



VIETNAM DAILY NEWS

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Market Analysis

1. Shares drop on large-caps variation

Shares failed to maintain their rally on Monday with the market experiencing strong volatility with big variation in large-caps' prices.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange (HOSE) declined 0.29 per cent to close at 868.72 points.

The index had gained a total of 2.78 per cent last week.

More than 246 million shares were traded on the southern market, worth VND4.3 trillion (US\$185.9 million).

Market breadth was negative with the number of decliners on the HOSE outnumbering the gainers by 230 to 149.

The VN30 Index, which tracks the performance of the 30 largest stocks by market capitalisation and liquidity on HoSE, lost 0.35 per cent to close Monday at 806.17 points.

Shares gained slightly during the morning session fueled by the growth of blue-chips in banking and securities sectors.

But the afternoon session witnessed increasing selling pressure with many large-cap stocks falling, such as insurer Bao Viet Holdings (BVH), steel maker Hoa Phat Group (HPG), Masan Group (MSN), Vingroup (VIC), dairy firm Vinamilk (VNM), brewery Sabeco (SAB), VPBank (VPB), Vincom Retail (VRE), Phu Nhuan Jewellery (PNJ), Mobile World Group (MWG) and Vinhomes (VHM).

Although some pillars still gained ground such as FPT Corporation (FPT), PetroVietnam Gas JSC (GAS), Vietinbank (CTG), Vietcombank (VCB) and Viet Nam National Petroleum Group (PLX), their support was not strong enough to help the market rally.

According to Thanh Cong Securities Company, the VN-Index may fluctuate in the coming sessions, withstanding correcting pressure when approaching the 875-885 point range.

The company recommended that investors maintain share rates of 30-50 per cent in their portfolios and prioritise stocks with positive business results in the second quarter of 2020.

On a sector basis, 17 out of 25 sectors on the market suffered losses on Monday, including wholesale, retail, insurance, real estate, securities, banking, rubber production, food and beverage, seafood production, construction materials and logistics.

On the other side, losers were information and technology, agriculture, healthcare and energy.

Foreign investors net sold VND64.3 billion on HOSE. They were net sellers on the HNX with a value of VND40 million.

On the Ha Noi Stock Exchange, the HNX-Index was down 0.01 per cent to end Monday at 115.65 points.

More than 33.8 million shares were traded on the northern market, worth VND370.5 billion.

Macro & Policies

2. PM gives green light to reopening of air services to China

On July 12, the Government Office announced the prime minister's decision at a recent regular Government meeting on Covid-19 infection prevention, citing the prime minister as saying that flight frequency and the condition of flights between Vietnam and China will be decided by the aviation agencies of the two countries.

This is the first resumption of international air services allowed by the prime minister since April 1. However, the exact date of reopening the route has not been decided, VnExpress news site reported.

The ministries of Foreign Affairs and Transport were tasked with working with other countries to organize repatriation flights and increase commercial ones between Vietnam and these countries to bring home Vietnamese citizens from Seoul, Tokyo, Taiwan, Guangzhou, Vientiane and Phnom Penh.

The Government will create favorable conditions for Vietnamese citizens living abroad, foreign experts and overseas students to enter Vietnam, according to the announcement.

The prime minister also told the ministries of Transport, Foreign Affairs and Health to direct

Vietnam Airlines to operate repatriation flights to transport Vietnamese citizens from Equatorial Guinea home as soon as possible.

Over 200 Vietnamese workers work there, said the Ministry of Labor, Invalids and Social Affairs, adding that half of them have tested positive for the coronavirus.

Foreign experts, investors, diplomats, highly skilled workers and students are allowed to enter Vietnam and their parents, wives, husbands and children can also accompany them. However, they must take a quick test for Covid-19 and undergo a mandatory quarantine period.

To welcome a large number of foreigners and Vietnamese returnees, the agencies and departments were asked to set up an additional 10,000 concentrated quarantine centers.

Vietnam has gone 88 days without community transmission of the virus. Among 372 confirmed cases of Covid-19, 350 patients have made a full recovery and been discharged from hospitals, including a British pilot, the country's most critical case of Covid-19.

3. Ministry to support industrial sectors to enhance production growth

The Ministry of Industry and Trade (MoIT) will focus on removing difficulties in industrial sectors in the second half of this year, especially the processing and manufacturing industry, to expand production and business.

It plans to work closely with foreign-invested firms such as Samsung and Toyota and search for local producers to make raw materials and components to replace imports.

The ministry has suggested localities develop material production regions, industrial parks and economic zones to ensure they have raw materials for domestic production.

It will also propose preferential policies for the textile and footwear industries as well as other sectors that have suffered greatly from the COVID-19 pandemic. It will build incentive mechanisms for the production of materials for those sectors.

