VIETNAM DAILY NEWS

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Table of content

Table of content

Market Analysis

1. VN stocks advance for third day

Vietnamese shares were upbeat on Thursday as investors bet on the growth outlook of the banking-financial sector.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange gained 0.70 per cent to end at 974.31 points.

The VN-Index has totalled a three-day increase of 0.87 per cent since Tuesday.

Financial-banking stocks drove the stock market on Thursday and the banking sector index rose 2.6 per cent, data on vietstock.vn showed.

Lifting the banking industry were Bank for Investment and Development of Vietnam (BID) and Vietinbank (CTG).

The two banks' shares surged 5.9 per cent and 5.5 per cent, respectively.

Other bank stocks also made good gains, including Techcombank (TCB), Military Bank (MBB), HDBank (HDB) and VPBank (VPB).

Brokerage firms also saw shares advance such as SSI Securities Corp (SSI), HCM City Securities Corp (HCM) and VNDirect Securities Corp (VND).

Strong cash flow into financial-banking stocks showed investors were highly optimistic about the sector's future, Thanh Cong Securities Co (TCSC) said in a report.

The growth of financial-banking companies also aided other large-caps.

The large-cap VN30-Index was up 0.75 per cent to 891.96 points at the end of the day.

In the VN30 basket, 16 of the 30 largest stocks by market capitalisation and trading liquidity advanced.

Mid-cap and small-cap stocks were also pulled up by good market sentiment, which followed the signing of a trade agreement between the US and China the previous day, according to MB Securities Co (MBS).

Trading liquidity reached its highest level in four days, MBS reported. On Thursday, more than 201 million shares were traded, worth VND4.74 trillion (US$204.8 million).

Despite the growth, overall trading breadth was negative with 174 declining stocks and 154 gaining stocks.

The stock market would likely keep growing with modest trading liquidity, which is typical ahead of Tet (Lunar New Year) holiday, MBS said.

Financial-banking stocks are expected to lead the market's uptrend in the short term, TCSC added.

On the Ha Noi Stock Exchange, the HNX-Index rose 1.09 per cent to close at 104.32 points.

The northern market index was down 0.17 per cent on Wednesday.

More than 24.7 million shares were traded on the northern bourse, worth VND307.5 billion.

Macro & Policies

2. Pending frustrations in M&A unnerve investors

A handful of high-profile acquisitions gone sour have also given investors more reason for hesitation.

The first few days of the New Year have witnessed bullish wagers on domestic banking activities.

Vietnamese commercial lender Ocean Bank (OCB) is mulling the sale of 11 per cent of its charter capital to Japan-based Aozora Bank Ltd., which is listed on the Tokyo Stock Exchange with around $3.16 billion of market capitalisation. The deal would be based on the current trading price of OCB, at an expected total price of VND1.22 trillion ($52.8 million).

However, cautious market watchdogs warned that the outlook for takeover deals is not that rosy.

French bank BNP Paribas previously divested its entire 18.68 per cent stake in OCB, ending a decade-long partnership in 2017. Last March, Hanoi-based private creditor SeABank announced that its French strategic partner Société Générale Group (SocGen) offloaded 20 per cent stake after a 10-year alliance.

It is rumoured that besides the lack of cultural fit, there are concerns over the long-term health of some local lenders, poor corporate governance, conflict of interest, and portfolio reshuffles taking a bite out of M&A activity in the field.

When tie-ups fail

According to a recent report of researchers at the Vietnam M&A Forum, an annual event held by VIR and the CMAC Institute, recent shifts in the marketplace have begun to bring large tie-ups back in favour, driving an emphasis on consolidation and scale. The value of M&A deals is expected to reach $7.5 billion this year, equal to the combined deals of two years earlier.

Deputy Prime Minister Vuong Dinh Hue recently confirmed that 100-per-cent foreign-invested banks would not be allowed to be established in Vietnam, hence M&A is the quickest way to penetrate the market.

Notwithstanding, challenges still colour the landscape and vary for each bank, spanning different factors such as corporate governance, downgraded ratings, or lack of transparency in information disclosure.

Top of the list of issues is that foreign investors often force more financial discipline, which Vietnamese standards often lag behind.

