



# VIETNAM DAILY NEWS

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## Market Analysis

### 1. Market crashes over pandemic fears

The local stock market continued crashing today, March 12, as investors were alarmed with the widespread of the Covid-19 disease around the world, pushing the benchmark VN-Index to the record low since August 2017.

The Hochiminh Stock Exchange saw only 53 stocks rising and up to 344 others declining, with 117 of them tumbling to their floor prices. At the close, the main index fell 42.10 points, or 5.19%, compared with the previous session to stand at 769.25.

Since early this week, the VN-Index has lost over 122 points, wiping off VND552 trillion (nearly US\$24 billion) in market cap. Monday saw the index's worst single-day loss in 19 years, at more than 6%, according to statistics by Dau tu Chung khoan website.

The VN30 basket saw up to 29 stocks falling, including key stocks such as property conglomerate VIC, beverage firm SAB and steelmaker HPG. MSN, a consumer goods producer, was the only stock closing at the reference price of VND49,950.

Lender STB led the HCMC market by liquidity with 21.3 million shares changing hands, but it slid 6.6% at VND9,950. MBB, another bank, ranked

second with 15.4 million shares, followed by steel firm HPG with 13 million shares.

Among small stocks, mining firm AMD and property group QCG again bucked the trend, going up to the ceiling prices for the ninth and 10th consecutive session. The two firms reported matching volume of 9.1 million shares and 1.2 million shares, respectively.

Besides this, media group YEG also closed at the upper limit of VND71,400 with matching volume of 200,000 shares, after announcing partnership with local soft drink producer Tan Hiep Phat today.

The Hanoi Stock Exchange saw most heavyweights dipping, in which lender ACB fell 5.6% at VND22,100 and petroleum technical service firm PVS plunged to the floor price. The two firms reported matching volume of 11 million shares and 7.3 million shares, respectively.

SHB, another bank, turned the most actively traded stock with 17 million shares traded, adding 0.9% from the session earlier at VND11,200.

The HNX-Index shed a hefty 3.61 points, or 3.42%, to close at 101.92. The northern index has lost more than 12 points since early this week.

## Macro & Policies

### 2. Dragon fruit project grows

The Vietnam Cooperative Alliance has had a meeting with the People's Committee of the south-central province of Binh Thuan on the development of growing, processing and exporting in the province by 2025.

The project is developed by the Vietnam Cooperative Alliance (VCA), the provincial people's committee and the Lavifood Joint Stock Company to contribute to the sustainable development of the dragon fruit production chain.

It also targets to improve economic efficiency for businesses, cooperatives and businesses, while increasing competitiveness and expanding dragon fruit consumption in Binh Thuan province.

The Ministry of Agriculture and Rural Development has identified dragon fruit as the first among 11 fruits with competitive advantage in Vietnam.

Nguyen Ngoc Bao, VCA Chairman, said that nowhere was there a large dragon fruit growing area like in Binh Thuan province.

This is a great advantage to build a chain of planting, processing and exporting dragon fruits, he said.

However, in order to implement the project effectively, Bao asked the province to speed up mechanisation and application of technical

advances in dragon fruit production; ensure infrastructure such as electricity, water and roads for fruit production areas.

The province needed to focus on producing organic dragon fruit and developing a production roadmap to meet the needs of market diversification, he added.

Binh Thuan has more than 30,600 hectares of dragon fruit with an output of more than 640,000 tonnes last year, said Phan Van Tan, Deputy Director of the provincial Department of Agriculture and Rural Development.

The province has more than 10,300 hectares and 450 packing facilities meeting VietGAP standards and seven units were granted certificates of safe dragon fruit production under GlobalGAP standards with an area of about 387 hectares by last month.

The province currently has 35 cooperatives and one cooperative alliance producing dragon fruits.

Binh Thuan dragon fruit has been exported to 17 countries such as India, China and Malaysia.

After the meeting, the VCA and relevant agencies will submit to the Prime Minister and ministries and branches to resolve difficulties and problems regarding mechanisms and policies to support and promote sustainable development of a dragon fruit production chain./.

### 3. No hike in electricity tariffs in H1: trade ministry

On Tuesday, Minister of Industry and Trade Tran Tuan Anh signed a directive on measures to prevent and control coronavirus outbreaks and to handle arising difficulties in production and business activities.

The ministry asked the relevant agencies to fast-track the completion of major industrial projects, including the Thai Binh 2, Long Phu 1 and Song Hau 1 thermal power plants and power, gas,

renewable energy and power transmission projects.

