



VIETNAM DAILY NEWS

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Table of content

Table of content

1. Rallies end as profit-taking weighs on large-caps
2. Logistics costs account for up to 25% of farm produce value
3. New PPP law to drive Vietnam's infrastructure development
4. 1,000 Japanese firms looking for investment opportunities in Vietnam
5. Big thinking on Viet Nam's bilingual schools
6. HCM City manufacturing grows by 1.18 per cent in 1st half
7. MoIT considers common retail power price
8. GEX: VGC approves the public tender offer from GEX
9. FTS: Adjustment of Establishment and Operation License

Market Analysis

1. Rallies end as profit-taking weighs on large-caps

Vietnamese shares closed the week on a negative note after a five-day rally as profit-taking hurt large-caps.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange edged down 0.6 per cent to end Friday at 871.21 points, ending a five-day rally of 4.04 per cent.

Large-cap stocks led the market downturn as the tracker VN30-Index lost nearly 1 per cent to close at 809.02 points.

Twenty-four of the 30 largest stocks by market value and trading liquidity declined while six advanced.

Among the losers were Techcombank (TCB), Sacombank (STB), HDBank (HBD), Vincom Retail (VRE), Vinhomes (VHM), steel producer Hoa Phat (HPG), Novaland (NVL), and retailer Mobile World Investment (MWG), PetroVietnam Gas (GAS) and tech group FPT (FPT).

The VN30 futures, which mature on July 16, dropped 1.41 per cent to 803.7 points on Friday.

Other futures, which mature in August, September and December 2020, lost between 1.5 per cent and 1.8 per cent.

On a sector basis, the banking, retail, mining and energy, and information and technology indices fell between 0.8 per cent and 1.0 per cent, according to vietstock.vn.

On the opposite side, the brokerage, construction, seafood, and transportation and logistics sectors rose slightly.

The mid-cap tracker VNMID-Index inched up 0.17 per cent while the mid-cap tracker VNSML-Index slid 0.22 per cent.

On the Ha Noi Stock Exchange, the HNX-Index slipped 0.43 per cent to end Friday at 115.66 points.

The northern market index had gained a total of 4.13 per cent in the previous four trading days.

More than 327.8 million shares were traded on the two exchanges, worth VND5.30 trillion (US\$228 million).

Foreign investors net-sold total VND160 billion worth of shares on Friday, down 1.7 per cent daily.

“The market turned cautious on Friday but selling was not too strong and a number of investors were willing to buy stocks at low price levels, thus the market decline was limited,” Thanh Cong Securities Co (TCSC) said in its daily report.

The VN-Index would expand in the coming days but there would be struggles at 875-885 points, the brokerage firm forecast.

“If the VN-Index beats 885 points, it would head to the peak of 900 points made in June,” TCSC said, adding stocks would diverge based on second-quarter earnings expectations.

Macro & Policies

2. Logistics costs account for up to 25% of farm produce value

Logistics costs normally account for up to 25% of the value of Vietnamese farm produce.

Stressing that Vietnam is integrating deeply into the global economy, Binh told the conference jointly held by VIDA and the Vietnam Logistics Business Association (VLA) that bilateral and multilateral trade agreements have helped Vietnamese products including farm produce penetrate more foreign markets.

Besides advantages such as abundant natural resources and a diversity of farm produce, small-scale production, low quality and especially high logistics costs have made Vietnamese farm produce less competitive.

According to VLA general secretary Nguyen Duy Minh, logistics costs accounted for 16.8% of Vietnam's gross domestic product in 2017. Factors that lead to the high costs included high transport costs, underdeveloped logistics infrastructure, highly specialized inspection costs and informal fees.

Minh cited a report as indicating that logistics costs make up 21% of Vietnam's fruit and vegetable supply chain. Among the logistics costs, transport costs account for 61%, while loading, storage and packaging costs account for 20%, 14% and 5%, respectively.

Vo Quan Huy, general director of Huy Long An Company, said that the company exported 14,000 tons of bananas to Malaysia, Singapore and South Korea last year, with logistics costs accounting for 30% of post-harvest costs. In the first half of 2019, logistics costs shot up by 45% due to the impact of the Covid-19 pandemic.