"Local banks have to comply with the specific disclosure requirements prescribed in International Financial Reporting Standards (IFRS), but vast differences between local and global standards might pose a challenge for domestic lenders," Phan Dung Khanh, investment director at Maybank Kim Eng Securities told VIR.

According to Nguyen Thuy Duong, chairwoman of EY Vietnam, many overseas investors deem that information disclosure in Vietnam is not transparent and clear enough.

"While for almost all leading financial markets, information transparency has been a prerequisite, investors from the United States, the United Kingdom, or Australia might face great challenges to understand Vietnamese accounting standards due to its significant deviation from IFRS. This, consequently, makes the due diligence process much more complicated," said Duong.

Oanh Nguyen, partner at Baker McKenzie Vietnam, added that many Vietnamese banks refuse to let foreign partners do due diligence on their business, which deters many interested suitors.

Another main obstacle is that valuations and conflicts arising along the way also act as a cause of the decline in attractiveness of Vietnam's banking sector. Some expressed their concern that foreign shareholders are not guaranteed sufficient influence over the management of local banks.

Back in 2017, it was rumoured that insufficient control was the main reason that saw HSBC offload its shares in Techcombank. While HSBC shareholders expected to receive dividends, Techcombank did not pay any dividends for six consecutive years since 2010 in a bid to further raise charter capital.

Poor handling of change management after the deals could hurt banking profits as well. Before being wholly acquired by SHB, Habubank sold 10 per cent of its stake to German lender Deutsche Bank.

After five years of collaboration, the amount of non-performing loans rose to 32 per cent. It means the assistance from Deutsche Bank did not live to its expectations, and Habubank was then acquired by SHB.

In the case of SeAbank, the sale was part of SocGen's recent strategy of exiting non-core markets in all of Asia to consolidate its positions in places where it is already strong.

Last year, UK lender Standard Chartered Bank divested its entire 8.75 per cent of shares in Vietnam's publicly listed Asia Commercial Bank (ACB) after a 12-year collaboration. Standard Chartered Bank had previously withdrawn its representatives from ACB's board of directors for unspecified reasons.

Adhering to the process

In 2013, United Overseas Bank (UOB), a Singaporean lender, was ramping up its interest in acquiring 100 per cent of the distressed local lender GPBank. But the lengthy year-long negotiation yielded no fruit, since GPBank refused to accept the low takeover premiums from UOB though the local lender was struggling to recover its non-performing loans at that time.

In addition, harsher scrutiny, along with a lengthy process, may add a sense of urgency to any potential tie-ups.

"The approval process for M&A deals is rather long and complicated. Hence, both buyers and sellers struggle to reach an ideal price. The current law is that price has to be based on the latest 10 trading days," said economist Can Van Luc.

Nguyen Duc Vinh, general director at VPBank, cautioned that some foreign investors are seeing Vietnam as a short-term investment destination, kicking off a wave of divestments.

Foreign acquirers often show great interest in the corporate governance of Vietnamese banks. That includes how banks can set their operational vision and strategy, determine their risk appetite, execute their daily operations, and protect their shareholders' interests.

It could stem from the fact that banks become more global after M&A deals, and so the burden on boards of managers is rising steeply. Hence, investors' assessment of poor local bank's governance is quite substantial.

Eximbank, for example, is not receiving much attention from overseas investors. Investment analysts have been raising questions about its prudence since the bank has faced an uphill battle to regain the trust of its shareholders and depositors, following a series of embezzlement and fraud scandals.

Plenty of prospective bank M&A only look at the two banks on paper, without taking their people or culture into account. It may answer why the number of European banks in Vietnam is shrinking, which is in stark contrast with the greater participation from banks in other Asian countries.

While South Korean, Japanese, or Chinese lenders are gearing up to enter into Vietnam's financial market thanks to the similarities among Asian nations, Western players still remain a modest part of the game and, in worst-case scenarios, some have left or divested their shares in the country.

In some cases, the foreign ownership limit (FOL) is another issue since most cases are required to be under 30 per cent of the foreign cap.

For instance, VietinBank, despite reaching its FOL and no longer receiving foreign capital injection since 2014, is still stuck in the mud since the bank has not yet qualified for Basel II. Thus, not all M&A deals can deliver expected results.

