests five areas policy makers should focus on to advance the development of the capital markets: modernizing the legal and regulatory foundation of the capital markets; improving governance and information disclosure; broadening the investor base; developing innovative products; and strengthening the

government's role in the development of long-

term finance.

5. Vietnam seeks balanced trade relations with US: Deputy PM

Vietnam does not target to have a trade surplus with the US and looks for a more balanced trade relationship with the country, according to Deputy Prime Minister Vuong Dinh Hue.

Vietnam is trying to purchase more goods from the US, part of efforts to narrow the current trade surplus, said Hue in a meeting with Vice President of Nike Chris Helzer on December 17, reiterating the country's stance of not pursuing currency manipulation.

In the first 11 months of 2019, the US continues to be Vietnam's largest export market with turnover of US\$55.6 billion, up 28% year-on-year. Meanwhile, Vietnam imported goods worth US\$13 billion from the US during the January – November period, leading to a trade surplus of US\$42.6 billion with the US.

Following a recent meeting on the US - Vietnam Trade and Investment Framework Agreement (TIFA), both countries are cooperating to facilitate trading activities towards more balanced bilateral trade, Hue stated.

Making its presence in Vietnam in 1995, Nike's shoe plant in Vietnam is the largest of its kind globally that has contracts with 100 local suppliers and employs directly and indirectly 500,000 workers.

The plant produces 300 million pairs of shoes annually with export turnover of US\$6.7 billion in 2019.

Nike's Vice President Helzer highly regarded the quality of Vietnamese labor force and expressed

strong belief in the country's business environment.

Helzer revealed plan to train high quality human resources of Nike's plants in Vietnam and seeks the government's support for the US company to sign contracts to use renewable energy sources.

Deputy PM Hue said Vietnam has been improving the business environment and enhancing competitiveness, while creating favorable conditions for the successes of foreign investors, including those from the US.

Vietnam would continue to offer incentive policies for hi-tech and environmentally friendly projects, particularly with foreign investors willing to transfer technologies to their Vietnamese partners.

Hue asked Helzer to continue supporting Vietnam – US trade relations, including the expanded use of Vietnamese supplies for greater localization rate and supporting local enterprises for joint development.

Hue also suggested Nike provide exclusive products for the upcoming SEA Games 31 that will be hosted in Vietnam in 2020, which is also the year when Vietnam and the US celebrate the 25th anniversary of establishment of diplomatic relations.

The Vietnamese government is committed to ensuring Nike's long-term and sustainable businesses in Vietnam, stressed Hue.

6. Development opportunities abound for plastic, rubber industries

Opportunities

Over the past decade, the plastics industry has become an important part of the northern industrial sector. According to the Vietnam Plastics Association (VPA), it has become a

spearhead industry with an annual growth of 12-15 percent. Vietnam has exported plastic products to 150 countries and territories worldwide. In the first eight months of 2019, Vietnamese businesses exported plastic products worth almost US\$2.53 billion, up 13.9 percent from the same period in

2018. Plastics exports reached US\$280 million in September alone, up 15.9 percent from September 2018.

Economists say Vietnam's signing of free trade agreements (FTAs) has brought about opportunities for Vietnamese businesses to export plastic packaging products. Partners are gradually shifting orders from China to Vietnam to take advantage of low production costs, while plastics exports to the Republic of Korea (RoK), Japan and Europe are subject to many tariff incentives.

The domestic rubber industry has been growing on a sustainable basis. In 2018, natural rubber was Vietnam's fifth largest agricultural export, with sales of rubber tires, components, shoe soles, gloves, sports tools and medical products to the US, Malaysia, Belgium, Germany, Brazil, Japan, and Thailand.

