VIETNAM DAILY NEWS

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Market Analysis

1. Local stocks drop, industrial real estate advances on Japanese factories move

Industrial real estate stocks soared on Monday but their gains were not enough to cushion the market, overclouded by a cautious market sentiment.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange dropped 1.22 per cent to close Monday at 861.40 points.

The VN-Index gained total 0.09 per cent last week.

The blue-chip tracker VN30-Index lost 1.33 per cent while the VN30 futures, which mature on August 20, fell 1.41 per cent to 796.50 points.

The mid-cap and small-cap indices were down 1.11 per cent and 0.67 per cent, respectively.

The 30 largest stocks by market capitalisation and trading liquidity in the VN30 basket declined.

The worst declining large-caps were construction firm Coteccons (CTD), insurer Bao Viet Holdings (BVH), commercial centre operator Vincom Retail (VRE), petrol firm Petrolimex (PLX), and consumer staples group Masan (MSN).

Those large-caps decreased between 2.1 per cent and 4.3 per cent on Monday.

The local market was in the same direction as global stocks as investors awaited more efforts and stimulus packages from the EU and US to fight the coronavirus pandemic, securities firms reported.

"Investors were divided with the current market conditions given the continuously-rising number of COVID-19 infection cases and the second-quarter earnings season is coming to the end," Thanh Cong Securities Co (TCSC) said in its daily report.

On a sector basis, key industries such as real estate, banking, securities, insurance, retail, food and beverage, and mining and energy were down between 0.9 per cent and 3.7 per cent, according to vietstock.vn.

But there were some positive signals in sub-industries such as industrial real estate.

Shares of industrial property developers soared on Monday after the Japanese government was reported to pay firms to move their factories from China to Southeast Asian countries, including Viet Nam.

Industrial real estate stocks such as Tan Tao Investment Industry Corp (ITA), Long Hau Corporation (LHG), Kinh Bac City Development Share Holding Corp (KBC), and Sonadezi Chau Duc Shareholding Co (SZC) surged between 2.4 per cent and 6.0 per cent.

"The gap between the large-cap index VN30 and its August futures proves investors are still pessimistic about the market's short-term uptrend," Sai Gon-Ha Noi Securities Co (SHS) said in a note.

The minor HNX-Index on the Ha Noi Stock Exchange dropped 0.93 per cent to end Monday at 115.72 points.

The northern market index rose nearly 1 per cent last week.

More than 330 million shares were traded on the two local exchanges, worth VND5.29 trillion (US$228.3 million). — VNS.

Macro & Policies

2. No new airlines is allowed until 2022

The Deputy PM says until the aviation industry has fully recovered from the fall-out of the COVID-19 pandemic, no new airlines will be considered.

His ruling conforms proposals submitted by the Ministry of Transport (MoT) in May.

The announcement will come as a blow to a number of new airlines that were hoping to take to the skies soon.

Kite Air of hospitality group Thiên Minh and Vietstar Airlines of Vietstar Airlines Multirole Corporation were racing for permits.

With the ministry's decision, these airlines must continue to wait for permits.

Minister of Transport Nguyễn Văn Thể said: "In the most optimistic scenario, only in 2022, the local aviation market could reach the result it did in 2019."

According to the ministry, Việt Nam has 214 aircraft, but right now less than half are being used.

To ensure the State management of aviation to develop sustainably in the future, the MoT suggested focusing on restoring the domestic air travel and solve the difficulties for the local airlines.

According to the Government Office, Dũng assigned the MoT to take responsibility in ensuring the sustainable development of the aviation industry. He also assigned the Ministry of Planning and Investment with the function of appraising investment policy of the Kite Air project to report to the Prime Minister in the future.

Currently, Việt Nam has five commercial airlines including Vietnam Airlines, Vietjet, Jetstar Pacific Airlines, Bamboo Airways and Vietnam Air Services (VASCO).

Earlier this year, Vietravel Airlines was granted the license to become the 6th commercial airline of Việt Nam. It is applying for a flight permit.

3. Businesses' profit margins forecast to fall across the board

A study of the business plans of 1,368 companies, accounting for nearly 97 percent of every sectors' capital in the market excluding the financial sector, found that their overall net profit will drop by 23 percent in 2020.

The construction and building materials sector will be the industry with the lowest profit margin and its profits could plummet by 155 percent from last year.

The tourism and entertainment sector could see net income decline by more than 100 percent. Budget carrier Vietjet for instance expects pre-tax profit to fall by 98 percent to VND100 billion ($4.3 million) with international flights remaining suspended for more than three months.

