VIETNAM DAILY NEWS

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Market Analysis

1. Warning for VN stocks after new infection reports

The Vietnamese stock market would struggle to hold on to its threshold as analysts are afraid the market sentiment could worsen after new coronavirus-infected cases were reported over the weekend.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange gained a total of 1.05 per cent to end last week at 891.44 points.

The HNX-Index on the Ha Noi Stock Exchange jumped nearly 4.03 per cent during the week to end at 113.66 points.

The market grew strongly as investors aimed to pick up the stocks that had dropped sharply since the market returned from Tet holiday on January 30.

Prior to last week, the VN-Index had lost a total of more than 11 per cent while the HNX-Index had gained a total of 3.10 per cent.

Fears about the coronavirus, named COVID-19, and its impact on the global economy dampened investors' confidence in risky assets such as stocks.

Investors around the globe tried to offload their ownership in listed companies and looked for shelter in safe havens such as gold and government bonds.

But the decline of local markets brought Vietnamese shares back down to cheaper levels and encouraged investors to start buying.

According to analysts, the average price-to-earnings per share (P/E) ratio among Vietnamese shares has fallen to 13x from more than 16x recorded before Tet.

The 13x ratio is equal to the ratio recorded in 2016 when the VN-Index was around 600 points.

That means Vietnamese shares have got cheaper than they were before the national holiday and that lured investors back last week.

Analyst Nguyen Huu Binh told tinnhanhchungkhoan.vn that local stocks had been pushed down to their low levels.

"This is a real big chance for investors with a taste for long-term holding," he said.

But last week recovery may be disrupted and short-lived as Viet Nam over the weekend reported new COVID-19 infected cases.

The Ministry of Health on Sunday reported nine more cases, raising the total number of virus infections to 30, after the number had stood at 16 for two weeks.

Nguyen Trung Du, director of investment department at VNDirect Securities Corp, said the worldwide developments of the coronavirus would still weigh on the market sentiment.

"The market sentiment would be unpredictable in the coming week after latest case updates," he said.

"It's difficult to count on a strong rebound for local stocks at the moment. We would be lucky if the market would just go sideways or avoid a dive in the coming days."

Analyst Binh said the latest update of infection cases might make the market move in a negative channel this week.

"People panicked after the number of new cases was updated. Investors' confidence would be hit hard and they could only calm down if positive news is released," the analyst said.

Smaller stocks targeted

Small-cap and mid-cap stocks have gained strongly in recent weeks while large-caps are being weighed down by strong selling.

When the market goes negative and opportunities fade in the large-caps, investors tend to turn attention to smaller stocks, which has been normal for the last few years, analyst Du at VNDirect Securities said.

"It could be risky for the market as a positive market would be made of blue chips, in which institutional investors are present and their investment decisions would give directions for the whole market," he said.

Phan Dung Khanh, director of investment department at Maybank Kim Eng Securities Co, said it is normal for small-cap stocks to have comparatively strong growth compared to large-caps.

"If the market conditions turn bad, investors would look into other investment channels. If they still stay on the stock market, penny stocks would be targeted for low prices and they are suitable for quick trade," he said.

Macro & Policies

2. Vietnamese mobile phone companies unable to compete with foreign giants

Samsung, for instance, does not just sell phones but has built an entire manufacturing eco-system comprising South Korean and Japanese parts vendors.

There used to be dozens of Vietnamese brands, mainly in the lower-priced segments, but most were unable to survive.

According to retailers, seven or eight years ago was a good period for local brands with a number of them such as Mobiistar, QMobile, Masstel, Hkphone, and Bavapen in the market.

But within a few years many quietly left the market, and only a few are left to take on a number of strong foreign brands.

Once popular with consumers, Mobile Star Corp's Mobiistar threw in the towel last year.

Since entering the market in 2009 there were times when Mobiistar was among the top five brands with its market share peaking at nearly 10 per cent.

In 2018 it expanded to India, becoming the first Vietnamese phone to go global on a large scale. But a year later Mobiistar had to quit the Indian market.

Asanzo and QMobile, which too had been fairly popular, also gradually exited.

Masstel focuses on basic models costing as low as a few hundred thousand dong.

Bphone is at the other end of the spectrum, selling at prices not acceptable to a majority of consumers. The company plans to launch the Bphone 4 with computational photography in what might be its last throw of the dice.

