VIETNAM DAILY NEWS

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Table of content

Table of content

Market Analysis

1. Surge in new traders fuels market gains

Shares climbed on Friday thanks to a strong boost from a massive surge in new trading accounts opened by punters seeking to bottom fish from a giant slump amid COVID-19.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange (HoSE) gained 0.62 per cent to close at 847.61 points.

The index had lost 0.13 per cent on Thursday to close at 842.38 points.

More than 203 million shares were traded on the southern exchange, worth VND3.6 trillion (US$154.5 billion).

"Market liquidity continued to decline, market breadth was positive, showing optimism at the end of the trading week. VN-Index is likely to move in the area of 840-860 points in the next sessions," said BIDV Securities Company

According to the Viet Nam Securities Depository, domestic investors opened more than 35,000 new trading accounts in June this year.

This is the 4th consecutive month the stock market recorded a number of newly-opened accounts exceeding 30,000. In the last four months, domestic investors have opened a total of nearly 137,800 new trading accounts, equivalent to 73 per cent of the total number in 2019.

VSD said the steep decline of the local stock market as the COVID-19 pandemic ravaged economies lured many new punters to the market as they sought to accumulate beaten-down stocks in the massive sell-offs during the peak of the pandemic.

Large-cap stocks also strongly supported the market as the blue-chip tracker VN30-Index increased by 0.54 per cent to 789.87 points.

Eighteen of the 30 largest stocks by market capitalisation and trading liquidity in the VN30 basket rose while seven decreased.

Among gaining large-caps were Vinhomes (VHM), up 1.2 per cent, Vincom Retail (VRE), increasing 1.1 per cent, Vinamilk (VNM), rising by 1 per cent, HDBank (HDB), soaring 5.3 per cent.

Shares of Viet Nam's top brewer Saigon Beer Alcohol Beverage Corp (Sabeco) also fueled the gains of indices as SAB rose 4.9 per cent after the information that the State capital at the company will be soon transferred to the State Capital Investment Corporation (SCIC).

The government has set a deadline of August 31 for the transfer of 36 per cent of State capital in Sabeco from the Ministry of Industry and Trade to SCIC.

On the negative side, some pillar stocks still lost steam and weighed on the overall market, including insurer Bao Viet Holdings (BVH), PetroVietnam GAS JSC (GAS), steel maker Hoa Phat Group (HPG), Mobile World Group (MWG), Phu Nhuan Jewelry (PNJ) and VPBank (VPB).

On the Ha Noi Stock Exchange, the HNX-Index also declined 0.05 per cent to close Friday at 111.55 points.

More than 34 million shares were traded on the northern exchange, worth VND366 billion.

Local gold prices soared on Friday to near VND50 million (US$2,168) per tael (1.2 ounces).

On Friday, the Saigon Gold and Jewelry Company listed each tael of SJC gold at VND49.48 million for buying, VND49.87 million for selling.

Compared to Thursday, that represented an increase of more than VND80,000 and VND320,000 for buying and selling, respectively.

Macro & Policies

2. Timing for EVFTA ratification could not be better for Vietnam and EU: HSBC

Vietnam Free Trade Agreement (EVFTA) going to take effect on August 1, the timing could not be better as new trade opportunities under the deal could help to support the post-Covid-19 economic recovery in the EU and Vietnam, according to a HSBC report.

For Vietnam, the Covid-19 impact is intensifying, leading to a near-double-digit contraction in exports in the second quarter of 2020. Vietnamese exports to the EU and UK have taken a hit since the start of this year, collectively falling by 11% year-on-year in the first five months of 2020.

Importantly, the EVFTA provides a means of market diversification for EU and Vietnamese businesses. A number of economies are looking to reduce trade exposure to China in the wake of the Covid-19 pandemic. In fact, the EU is looking to pursue "strategic autonomy" which entails continuing to liberalize trade while reducing dependence on foreign suppliers of critical goods.

For the EU, the EVFTA is notable in enhancing European trade ties with Asian economies. The EU currently has trade agreements in place with three Asian partners: South Korea, Japan, and Singapore. It also has negotiations underway with other Southeast Asian economies such as Indonesia, Myanmar and the Philippines.

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and is a member of the 15-member Regional Comprehensive Economic Partnership (RCEP) that is due to be signed this year. Such deals should also help Vietnam diversify export markets and hedge against potential tariff risks, for example from the US.

Under the EVFTA, 99% of all EU-Vietnam tariffs will ultimately be eliminated under the accord. Parties have also agreed to streamline customs procedures, facilitate investment, and protect labor rights and the environment.