Le Van Quang, board chairman of Minh Phu Corporation, said it costs VND41 million to transport a container of shrimp from Vietnam to the United States and VND16 million to Japan. However, transporting the container from HCMC to the Mekong Delta province of Ca Mau costs VND10 million, while it costs VND80 million to be transported to Hanoi.

Quang pointed out that there are too many toll stations in Vietnam, leading road transport costs to soar. Sea and waterway transport is much cheaper but the port system is underdeveloped. Therefore, he suggested the Government invest more in developing the sea and waterway port system to help enterprises reduce logistics costs.

Nguyen Quoc Toan, director of the Department of Farm Produce Processing and Market Development under the Ministry of Agriculture and Rural Development, said there should be regional logistics plans to promote a connection between localities and develop modern logistics centers.

3. New PPP law to drive Vietnam's infrastructure development

A new law on Public-Private Partnership (PPP) will present tailwinds to growth of Vietnam's infrastructure sector, according to Fitch Solutions, a subsidiary of Fitch Group.

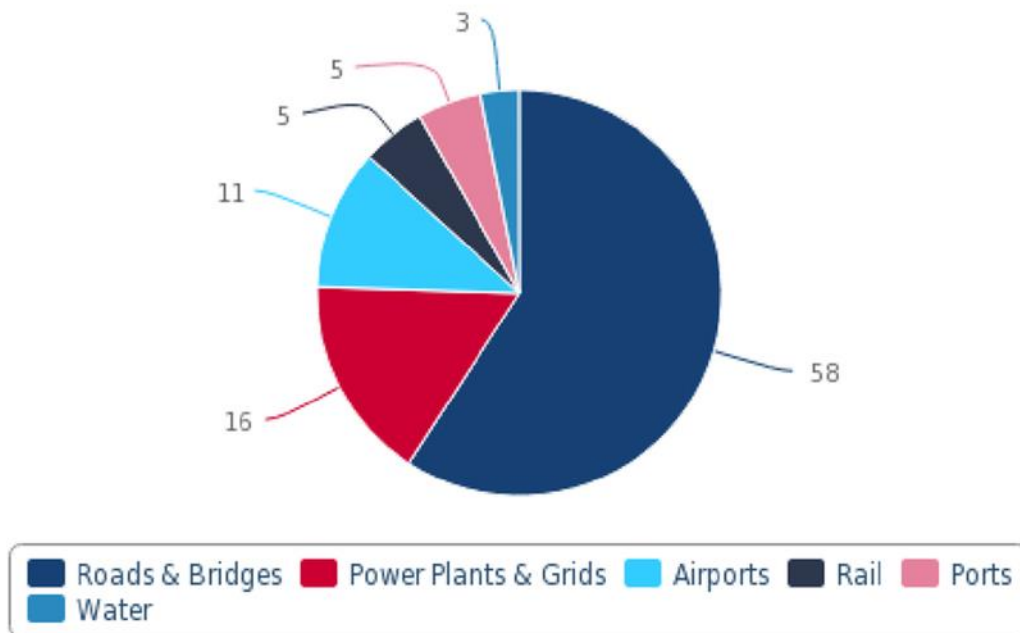
On June 18, the Vietnamese National Assembly convened and approved the new PPP law, which will now act as the main piece of legislation governing PPP transactions in the country.

PPP projects implemented in the Vietnamese roads sector will serve as a litmus test to assess the effectiveness of the new PPP law.

Prior to the passage of the PPP law, Vietnamese authorities had been struggling to attract private capital to the country's burgeoning infrastructure sector.

Previously governed by Decree No. 63/2018/ND-CP (Decree 63), investors have noted the lack of a comprehensive risk sharing mechanism which

Most Proposed PPPs Are Road Projects Vietnam – PPP Projects by Sector



Source: Fitch Solutions Infrastructure Key Projects Database

reduces the attractiveness of PPP transactions in Vietnam. Also, the lack of a unified PPP law also resulted in higher legal risks and costs, especially for prospective foreign investors who are unfamiliar with the Vietnamese legal landscape.