A sales manager of a Vietnamese mobile phone company explained that the market was too competitive in terms of price, especially since cheap Chinese phones were flooding it.

To take on the Chinese phones, Samsung has to offer a range of segments going down to as low as just VND1.5 million.

Major retailers such as The Gioi Di Dong (Mobile World), and FPT Shop hoped Vinsmart, belonging to deep-pocketed Vietnamese conglomerate Vingroup, would find a firm foothold in the market.

Vinsmart launched its first four Vsmart smartphones in December 2018 after it acquired the patents for them from Spanish technology firm BQ, in which it owns a 51 per cent stake.

A Vsmart spokesperson said the local content in the company's phones would increase to 60 per cent by this year, and Vinsmart expects to grab a 30 per cent market share by this year.

The company has been launching many new models with promotions. For example, late last year Vsmart Live was sold at discounts of up to 50 per cent to gain market share.

Mobile phone distributors said Vinsmart was gradually increasing market share.

According to The Gioi Di Dong, in February Vsmart ranked third in sales in the below-VND4 million segment due to its attractive prices.

Recently Viettel announced that it would make and sell attractive smartphones for just VND1.5 million.

Viettel and Vingroup also announced they would collaborate to create an eco-system to enable production of cheap smartphones to take on Chinese brands.

According to global market research company GfK, last year smartphones costing less than VND3 million accounted for 20.4 per cent of the market share, equivalent to 2.99 million mobile phones.

On average, the total number of smartphones sold in Viet Nam is around 14.4 million a year, which makes it a very attractive market for mobile phone manufacturers, according to experts.

3. German enterprises to pounce on improved conditions

European investment is expected to flow more into Vietnam once the EU-Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement (EVIPA) come into force. What are the prospects for attracting German investment to Vietnam in 2020?

The EVFTA and EVIPA will bring customs facilitation and exchanging information on custom requirements, investment in the modernisation and simplification of customs procedures, and transparency in all custom requirements.

New market access opportunities across a range of sectors will be also created thanks to these agreements.

Once the agreements come into effect, European and German companies could enjoy protection of investments with trade facilitations and easier market access in the short term.

Looking ahead, we hope German investors will increase their presence in Vietnam based on the improved conditions here. I strongly believe that there will be more foreign direct investment in high-value projects in Vietnam in the long term, including from Germany.

There should be an increasing flow of investment not only directly from German small- and medium-sized enterprises, but also from companies that have been investing in China for years, and have chosen Vietnam as their next destination.

German investors would apply technology to management and training, allow more value-added production, and reduce waste of material and resources.

Could you share some potential sectors for German investors to capitalise on Vietnam's fast-growing market?

Vietnam and Singapore have the lowest market barriers in the ASEAN, and those two countries have signed FTAs with the EU.

Based on these factors, we think that the Vietnamese market offers a lot of potential in almost all areas, especially the automobile, machinery, green energy, electronics, IT, food processing, and healthcare sectors.

With the current virus outbreak and the trend of the China Plus One strategy, do you expect a surge in manufacturing relocation to Vietnam among German companies?

We see that the epidemic is spreading further throughout China, and we are aware that it is not just the Chinese economy that is suffering from less consumption, idle factories, and broken global supply chains. Hopefully the virus will be controlled in the first quarter of 2020, paving the way for new strategies and optimal diversification for companies concerning the global supply chain.

With the Chinese policy, German companies there are looking to diversify their operations by adding another location in Asia - expanding to Vietnam, for example. This is due to the higher cost of Chinese labour and a desire for diversification, and when it comes to alternatives in the Southeast Asian region, many firms may well choose Vietnam first.

According to AHK World Business Outlook 2019, Vietnam offers the best conditions for German investors. 55 per cent of German investors in Vietnam are keen to exploit these conditions, and in 2020 they are planning to expand their activities, increase investment, and hire more staff.

What is the likelihood of German companies partaking in merger and acquisition (M&A) activities with Vietnamese businesses?

This could be a solution for German companies who intend to establish businesses or invest in Vietnam. They could enjoy the existing access to consumers, distribution channels, and partners, and represent a suitable path for equitisation, either full or partial, of state-owned enterprises in Vietnam.