Economist Luc also highlighted the importance of continued initiatives to relax the FOL from the Vietnamese government, which "should closely following the prime minister's Decision No.986/QD-TTg released in August 2018 on developing the banking sector until 2025 with a vision towards 2030."

In the very last days of 2019, global rating agency Moody's dealt a fresh blow to Vietnam's financial sector by downgrading the outlook of 18 banks.

Experts are cautious since the sweeping downgrades come as unease plagues global markets, thus impeding local banks' ability to woo more investors from South Korea, such as OCB, HDBank, LienVietPostBank, or ACB, albeit qualifying for Basel II standards. “The downgrading decision would hamper Vietnamese banks on accessing capital from overseas investors,” Luc told VIR.

Financiers looking to invest in state-owned lender Agribank are being urged to hold back after its initial public offering was postponed last year. The Moody's downgrade will be fuel for the fire, making divestment and capital mobilisation even tougher for the bank.

Some lenders that are still working towards Basel II standards such as ABBank, Agribank, and Nam A Bank will likely be exposed to more volatility after this vote of no confidence.

Consequently, many acquirers could be in wait-and-see mode on strategic transactions until they have a better idea of how some of the uncertainties will play out. How integrated banks can harmonise their geographic footprint to affect growth, costs, and asset efficiency in the meantime is still a large problem to consider.

3. Direct air route to facilitate Viet Nam-Czech relationship

The roadshow aimed to introduce Viet Nam's tourism potential and provide information about a direct air route linking the two countries.

In his speech, Vietnamese Ambassador to the Czech Republic Ho Minh Tuan said the launch of this route - the first connecting the Czech Republic with ASEAN - would open up many new co-operation opportunities in the fields of tourism and trade.

Europe was regarded a key market for Bamboo Airways in expanding its flight network and tourism and investment products this year, said the airline's deputy general director, Truong Phuong Thanh.

The Czech Republic is one of the first destinations it had chosen as a gateway to Europe, he said.

Earlier last year, Bamboo Airways and Prague International Airport signed a memorandum of understanding on co-operation, that has paved the way for the airline to launch a direct route in the second quarter of this year.

According to trade experts, there remained untapped opportunities for Viet Nam and the Czech Republic to accelerate bilateral ties thanks to the Southeast Asian nation's positive economic growth in recent years that made it an attractive market for trade and investment.

4. Aerospace group ASG to expand aviation personnel training in Vietnam

Cyprus-based Avia Solutions Group (ASG), a global aerospace business group, wants to expand investments in Vietnam by establishing airplane maintenance facilities, training aviation personnel and aviation services, according to Gediminas Ziemlis, ASG President.

In addition to the huge potential of Vietnamese aviation market, ASG may also look for opportunities in railway transportation in the country, said Ziemlis in a meeting with Deputy Prime Minister Vuong Dinh Hue on January 15.

Currently, ASG has opened BAA Training Vietnam, a flight simulator training center in Ho Chi Minh City with investment capital of US$63 million, as well as airplane rental services to airlines in Vietnam.

Deputy PM Hue welcomed ASG's investment initiative, saying the Vietnamese government has been implementing measures to create a favorable business environment which is compatible with international standards.

Hue said Vietnam would continue to privatize state-owned enterprises, which is a favorable condition for financial investors such as ASG to join this process in areas the company has interests in such as aviation, railway, banking and pharmacy, among others.