Petroleum companies expect profit after tax to slip by 59 percent.

However, businesses in the pharmaceuticals, real estate and food and beverages sectors will enjoy similar profit growth as in 2019.

Also bucking the downward trend, basic materials, information technology and telecommunications will maintain double-digit profit growth this year.

According to FiinGroup, chemical companies will be among the biggest beneficiaries of supply chain breakdown, especially from China.

The sector expects profit growth of nearly 13 percent led by three enterprises, Duc Giang Chemicals Group JSC, Petrovietnam Fertilizer and Chemicals Corporation and Loc Troi Group.

This will be the first time in nine years that non-financial sectors will see profits decrease.

4. Solar power plants accelerate connection to grid to enjoy incentive

Vietnam is currently operating 99 solar power plants with a total capacity of 5,053 MW.

According to the prime minister's Decision No. 13/2020, the buying price of electricity for floating solar power plants, ground-mounted solar power plants and rooftop solar power systems is 7.79 U.S. cents per kWh, 7.09 U.S. cents per kWh and 8.39 U.S. cents per kWh, respectively.

To take advantage of this incentive, a number of solar power plants are trying to start generating electricity to the power grid before December 31, 2020. The National Load Dispatch Center has had to cut the capacity of some power plants to avoid the power grid becoming overloaded.

The center said as of July 15, some solar power plants had their registered capacity larger than their real capacity so that after their registered capacity was cut, they could still generate a large amount of electricity. Some of them included the Hacom Solar, Thuan Nam-Duc Long, Phuoc Huu and Vinh Hao solar power plants.

However, the electricity buying and selling sample contract based on Circular No. 16/2017 does not contain strict sanctions against overblowing the capacity of power plants.

Investments in renewable energy, especially solar power, have boomed over the past two years as the Government buys renewable energy at higher prices than other energy sources.

The Government will adjust the buying price for certain kinds of renewable energy to help maintain a balance in the power market.

5. COVID accelerates shift towards omni-channel retail: report

The Vietnamese government should consider expanding the scale of its support programs for the COVID-19 was changing Vietnamese consumer habits. “The COVID-19 pandemic has resulted in a greater focus on health and wellness and dining at home as well as a broad-based shift towards e-commerce,” the report wrote.

“As a result of the pandemic, for instance, more than 50 per cent of Vietnamese consumers have reduced their frequency of visits to supermarkets, grocery stores and wet markets, while 25 per cent of them have increased online shopping.”

The pandemic was also accelerating online grocery shopping. “The COVID-19 outbreak has introduced e-commerce to a large number of Vietnamese consumers who had earlier not been interested in online grocery shopping and e-payments.”

On Shopee's platform, for example, the time that Vietnamese consumers spent shopping increased by more than 25 per cent after the COVID-19 outbreak, as they looked to purchase groceries and other daily essentials.

“The online shopping habits that many Vietnamese consumers have picked up during the COVID-19 period may become permanent changes that e-commerce players will need to adapt to.”

Several non-traditional retail players also seized the opportunity to make their foray into the market. For instance, ride-hailing player Grab launched its grocery e-commerce platform, GrabMart, in Viet Nam on 23 March 2020.

The report said that with a dynamic e-commerce market, Viet Nam attracted the attention of both local and foreign players who had poured an estimated US$1 billion into the sector. The two largest cities, Ha Noi and HCM City, accounted for about 70 per cent of total e-commerce transactions.

Key players include Lazada, Shopee, Tiki, Thegioididong, and Sendo, with Shopee occupying the number one spot with about 16.8 per cent share of combined monthly web traffic.

Still, Viet Nam's overall retail landscape remained predominantly offline, the report said, citing findings of a recent survey that 98 per cent of retailers cited brick-and-mortar stores and distribution channels as accounting for the majority of their sales turnover, with only 2 per cent citing e-commerce channels.

Viet Nam had more than 666,700 traditional retail outlets, 1,289 convenience stores, 58 hypermarkets and 3,450 supermarkets in 2019.

6. Vietnam stock market needs upgrading to emerging status soon: PM

Prime Minister Nguyen Xuan Phuc has urged Vietnam's stock market authorities to work out measures so that the market can be upgraded to the emerging market status in a near future.

