



# VIETNAM DAILY NEWS

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## Market Analysis

### 1. Shares gain on bargain hunting

The benchmark VN-Index on the Ho Chi Minh Stock Exchange (HoSE) gained 2.84 per cent to end at 856.13 points.

The index plunged 3.6 per cent to end Monday at 832.47 points.

More than 412.4 million shares were traded on the southern bourse, worth nearly VND5.6 trillion (US\$242.8 million).

Market breadth on HoSE was positive with 307 gainers and 94 decliners.

The blue-chip share tracker VN30-Index gained 2.58 per cent to 798.82 points.

Twenty-six of the 30 largest stocks by market valuation and trading liquidity increased while three decreased.

Recent sharp falls have triggered investors to scoop up falling stocks, especially large-caps. Gainers on Tuesday included Vinhomes (VHM), soaring 7 per cent, Vingroup (VIC), climbing 4.9 per cent, dairy firm Vinamilk (VNM), gaining 4 per cent, Vietcombank (VCB), up 2.1 per cent, Bank for Investment and Development of Viet Nam (BID), increasing 2 per cent, Vietinbank (CTG), surging 4.3 per cent, Hoa Phat Group (HPG), climbing 3.1 per cent, PetroVietnam Gas JSC (GAS), up 1.4 per cent and Techcombank (TCB), going up 2.5 per cent.

Securities stocks also recorded strong gains such as Saigon Securities Co (SSI), up 5.2 per cent, Saigon-Hanoi Securities Co (SHS), up 5.2 per cent, Ho Chi Minh Securities Corp (HCM), gaining 4.5 per cent, VNDirect Securities Co, soaring 7 per cent and VietCapital Securities (VCI), rising 3.5 per cent.

On a sector basis, 23 out of 25 sectors on the stock market gained ground while two declined. Among the gainers were banking, insurance, securities, real estate, energy, retail, wholesale, information and technology, agriculture, healthcare, rubber production, food and beverage, seafood processing, logistics and construction.

Those sector indices increased between 1.1 and 4.8 per cent.

On the Ha Noi Stock Exchange, the HNX-Index was up 1.46 per cent to close Tuesday at 115.49 points.

More than 62.5 million shares were traded on the northern bourse, worth nearly VND599.3 billion.

Foreign investors net bought VND55.99 billion on the HOSE. They were net sellers on the HNX with a value of VND5.9 billion.

BIDV Securities Co said investors could open short-term positions or increase portfolio proportion of good fundamental stocks that corrected in the previous session.

## Macro & Policies

### 2. Joint venture formed to welcome investment flows from Japan

Japanese supplier of construction materials and equipment the JUTEC Corporation and Vietnam's ISN Corporation have established a joint venture headquartered in Hanoi to welcome investment flows from Japan.

The ISN-JUTEC Co. joint venture has total charter capital of 20 billion VND (860,000 USD).

It will manage and operate 1,000 Japanese-standard apartments and aims to prepare for the wave of Japanese investment being relocated to Vietnam, General Director of the ISN-JUTEC Co. Nguyen Ha Hung told Vietnam News Agency correspondents in Japan on June 15.

It is predicted that demand for apartments among Japanese experts in Vietnam will increase sharply in the time to come.

It will also develop a network of retail outlets and distribution channels for new Japanese materials in Vietnam, contributing to the development of the local construction and real estate industries, Hung added.

Established in 1923, the JUTEC Corporation specialises in supplying high-quality equipment and construction materials to civil and residential projects in Japan. It also provides construction services and IT solutions.

The ISN Corporation, meanwhile, specialises in providing brokerage services and manages apartments and office space for rent. With headquarters in Hanoi and branches in HCM City, Hai Phong, and Tokyo, its customers are mainly foreign enterprises, organisations, and individuals, most of whom are Japanese.

### 3. Ministry plans to support enterprises with related party transactions

The draft would replace Decree 20/2017/NĐ/CP.

The finance ministry said the Decree 20 had contributed significantly to the fight against transfer pricing in the past three years but the 20 per cent limit to the deductibility of interest expenses caused a lot of difficulties for enterprises.

The regulation meant the deductibility of interest payments was limited to 20 per cent of the company's earnings before interest, taxes, depreciation, and amortisation with the excess carried forward indefinitely.

The ratio of 20 per cent was within the corridor of 10 per cent to 30 per cent recommended by the Organisation for Economic Cooperation and Development (OECD).

