# VIETNAM DAILY NEWS

**December 31st, 2019**

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# Market Analysis

## 1. Shares mixed on investor caution ahead of New Year holiday

Shares moved in opposite directions on the two national stock exchanges on Monday, with low liquidity demonstrating investor caution ahead of the New Year holiday.

On the Ho Chi Minh Stock Exchange, the VN-Index remained above the threshold for the afternoon session and ended the day at 965.03 points, up 0.16 per cent over Friday. The southern market index increased 0.5 per cent last week.

Banks continued as the market supporter with many big lenders in the VN30 basket (which tracks the top 30 largest shares by market value and liquidity) rising. Vietinbank (CTG), Vietcombank (VCB) and Techcombank (TCB) increased by more than 1 per cent.

Other big gainers included Vincom Retail (VRE), Vinhomes (VHM), FPT Corp (FPT), insurer Bao Viet Holdings (BVH), Refrigeration Electrical Engineering (REE) and property developer Novaland Investment (NVL) gained between 1-3 per cent each.

On the negative side, some large caps such as Vinamilk (VNM), Vingroup (VIC), brewer Sabeco (SAB), PV Gas (GAS), the Bank for Investment and Development of Vietnam (BID) bucked the trend and declined, weighing on the market.

Liquidity continued to drop with just 178 million shares worth VND3.8 trillion (roughly US$164 million) traded, down around 20 per cent in both volume and value compared to Friday's figures.

"The market will continuously experience a wild divergence among stock sectors, it could fluctuate due to funds' net asset value closing during the first two sessions next week," Tran Xuan Bach, a stock analyst at Bao Viet Securities, wrote in a daily report.

"We expect that blue-chip stocks will increase early next year with signs of improvements in cash flow," Bach said, forecasting the VN-Index would fluctuate between 959-961 points and 969-971 points over several sessions.

According to BIDV Securities Co, the highlight continued to be net buying from foreign investors on the Ho Chi Minh Stock Exchange.

The foreign sector bought a net value of more than VND73 billion on Monday, rising 83 per cent over Friday's value.

However, the analysts predicted the market will see little change this week as the year-end is nearing.

On the Ha Noi Stock Exchange, the HNX-Index dropped 0.43 per cent on Monday to close at 102.16 points. Liquidity here was also low with more than 40 million shares worth VND900 billion ($39 million) exchanged.

Foreign investors were net sellers on the northern bourse for a modest value of VND964 million.

# Macro & Policies

## 2. The Next China? Vietnam Looks Good Only on Paper

With Vietnam quickly moving up the global supply chain, the Southeast Asian nation has been hailed as the biggest winner out of the current U.S.-China trade spat. High-profile relocations underscore the point. Alphabet Inc.'s Google is shifting production of Pixel smartphones, while Samsung Electronics Co. has closed its last smartphone plant in China. Even Chinese companies, such as Goertek Inc., supplier of Apple's popular AirPods earphones, are moving. It's prime time for Vietnam in the tech world. The country also notched just under 7% growth in gross domestic product, among the fastest in the world.

Yet such enthusiasm is not reflected in the stock market. The benchmark Ho Chi Minh Stock Index rose only 7.3% year-to-date, lagging well behind 32% gains in mainland China's Shanghai Shenzhen CSI 300 Index. While emerging markets staged a Santa rally in December, Vietnamese stocks headed the other way.

So what's sapping Vietnam's bull spirit?

Exchange traded funds are becoming a major source of foreign capital, with funds tracking the benchmark index accounting for 44% of total market flow in 2019. However, take a look at what's in the basket and one can't help but frown. It's a lot less shiny than the booming manufacturers. The market is dominated by banks, and just one real estate developer, Vingroup JSC. While Vingroup has edged into auto and smartphone manufacturing, its cash-cow business remains property.

With average return on equity at 15%, banks in Vietnam are an enviable bunch by any standard. But bank loans have already exceeded the country's GDP level, high for a nation that earns only about $2,500 per capita. So the banks need to raise capital to buffer against bad debt in the future. Roughly half of local banks are unable to meet the minimum 8% capital adequacy ratio, Fitch Ratings has warned.Capital-raising is difficult even if outsiders are keen to buy, because the government imposes strict 30% foreign ownership limits on its banks. Without lifting the cap, there are only two outcomes for the sector: Either follow China's lead into a debt crisis, or scale back corporate lending. Neither is good news for investors.