It is also worth mentioning that trade between both parties is complementary: Vietnamese exports mainly consist of labor- intensive goods, while the EU has an advantage in capital-intensive and high-tech products. Europe-Vietnam trade flows have grown over recent years, as Vietnam has risen in importance as a global manufacturing hub.

The EU is already Vietnam's third largest goods export market (over US$35 billion and behind the US and mainland China), while the UK ranks eighth (US$5.8 billion). On the other hand, Vietnam was the EU's 31st largest merchandise export destination (US$12.35 billion) and the UK's 53rd largest export market (US$789.94 million) in 2019 – highlighting significant potential for European businesses to boost exports to Vietnam as trade barriers are progressively lowered under EVFTA.

Table 1. Summary of sector trade opportunities for EU and Vietnamese businesses

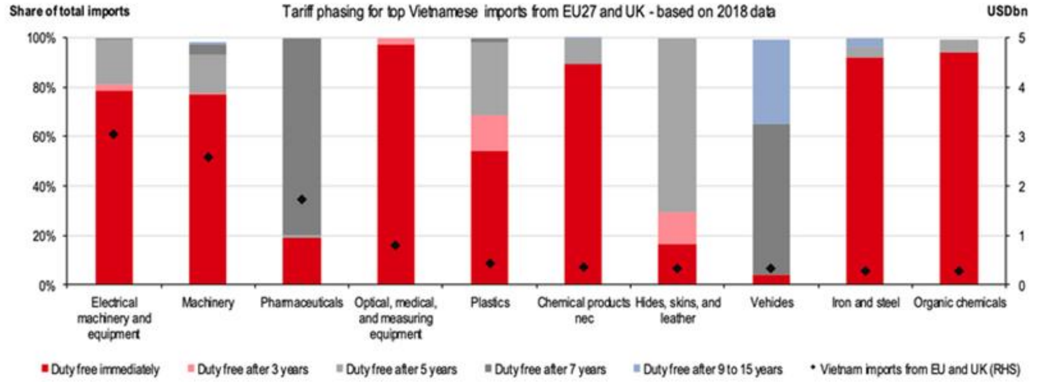
Opportunities for Vietnamese exports	Opportunities for EU (and UK) exporters
Clothing	Autos
Footwear	Food and beverages
Electronics	Pharmaceuticals
Leather products	Machinery (including machine tools)
Furniture	Business services
Fruit and nuts	Environmental services
Plastics	Banking and insurance
Coffee/tea	Education services

The ratification of the EVFTA also reflects Vietnam's commitment to establishing trade linkages with partners further afield. For instance, Vietnam is already benefitting from the high-standard

Benefits for EU

In terms of tariff liberalization, EU exporters of machinery, optical and medical equipment, iron and steel, and chemicals will immediately benefit from duty free access into Vietnam once the deal takes

Chart 2. Vietnamese tariff elimination for top imports from the EU and UK



Notes: A very small share of trade is unaccounted for, hence the totals do not always sum to 100%. This chart is based on the EVFTA tariff schedules and does not account for products where MFN tariffs have been liberalised or are already 0%.
Source: HSBC and ASEANStats

effect. Vietnamese tariffs on sensitive products such as certain vehicles, petroleum oils, and poultry from the EU will be phased out over 10 to 15 years.

The EVFTA also delivers specific benefits for European autos, pharmaceuticals, and food and beverage exporters.