Going forward, these risks could be lowered with the new PPP law in force. Currently, Fitch Solutions maintained its long-term growth forecasts for the Vietnamese construction sector growth to average at 6.8% per year from 2021 to 2029.

Notably, the PPP law stipulates that only projects undertaken in the five sectors can be considered for PPPs, including transport; grid infrastructure, power plant; irrigation, clean water supply, drainage, sewage treatment, waste; health, education – training; and information technology infrastructure.

Moreover, the scale of the minimum total investment of the PPP project for each field cannot be less than VND200 billion (US\$8.64 million) for PPP projects except for healthcare and education,

where a lower threshold of VND100 billion (US\$4.32 million) is applied. In cases of geographical areas with difficult socio-economic conditions and particularly difficult according to the law on investment, not less than VND100 billion (US\$4.32 million).

There is a selection mechanism for potential PPP investors, which Fitch Solutions believed is included to ensure a minimum quality of bids. Potential investors will be considered if they meet a series of criteria explained in the law, such as having an establishment and operation registration certificate issued by a competent agency of the country in which the investor is operating, and have independent financial accounting.

Regarding the revenue risk sharing mechanism, the law states that if actual revenue exceeds 125% of what was planned, the PPP project investor will share 50% of the difference between actual revenue and revenue at 125%. On the other side, the state will share with PPP investors 50% of the revenue reduction between actual revenue and contracted

revenue for PPP projects that meet certain conditions.

According to Fitch Solutions, PPP projects implemented in the Vietnamese roads sector will serve as a litmus test to assess the effectiveness of the new PPP law.

Based on its proprietary Infrastructure Key Projects Database, there are currently 98 major infrastructure projects at the planning stage earmarked as PPPs. 58 out of 98 of these projects belong to the roads and bridges sector, with an estimated value of USD20.8 billion.

Vietnam's rapid pace of economic development, partially helped by its emergence as an alternative low-cost manufacturing hub to China, has increased

the need for the government to invest in providing quality infrastructure to support the flow of goods and services.

One key project is the North-South Expressway linking Hanoi to Ho Chi Minh City, for which the government had previously attempted to implement parts of the project through the PPP model, but ultimately decided against it due to complications relating to bidding.

With the demand of road infrastructure increasing and the government needed private capital to share the burden of financing, Fitch Solutions believed that there will continue to be PPP opportunities in this sector despite the failure of the North-South Expressway PPP scheme.

4. 1,000 Japanese firms looking for investment opportunities in Vietnam

Over 1,000 Japanese firms from all over the world participated in an online conference promoting investment between Vietnam and Japan on July 9.

The event was jointly held by Vietnam's Ministry of Planning and Investment, the Japanese Embassy in Vietnam, Japan External Trade Organization (JETRO), and Japan Bank for International Cooperation (JBIC).

Being the first large-scale investment promotion event held online, the broad participation of Japanese firms demonstrated their huge expectations and interest in doing business with Vietnam, said Vice Minister of Planning and Investment Vu Dai Thang at the conference.

With the successful containment of the Covid-19 pandemic, Vietnam proved to be a safe and attractive investment destination for international investors, Thang said, adding the country is among a handful worldwide recording positive economic growth in the first six months of this year.

Although foreign direct investment (FDI) around the globe may decline by 40% this year due to the Covid-19 crisis, FDI commitments to Vietnam during the January – June period remained positive at over US\$15 billion, down 15% year-on-year. This included US\$8.43 billion for fresh projects and

US\$3.72 billion of additional capital for existing ones, up 13.8% and 26.8% year-on-year, respectively.

At present, Vietnam is home to 32,000 projects with registered capital of a combined US\$378 billion from 136 countries and territories, among which Japan is the second largest investor with over US\$60 billion, Thang informed.

In a pre-Covid-19 study conducted by the US News & World Report, Vietnam overtook regional peers in Southeast Asia, including Malaysia, Indonesia and Singapore to rank eighth among the world's leading 29 countries to invest in, up from 23rd out of 25 countries in 2018.

Meanwhile, a survey from JETRO in February showed over 63% Japanese businesses in Vietnam were planning to expand investment, the highest rate in ASEAN and the third in the Asia – Pacific region.