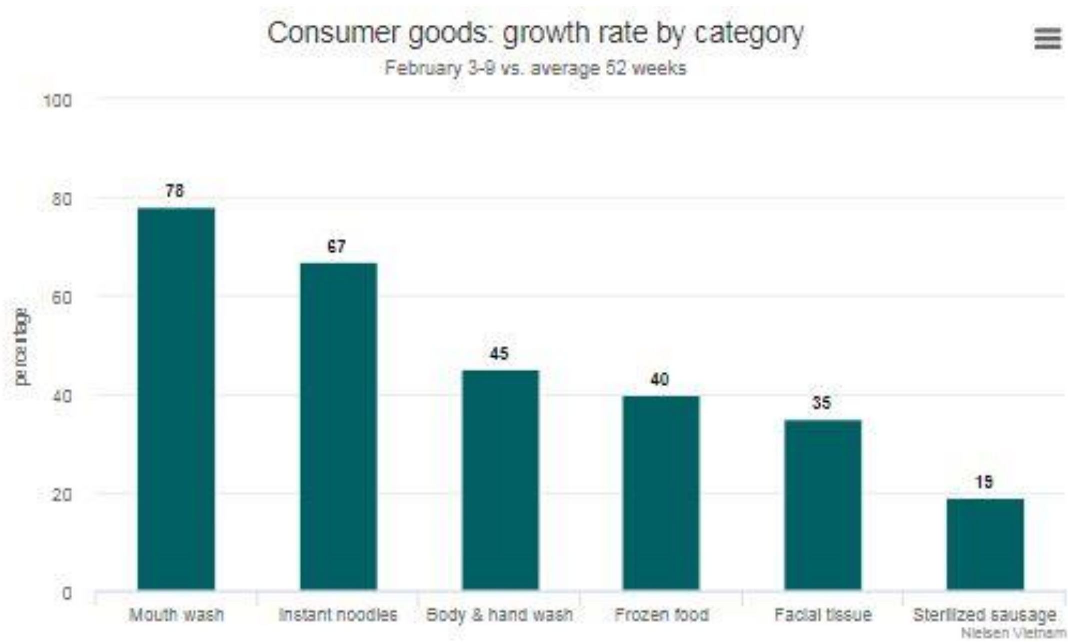
But from our point of view, M&A is generally the most challenging means of entering the market. To minimise the risks, companies must conduct due diligence before entering into an agreement or financial transaction with another party.

This investigation or audit of a potential investment or product is designed to review financial records and provide an overview of any company that garners interest, the real business value of it, and the risks involved. The reliability of due diligence in Vietnam is still in doubt so there are still big risks for investors.

4. Instant noodle demand boils over as coronavirus stirs fear

Other instant food that saw rising demand include frozen food (up 40 percent) and sterilized sausage (up 19 percent), market research firm Nielsen Vietnam reported, using data from February 3-9 compared to the average of 52 preceding weeks. Vietnam declared the coronavirus outbreak an epidemic on February 1.

The report stated the outbreak sparked up sales of personal hygiene products like mouth wash (up 78 percent), body and hand wash (up 45 percent), and facial tissues (up 35 percent).



There were declines in consumption of fresh meat, vegetables, beer and soft drinks, it added.

Many restaurants have reported dwindling revenues since the outbreak as customers refrain from gathering in public places to avoid contagion.