The MoIT predicts that in the second half of the year, the domestic electronics industry will still be greatly affected by the pandemic that could reduce demand for electronic products in the US and Europe.

Samsung Vietnam is expected to reduce its export target to about 45.5 billion USD, lower than the export value of 51.38 billion USD in 2019.

However, the ministry observes that many countries worldwide have highly appreciated Vietnam's disease control. This is considered an important factor to attract more foreign investment into Vietnam after the pandemic ends. That will help Vietnam boost growth in production and exports in the future.

The MoIT reported the index of industrial production (IIP) in June increased by 10.3 percent compared to the previous month. Of which, the IIP rose by 13 percent in the processing and manufacturing sector, 6.5 percent in the electricity production and distribution, and 4.4 percent in water supply and wastewater treatment compared to the same period in 2019.

Meanwhile, the index of the mining industry in June decreased by 3.7 percent from a year prior.

During the first six months of this year, the national IIP increased by 2.8 percent compared to the same

period last year. The index surged by 4.6 percent for the processing and manufacturing industry and 2 percent for the electricity production and distribution.

There were many difficulties in importing material from China in the first six months, especially in the electronics sector, the ministry said, but with a reasonable balance of production and business, the electronic sector gained growth in the IIP and exports compared to the same period of 2019.

The IIP for electronic products, computers and optical products in June increased by 29.3 percent over the previous month and by 21.7 percent over the same period last year.

This index for the first six months rose by 9.8 percent year-on-year. It was higher than the growth rate of 3.5 percent in the first six months of 2019.

4. Vietnam's young invest in ideas blooming in Ho Chi Minh City

The 35-year-old chemistry graduate worked for two multinationals before stepping out on his own three years ago to launch ShoeX — a sustainable footwear company which nimbly pivoted to masks as the coronavirus pandemic struck.

When he entered the workforce, Thanh was drawn to the higher salaries and no-nonsense working culture at foreign companies he assumed were a cut above local firms, tangled up in rules imposed by his country's staid communist rulers.

"But now I see there are more openings in a place where things are a bit murky," Thanh told AFP from his buzzing Ho Chi Minh City co-working space. He is not alone in believing Vietnam — and especially its southern commercial center — is poised to become an innovation hub thanks to its young, educated and digitally active population.

Vietnamese e-commerce and e-payment companies have been "flooded" with private equity in the past couple of years, said Eddie Thai, a Ho Chi Minh City-based partner at venture capital firm 500 Startups. Their rise has been stellar.

Vietnam-based startups made up 18 percent — or \$741 million — of the capital invested in Southeast Asia in 2019, up from four percent in 2018, according to a report by Cento Ventures.

Although Indonesia remains the leader, the amount pumped into Vietnam startups pushed ahead of Singapore for the first time in 2019, the venture capital firm said.

The gold rush comes in spite of cumbersome regulations for foreigners, Thai told AFP, making it difficult to invest and repatriate capital.

Last year, popular e-wallet platform VNPAY reportedly snagged the largest deal in Southeast Asia, attracting \$300 million from Softbank's Vision Fund and Singapore's sovereign wealth fund GIC.

And although Thai said investment had paused due to the coronavirus pandemic, Vietnam is well-placed to bounce back.

Its economy unexpectedly grew in the second quarter and the International Monetary Fund (IMF)

predicts a 2.7 percent expansion for the year despite the global downturn.

The country also has a huge pool of software engineers who cost substantially less than their Indian or Chinese peers.

And unlike the tech talent in wealthy startup hubs such as San Francisco or London, they understand what consumers in the emerging world want, Thai says.

5. Viet Nam to commercialise 5G in October

On January 17, the first video call using a 5G connection on a gNodeB transceiver, researched and produced by Viettel, was successfully implemented, meaning Viet Nam has officially mastered 5G network technology.

Viet Nam is one of the few countries that can produce 5G equipment. The MIC will facilitate directing Vietnamese businesses to invest in research and production of 5G equipment towards commercialising 5G products this year.

Viet Nam is building a roadmap to abolish the 2G mobile phone technology from 2022 and is implementing bidding and licensing of the 2.6 GHz mobile band to improve network quality and the speed of mobile services.

The ministry said telecom infrastructure has seen an important change in frequency infrastructure. Implementing 5G in Viet Nam has advantages as Vietnamese electronics and telecommunications businesses have produced lots of equipment and infrastructure, whereas before foreign manufacturers were relied upon.

This would be an important step for socio-economic development and ensuring national defence, it added.

According to the ministry's Department of Information and Technology, the development of the 5G network has been one of the key orientations to upgrade digital infrastructure, serving national digital transformation. To implement this orientation, one of the important solutions is Viet Nam needs to research and master the design and manufacture of chips and 5G network equipment.