Such a move would play a significant part in turning Vietnam into a modernized and industrialized country in the next 15 – 20 years, Phuc said at a ceremony marking the 20th anniversary of the establishment of the Ho Chi Minh City Stock Exchange (HoSE) (July 20, 2000 – July 20, 2020) on July 20.

Vietnam is currently in the Frontier Market group, and was added to the FTSE Russell's watchlist for possible upgrade to Secondary Emerging Market in September 2018. However, after one year of review, Vietnam only met seven out of nine criteria of FTSE.

After 20 years of operation, the local stock market is expected to make breakthroughs to better meet the economy's demand for mid- and long-term capital, Phuc said.

The stock market, along with the banking system, should be key channels for capital mobilization and supporting the development of the business community, Phuc added.

From two public firms at the inception, the country's stock market now has over 1,600 enterprises listed on two stock exchanges namely the Hanoi Stock Exchange (HNX) and the HoSE with a combined market capitalization of VND4,000 trillion (US$173 billion) or 65% of the GDP.

Meanwhile, the HoSE, home to the majority of large-caps, makes up nearly 80% of the total market capitalization.

According to Phuc, the government bond market, equalling 20% of GDP, has been essential in mobilizing funds for the state budget and is considered one of the fastest growing bond markets in the region, not to mention the huge potential of the derivatives market launched two years ago.

Phuc expressed his delight that Vietnam's stock market, despite its relatively young age, has overcome difficulties and challenges arising from major crises at regional and global levels, with the latest being the Covid-19 pandemic.

The stock market has been among a handful with a strong rebound in the region, Phuc added.

Over the last 10 years, total capital mobilized from the stock market reached over VND2,400 trillion (US$103.77 billion), or 14% of total social investment capital. Notably, it has been the platform to help many local enterprises expand to regional and global stages, such as Vietcombank, Vinamilk, or Vingroup, among others.

7. Experts fear satellite urban areas could turn to ghost towns

At a seminar on post Covid-19 real estate market trends on Thursday, they said the investment in satellite areas near Ho Chi Minh City that began in 2018 would continue to pour, with new projects emerging in provinces such as Dong Nai, Binh Duong and Long An.

Though a lot of inter-regional infrastructure is being developed, they feared that the new urban areas might have no occupants.

Le Hoang Chau, chairman of the Ho Chi Minh City Real Estate Association (HoREA), said the number of satellite areas around HCMC is increasing, including in Long An's Can Giuoc and Ben Luc rural districts, Dong Nai and Binh Duong provinces, and elsewhere.

A poll by HoREA centered around disputes and complaints related to these projects found only around 10 percent of respondents saying they plan to move in and live there, and the rest considering it an investment, which poses the risk of creating abandoned projects.

"If these projects are unoccupied and investors only sell them for profit, this will be disastrous for the market," Chau said. "The most important concern now is how to attract residents and this requires all the investors to have comprehensive and synchronized solutions."

In recent times some developers have begun limiting the maximum number of units a customer can buy to two to prevent them buying in bulk and selling when prices increase.

Nguyen Minh Hoa, vice chairman of the HCMC Urban Planning and Development Association, said the recent wave of investment in satellite urban areas was inevitable since large investors could no longer find large parcels of land in HCMC.

But people buying houses and land in surrounding provinces not only need houses but also infrastructure and amenities such as electricity, roads, schools, hospitals, shopping malls, markets, even places of worship, he said.

Developing urban areas in satellite regions, if not done carefully, will create ghost towns, he added.

Real estate giants are gobbling up huge areas of land in HCMC's neighboring localities like Binh Duong and Long An for mega projects.

A recent survey by VnExpress found that these companies have pocketed hundreds and even thousands of hectares in satellite urban areas in several provinces as of mid-June.

From 2018 until June this year, an average enterprise in Saigon holds at least two to three projects in satellite urban areas, according to the latest report of Ho Chi Minh City-based real estate firm Ngoc Chau A.

Corporate News

8. HVN: Vietnam Airlines looks for assistance amid COVID-19

↓ -0.76%

Dragged by the impact of the COVID-19 pandemic, the national carrier Vietnam Airlines is seeking measures to ease pressure on its cash liquidity.

According to CEO Duong Tri Thanh, Vietnam Airlines may face a liquidity shortage starting in September and a drop of 50 trillion VND (2.16 billion USD) in revenue this year.

After record profit made in 2019 and positive profit growth in the past 10 years, Vietnam Airlines may suffer a net loss of 13 trillion VND though the aviation firm has applied measures to cut costs.

