VIETNAM DAILY NEWS

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JAPAN SECURITIES INC.

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Market Analysis

1. VN-Index rises, led by Vingroup stocks

The VN-Index added 0.2 percent to 856.75 points Thursday, with three stocks related to private conglomerate Vingroup carrying market gains.

Vietnam's benchmark index had stayed below its opening 855.08 points most of the trading day, but a surge of buy orders in the final 30 minutes allowed it to close 1.67 points above.

The Ho Chi Minh Stock Exchange (HoSE), on which the VN-Index is based, saw 227 stocks fall and 145 rise despite the index ending in the green this session.

Total trading volume fell over 10 percent to VND3.86 trillion ($166.79 million), its near lowest level this month. The average liquidity per session in July so far is VND4.3 trillion ($185.81 million).

The VN30-Index for HoSE's 30 largest capped stocks climbed 0.31 percent, with 16 tickers gaining and 12 losing.

VRE of mall operator Vincom Retail led gains this session, surging 5 percent. VHM of sister real estate developer Vinhomes added 1.7 percent, while VIC of parent company Vingroup edged up 0.2 percent.

VIC and VHM are HoSE's largest and third largest caps respectively, and together with VRE, contributed 2.3 points to the VN-Index, according to data from brokerage VNDIRECT.

PLX of petroleum distributor Petrolimex and GAS of energy giant PetroVietnam Gas were some of the best performers this session, rising 1.5 percent and 1.3 percent respectively, while POW of electricity generator PetroVietnam Power moved the opposite direction, falling 0.8 percent.

The other big gainers were a mixed bag, with REE of appliances maker Refrigerated Electrical Engineering, up 3.9 percent, HDB of private HDBank, up 1.1 percent, and FPT of IT services giant FPT, and PNJ of jewelry retailer Phu Nhuan Jewelry, both having risen 0.7 percent.

Of Vietnam's three biggest state-owned lenders by assets, CTG of VietinBank and VCB of Vietcombank kept their opening prices, while BID of BIDV slid 0.4 percent.

ROS of real estate developer FLC Faros topped losses this session with 5.8 percent, although high percentage movements in its share price is common given ROS is the smallest capped stock on the VN30.

Next came SAB of major brewer Sabeco, down 1.2 percent, SSI of top brokerage Saigon Securities Inc., down 1 percent, MSN of food conglomerate Masan Group, with 0.6 percent, and MBB of state-owned midsized lender Military Bank, also with 0.6 percent.

Meanwhile, the HNX-Index for stocks on the Hanoi Stock Exchange, home to mid and small caps, tumbled 1.26 percent; and the UPCoM-Index for stocks on the Unlisted Public Companies Market fell 0.43 percent.

Foreign investors continued to be net sellers on all three bourses to the tune of VND85 billion ($3.67 million), with selling pressure mostly on HPG of leading steelmaker Hoa Phat Group, which rose 0.4 percent, and VPB of private VPBank, which gained 0.2 percent.

Macro & Policies

2. US$10 billion offshore wind power project to be developed central Vietnam

The Copenhagen Infrastructure Partners and its partners Asiapetro and Novasia on July 22 signed a Memorandum of Understanding (MOU) with the Binh Thuan provincial government to develop the 3.5GW La Gan offshore wind project worth US$10 billion off the coast of Binh Thuan province.

The signing, which took place during the Vietnam Energy Summit 2020, was witnessed by the Head of the Party Central Committee's Economic Commission Nguyen Van Binh, Deputy Prime Minister Trinh Dinh Dung, Minister for Industry and Trade Tran Tuan Anh and many high-ranking officials.

As the world's leading investors and project developer in the field of offshore wind power, the Copenhagen Infrastructure Partners (CIP) has mobilized more than US$10 billion from investment funds worldwide for renewable energy projects.

With such the huge capacity, the La Gan project is one of the first large-scale offshore wind power projects in Vietnam. It is expected to enhance the country's regional and international position in the area of renewable energy development, according to the embassy of Denmark in Vietnam.

Danish Ambassador to Vietnam Kim Højlund Christensen said that studies between the Danish Energy Agency and the Vietnam Electricity and Renewable Energy Authority show that Vietnam has about 160GW of offshore wind power capacity to exploit. Vietnam would learn from other countries' experience to fully tap into the benefits brought about by offshore wind power.

Also at the event, TPBank and Bamboo Capital JSC signed a MOU on collaboration in funding arrangement of VND11 trillion (US$473.5 million) for renewable energy projects including wind power, solar power and solar rooftop.