Deputy Minister Phan Tam said the Government has launched the 'Make in Viet Nam' strategy to help the

country escape the middle-income trap. The country aims to produce chipsets for 5G network and internet of things (IoT) equipment. The Government has offered preferential policies for the production as it is a high-tech area. Many Vietnamese firms such as Viettel, FPT and Vingroup have been studying to produce such equipment.

A representative from Viettel said it used up to 300 out of more than 1,000 IT engineers for research programmes into 5G production. The group has approved an estimated VND500 billion (US\$21.6 million) for the development of Microcell 5G and investing VND200 billion into a 5G lab. Viettel has worked with partners in the US, South Korea and India to produce chipset, software and hardware for 5G.

Another representative from VinSmart said the company had focused on research and production of 5G and IoT equipment. In addition, VinSmart built a lab for research and development of 5G mobile phones and telecom equipment. Vinsmart will start 5G telecommunications equipment testing in August.

A representative of FPT said chip production has been extremely difficult, requiring cautious steps and having strategies in the next 10 years.

Viet Nam's microchip industry is not new and has been in place since the 1990s, but due to a lack of ecosystem, firms have few local buyers for their chips, he added.

The number of Vietnamese companies making chips is modest and most foreign companies open factories in Viet Nam to produce chips. The State needs to provide supports to local firms such as corporate tax exemptions and personal income tax at high-tech parks, he added. — VNS

6. Hanoi's first metro to operate commercially by year-end

China Railway Sixth Group Co Ltd, the general contractor of the 13km Cat Linh - Ha Dong metro project, has submitted all requested dossiers for the acceptance review of the project at the request Hanoi Metropolitan Railway Management Board (HRMB), Tang Hong, the Chinese director of the project, said Friday.

The quality inspection and evaluation of each construction item is well under way, and the HRMB has commented that the acceptance review is being "coordinated well by both parties", he said.

The project's review is expected to fully complete within July, after which the general contractor will be paid in accordance to the terms of the contract. The project will pilot run for 20 days, during which the State Acceptance Council will be invited to evaluate it.

Once this is done, the Ministry of Transport will take over control of the project, and hand it over to the HRMB, Hong said.

Currently, the 31 experts of the Chinese general contractor have completed their compulsory Covid-19 isolation period, and has started their work on the project. Twelve of these personnel work daily with the HRMB on acceptance procedures, while the rest work on checking the operation of construction items at construction sites, he added.

"If the work goes according to plan, by the end of 2020, the project will be eligible for putting into operation," Tang Hong said, but added that the 20 day test run has not yet been scheduled, as the general contractor will need to receive the next payment in order to have funds to fly personnel from equipment suppliers to Vietnam.

"The HRMB is speeding up the approval and signature of documents, as well as the most important issue – the payment process," Hong said.

In early June, the Chinese general contractor had asked for \$50 million in advance to test run the trains, which was refused by the Ministry of Transport on the grounds that all outstanding costs, which was 78 percent of the contracted amount, had been paid on schedule in accordance with the contract.

In addition to acceptance work, the project also needs to be assessed for technical safety by an independent organization, designated to French firm Apave-Certifer-Tricc (ATC).

However, ATC has begun their assessment a little behind schedule, and has requested some documents that the Chinese contractor cannot currently produce, so Hong has asked that conduction field experiments on some items that lack records take place before the 20-day pilot period.

The Cat Linh-Ha Dong Metro Section runs 13 kilometers from downtown Dong Da District to Yen Nghia in the southwestern Ha Dong District. It is one of eight lines planned in Hanoi.

Construction began in October 2011 and was originally scheduled for completion in 2013. But several hurdles, including loan disbursement issues with China that were only resolved in December 2017, stalled it for years.

Its cost has doubled to VND18 trillion (\$776.77 million), with 77 percent of it coming from official development assistance (ODA) loans from China.

7. M&A deals anticipated to flourish in Vietnam post-Covid-19

Given Vietnam's safe and stable investment environment pre- and even during the global pandemic spike, Vietnam is in a position where M&A activities could be largely anticipated to flourish post Covid-19, according to PwC Vietnam.

"We have noticed that the appetite for M&A activities has not been dampened. It is understandable that local companies are now taking the lead as they are based in-country," said Ong Tiong Hooi, Transaction Services Partner, PwC Vietnam.

“With Vietnam's economy on the road to recovery and the anticipated EU – Vietnam Free Trade Agreement (EVFTA) taking effect, the next six to 12 months would be interesting to watch how the “new normal” unfolds,” added Tiong Hooi.

Among notable M&A deals in Vietnam are the government's sale of a nearly 54% stake in Saigon Beer Alcohol Beverage Corp (Sabeco) in 2017 to Vietnam Beverage, a local unit where ThaiBev holds control; or South Korea-based SK Group invested US\$1 billion in Vingroup in 2019.