A master plan for national electricity development between 2021 and 2030, with a vision toward 2040, should be devised as soon as possible, according to the directive.

It added that any arising hindrances to the formulation process should be reported to

authorities for handling in a bid to prevent a power crunch between 2021 and 2025.

The ministry ordered the concerned agencies to simplify and slash business conditions, take steps to raise the country's competitiveness and ease production and business activities.

The Department of Finance and Enterprise Innovation was told to send a report to the Ministry of Finance on plans to cut fees for business stakeholders being affected by the coronavirus crisis.

Meanwhile, the Domestic Market Department was asked to keep a close eye on market developments and collaborate with local governments and businesses to ensure continuing supplies of essential goods at reasonable prices, especially in localities hit by the flu-like disease known as Covid-19.

The directive noted that the General Department of Market Surveillance should strengthen its

market management and strictly penalize individuals and organizations that commit violations, particularly the hoarding of commodities necessary for the prevention and control of Covid-19 infection.

In the wake of the devastating disease now declared a global pandemic, the Ministry of Planning and Investment recently revised Vietnam's economic growth outlook with two scenarios.

If the outbreak is contained within the first quarter of this year, the gross domestic product growth for this year will be 6.25%, or 0.55 percentage point lower than the target of 6.8% approved by the National Assembly.

If the disease is brought under control in the second quarter, the national economy will grow by 5.96%, or 0.84 percentage point lower than the original target. However, this forecast was made before the disease spread in South Korea and Japan.

#### **4. Many tourist sites closed due to coronavirus**

Several travel firms told The Saigon Times that a rise in confirmed coronavirus cases and the closure of multiple tourist sites have piled pressure on the tourism sector.

Access for tourists seems to have shut down and the operations of travel firms have almost come to a dead stop, according to Tu Quy Thanh, director of Lien Bang Travelink.

International tourists have canceled their tours from now until September, while domestic visitors have also made overseas tour cancellations until June.

Before Patient 17 was identified last weekend, the firm was scheduled to arrange promotional tours for groups of holidaymakers. However, these tourists have canceled their tours, Thanh said.

Tour operators are facing the same fate. Some announced that many of their partners from Europe have canceled tours scheduled for March and April as the Government has suspended the unilateral visa waiver program for travelers

from Denmark, Norway, Finland, Sweden, the United Kingdom, Germany, France and Spain.

Apart from this, a number of tours to Japan, Taiwan and South Korea have been canceled due to rising concerns over the coronavirus.

"The local tourism sector has shut down," said Pham Ha, chief executive officer of Luxury Travel Group.

Bui Viet Thuy Tien, managing director of Asian Trails Company, noted that local travel firms are facing difficulties due to the steep fall in international tourist arrivals and the closure of many tourist attractions in the country.

"In recent days, a number of visitors have canceled their tours. Many groups of young tourists who had booked tours to Vietnam's first Formula 1 motor race in April have also made cancellations," she said.

"Tourists are not going on tours now in spite of the steep reduction in tour prices due to

coronavirus fears,” remarked the general director of an HCMC-based travel firm.

Thanh from Lien Bang Travelink explained that local travel firms are in need of the Government's support as they have earned no revenue and are calling for a tax break.

Several travel firms reported that given the development of the coronavirus, it is necessary to carefully weigh promotional programs for the tourism sector. Besides this, Vietnam should not be introduced as a safe place for tourists as coronavirus cases in the country are rising.

## 5. Transfer pricing focus in store for overseas-invested groups

This will make it necessary to reduce the estimation regarding tax revenue from normal declarations. It can be assumed that this re-estimation will further increase the expectations of the government that Vietnamese tax authorities will increase the additional revenue from tax audits.

Doing business and investing in Vietnam are not always easy, but regulations have become more streamlined over the years. One important point is that foreign-invested enterprises (FIEs) must be increasingly more aware of tax issues, in particular regarding transfer pricing. Compliance with legal requirements on transfer pricing is also becoming more important.

The tax authorities have already been instructed to increase revenue by enforcing an increase in compliance of taxpayers. For tax audits in 2018, the General Department of Taxation instructed the authorities to focus on implementing a software-based risk analysis system and especially target FIEs.

The basic principles stated for the audits in 2018 are also to be applied in the following years. For 2019, the Ministry of Finance (MoF) instructed the tax authorities to additionally focus on evasion and fraud. This year, the MoF instructed them to prioritise value-added tax, transfer pricing, anti-smuggling, and trade fraud. Besides that, all three regulations are establishing a systematic approach to audits. The intention is to reduce the importance of the special relationship of the taxpayer to the local tax officer, which in the past was very crucial.