However, the cap of 20 per cent was not appropriate to Việt Nam where most firms were thinly-capitalised with the level of debt much greater than equity capital, according to the finance ministry.

Increasing the cap to 30 per cent aimed to help enterprises have more capital for investment and to promote the transition of capital raising structure for operation, the ministry said.

The ministry said the application on international standards must be appropriate to the situation in Việt Nam, adding that domestic enterprises needed time to narrow the development gap with the OECD's member countries.

The draft also includes regulations about conditions for deductibility of related party transactions to prevent transfer pricing, the ministry said.

Đinh Mai Hạnh, the tax partner of Deloitte Vietnam, was quoted by Đầu Tư (Investment) online newspaper as saying that the 20 per cent ratio limit aimed to prevent the thin capitalisation strategy to avoid tax.

However, the regulation caused a lot of difficulties to domestic firms, especially those in the parent-

company model or those in sectors requiring huge capital like real estate.

Nguyễn Đức Nghĩa, president of HCM City Tax Agent Club, said the ratio cap of 20 per cent or 30 per cent would not be important. How to accurately identify subjects to the regulation was more important, he said, adding that most Vietnamese firms were thinly-capitalised and must seek loans for operation and most (around 97 per cent) were small or medium-sized enterprises.

Deputy Director of the General Department of Taxation Đặng Ngọc Minh said among nearly 4,000 enterprises with related party transactions and interest expenses, about 700 had the ratio of interest expense on EBITDA higher than 20 per cent (more than 450 were foreign-invested).

The deducted interest expense was estimated at about VNĐ18 trillion (US\$775.8 million) each year, VNĐ10 trillion was for domestic companies.

Domestic firms which had the ratio of interest expense higher than 20 per cent were mainly operating in manufacturing and processing, real estate, construction and power production and distribution.

In 2018, the tax watchdog inspected 593 enterprises with related party transactions which helped collect VNĐ1.6 trillion in tax arrears and fines, cut losses by VNĐ4.8 trillion and increase taxable incomes by nearly VNĐ7.2 trillion.

In 2019, 579 companies were inspected to collect VNĐ1.16 trillion in arrears and fines, reduce losses by VNĐ5.8 trillion and increase taxable incomes by VNĐ5.9 trillion.

#### 4. Vietnamese shoppers prefer food and essentials in next 6 months

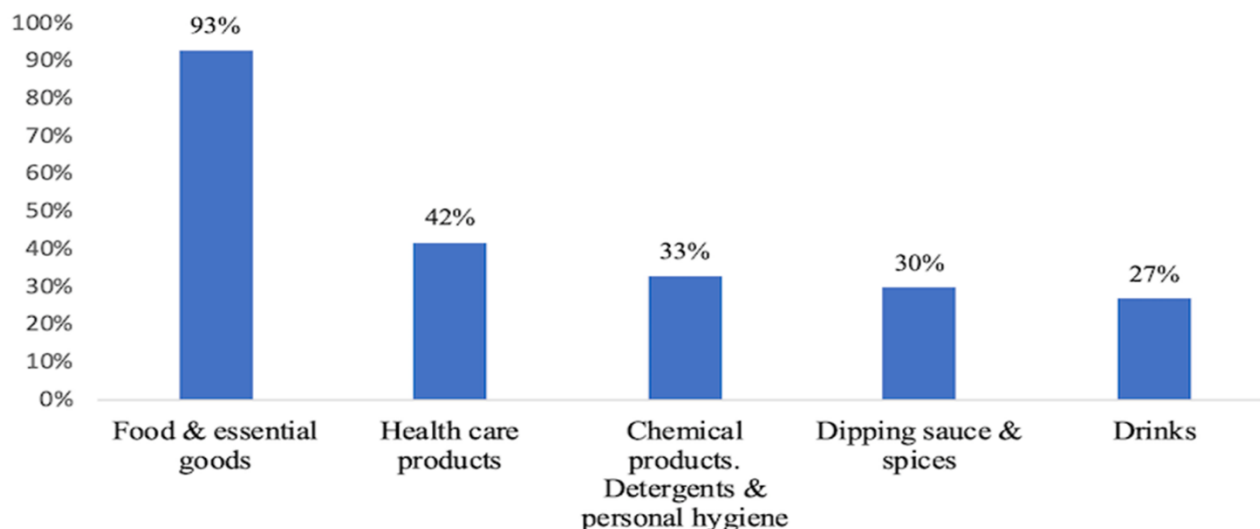
Food and essential goods are expected to be on top of the purchase list of Vietnamese consumers in the next six months, according to the latest survey about how Vietnamese consumer behaviors are affected by Covid-19.