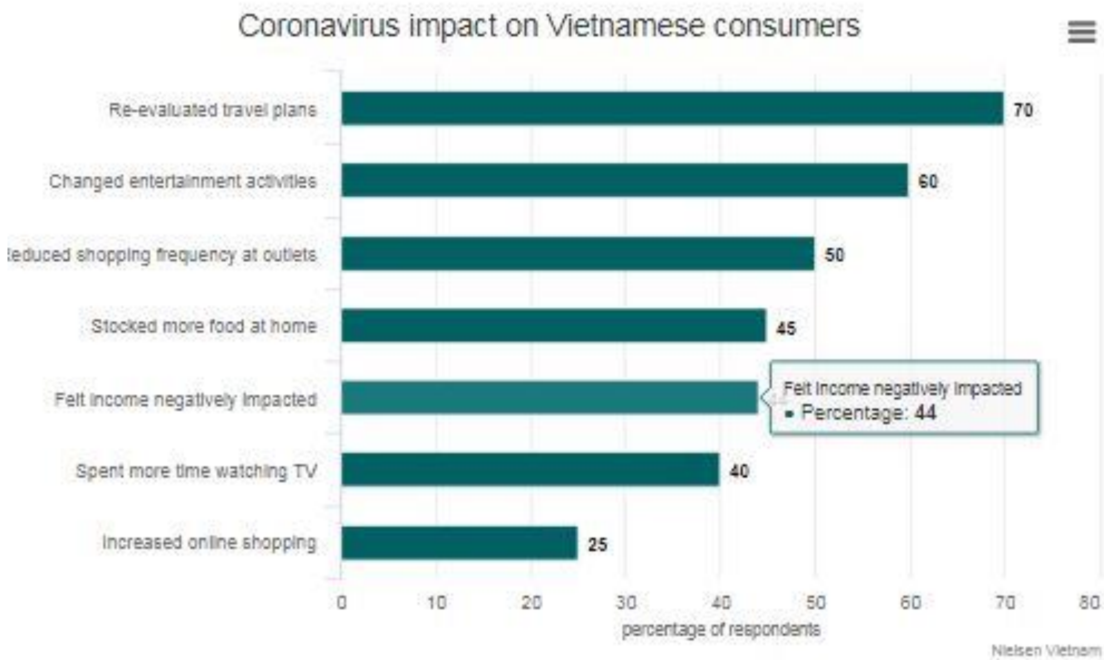
"There is an obvious impact of Covid-19 on consumer habits, however we can expect a quick recovery given the high level of consumer confidence in Vietnam," said Nguyen Anh Dung, Nielsen Vietnam head of Retail Measurement Services.

Consumers remain optimistic amid the epidemic, with a Nielsen Vietnam survey showing 95 percent of respondents believe the virus would not spread in the country.

Most indicated the epidemic would be contained within two or three months, according to the survey, which polled 500 consumers in Ho Chi Minh City, Hanoi and Da Nang City in February.

However, people are noticing the impact of the outbreak on their lives. 70 percent of respondents said they had to re-evaluate their travel plans, while 60 percent having to adjust their entertainment activities.

Half of respondents said they reduced supermarket and traditional market visits, while a quarter spent more time shopping online.



Four out of 10 respondents said their incomes had been negatively impacted by the disease. Officials have forecast the epidemic could drag Vietnam's 2020 GDP growth to a seven-year low.

Vietnam has recorded a total of 16 coronavirus patients, all of whom have recovered and been discharged from hospital. The country has reported no new infections since February 13.

5. 74% enterprises may go bankrupt if Covid-19 epidemic lasts 6 months

Seventy four percent of enterprises in a survey of 1,200 conducted by the Private Economic Development Research Board (Board IV) said they would go bankrupt if the Covid-19 epidemic persists for six months or longer, local media reported.

Such a gloomy outlook should become a reality as companies said their revenues could not cover operational expenses, including salary payment, interest rates, land rental fees, among others.

The survey also revealed nearly 30% of enterprises have lost 20 – 50% of the revenue, and 60% have faced a dire situation as their revenues were shaved by half.

The sectors hardest hit by Covid-19 are tourism, education, textile and garment, footwear, and wood production.

“Without customers and students, many enterprises in the fields of tourism and education are struggling," said the report.

For the textile and footwear sectors, the most concerning issue would be the lack of input materials from China, which make up 61% and

57%, respectively of total materials for production. As a result, most of them could only maintain operations until early March or April.

The wood production sector is also under huge pressure as the current trade flow with China, one of the sector's key markets, remains limited due to Covid-19.

According to Board IV's report, China is not only Vietnam's major source for input materials in manufacturing and processing, but also a market for 60 – 70% of the country's wood chips and paper product exports.

In this situation, there is a high possibility that these enterprises would have to suspend operations, in turn affecting millions of workers, said the board.

For the time being, many are offering their employees unpaid leave, or even suspending operations temporarily, which, according to Board IV, is causing a severe consequence on the economy with hundreds of workers becoming jobless.

Moreover, around 20% of enterprises said they do not have appropriate measures against the epidemic, indicating passiveness of small and medium enterprises as well as their limited capabilities.

This could be an early warning signal that a more serious crisis could come following the epidemic.

Besides looking for their own solutions, enterprises are seeking support from the government in forms of lower corporate tax, value added tax, waiver of fines for delayed tax payment, among others.

Additionally, the government is advised to provide preferential loans for enterprises and lower interest rates and reschedule debt payment.