A series of MOUs were signed among local partners and authorities including the one on cooperation in research and investment on LNG power plant in Ca Na between Trung Nam Group and Ninh Thuan province; another one on LNG power plant of Chan May – Lang Co Economic Zone between Chan May LNG JSC and the People's Committee of Thua Thien Hue province; and an MOU on wind power development between local EPCIC partners Vietsovpetrol/PVC-MS and investor Enterprise Energy.

3. Standard Chartered Bank forecasts Vietnam's 2020 growth at 3 percent

Standard Chartered Bank expects Vietnam's growth to slow to a multi-year low of 3 percent this year on soft external demand, with external headwinds set to offset domestic outperformance.

The forecast is in the bank's recently published research report for the third quarter.

"Growth is likely to rebound in the second half of the year (H2) driven by the strength of the domestic economy; global headwinds are likely to partially offset this. Vietnam's dependence on the global economy is the second-highest in ASEAN after Singapore; its trade-to-GDP ratio of 198 percent is among Asia's highest, driven by electronics exports. We expect 3 percent growth in Vietnam in 2020; further monetary and fiscal support in H2 could push growth closer to the Government's target of 4-5 percent," said Chidu Narayanan, economist for Asia, Standard Chartered Bank.

According to the latest macro-economic report, manufacturing and services sectors are likely to recover and be the main growth driver in the second half of the year. The manufacturing sector growth is estimated at roughly 1.5 percent in 2020, with its contribution to growth down 1.8 percentage points. The services sector's contribution to growth is likely to fall to 0.5 percentage points from 2.8 percentage points in 2019.

Construction activity is expected to decline on subdued sentiment and declining foreign direct investment (FDI). However, public infrastructure investment is likely to be stronger than in the past 18 months, driven by Government stimulus. A slowdown in tourism and related activities is likely to weigh on consumption, which is projected to pick up in H2 following the reopening of the economy but to remain below 2019 levels.

Standard Chartered's economists anticipate Vietnam's trade to pick up in H2 as global demand recovers, but a recovery to pre-COVID levels is unlikely. Demand from China should support a pick-up in both exports and imports near-term; however, subdued global demand is likely to impact trade growth. The bank expects trade balance to remain in surplus this year as lower imports offset soft exports.

The study forecasts FDI inflows to decline this year on heightened uncertainty and depressed investment sentiment globally, totalling 13 billion USD. Government measures should support FDI inflows in H2.

In addition, the sustained relocation of low-tech manufacturing to Vietnam amid geopolitical tensions should partly offset subdued sentiment, supporting FDI inflows.

4. HCMC announces digital transformation program

At the announcement, city vice chairman Duong Anh Duc stated that digital transformation is a global technological trend that has great influence on several socioeconomic sectors.

"As a big, dynamic city and the economic hub of Vietnam, HCMC can't be left out," Duc said.

The city government expects that by 2025, over 50% of administrative procedures will be processed online and at least 90% of citizens and enterprises will be satisfied with the administrative procedure process. Information over citizens and enterprises will be digitalized and stored in the city's data center.

The city strives to become one of the five leading localities in terms of e-government by 2025. It hopes the digital economy will account for a quarter of its gross regional domestic product, labor productivity will increase by at least 7% annually, over 60% of the citizens and enterprises will have e-payment accounts, more than 95% of households will have access to broadband, and 4G and 5G services will be widely accessible.

By 2030, the digital economy is expected to account for 40% of the city's gross regional domestic product, while labor productivity will increase by at least 9% annually. All administrative procedures at the city and district levels and 95% of administrative procedures at the ward level will be processed online.

To realize these goals, the city is developing communication information, internet of things and data infrastructure, with a focus on data sharing, Artificial Intelligence, blockchain and electronic identification.

Some sectors that will be prioritized for digital transformation include healthcare, education and training, transport, finance and banking, tourism, agriculture, logistics, environment protection, energy and human resources.

5. Shrimp exports unscathed by global pandemic

Shipments to the U.S., one of its major markets, grew by 29 percent to $323.3 million in the first six months of the year, or 21.2 percent of Vietnam's exports, according to the Vietnam Association of Seafood Exporters and Producers (VASEP).

In the U.S., Vietnamese shrimp enjoyed a competitive advantage since India and Ecuador suffered from supply chain disruptions due to lockdown.

Japan, Vietnam's second largest shrimp market, accounted for 18.3 percent of all shipments with $278.2 million worth of imports, up 1.9 percent from the same period last year.

However, exports to the EU fell 7 percent to $200 million.

VASEP expected shrimp prices to increase, saying inventories in key markets such as Japan, the U.S. and the EU are shrinking.