Vingroup and its subsidiaries, which account for almost 15% of the index, are also problematic. Land has become scarce — it's difficult to find large parcels in the megacities of Hanoi and Ho Chi Minh City. As such, the government has slowed approving new projects, sapping growth potential for developers.

The shortage of land and the overlapping listings between Vingroup and its components make it difficult for a portfolio manager to argue for having so much of Vingroup in her basket. If she wants exposure to the real-estate scene, she can just buy into residential developer Vinhomes JSC, which in any case accounts for two-thirds of the parent's revenue. Or, for Vingroup's retail mall operations, the Vincom Retail JSC unit is up for grabs. Why should anyone own Vingroup twice? The ultimate culprit is the onerous foreign-ownership regime. High-quality stocks have already hit their quota, and foreigners are paying significant premiums trading with each other. Because of the liquidity issues, these stocks are given tiny weights by index providers. What's left on the benchmarks are leftovers that no one wants.

In this sense, Vietnam is indeed becoming the next China, sowing the seeds of an unhealthy stock market dominated by debt-ridden banks and devoid of New Economy technology stocks. While the country doesn't lack admirers, its economy will inevitably slow. When that time comes, banks will need more capital and start-ups will want to go public.

By then, no one will be interested in a broken system, as China well knows. So before outsiders lose appetite, it's time Vietnam removes protectionist policies and opens its economy for real.

## 3. Vietnam All Set To Compete With Nestle, Asian Companies On Coffee Production

Instead of selling raw robusta beans to foreign firms to become instant coffee, the largest supplier in Vietnam is preparing to offer its own soluble powder early next year.

The change aims at gaining more income from Asia's growing rapid-brewed beverage market and buffering the effect of large swings on international commodity prices.

"We do not want to be left out from the instant coffee bandwagon," said Do Ha Nam, Intimex Group Chairman, who exports as much as 75 percent of Vietnam's robusta beans, the bitter-tasting kind popularly used for instant coffee production.

Nam said their robusta variety brings more benefit and less risk "because it means we don't have to rely on the price set by the London market."

Robusta futures traded in London were down 10 percent this year after slumping in three of the previous four years in Vietnam, the world's top producer and exporter.

The penetration into domestic instant coffee production is seen by the coffee industry in the country as a more lucrative growth venture compared to just continuing to plant more trees.

According to Euromonitor International, India will lead growth in the retail market for instant coffee in Asia, growing nearly 12 percent a year to top $850 million in 2024. In Indonesia, Malaysia, Philippines, Thailand and Vietnam, the market researchers are also predicting solid growth.

"Asia is the fastest-growing coffee-drinking region in the world, where many customers continue make a coffee-drinking habit," said Jose Sette, president of London's International Coffee Organization.

Thanks to its ease of preparation, instant coffee is a perfect way to introduce the drink to these customers, he said in an email. To penetrate the region, Vietnam should capitalize on its geographical location and low production costs, Sette said.

Ho Chi Minh City-based Intimex, which was a state-owned company before being sold to private investors in 2006, aims to beat Nestle in the next five years as Vietnam's largest pure instant coffee supplier by increasing annual capacity by five times to 20,000 tons.

Nestle, a Swiss-based manufacturer based in Vevey, will go up against both domestic and international firms by taking advantage of its size, technology and manufacturing expertise, more than 75 years of coffee making experience, and rising with Vietnamese coffee farmers, said Ganesan Ampalavanar, Nestle Vietnam's general manager.

## 4. Nurturing an SME digital ecosystem

***What is your assessment of the startup ecosystem in the Vietnamese market, especially in terms of small- and medium-sized enterprises (SMEs) and logistics companies?***

The Vietnamese economy is booming and is one of the fastest-growing economies in Southeast Asia. Driving this economy are SMEs, so helping them to grow and scale is important in building a sustainable startup ecosystem.

The economic growth is also the result of a young and dynamic population that creates demand for products, benefiting the SMEs and startups that have arisen to cater to the demand. In addition, a young and dynamic population offers a ready pool of talent that are hungry, creative and more than willing to innovate and try new ideas.