Thang said Vietnam is committed to perfecting its legal framework and improving efficiency in international cooperation to attract more FDI, focusing on high quality, environmentally friendly and hi-tech projects.

The Vietnamese government would give priority to projects with modern and clean technologies having high-added value, which could aid local firms to further integrate into global supply chains, Thang stated, highlighting these are the advantages of Japanese firms.

Minister Daisuke Okabe from the Embassy of Japan in Vietnam said while countries across the world are still fighting Covid-19, Vietnam has been on the economic recovery track and become one of the first countries to diversify the supply chains.

As international investors, including from Japan, are looking at Vietnam as a potential investment

destination in the post-Covid-19 era, Okabe expected Vietnam to grasp this opportunity for further development.

Okabe suggested four points that the Vietnamese government should focus on to boost cooperation between Vietnam and Japan. They are the reopening of borders between the two countries; speeding up disbursement for public investment projects; promoting FDI attraction, especially in the context of Japanese government providing a US\$2.3 billion aid package for Japanese firms to diversify their supply chains; and improving Vietnam's credit rating and addressing the issue of slow disbursement.

5. Big thinking on Viet Nam's bilingual schools

Reading reports from back home, it seems that a chasm has opened up between private schools and some of the state sector. While the former has adapted extremely well to online learning, the latter seems to have let many children down. Full timetables of live digital teaching stand in stark contrast to children who have often had very little teacher contact in recent months.

Technological capabilities are of course a big part of the picture, but so too is the commercial imperative private schools are working under. Competition is fierce and so these schools know they have to go on delivering despite the circumstances. Indeed, many have really taken this as their time to shine. As a result, growing numbers of parents are seeing that investing in premium education for their children is well worth it.

Aspirational growth

Turning closer to home, we hear that some of Viet Nam's international bilingual schools have been experiencing a tough time. Uncertainty in the lives of parents naturally means enrolment has taken a dip and hit the finances of schools. But those able to survive this downturn are set to really thrive.

The onward march of globalisation has seen international schools flourish around the world, their number growing fourfold to 10,883 between the millennium and last year, according to ISC Research. The number of schools in the pipeline

meant that a further almost-doubling of the number of schools, students and staff was predicted by 2029.

In the short term, we probably are looking at muted international mobility – although if one were thinking of relocating, Viet Nam's near-perfect record in handling the pandemic would make it an excellent candidate. But even if the expat market does weaken, the best international schools are still well-positioned for growth.

The reason, of course, is domestic demand. Just as in the West, parents in Viet Nam are keener than ever to invest in top-quality schooling, even quite modest levels of wealth.

Domestic demand

Experts agree that a large proportion of international schools' growth is driven by locals today as parents increasingly recognise the manifold benefits of this approach.

Southeast Asia is a particular growth hotspot for international schools, particularly in countries with growing middle class and high net worth populations – like Viet Nam. The resulting competition is having a virtuous circle effect, raising still further already very high standards in offerings and attainment. The academic and extracurricular excellence on show really is a joy to see.

Our financial planning service is often focused around investing for private schooling at a bilingual English-Vietnamese school (and then university fees, potentially at an international institution). This may not be cheap, but parents rightly see the value of globally recognised qualifications and bilingualism in the world's 'lingua franca' of the business world as a key building block in their children's financial security.

Indeed, having a reliable route into world-famous universities is almost invaluable, and hard-working Vietnamese students are most welcome anywhere. Advising on this front is another of our fast-growing specialities - and one of the most rewarding.

Thinking big

From the conversations I've been having, Vietnamese parents are clearly thinking big when it

comes to their children's education and prospects. But they aren't necessarily spending as big as you might think. Locals tend to be more price-sensitive (not to mention able to 'shop around') and so can exert considerable downward pressure on fees.

This makes the international school sector a very exciting one, but also one that needs to rapidly evolve to prevailing trends. We could see a lot more M&A as institutions seek economies of scale and we foresee the emergence of some highly sophisticated – and highly profitable – organisations as a result.

More than anything, we expect to see education continuing to be one of our most important investment themes. For both business tycoons and parents alike, education is being seen as a chance to create real, long-term value.