Vietnam's shrimp exports were worth $3.38 billion last year, 5 percent down from 2018.

6. Serviced apartments remain strong after COVID-19

"The serviced apartment segment is closely correlated with the flows of foreign investments and expats arriving to work for major international companies. The asset class has held up well and the long-term potential for Hanoi remains good, with many MNCs contemplating relocation to Vietnam," said Hoang Nguyet Minh, associate director of investment at Savills Vietnam.

According to the Hanoi market report of Savills, in the first half, total supply from 51 projects was down 2 per cent on-quarter to approximately 4,621 units. One Grade B and one Grade C project closed. Occupancy decreased by 4 percentage points on-quarter and 13 pptson-year, reached its lowest level of 70 per cent.

Grade A performance in the first half remained steady with 69 per cent of total units occupied. Long-term leases steadied the segment's performance with average rent easing slightly -1 per cent on-quarter to stay at $26 per square metre monthly.

Overall resilience showed with 50 out of 52 sites still in operation after lockdown eased with 22 per cent retaining around 90 per cent occupancy.

Multinationals shifting supply chains to Vietnam to escape US-China trade war-related tariffs are starting to accelerate. The northern industrial market, alongside accommodation providers, is anticipating a post-pandemic expat-driven wave of demand.

Hanoi gained $1,217 million of registered foreign direct investment (FDI) in the first half, equivalent to 25 per cent of the same period last year. Investor trust in Vietnam has been further amplified by effective pandemic containment alongside the recent EU-Vietnam Free Trade Agreement (EVFTA) ratification.

By June 2020, three industrial projects financed by investors from Japan, South Korea, and Hong Kong accounted for 53 per cent of total newly-registered FDI. Asian expats are expected to be a key tenant target for serviced apartments.

Business leverage

The government has reacted to the pandemic by issuing timely support for affected enterprises and employees. Resolution No.84/NQ-CP permitted expats to receive new or extend existing work permits. Additionally, organisations, households, and individuals received 15 per cent discounts on renting land directly from the government.

Law No.51/2019/QH14 allows expatriates to change the purpose of their visa without the need to leave and re-enter the country. Resolution No.79/NQ-CP regulating e-visa issuance for 80 countries for stays of up to 30 days regardless of purpose. Foreigners finding work in Vietnam or entering under an e-visa may change their visa status after securing a work permit. These changes are intended to reduce immigration procedures and costs while facilitating investment and tourism development.

Seven projects with approximately 770 units are expected to come online in 2020. With 73 per cent of this new supply, the secondary area will remain the most competitive in 2020. This area is also scheduled for 71 per cent of the total future supply. However, the other regions/districts Gia Lam, Dong Anh have started introducing large-scale projects. Post-pandemic, serviced apartments may see increased competition from hotels or rental platforms.

7. Banks act carefully amid uncertainties

The domestic economy showed significant signs of recovery, spurring higher demand for loans and higher growth in credit of lenders. Banks are also reducing their lending rates despite impacts on profits from their bread-and-butter lending activities.

Notwithstanding, each lender has their own lending appetite. Tran Thang Long, head of research at BIDV Securities told VIR, "In our opinion, banks would change the risk appetite to become more risk averse, and they would focus on increasing non-interest income which is the main growth factor for banks in the near future." Long also brought up examples of state-owned banks slashing their credit exposure to the market and focusing on providing loans to their existing customers.

However, some banks have taken advantage of this unprecedented crisis to expand market share and deepen their foothold. Some lenders might seek more risk such as VPBank and MSB with their credit growth of 12 per cent.

VietinBank, for example, vows to create favourable conditions to assist clients, but not by easing lending standards.

"The early economic recovery also boosts massive opportunities for Vietnam to welcome multinational relocations and become a global manufacturing hub," a representative of VietinBank told VIR. "Thus, we would place our focus on providing credit for essential sectors. There is a significant untapped potential for VietinBank to further accelerate global relocation by offering top-notch services to lure more high-quality foreign funds."

Trinh Bang Vu, head of the Retail Business Division at Shinhan Bank Vietnam, noted the South Korean lender would continue to specialise in offering preferential lending rates for customers in need of home loans, car loans, or consumer loans.

"We always think and act with customers in mind with integrity and trust. For instance, home lending rates offered by Shinhan Bank are now deemed to be the most competitive on the market, while those for personal loans are only 1.16 per cent per month," said Vu.

Private lender ACB, on the other hand, has enjoyed a high loan yield since it has given particular attention on retail banking and individual lending services.