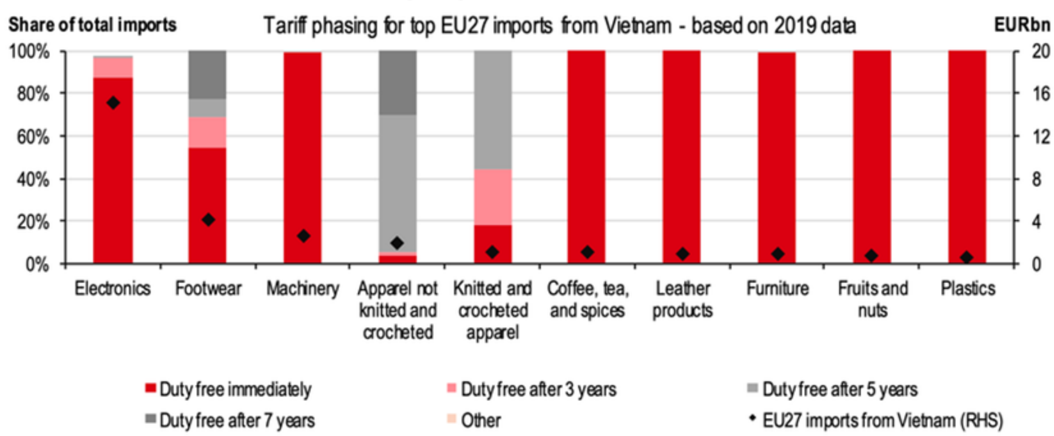
Benefits for Vietnam

On the other hand, Vietnamese exporters of clothing and footwear, coffee, furniture, fruit and nuts, fish, leather, plastics, and electronics stand to benefit the most. These are Vietnam's top exports to the EU (and UK) and tariffs will be liberalized relatively quickly. But it is important to note that Vietnamese exporters in certain sectors already face relatively low tariffs in the EU.

For example, around 90% of Vietnamese electronics exports to the EU will be immediately eligible for duty-free access once the deal takes effect (based on the EU's EVFTA tariff schedule), although at least 75% of Vietnamese electronics exports already enter the EU tariff- free. This is because the EU does not apply tariffs on imports of phones. Vietnam is a major assembly hub for Samsung phones and the EU is Vietnam's top market for smartphone exports (20% share). This is in line with Samsung's strong position in the EU market.

Another important aspect is that the deal will provide EU businesses with investment opportunities in Vietnam, for example in manufacturing and financial services. For instance, two EU banks could invest up to 49% in Vietnam's joint stock commercial banks within five years of the FTA being implemented (up from 30%).

Chart 3. EU tariff elimination for top imports from Vietnam



Notes: A very small share of trade is unaccounted for, hence the totals do not always sum to 100%. This chart is based on the EVFTA tariff schedules and do not account for products where MFN tariffs have been liberalised or are already 0%.
Source: HSBC and Eurostat

This is good news for Vietnam's banks, which have large capital shortfall needs to meet the minimum 8% capital-adequacy ratio (CAR) threshold by Basel II standards. Such provisions should help boost EU investment into Vietnam which has traditionally lagged that of other trading partners.

3. Slow Easing of Coronavirus Rules in US, Europe Gives Vietnam a Rare Economic Boost

The economy grew 0.36 percent from April to June compared to economic activity in the same months of 2019, Vietnam's General Statistics Office announced Monday. The bulk of that came from manufacturing late in the quarter rather than services, economists believe.

European nations began easing business shutdowns in April and May. In mid-June, those countries opened borders to one another for travel. And U.S. states have allowed phased-in reopening of businesses since May despite continued rises in coronavirus cases.

Both trends allowed consumers to visit stores and buy goods that they had put off during the shutdowns, said Rajiv Biswas, Asia-Pacific chief economist with IHS Markit in Singapore. Electronic gear for remote communication is a particular draw for those consumers, he said.

Vietnam counts the United States as its biggest market, with 23.2 percent of all exports. The European Union takes 15.7 percent of Vietnamese exports.

"The lockdowns started to come off in May in Europe, and so that's why I think we're seeing that June is better," Biswas said.

Export manufacturing drives Vietnam's normally fast-growing, $262 billion economy. Foreign manufacturers like Vietnam for its low wages, support from government and proximity to raw materials in neighboring China. Vietnam has siphoned away some foreign investment from China since 2018 because of U.S. tariffs imposed on Chinese exports during a two-way trade dispute.

Vietnam's economic future "really depends on the world economy," said Jack Nguyen, partner in the business advisory firm Mazars in Ho Chi Minh City. "Vietnam is now so linked to the world that how other countries are opening up will indicate how big Vietnam will be (in) improvement."

The operation of major foreign-invested factories in Vietnam supports economic growth, said Ralf Matthaes, founder of the Infocus Mekong Research consultancy in Ho Chi Minh City.

"If you go like Samsung, Panasonic, the big guys, if they're opened up again it would be a huge spike," he said. Both foreign electronics firms and many others have cautiously operated their factories year to date. Vietnam's relatively low coronavirus caseload of just 355 people with no deaths allows work to go on with few risks.

In China and India, two other Asian manufacturing powerhouses, governments ordered factory closures at the height over their virus outbreaks.

Domestic consumption further helped strengthen Vietnam's economy in the second quarter, though people on the ground report that small stores have gone out of business. A lack of foreign tourists due to Vietnam's ban on most arrivals is hurting hotels and airlines. The ban has left some foreign factory heads stuck in other countries, Matthaes said.