6. HCM City manufacturing grows by 1.18 per cent in 1st half

The four key industries of electronics, food and beverages, chemicals – rubber – plastic, and mechanics are likely to expand by 2 per cent.

The electronics industry is expected to grow at 17.7 per cent, the chemical industry by more than 9 per cent and food and beverages at 0.44 per cent

The mechanical industry seems set to shrink by 12.1 per cent.

The electronics industry is seen to benefit from a strong and steady increase in domestic demand.

According to a report by the HCM City Computer Association, during the social distancing campaign, the demand for computer products and internet

services increased sharply to serve the needs of people studying and working from home.

Exports of food and beverages decreased, but domestic demand increased sharply.

The department's statistics show that retail sales of food and beverage in the first half topped VNĐ68.55 trillion, up 11.2 per cent.

A survey by the HCM City Statistics Department of more than 16,300 enterprises in various industries found half of those affected by the pandemic saying the consumer market had shrunk.

More than half of State-owned enterprises and 48.45 per cent of foreign enterprises that regularly export said they have been unable to do so this year.

7. MoIT considers common retail power price

Vuong on Wednesday said the ministry is studying a new calculation for power prices. Accordingly, households could choose one of two ways: a common price and the current tiered pricing mechanism. However, the current six tiers would be

reduced to five as it ensures all households with power consumption of less than 700 kWh (98.2 per cent of the total) would not be see increased power bills.

The study of the new calculation came about as many households were surprised with surging power bills in May and June as well as to have more choice for customers.

He said the one retail power price would be built based on the average electricity production cost of VND1,864 per kWh without value-added tax (VAT).

“The ministry would review the final report next week on the issue before submitting to Prime Minister Nguyen Xuan Phuc for approval by the end of this year,” he added.

The deputy minister said initial calculations showed that households consuming a high amount of electricity of more than 400 kWh would choose the common price. Meanwhile, those consuming less than 400 kWh, which account for 70-80 per cent of the total customers, would choose the tiered pricing mechanism.

“Each calculation has its own advantages and disadvantages. It is the reason we should have an overall calculation. With the current tiered pricing mechanism, low-income earners with power consumption of less than 300 kWh have more benefits,” he added.

He said that if customers choose the common power price option, the revenue of Viet Nam Electricity (EVN) would be reduced. However, no matter the price option, in terms of the total revenue on commercial electricity, the retail price obtained is

equal to the average price to ensure the harmony of benefits.

Currently, many countries have applied the tiered pricing mechanism. Some, however, are applying a fixed retail price. For example, in Singapore, the power price for households is only 24.39 cents a kWh. However, this price is adjusted every three months to reflect changes in electricity costs.

In Germany, the electricity price is not regulated by the State but by each company. The price difference among power distribution companies is not large. In addition to the electricity bills, people have to pay an extra 100 euros each year for electricity and other services.

Similarly, in New Zealand there are about 20 power supply units. Electricity prices are not calculated according to the tiered pricing mechanism but agreement between customers and companies. Electricity tariffs usually include price per kWh along with daily management fees and other costs.

The surge in power bills in the past two months has surprised customers. Of which, the calculation of the current six tiers in power prices has been one of reasons contributing to the surge.

The MoIT planned to collect opinions on the reduction from current six to five tiers in power pricing mechanism. However, it asked to postpone the revision to the end of this year due to COVID-19.

Corporate News

8. GEX: VGC approves the public tender offer from GEX

↑ 4.70%

Viet Nam Electrical Equipment Joint Stock Corporation (stock code: GEX) has received the approval from Viglacera Corporation – JSC (stock code: VGC) as follows:

On July 07, 2020, the Board of Directors of Viglacera Corporation - JSC approved unanimously approved the public tender offer for 95,000,000 VGC shares by Viet Nam Electrical Equipment Joint Stock Corporation in order to raise the ownership ratio to 46.15% of VGC's charter capital.

9. FTS: Adjustment of Establishment and Operation License

↑ 5.56%

On July 08, 2020, the State Securities Commission of Vietnam (SSC) send a Document to FPT Securities Joint Stock Company (FTS) regarding the

approval of the adjustment of charter capital of FTS to VND 1,322,673,490,000, effective from July 08, 2020.

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