The key to building the SME and startup infrastructure here is partnerships, especially between governments and ecosystem players like us. I believe that increased collaborations between public and private entities can be very fruitful for startups.

***How can platforms like Lazada help local SMEs to do business and grow?***

Our vision is to power real, profitable SMEs across Southeast Asia and create millions of jobs in the e-commerce ecosystem. Across the region, we've seen 142 per cent growth in the number of daily active stores and 97 per cent growth in amount of stores with over $10,000 in monthly sales.

We help local SMEs grow and scale in three key ways: First, we help remove barriers to entry by providing them access to our leading ecosystem that comprises of innovative technology, logistics, and payment offerings.

With these innovations and the efficiency of our platform, businesses do not need to undertake the time-consuming process of designing a product, coordinating with stakeholders to manufacture and sell it, then get feedback from customers to make further adjustments to the product. Instead, they can quickly set up a store of any size, conduct pre-sales, and based on the orders, determine production volume and amount. They also received feedback in the form of customer reviews in a timelier manner, which helps them to be more competitive in their offerings. Lazada's technology enables an efficient, transparent and fair system.

Second, we enable SMEs to learn and grow together. We equip them with knowledge and practical experience through training sessions, seller conferences, and mega campaigns. We also provide them access to sales mechanics such as flash sales and live streaming, so they can engage their customers in more creative ways that can help them boost sales.

Last but not least, we are looking to help local SMEs in their fundraising efforts in the coming year. We are working with our partners to explore programmes that can support our sellers in this aspect.

***Can you share some examples of the work carried out by your platforms so far?***

Some of our most successful sellers started out as small businesses. A good example is Julyhouse, which joined our platform three years ago to sell natural oil products. After a year, they were able to build recognition for their brand and started offering premium quality products and services. They then further evolved into a service provider for our platform by sharing their experience and training other SMEs.

Julyhouse is a good example of how the ecosystem can transform SMEs into more than just sellers on a platform. With our marketing solutions, data analytics, logistics invoice services, we enable SMEs and local startup to thrive.

***About Lazada***

Founded in 2012, Lazada Group is Southeast Asia's leading e-commerce platform. With a presence in six countries – Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam – Lazada connects the vast and diverse region through its technology, logistics, and payments capabilities. Today, Lazada has the largest selection of brands and sellers and by 2030 aims to serve 300 million customers. In 2016, Lazada became the regional flagship of Alibaba Group, and is backed by Alibaba's best-in-class technology infrastructure.

For more information, please download the Lazada App or access the Lazada website: www.lazada.vn.

***What is your upcoming initiative to support local SMEs?***

As mentioned, we are exploring programmes that can help SMEs in their fundraising efforts, as well as continue to support them in our campaigns and everyday business, from onboarding them to equipping and training them.

Lazada has been operating in Vietnam for almost eight years. We were the first e-commerce platform in the country, and we are very dedicated to helping local SMEs fulfill their ambitions by building a sustainable e-commerce ecosystem.

## 5. Vietnam aims at high-income status by 2045

The country's Gross National Income (GNI) per capita this year is almost $2,800, which would be over $3,000 using a revised GDP measurement method, Phuc said at an online meeting with leaders of cities and provinces on Monday.

This puts Vietnam in the lower-middle income economy classification, defined as economies with a GNI per capita between $1,026 and $3,995, according to the World Bank. Some other countries in this group are Cambodia, India, Indonesia, Myanmar and the Philippines.

Vietnam could soon climb onto the upper-middle income classification (GNI per capita $3,996-$12,375), Phuc said. This group includes China, Malaysia, Mexico, South Africa and Thailand.

But in order to reach the high-income status by 2045, Vietnam will need to maintain its current growth speed for the next two decades, Phuc said, adding that slower growth would push the goal back by a few years.

The high-income group, with GNI per capita of $12,376 or more, includes Australia, Finland, Hong Kong, Japan, South Korea, Singapore and the U.S.

Vietnam's GDP growth of 7.02 percent in 2019 exceeded the parliament's target of 6.6-6.8 percent as well as forecasts by several international organizations like the World Bank and the Asian Development Bank.