At a monthly government meeting on March 3, the government said it planned to spend VND27 trillion (US$1.16 billion) to help businesses cope with the Covid-19 epidemic and help the economy achieve its 6.8% growth target in 2020. The incentives would include tax breaks, delay in tax payment, reductions of land lease fees, and an acceleration of state spending for infrastructure projects.

6. Việt Nam to achieve rice export target this year: insider

The country could reach the goal and produce enough rice for domestic demand, said Lê Thanh Tùng, deputy head of the Department of Plant Cultivation under the Ministry of Agriculture and Rural Development (MARD).

Due to the spread of the novel coronavirus around the world, demand for rice reserves in many countries, especially China, will increase. Việt Nam's traditional rice export markets, such as the Philippines and Indonesia, lack rice and they continue to import huge volumes from Việt Nam. Therefore, Việt Nam has many opportunities to boost rice exports, Tùng said.

Tùng said the winter-spring rice crop will ensure enough output for exports and domestic consumption.

Thailand – the second-largest rice exporter in the world – has suffered great losses in rice output from severe drought and saltwater intrusion with a reduction of about two million tonnes of rice.

In the winter-spring crop 2019-20, Việt Nam has had only about 28,000ha suffer from severe drought and saltwater intrusion, accounting for a small part of a total 1.65 million ha cultivating rice in the southeast region and the Mekong Delta. Therefore, Việt Nam will have an oversupply of rice to add to inventories from the last two crops.

In addition, the State Bank of Việt Nam has asked banks to enhance lending for rice production and consumption in the Mekong Delta. Banks there have provided loans in terms of 3-6 months with an annual interest rate of 6 per cent. That has provided a lot of support for firms and farmers in the industry.

Việt Nam's rice value has increased on the world market because a number of businesses have built value chains for rice, though domestic rice is still lower quality.

Experts say that to achieve sustainable export growth, the rice production industry must further develop the value chain.

Phạm Thái Bình, General Director of Trung An High-tech Agriculture Joint Stock Company, said if there is investment in the value chain and farmers work with businesses, stable production and consumption will follow.

According to the MARD, in the first two months this year, many key agricultural products, such as pangasius (*tra* fish), cashew nut, rubber and vegetables had strong reductions in export value, but rice exports gained year on year growth of 27 per cent in volume to 890,000 tonnes and 32.6 per cent in export value to $420 million, *chinhphu.vn* reported.

Increasing rice demand in many markets has increased Vietnamese rice exports from early this year, leading to a surge of rice prices in the domestic market, Tùng said.

During the first two months, the price of rice purchased at enterprises' warehouses was VNĐ5,400-6,400 per kilo, VNĐ1,000 more than rice purchased at fields.

In the first two months this year, the price of 5 per cent broken rice for export on the domestic market increased to $380 per tonne, a high since December 2018.

Corporate News

7. CII: Information on the private bond issuance

↓ -4.85%

Hochiminh City Infrastructure Investment Joint Stock Company announces the private bond issuance as follows:

- Issuer: Hochiminh City Infrastructure Investment Joint Stock Company

- Total value of issue: VND 1,300,000,000,000

- Purpose of issue: to raise working capital and to invest in the projects

- Bond term: 24 months

- Bond type: corporate bond, non-convertible bond and without warrant

- Bond form: book entry

- Bonds are restricted from trading to less than 100 investors, excluding professional securities investors within 1 year from the date of completion of the issuance.

8. SBT: Notice of a convertible bond issue

↓ -3.60%

Thanh Thanh Cong - Bien Hoa Joint Stock Company announces the plan for issuing convertible bonds as follows:

- Issuer: Thanh Thanh Cong - Bien Hoa Joint Stock Company

- Bond name: Convertible bond of Thanh Thanh Cong - Bien Hoa Joint Stock Company

- Bond type: convertible and secured bond

- Purpose of bond issue: to restructure finance, pay debts.

- Bond form: certificate or electronic data (decided by investors)

- Issue method: private placement

- Par value: VND1,000,000,000/bond

- Maximum issue volume: 1,200 bonds

- Total issue value: VND1,200,000,000,000

- Nominal interest rate: 3.5%/year

- Estimated issue date: March 16, 2020

- Bond term: 36 months

- Restriction period: 12 months from the finish date of offering.

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