Regulations tightened

Details of transfer pricing are complex, but the basic idea is simple. Different countries co-operate

on putting an end to tax avoidance strategies which exploit the difference in the national tax systems.

By means of many different instruments, countries try to secure a fair share of tax for the respective country. Contracts between companies within the same group are checked whether they have the same terms and conditions which would have been agreed between non-related entities for comparable transactions.

Until now, transfer pricing issues of FIEs in Vietnam in many cases have not been taken very seriously. The current regulation became effective in May 2017. It is expected that tax authorities will identify within the audits in 2020 some cases of non-compliance.

The transfer pricing documentation must be available at the deadline of the corporate income tax (CIT) finalisation submission on the 90th day of the following financial year. The transfer pricing documents must consist of a local master file and should be prepared in Vietnamese. Upon request of tax authorities, the transfer pricing documents must be filed within 15 working days.

No transfer pricing documents must be prepared by companies with the total revenue below VND50 billion (\$2.2 million), related party transactions below VND30 billion (\$1.3 million), a signed advance pricing agreement (APA), and a submitted annual report as far as the transactions are covered by the APA.

A business will not have to prepare transfer pricing documents if the company has only simple functions and no revenue or expenses from exploitation or use of intangibles, a total revenue of less than VND200 billion (\$8.6 million), and a pre-loan interest and pre-CIT net profit over



turnover ratio, including distribution, at 5 per cent or more, as well as for production 10 per cent or more and for processing 15 per cent or more.

All FIEs are highly recommended to prepare well for the possible tax audit 2020, especially regarding transfer pricing requirements. For companies who set the calendar year as their financial year, the transfer pricing documentation must be ready before the end of this month. It must be submitted to tax authorities within 15 working days upon request.

Prime targets for these audits will be companies with high risk signals on tax and transfer pricing, such as not being audited for a longer time, a high revenue, losses or unusually low profits, tax incentives, and allegedly illegal invoices.

Moreover, companies in real estate, oil and gas, electricity, and finance, as well as franchises and enterprises with new and special business lines, will most likely be targeted. Especially scrutinised will be the production costs and all high value transactions such as interest, royalties, and service fees of all kinds.

On July 1, a new law on tax administration will come into force. Some important principles are not new, but are now formulated more clearly. One of the crucial principles is the rule of substance over form. This means that a certain business transaction is taxed according to the economic content.

It is applicable for the matter of taxation regardless whether the used form is legal or not. If using certain forms is not following economic reasons except for reducing taxation, this form might be ignored for calculating the tax.

The tax environment in Vietnam is changing rapidly, and the country's regulations are mostly clear. Some requirements regarding accounting and taxation are more bureaucratic than in other countries. In the past, the pressure for tax compliance was not very high. However, because the tax authority is increasingly using electronic tools for audits, the transparency within their system is dramatically increasing.

Because the targets for additional tax revenue generated by audits are clear and high, and the

state must generate more revenue, the pressure on companies with a not fully compliant regime on managing internal contracts, accounting, and taxation will also become very high. Such pressure has already existed in most highly-developed countries for many years.

### The Dutch Sandwich

Multinational corporations are combining the benefits of the tax laws of many countries by allocating profits where they are not taxed or taxed at a low rate. This requires a sophisticated system of agreements between the national legal entities of the same group.

Each of these contracts is compliant with the relevant national laws, if not considering regulations on transfer pricing. But the combination of these contracts lets these multinationals achieve the desired result of avoiding income tax.

One of these systems is called the Dutch Sandwich. It was developed with this intention for groups with intellectual property of considerable value.

A company in Country A, with a normal tax rate on corporate income, is paying royalties to a company in the Netherlands for using its intellectual property. Country A is not imposing any withholding tax on these payments on royalties.

The receiving company in the Netherlands is not making any or only a minor profit because it is paying royalties itself to a company registered, for example, in Bermuda. Also, the Netherlands is not imposing a withholding tax on these payments on royalties.

The company in Bermuda is the owner of the intellectual property and is collecting the royalties free of corporate income tax.

Now, the Netherlands intends to impose a withholding tax on paid royalties. New tax avoidance models are built to circumvent any new legislation.

The higher the profit is, the more efforts a group may make to avoid taxation of this profit. Because the cost of developing and implementing these

systems is high, they are only used by large corporations.