It had slowed from a record 7.08 percent in 2018, but remained the second highest growth figure in the last decade.

## 6. Travel firms, shops forced to shutter over zero-dong tours

The ministry is stepping up efforts to manage cheap tours to protect customers' rights and prevent tax losses.

Thien stressed that it is necessary for national and local tourism authorities to work together in adopting solutions similar to those applied in Thailand.

"We continue to ask the Vietnam National Administration of Tourism to work with foreign authorities to produce solutions that can help avoid the negative effects of cheap tours," Thien stated.

He added that his ministry had received a preliminary report on cooperation efforts with Guangxi Province, China. In addition, the ministry will work with other bodies on market management, taxation and banking to control illegal transactions by tour operators, tour guides and outlets.

A zero-dong tour, low-cost tour or cheap tour provides tour services at a price lower than the market price. It is sometimes only equivalent to the round-trip airfare. The tour operator earns a profit through high commissions or tips when bringing guests to sales outlets.

In some markets, foreign businesses have also set up a service circle that includes tours and shopping outlets, allowing these tours to thrive.

Cheap tours are found in many localities. The central province of Khanh Hoa, for instance, has repeatedly called for cooperation from the competent authorities to manage these tours, avoiding tax losses.

According to the Danang Tourism Department, up to 88% of Chinese tourists in the city have recently purchased cheap tours; for Korean tourists, the rate was some 21%./.

# Corporate News

## 7. VSH: Change of personnel

**↑ 0.46%**

Vinh Son - Song Hinh Hydropower Joint Stock Company announced personnel change as follows:

- Ms. Phan Thi Thanh Thuy was appointed as Chief Accountant in 04 years as from January 01, 2019.

## 8. Vinamilk completes acquisition of Moc Chau Milk

**↓ -1.44%**

Vinamilk has announced that it has officially become the parent company of GTNFoods after finishing the purchase of 79.5 million GTN shares (an additional 31.83 per cent stake) to raise its holding to 75 per cent. After the transaction, Vinamilk will own 51 per cent in Moc Chau Milk – a subsidiary of GTNFoods.

The purchase was implemented two days after the shareholders of GTNFoods approved the plan to hand over shares via a private placement.

Previously, the two parties held numerous rounds of negotiation since Vinamilk became a large shareholder of GTNFoods and the latter has recently begun restructuring its activities based on advice from Vinamilk.

GTNFoods is an enterprises operating in the agricultural and food and beverage (F&B) sectors with a charter capital of VND2.5 trillion ($108.7 million). The company invested in state-owned companies, including 73.7 per cent in Vietnam Livestock Corporation JSC, 95 per cent in Vinatea, and 35 per cent in LadoFoods.

According to its consolidated financial statement in 2018, milk processing activity contributed to VND2.48 trillion ($107.83 million) or 82 per cent of its net revenue, an increase of 15 per cent compared to 2017. This increase highlighted Moc Chau Milk's development potential. Thus, the indirect acquisition of Moc Chau Milk will help Vinamilk expand its dairy ecosystem and is an important premise for Vinamilk's long-term growth target.

At present, Moc Chau Milk holds 9 per cent of the dairy market, a figure that goes up to 35 per cent in the northern region. With 80,000 retail points, Moc Chau Milk's fresh milk coverage is quite extensive.

As of December 2018, Moc Chau Milk owned 25,000 cows, 100 per cent of which were thoroughbred milk cows. The company set the growth target of 10-15 per cent per year and expect to increase the number of its milk cows to 35,000 by 2020.

Co-operating to go farther

According to Bui Thi Huong, managing director of Vinamilk, the company prefers thinking of the deal as joining the operations of Moc Chau Milk deeper, instead of an “acquisition”. The two parties will co-operate to develop.

“Competition is essential for enterprises to grow because it will create motivation for enterprises, however, it need to be fair. Vinamilk always strives to expand the number of its member companies but transparency is first. The increased interest in Moc Chau Milk will help us to seize mutually beneficial opportunities,” Huong said.

“Moc Chau Milk has ample land banks and an extensive farm system that will benefit from Vinamilk's management system and enterprise resource planning (ERP) software,” Huong said.

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