However, the race among diversified retail banking products and services for small- and medium-sized enterprises is heating up as more competition enters, possibly placing a lower profit ceiling.

Nevertheless, Techcombank seems to be more conservative in selecting its customers. Bank chairman Ho Hung Anh emphasised that Techcombank only focuses on groups with high incomes and good repayment ability. For instance, Sun Group and Vingroup made up for a total 70 per cent market share, thus, the bank has chosen them as major customers in the resort segment.

The impact of COVID-19 on the bank has not been significant since the creditor does not have many customers belonging to severely affected sectors like aviation, textiles, and tourism. The customers of such sectors are recovering, except for Vietnam Airlines, Hung Anh noted.

In case of Vietcombank, the state-owned lender expects to increase its proportion of fee income and broaden its deposit base to include more retail clients. Most importantly, the bank expects its fees to improve after signing an exclusive bancassurance agreement with insurer FWD Group, with upfront fees the highest paid to any bank in Vietnam.

Vietnam International Bank (VIB) is slated to achieve a higher-than-average loan growth in the upcoming time, since the bank credit growth is driven by car loans.

Besides that, the Vietnamese government has decided to cut 50 per cent of registration fees for locally-manufactured and assembled cars till the end of this year. The reduction is aimed to help local businesses recover production and trade as well as stimulating consumption of cars, thus also paving the way for VIB lending activities.

Military Bank (MB), meanwhile, would lay stress on Mcredit – its consumer finance subsidiary – as an important profit centre for the bank. MB also plans to upgrade infrastructure and operations to better align the subsidiary with the bank's risk appetite.

Nguyen Thi Thanh Huyen, financial analyst at KB Securities, believed that most banks currently are being more conservative with their credit activities which can be seen in the lower targeted annual credit growth for 2020 as presented at its in annual shareholders' meeting.

"For the remainder of 2020, we expect that banks would maintain a prudent mindset in their loan activities in order to monitor their asset quality to avoid any unexpected consequences in the future," said Huyen. "However, in 2021, if Vietnam avoids another wave of COVID-19 and the situation eases globally, banks could return to pre-pandemic levels or slightly lean forward in risk-taking to compensate for a gloomy 2020 performance."

Corporate News

8. NVL: Novaland signs partnership with KNE on education development

↑ 0.48%

Under the agreement, the consultancy will be implemented in different levels following international standards on management structure; recruitment and training of teachers as well as management level associates; and partnerships with international education partners for the international school system at Novaland's projects.

The two groups have agreed on special offers for Novaland customers who have children studying at KNE's school system. KNE's customers and staff will enjoy special offers when buying real estate or using any products and services of Novaland Group.

Bui Xuan Huy, general manager of Novaland, said: "We truly believe in KNE's capability with more than 10 years of experience, and highly appreciate the group's dedication to education development of Viet Nam. This partnership with KNE in consulting to develop an international school system at Novaland's projects and Aqua City is a strategic and effective step helping Novaland to complete facilities, bringing better lives to the residents in our projects and surroundings."

KNE was established in 2010 with the purpose of bringing the best foreign education programs to students in Viet Nam. It uses the well-known Canadian International School System (CISS) for students from kindergarten to grade 12, including the Canadian International School (CIS), Bilingual Canadian International School (BCIS), Albert Einstein Vietnam (AES) and Canadian Vietnam Kindergarten (CVK). With five schools and more than 3,000 students in KNE's school system, CISS has become a prestigious education choice for many parents.

The Novaland Group is a prominent real estate investment and development company in Viet Nam. Novaland currently owns a diversified portfolio of more than 40 housing projects and valuable land holdings in strategic locations in HCM City and other provinces in Viet Nam.

9. KDC: KIDO shrugs off pandemic problems to achieve 17 per cent profit growth in H1

↑ 0.16%

Net revenues increased by 14.2 per cent to VND3.7 trillion ($159 million) due to strong growth in the cooking oil segment.

"Eighty-one per cent of net revenues came from the cooking oil business, 18 per cent from the ice cream business and 1 per cent from other businesses," the company reported.

"Faced with the impact of COVID-19 and fluctuations in raw material prices, the company took timely measures such as shifting the distribution system, reviewing and optimising the product portfolio and focusing on core and premium products."

Studying the snacking trends among young people and realising the need to use products with high nutritional value, it has launched new products, it said.

As a result, ice cream sales fell by 12 per cent while revenues from cooking oil soared by 23.5 per cent year-on-year, it said.

"This year marks an important milestone in the company's development: it is the year in which KIDO Group entered the snacking industry."

The company expects the snack segment to make a substantial contribution to revenues this year.

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