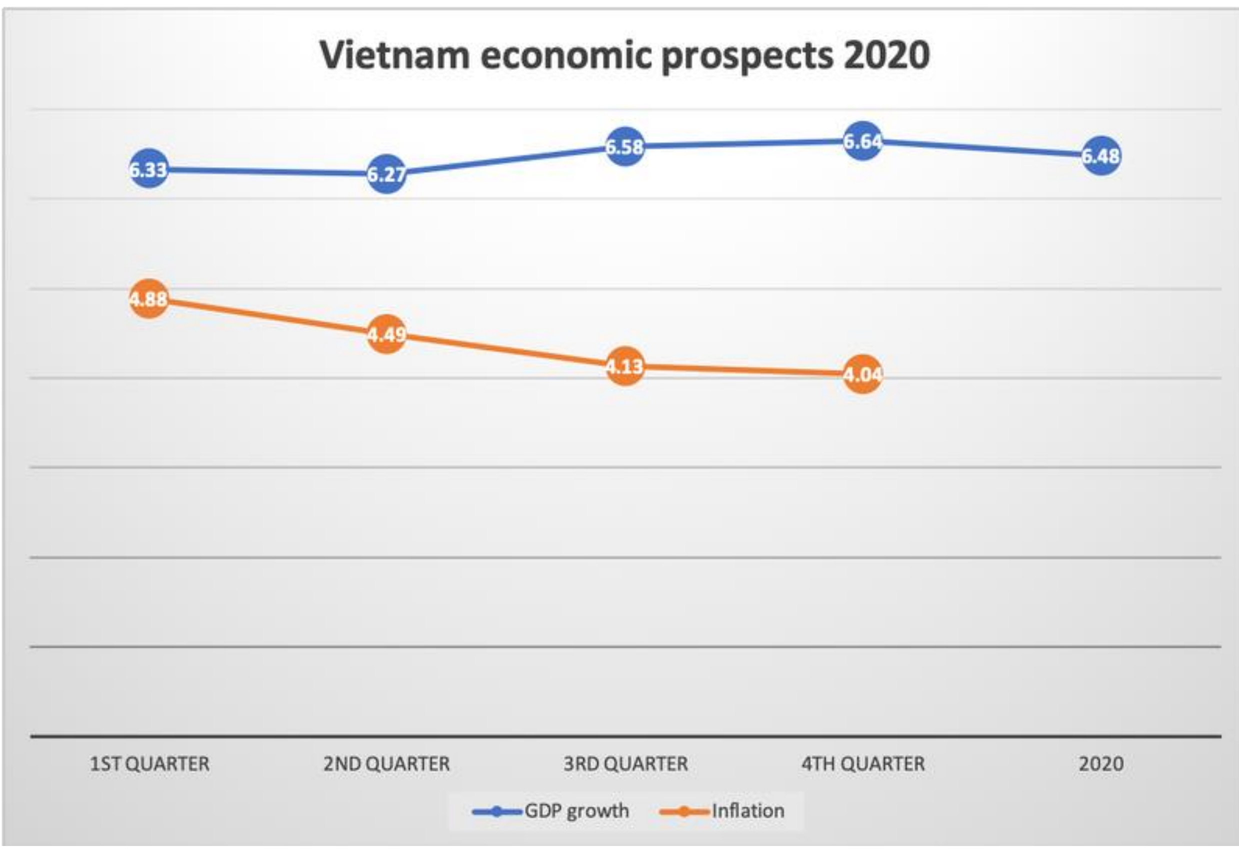
Over the past few years, Vietnam's aviation market has been sustaining a two-digit growth rate, while the introduction of new airlines has also put high quality personnel in the industry on high demand./.

5. Vietnam would struggle to reach GDP target in 2020: Expert

Vietnam is forecast to reach GDP growth of 6.48% in 2020 amid growing global uncertainties, meaning the 6.8% target set by the National Assembly is very challenging, said Nguyen Duc Thanh, director of the Vietnam Institute for Economic and Policy Research (VEPR).

Higher inflationary pressure, unstable crude oil and gas prices from geopolitical tension in Iran and the ongoing US – China trade war are among major risks to Vietnam's economy this year, said Thanh at the launch of VEPR's quarterly macroeconomic report on January 16.

Thanh cited the consumer price index (CPI) last December which rose over 5% versus the end of 2018, due to a surge in food prices, as a reason for concern. The upcoming Lunar New Year festival is expected to boost consumption demand, and, therefore, could lead to a strong push to the CPI.



Data: VEPR's report. Chart: Ngoc Thuy.

In 2019, despite the second consecutive annual growth of over 7%, the sustainable development of the Vietnamese economy remains "questionable", as the mining industry for the first time in three years grew 1.29% year-on-year, contributing 0.09 percentage points to the overall growth, Thanh added.

On the supply side, investment from the foreign-invested and private sectors remains the driving force for growth. Thanh noted the US – China trade war is causing a shift in investment from China to

Vietnam, however, this could lead to "issues" related to environment and management of foreign workers.