International exhibition

Vietnam is encountering “white pollution” and has become the third largest plastic consumer in ASEAN (the Association of Southeast Asian Nations) and one of the biggest plastics consumers in the world. An international exhibition on

manufacturing processes, technologies and services essential to the plastics and rubber sectors in Vietnam and Indochina will take place for the first time in Hanoi, from November 27-29, 2019 with the participation of 200 plastic and rubber enterprises from 14 countries and territories worldwide. The event will provide an opportunity for rubber and plastic manufacturers and processors to promote their products and expand markets, develop branding and partnerships, and seek new business opportunities in Vietnam and foreign markets. It will also enable the growing number of foreign machinery, equipment and material suppliers to approach domestic and foreign manufacturers and find distributors in Vietnam.

Huynh Huu Hai Binh, CEO of Revival Waste, a potential participant of the exhibition said the plastics and rubber industries need to improve technology and production methods, and ensure plastic products have the highest recycling potential.

Many plastics and rubber production orders are expected to be shifted from China to Vietnam, and domestic enterprises need to prepare if they are to take advantage of these opportunities.

Corporate News

7. Retail, banking sectors see big-ticket M&A deals in 2019

↓ -0.69%

Vingroup made headlines earlier this month by announcing it would merge its retail arm, Vinmart, with food giant Masan to focus on industry and technology.

The deal's value has not been disclosed, only that over 2,600 VinMart and VinMart+ outlets will be controlled by Masan, which is set to become the biggest retail player in the country.

It was the latest in a series of merger and acquisition (M&A) deals in retail this year as industry players seek to grow in the competitive market.

In May South Korean company GS Retail acquired all 49 outlets of local player Zakka Mart and turned them into GS25 outlets. The value of the deal was not disclosed.

The rising income of citizens is one of the reasons for the booming retail market. Market research company Euromonitor said by 2030 Vietnam would be the third largest urban market in Southeast Asia in terms of consumer numbers and fifth largest in terms of spending.

Rapid urbanization is another reason. Vietnam's urbanization rate rose from 23.7 percent in 1999 to 38.4 percent last year, with the economic growth rate in urban areas being 2.5 times that of rural areas, according to the Ministry of Construction.

These figures translate into growth for the retail industry, though it is mostly the big players who will benefit.

"Major M&A deals this year show that the retail market is filtering out small players as conglomerates pour big bucks into expansion," economist Le Dang Doanh said.

But in the crowded market only deep-pocketed players could survive, and even fiercer competition is expected in future as bigger companies bring in a variety of products at lower prices, he said.

Vietnamese players dominate the scene, with experts explaining it is due to their better understanding of local needs. Besides VinMart, grocery chain Bach Hoa Xanh has 953 outlets and Saigon Co.op. has 878.

Most foreign players continue to struggle. In June French supermarket group Auchan Retail pulled out due to losses. Japanese chains Ministop and FamilyMart are far from executing their plans to have 800-1,000 stores.

Banking banks on capital

The banking industry too saw some major M&A deals in 2019 as local banks sought to increase their capital to back their expansion.

BIDV sold a 15 percent stake to South Korea's KEB Hana Bank in November. The deal, valued at VND20.2 trillion (\$872 million), made BIDV the largest bank by charter capital in the country.

Vietcombank earlier this year sold a 3 percent stake to foreign investors for VND6.2 trillion (\$270 million) as part of its plan to eventually sell 10 percent.

Economist Can Van Luc said as Vietnam's economy continues to expand rapidly and banks' profits are set to grow by 20-30 percent this year, investors are keen to buy into them.

More M&A deals are expected since the government would not allow new foreign banks until the end of 2020 as it restructures its financial system, including by selling ailing banks to foreign investors, he added.

Nguyen Tri Hieu, another economist, said the government wants to create a Vietnamese bank that can expand into the region and even globally, and one of the critical conditions for this is having a large capital base.

This means smaller banks could consider merging to achieve this target, he added.

Other notable M&A deals this year include South Korean SK Group's purchase of a 6.15 percent stake in Vingroup for nearly \$1 billion and a 9.5 percent stake in Masan for \$470 million.

The total value of M&A deals last year was \$7.6 billion, analysts said at the 2019 Vietnam Mergers and Acquisition Forum. They forecast it to be \$6.7 billion this year.

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