The survey conducted by the Business Association of High-Quality Vietnamese Products showed that

consumers would spend their money primarily on food, health care products, chemical products, detergents and personal hygiene in the next six months.

Of the total respondents, 93% prioritized paying for food and essential goods, 42% chose health care

Most preferred items for Vietnamese shoppers in the next 6 months of 2020



products, and 33% would spend more on chemical products, detergents and personal hygiene.

In the next six months, the Vietnamese consumer buying behavior will remain unchanged compared to the pandemic period.

Meanwhile, garments and household appliances are predicted to remain on the purchase list but not as the preferred items.

Ho Duc Minh from the association said that the consumers are still showing reticence and prudence when buying so healthcare products will hold sway in consumer's preference.

Therefore, businesses should take advantage of this trend to boost sales. Minh said the event "Rebooting Business after Covid-19 and Awarding the Vietnamese High-Quality Products 2020 Certificate" held on June 12 was a good opportunity for businesses to convince customers about the long-term benefits when using their products.

The survey was conducted at the end of May with 520 respondents, mainly in urban areas. The results also revealed shopping preferences of consumers vary by location.

The survey also showed that in the near future, local shoppers in Ho Chi Minh City prefer choosing food and health care items more than in other localities while Hanoi shoppers prefer consuming non-essential products.

At the same time, people in other localities prioritize buying chemical, detergents, and personal hygiene more than those in Hanoi and Ho Chi Minh City.

According the survey, 82% of Vietnamese consumers said they shopped online during the social distancing period. Notably, 98% of those who did so will continue to maintain this purchasing habit in the future.

"The increasing trend of online shopping creates great opportunities for businesses to step up their digital communication strategy and make a stronger impression on the online market," said Minh.

Kantar Vietnam forecasts fast-moving consumer goods (FMCG) market will return to its growth when the pandemic is over but at single-digit rate. Local retailers in FMCG should rethink their channel strategy as Covid-19 impacted the way Vietnamese consumers shopping, Kantar suggested.

## 5. EVFTA to transform Vietnam's retail market

The implementation of the EU – Vietnam Free Trade Agreement (EVFTA) would facilitate more investments by European businesses into Vietnam's retail market, which in turn would facilitate the sector's restructuring process, according to Tran Duy Dong, director of the domestic Market Department under the Ministry of Industry and Trade (MoIT).

Given a market of a 100 million population, Vietnam's distribution industry holds major potential for development when the EVFTA comes into force, said Dong.

The modern retail channel only commands 25% of Vietnam's retail market, lower than that of regional peers, such as the Philippines with 33%, Thailand with 34%, Malaysia with 60% and Singapore with 90%.

Moreover, as 60% of the population are at the age of 18 – 50, it is estimated that the average household spending would increase by 10.5% annually.

Retail expert Vu Vinh Phu said the opening of the domestic market would present opportunities for European companies and services to access Vietnam's market. In return, the country's retail network could be modernized thanks to European investment, technologies and high standard governance.

Over the past few years, foreign direct investment to the domestic retail market has been growing with inroads of major global retail corporations such as Lotte, Central Group, Aeon, Circle K, K-mart, Auchan, Family Mart, among others, showcasing the attractiveness of Vietnam's market.

“Vietnam's commitment to opening the service, investment and distribution markets would further attract investment capital from European countries,” said Dong from the MoIT.

### Fierce competition

While the EVFTA is facilitating new investments into Vietnam's retail market, the fierce competition that it brings along would exert huge pressure on local firms.

So far, only major Vietnam's retailers, including Saigon Co.op, BRG Retail, or VinCommerce, are capable of competing with foreign retailers for domestic market shares.

The expansion of foreign-owned super market chains like Big C and Aeon is causing negative impacts on Vietnamese products, especially in the high-end segment.

To address this issue, local retailers are suggesting stronger supporting policies from the government

to help them develop logistics systems, and setting up technical barriers to ensure fair competition between domestic and foreign firms.

At a recent workshop, Chairman of the Vietnam Association of Small and Medium Enterprises (SMEs) Nguyen Van Than said for Vietnamese firms to benefit from the EVFTA, they have to change their mindset of doing business to meet the EU's strict requirements, or face the risk of being sidelined from the European market, which is one of the biggest in the world with GDP of over US\$18 trillion, accounting for 22% of global economy, and has a population of over 500 million.