In the first half of this year, 4,125 projects have had nearly US\$3.51 billion in capital contributed by foreign investors, up 2.6% in the number of projects but down 56.8% in value year-on-year.

New considerations required in uncertain times

Meanwhile, the impacts of the Covid-19 pandemic are drastically altering the global economic landscape, disrupting M&A environment and opening up new deal considerations for any party involved, stated PwC Vietnam.

The combination of initial shock that kept businesses' focus away from big investments and ongoing efforts to contain the virus in different parts of the world has put the brakes on both domestic and international deal-making.

However, after this phase, the need for companies to divest and restructure their balance sheet will spark opportunities. Companies that made deals during uncertain times may outperform their industry peers – a PwC analysis of companies having acquisitions during past recession suggests.

As companies, private equity firms and other investors start reassessing portfolios and strategies, the appetite to buy will grow as others decide to sell in order to focus on their core businesses. Those in a solid position would consider acquisitions and be nimble to capture the market during the downturn.

Under the rippling effects the pandemic on world economy, deal-making for different industries, sectors and geographies have been impacted in varying ways. These factors are expected to change the M&A environment and raise new deal considerations. Potential buyers and sellers in this time of uncertainty need to be aware that traditional thinking might not apply in this new normal.

Amidst the unfolding disruptions in the global economic scene, results from PwC's CFO Pulse survey conducted in June 2020 suggested there remains a stable M&A appetite. 85% of companies responded that they are not changing their M&A strategy as a result of the Covid-19 pandemic.

Corporate News

8. FCN: FCN wins new construction projects

↓ -1.83%

FECON Corporation has assigned new construction packages with the total contract value of more than 1,762 billion dong as follows:

1) Project: Nhon – Hanoi Railway Station (line 3) Project

- General contractor: Hyundai E&C – Ghella
- Location: Ha Noi City
- Value of package: more than 650,000,000,000 dong.

2) Project: Thai Hoa Wind Power Plant Project

- Investor: Pacific Corporation
- Location: Binh Thuan Province
- Value of package: nearly 255,000,000,000 dong.

3) Project: Van Phong 1 Thermal Power Plant

- Investor: Sumitomo Group
- Location: Khanh Hoa Province

- Value of package: nearly 91,000,000,000 dong.

4) Project: My Dinh Pearl Project – Phase 2

- Investor: SSG Group
- Location: Ha Noi City

- Value of package: nearly 48,000,000,000 dong.

5) Project: Lo Te Rach Soi Highway Project

- Investor: Kumho
- Location: Kien Giang Province

- Value of package: nearly 18,000,000,000 dong.

6) Project: Quang Binh B&T Wind Power Project

- Location: Quang Binh Province
- Value of package: nearly 700,000,000,000 dong.

9. VHM: Vinhomes to build \$10 bln urban area in northern Vietnam

↓ -0.38%

The investment decision, along with some key personnel changes, was recently approved by the company's shareholders, and the joint venture will invest in the 4,110-hectare Ha Long Xanh Complex Urban Area project in Quang Ninh's Ha Long and Quang Yen towns.

With 3,186 hectares in Quang Yen and the rest in Ha Long, the project will be a multi-purpose coastal

urban area with eco-resorts, golf courses and other services.

It will cost VND232.37 trillion (\$10 billion), of which the developer will bring in around \$1.5 billion and raise the remaining 85 percent through other means. Vinhomes will contribute 70 percent of the \$1.5 billion.

Shareholders also approved the dismissal of Nguyen Viet Quang from the company's board of

directors and the appointment of four others to the board.

The new board members include Ashish Jaiprakash Shastry, partner and co-head of private equity for American investment firm KKR Asia Pacific, Richard Hoang Quan, chairman of Finsafe Investment and Technology JSC., Pham Thieu Hoa, CEO of Vinhomes, and Tran Kien Cuong, Vinhomes' project development manager.

KKR and Singapore investment firm Temasek last month paid \$650 million to acquire a 6 percent in Vinhomes.

This year Vinhomes targets revenues of VND97 trillion (\$4.18 billion), an 88 percent increase year-on-year from 2019, and net profit of VND31 trillion (\$1.34 billion), a 27 percent increase.

In the first quarter of this year Vinhomes was the most profitable listed company with a pre-tax profit of over VND10 trillion (\$431 million).

Research Team: **Tsugami Shoji** *Researcher* jsi@japan-sec.vn

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Japan Securities Incorporated – JSI

Address: 14F, TNR Tower, 54A Nguyen Chi Thanh, Lang Thuong, Dong Da, Hanoi

Tel: (024) 3791 1818

Fax: (024) 3791 5805

Email: info@japan-sec.vn

Website: www.japan-sec.vn