"In the long term, Vietnam's economic prospects would continue to depend on FDI, removal of legal barriers, and state sector restructuring," Thanh stressed.

As the US has recently included Vietnam in its monitoring list for currency manipulation, Thanh expected the State Bank of Vietnam (SBV), the country's central bank, to be cautious in managing the monetary policy.

"A depreciation of the Vietnamese dong to boost exports is not the right thing to do at this moment," Thanh added.

Thanh expressed concern that while the US is Vietnam's largest export market, China, on the other hand, is the country's largest importer, adding Vietnam must carefully manage its trade relations with these two major economies.

In its latest move, the US's decision to impose a 400% countervailing duty on Vietnamese steel raised questions about transshipment and other countries forging Vietnamese origin for their products and goods, said Thanh.

"As the US is hardening its stance towards international trade, Vietnam should not become a "backyard" for China and other countries in exporting products to the US," Thanh stated.

Meanwhile, economist Vo Tri Thanh said while the government set "breakthrough" as a slogan for 2019, there have not been many breakthroughs in the economic development as it should be, particularly in reform.

"Vietnam remains far away from the target of breaking into the top four business-friendly countries in Southeast Asia," said the economist, while sustainable development is becoming a huge issue for major cities such as Hanoi and Ho Chi Minh City with worsening environmental pollution.

Regarding this issue, banking expert Can Van Luc cited a study from the World Bank suggesting environmental pollution could lead to a loss equivalent to 5% of GDP in Vietnam.

Luc also said that Vietnam's economic resilience against external shock is still considered weak. Although the country's foreign exchange reserves have hit a record high of US$79 billion, such an amount is only equivalent to 3.7 months of imports, much lower than the average in ASEAN which is four to five months, and six to eight months in developed countries./.

6. Vietnam aims to host 100,000 digital firms by 2030

Digital firms allow advanced technologies to be employed widely.

The prime minister has signed Directive 01/CT-TTg promoting the development of digital enterprises, as digitalization is expected to help Vietnam achieve breakthroughs and catch up with other countries that have started their digital transformation, *VnEconomy* news sites reported.

The directive noted that Vietnamese digital firms should play a key role in the execution of the strategy for Vietnamese firms to master technologies and be proactive in designing and producing products and services.

The digital enterprises will act as contributors in Vietnam's effort to become a developed industrial country. With digital firms' support and contributions, the country's economy is forecast to grow strongly and stably to place it among high-income countries by 2045.

Four types of digital businesses that should be prioritized for growth include major trade and service groups and firms intending to shift to the digital sector and core technology development, enterprises that have well-known brands, firms that apply digital technologies to turn out new products and services, and digital startups.

To fulfill the target of 100,000 digital firms by 2030, the prime minister told ministries, leaders of agencies, heads of provinces and cities, State-owned firms and Vietnamese groups to adopt a number of solutions, including creating a national strategy for the growth of Vietnamese digital businesses by 2030.

Besides this, the prime minister ordered the relevant agencies to launch product testing policies and regulations.

Apart from the support offered to at least five digital firms to develop various key products for the nation by 2025, the prime minister ordered at least five digital platforms for the socioeconomic sector to be put into service by 2025.

Corporate News

7. DXG: BOD resolution on increasing capital in Ha An

↓ -0.75%

The Board resolution dated January 15, 2020, Dat Xanh Group Joint Stock Company (DXG) approved to buy shares in the additional issuance to increase charter capital of Ha An Real Estate Business Investment Joint Stock Company. After the charter capital increases, DXG will own 99.99% charter capital of Ha An. Details are as follows:

- Buying volume: 30,000,000 shares
- Stock type: common share
- Buying price: VND 10,000/share
- Total value: VND 300,000,000,000.

8. GAS: Board approves the drafts of adjusting an agreement

↓ -0.75%

On January 14, 2020, the Board of Directors of PetroVietnam Gas Joint Stock Corporation (PVGas) issued Resolution No.04 approving Draft No.02 regarding the adjustment, supplementation for the gas sale and purchase agreement between PVGas with Petrovietnam Power Corporation (PV Power) and PetroVietnam Power Nhon Trach 2 Joint Stock Company (PVPower NT2) regarding the gas consumption in Sao Vang – Dai Nguyet mines.

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