In less sophisticated models, profit-making companies are paying overrated prices for services provided by the headquarters or affiliated companies.

## 6. Finance Ministry proposes 5-month extension of VAT and land rent payment for businesses

The extension is a key part of the Government draft decree on extension of tax payment and land rent to those affected by the epidemic, which is expected to come into effect soon to help businesses recover production and overcome difficulties, contributing to gaining the set economic growth target of 2020.

If the draft is approved by Prime Minister Nguyen Xuan Phuc, there will be three groups of beneficiaries.

The first group includes businesses, organisations, individuals, groups of individuals and households engaged in production activities in agricultural, forestry and fisheries sectors, production and processing of food, textile and garment, footwear, production of rubber products, production of electronic products and computers, and automobile manufacturing and assembling (except for cars with nine seats or fewer).

The second group covers those operating in transport sectors (railway, road, waterway, aviation, warehousing and supporting activities for transportation), accommodation and catering services, activities of travel agents, tour businesses and support services related to tour promotion and organisation.

And the third is small and super small enterprises defined by regulations of the Law on Supporting Small and Medium Enterprises.

The ministry said the total amount of the five-month extension is estimated to be about VND30.1 trillion (US\$1.3 billion), which is not expected to affect the State budget balance in 2020. However, the budget revenue this year will not decrease because enterprises must complete

payment to the State budget before December 31, 2020.

According to recommendations of the Vietnam Association of Small and Medium Enterprises sent to the Prime Minister and the Ministry of Finance recently, the COVID-19 epidemic has directly affected many industries and production fields of Viet Nam, causing supply chain disruptions and indirectly affecting the entire economy.

A forecast by the Ministry of Planning and Investment shows that in case the epidemic is controlled in the first quarter of this year, the country's economic growth rate is forecast at 6.25 per cent, down 0.55 percentage point compared to 6.8 per cent set out in the Government's Resolution No.01/NQ-CP on January 1, 2020.

In case the epidemic is controlled in the second quarter of this year, the economic growth will reach 5.96 per cent, down 0.84 percentage point against the target.

Pham Dinh Thi, Director of the Tax Policy Department under the Ministry of Finance, said that in a short time, the ministry collaborated with other ministries and agencies to finalise the draft decree to submit it to the Government for approval and promulgation, aiming to provide assistance to those engaged in production and business activities in economic sectors directly affected by the Covid-19 epidemic.

All beneficiaries of the draft decree must send a written request for extension of tax and land rent to the tax authorities before May 31, 2020 (electronic or other methods selected by taxpayers).

## Corporate News

### 7. Vingroup enters industrial real estate sector

↓ -5.36%

Vinhomes JSC has announced the receipt of the Vinhomes IZ stake, officially making it the parent company.

Established in December 2018 to invest in and support startups, Vinhomes IZ had charter capital of VND70 billion.

The firm's entry into the industrial real estate sector is aimed at joining the trend of raising foreign direct investment capital.

The new strategy is considered one of the firm's three key drivers, especially in the housing and office segments, for its business operations.

Vinhomes also pointed out that the move is expected to allow international suppliers for supporting industries to develop the first production facility in Vietnam and build a system of local automobile production lines to boost the growth of the industrial segment. Earlier, Vingroup had established the VinFast automobile complex within 21 months.

Vinhome IZ plans to develop its first industrial real estate project in Haiphong City.

### 8. PDR: Notice of bond repurchase prior to maturity

↑ 0.00%

On March 11, 2020, Phat Dat Real Estate Development Corp (PDR) announces the repurchase of bonds prior to maturity of the third bond issuance in 2019. Details are as follows:

- Issuer: Phat Dat Real Estate Development Corp
- Bond name: Phat Dat Real Estate Development Corp Bond
- Bond type: non-convertible bond, secured and without warrant
- Par value: VND 100,000,000/bond
- Total value of bonds issued: VND 550,000,000,000
- Total value of outstanding bonds: VND 530,000,000,000
- Bond term: 05 years
- Bond interest rate:

For the first four interest periods: 10.5%/year

For next interest periods: sum of 3.5%/year and the interest rates of personal savings with a term of 24 months in VND quoted by MBBank on the determination date.

- Issue date: June 03, 2019
- Maturity date: June 03, 2024
- Purpose of bond repurchase: to reduce the debt.
- Repurchase volume: 200 bonds
- Total value: VND 20,000,000,000
- Repurchase price: as agreement
- Time of implementation: April 03, 2020
- Payment date: April 03, 2020.



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