Than recommended local enterprises actively search for new opportunities from the EVFTA, as well as prepare for potential challenges.

“A lack of understanding of the deal would mean we are highly likely to lose even before starting a fight,” Than noted.

## 6. Investors eye \$2 billion finance-trade-casino complex in Da Nang

The Department of Natural Resources and Environment said the five companies had already sent their files to an auction of land-use of four plots covering 2.7ha on Vo Van Kiet and Vo Nguyen Giap streets on the Son Tra Peninsula.

It said the city was reviewing its detailed plan for the complex, and an official auction for the trade and casino complex would start in the third quarter of this year.

The land plots were designed as a key financial centre in connection with the city's downtown Hai Chau District and coastal entertainment-trade-casino zone in Son Tra District.

Two years ago, IPPG planned to develop the first international standard downtown duty-free zone and factory outlet centre, but it had failed to negotiate with Trung Nam Group to make the Golden Hills area the first duty-free centre in central Viet Nam.

Da Nang has listed 68 Public-Private-Partnership (PPP) projects, 22 of them in the hi-tech sector, calling for investment from domestic and foreign businesses.

The projects are in the fields of education and training, healthcare, tourism and services, trade, infrastructure, hi-tech farms, entertainment and environment.

The total investment needed for these projects is estimated at US\$1.4 billion.

The Da Nang administration has classified the projects under the Build-Operate-Transfer (BOT), Build-Lease-Transfer (BLT), Build-Own-Operate (BOO) and Build-Own-Operate- Transfer (BOOT) models.

Some of the key projects are a solar power plant (\$400 million); Lien Chieu Port (\$324 million); mass transport system (\$2.7 billion); railway station removal and urban resettlement (\$678 million);



software park No 2 (\$150 million) and a horse racing centre (\$200 million).

These PPP projects are expected to help Da Nang become a 'green city' by 2030.

Da Nang has been a frontrunner in Viet Nam in deploying PPP projects, co-operating with the Japan International Co-operation Agency (JICA) on key projects since 2012.

The Da Nang Hi-Tech Park has lured 18 investment projects, of which nine are foreign direct investments (FDI), with total capital of \$564 million. Six projects, including four FDI and two domestics, have already been put into operation.

The Da Nang Hi-Tech Park and six other Industrial Zones (IZs) have drawn 505 projects worth \$2.6 billion. These projects earned revenue of VND35.6 trillion (\$1.5 billion) in 2019, contributing \$213 million to the local budget.

The Universal Alloy Corporation (UAC) from the US launched its first stage investment of \$30 million of

the Da Nang-based Sunshine Aerospace components manufacturing plant on 10.9ha in March 2020.

The plant would pour in a further \$74 million from March to April 2021 to boost production.

It's also the first aerospace parts project of the UAC in Viet Nam and Asia, with total investment of \$170 million.

UAC plans to manufacture over 4,000 different aerospace parts at the Da Nang-based plant to supply Boeing, Airbus, Embraer and Bombardier, and it will export these parts to North America, Europe and Asia.

Da Nang has called for investment from Silicon Valley and the US in healthcare, hi-tech industries, Artificial Intelligence, education, real estate and automation at Da Nang Hi-tech Park and IZs.

Tourist real estate remains a popular investment magnet in this central city, attracting 25 foreign direct investment (FDI) projects worth \$1.8 billion.

## **7. Rice exports set to skyrocket, renewable energy in high demand: trade minister**

Speaking to the NA, the minister said as countries were trying to raise food stockpiles due to the COVID-19 pandemic, demand for Vietnamese rice has been on the rise, pushing the country's rice exports in the first two months of the year to increase by 31.7 per cent from the same period last year.

Adverse effects caused by climate change, such as droughts and salinisation raised concerns over the country's ability to maintain its level of rice export. As a response, the Government ordered a halt to rice exports until May so that further studies can be done on Viet Nam's rice production and stockpile.

After studies revealed large rice stocks in the Mekong Delta and reviews done on the country's obligations with trade partners, Governmental ministries and agencies have asked for the Prime Minister's approval to continue Viet Nam's rice export activities.

Anh said the country maintained an export quota of 400,000 tonnes of rice in April and is set to resume its normal export level for May as global demand for rice remained high while making sure there is ample supply for the domestic market.