To ease the impact of COVID-19, the company had cut 1.7 trillion VND worth of salaries, 24 trillion VND worth of operation expense and 1.7 trillion VND worth of monthly fuel purchase, Thanh said.

In addition, the company had negotiated with lenders to reschedule debts, worth 1.94 trillion VND, he said.

Vietnam Airlines had also proposed its Japanese investor All Nippon Airways (ANA), which owns an 8.6 percent stake, provide cash package to ease pressure on its cash liquidity, the CEO said.

ANA had to borrow 10 billion USD to fund its own activities, so the Japanese partner was unable to help Vietnam Airlines, Thanh said.

According to experts and specialists, those measures are only short-term solutions and it would not help the aviation firm completely remove obstacles.

In the long term, the Government needs to provide cash stimulus for the firm and beneficial policies to boost its performance, they said.

The Government, through the State Capital Investment Corporation (SCIC), is the largest shareholder at Vietnam Airlines, holding more than 86 percent of the capital.

Thus, Vietnam Airlines wants SCIC to inject cash into the company. But SCIC is uncertain about the deal, saying the investment may not expand in the future.

According to SCIC, the two sides have sat with each other several times but there are some issues that need more time to be settled.

As a financial investor, SCIC wants to study the case, evaluate and conduct due diligence reports. Those may take SCIC six to nine months to complete the evaluation process and that may not meet Vietnam Airlines' expectations.

As Vietnam Airlines reported a loss in the first quarter of the year, it will be unable to sell additional shares to raise capital, SCIC warns. “If the company still wants to do so, the directors must acquire the approval of the National Assembly.”

SCIC also wants some special policies if it is permitted to inject cash into Vietnam Airlines and Vietnam Airlines needs to prepare an overall, transparent and clear plan on how to use the cash to save its business.

The Government needed to keep executing its policies on tax cuts and exemptions and give priority to Vietnam Airlines, economic specialist Ngo Tri Long said.

The Government may also allow aviation firms to borrow low-interest money from banks to fund their operation and the Government could provide additional aid using the central bank's reserves, he said.

As the global airlines industry faces difficulties caused by COVID-19, it was normal that the Government injects cash into local firms as other governments do to keep companies from bankruptcy, Truong Thanh Duc, chairman of the board of members at law firm Basico, said.

The Government and ministries also had to remove barriers in policy making, he said, adding if the measures were implemented now, Vietnam Airlines may recover quickly.

9. MSH: Garment firm expects revenue drop this year as partner's parent goes bankrupt

↓ -4.76%

US-based retailer RTW Retailwinds, owner of 400 New York & Co stores in 32 states across the US, filed for bankruptcy on July 13 and it will likely close all of its stores.

RTW Retailwinds reported revenue in 2019 dropped 7 per cent year-on-year to US$827 million and recorded a net loss of $61.6 million. In 2018, it reported a profit of $4.2 million.

When the COVID-19 pandemic halted all economies, the company had to temporarily close stores and furlough workers.

RTW Retailwinds' New York & Co is currently the largest partner of Song Hong Garment.

After RTW Retailwinds announced the plan to close all stores, shareholders and investors at Song Hong Garment voiced concerns about the Vietnamese firm's earnings prospects this year.

According to sources, all liabilities in 2019 RTW Retailwinds owed to Song Hong Garment are already settled.

The liabilities so far in 2020 are worth VND220 billion ($9.5 million) and if RTW Retailwinds' bankruptcy proposal is approved, Song Hong Garment will lose that income.

In the first-quarter financial report, Song Hong Garment said liabilities owed by New York & Co were worth VND166 billion.

“The company is working to join the bankruptcy proceedings to claim its liabilities owed by New York & Co,” Song Hong Garment said in a filing to the Ho Chi Minh Stock Exchange on Friday.

“Further information and the official decision of the US court regarding the case will be updated,” the company said.

According to Song Hong Garment JSC, the company's operation will not be affected by the bankruptcy, but in the short term, earnings will be dampened as revenue from RTW Retailwinds often accounts for a large proportion of its total.

“Revenue from New York & Co accounted for 13 per cent of Song Hong Garment's total revenue in 2019,” the company said in the filing.

The local garment firm expects total revenue in 2020 would drop 27 per cent year-on-year to VND3.2 trillion and pre-tax profit would dive 54 per cent year-on-year to VND250 billion.

The local garment firm's shares (HoSE: MSH) plunged total 10.7 per cent in the last two trading days to end Friday at VND30,450 ($1.31) apiece.

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