During the first five months of the year, Viet Nam exported over three million tonnes of rice, an increase of 11.8 per cent from the same period last year, reaching US\$1.48 billion in value, a 25.44 per cent year on year increase.

### **Renewable energy**

Viet Nam considered renewable energy, and solar energy in particular, an important source of power, especially for the 2024-25 period in which the country is forecast to face a severe shortage, according to Anh.

It called for adjustments made to the country's power production planning including new policies

and incentives to encourage investments in solar and wind energy.

To date, the country has put into operation 90 solar energy projects with over 5,000MW in output. The Government has also shown its support with the approval of a plan to add over 11,000MW of renewable energy in the future.

### Key infrastructure

Over VND37.5 trillion, or US\$1.6 billion, in funding was earmarked for key infrastructure projects across the country in 2020, according to Minister of Transport Nguyen Van The.

By the end of May, VND12 trillion has been disbursed, an increase of more than 10 per cent from the same period last year, and reached 30.8 per cent of this year's target amount, said the minister in a report to the NA.

On the national North-South Highway project, the ministry said it has allocated nearly VND17 trillion to the project. Of which, VND2.7 trillion was set for the project's East sections.

Over VND17 trillion was also set for the Long Thanh International Airport. In a recent meeting with southern Dong Nai Province - the airport's location - the local authority has pledged to finish site

clearance by the end of 2020 at the latest to provide the project with more than 1,810 hectares of land.

According to the minister, improving infrastructure networks remained a top priority for the country, especially for the Mekong Delta.

The ministry said it has been working closely with local governments in HCM City, Can Tho, Ca Mau and Kien Giang on the development of a number of key projects including HCM City's Belt Road 3 and 4 as well as inter-province roads connecting the Mekong Delta's economic hub with other provinces in the region.

In the central and Central Highlands regions, the transport ministry, in cooperation with the Ministry of Planning and Investment, is working on a plan to add an additional 700km of road on top of the existing 654km to form a connection between Ha Noi and HCM City in the form of a highway that spans over 1,700km in length. Other routes that were due for an upgrade in the highlands include national routes 19, 24 and 25.

The Ha Noi region will also see the construction of Belt Road 4 and 5, connecting the capital city to surrounding northern provinces. A number of highways including the Ha Noi-Huu Nghi-Chi Lang, Van Don-Mong Cai and Dong Dang-Tra Linh, Hoa Binh-Moc Chau and Lai Chau-Lao Cai have been set as priorities.



## Corporate News

### 8. VHM: KKR-led consortium buys 6% stake in Vietnam's Vinhomes for \$650 million

↑ 7.00%

The consortium, which includes Singapore state investor Temasek Holdings, has paid the sum for a 6% stake in Vinhomes, Vingroup said in a statement.

Vingroup, Vietnam's largest conglomerate, will remain the controlling shareholder in Vinhomes, a leading integrated real estate developer in the Southeast Asian country, it said.

### 9. KDC: KDC to return to confectionary, unveils ambitious plans

↑ 1.54%

This announcement comes more than five years after the company sold its snack business to a foreign company, Mondelez International.

“With advanced technology, great experience and a huge distribution system comprising 400,000 points of sale, we expect to be the second biggest confectionary producer in the country after two years of coming back,” Mai Xuan Tram, deputy general of KIDO Group, told the meeting.

The company would focus on products that are in huge demand like snacks, specialties and gifts, he said.

Demand for specialties and gifts is huge since the country has two major holidays, the Lunar New Year and the Mid-autumn festival, besides several other festivals for which consumers need to give gifts, he said.

With a size of VND51 trillion (US\$2.19 billion), the confectionery market is huge, he affirmed.

The return to the confectionery business is among the company's restructuring strategies, one it believed would benefit both it and shareholders.

It has been acquiring some companies and started a new business in the beverages sector.

The restructure would leverage the production and distribution capabilities of its subsidiaries and increase its business scale, and enable it to use resources efficiently, the company said.

It would increase the stock value and liquidity for shareholders, it said.

Following the restructure KIDO Group hopes to increase net revenues by two and a half times from 2020 to over VND28.1 trillion (\$1.2 billion).

For fiscal year 2020 it has set a revenue target of VND8.23 trillion (\$354 million) and a profit before tax target of VND330 billion (\$14.2 million), up 14 per cent and 17 per cent.

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