The International Monetary Fund forecasts Vietnam to grow faster than any other Asian country with full-year GDP growth of 2.7 percent. The IMF expects Bangladesh, China, India, Myanmar and Nepal to grow as well but by smaller percentages.

Vietnam's second half of 2020 is widely expected to beat the first half. A free trade deal with the European Union will cut tariffs when it takes effect August 1. Spending before the Western year-end holidays should help too, Biswas said.

"Vietnam is going to be one of the best performing Asia Pacific countries," he said. "Vietnam won't have a recession this year. It will be one of the only countries in Asia."

4. Vietnam may lose out on FDI without sufficient infrastructure development: PM

Vietnam may lose the appeal for foreign direct investment (FDI) to India, Indonesia, Thailand, or Malaysia, if the country falls short of necessary infrastructure, among other conditions, according to Prime Minister Nguyen Xuan Phuc.

The country is in need of superior reform solutions to ensure its business/investment environment is capable of competing with regional and international peers, Phuc said at a government meeting on July 2.

According to Phuc, Vietnam should take advantage of the fact that there have been no new Covid-19 cases over the last two and a half months to drive a faster economic recovery.

Nevertheless, the Covid-19 impact on Vietnamese economy has been more tangible in the second quarter as the GDP growth in the April – June period hit 30-year low of 0.36%.

In the first half of 2020, Vietnam's GDP expanded 1.81% year-on-year, the lowest growth rate over the last 10 years, while major driving forces of the economy such as exports, consumption and tourism have been on the decline.

In this situation, the economic recovery has become a more urgent task, Phuc stressed.

At present, Phuc pointed to investment, exports and consumption as the three pillars for Vietnam's economic growth, adding these three components need to accelerate to drive the economy forward.

Additionally, Vietnam should continue to maintain stable macro-economic conditions, in which monetary and fiscal policies should be managed flexibly to stimulate growth, he stressed.

Regarding measures to boost economic growth, Phuc reiterated public investment was a key measure. However, the disbursement rate of public investment and official development assistance (ODA) in the first six months remained at only 33% and 10% of the plan, respectively.

In 2020, the Vietnamese government targets to disburse VND700 trillion (US$30 billion) for public investment. If fully disbursed, this would be an efficient solution to create a driving force for growth in the remaining six months and into early 2021.

Stronger and more drastic measures are required to fully disburse the said amount, Phuc stated.

The government would transfer public funds, including ODA, from provinces/cities or sectors with slow disbursement to other better-performing provinces/cites and sectors, Phuc warned.

5. National promotion month kicked off

The Ministry of Industry and Trade (MoIT) held a launching ceremony for the national promotion month on Wednesday in Ha Noi.

The programme, which is entitled "Viet Nam Grand Sale 2020", will be held from July 1 to 31 nationwide by the Trade Promotion Agency (Vietrade).

Responding to the programme, Tran Thi Phuong Lan, deputy director of Ha Noi Department of Industry and Trade, said the department co-ordinated with Vietrade, MoIT's Domestic Market Department to implement many domestic stimulus programmes to remove difficulties for businesses.

Tran Thu Hien, deputy general director of Sales and Marketing of Vincom Retail, committed that the Vincom system would simultaneously implement the nine-day 2020 Red Shopping Festival with 2,500 brands at all its stores.

This was considered an unprecedented event with up to 100-per cent promotion and an opportunity for consumers to buy quality products at the best price, said Hien.

Do Thang Hai, Deputy Minister of Industry and Trade, said at the opening ceremony that the COVID-19 pandemic had seriously affected trade, services and import-export activities.

The service sector in the first six months of this year hit the lowest growth compared to the same period in previous years since 2011.

Therefore, the ministry has built an action plan to restore and promote industrial and trade development in the new period to prevent and combat the pandemic with the goal of quickly recovering and promoting the development of industrial production and trade sectors.

Hai also noted that one of the key tasks to achieve the goal was to launch programmes to stimulate domestic consumption, expand the domestic market, and support enterprises including domestic stimulus programmes and the national promotion month nationwide.

6. Viet Nam's FDI inflows to increase

Don Lam, the fund's co-founder and CEO, said FDI inflows into Viet Nam has been extraordinarily high compared to regional peers in the last few years. Last year it topped US$38 billion, up 7 per cent from 2018.

Most of it was in manufacturing with foreign companies attracted by Viet Nam's high-quality, low-wage workforce – factory wages are around a third of China's – and its proximity to China and the rest of Asian garment, furniture, electronics, and other supply chains, he said.

His fund expects the next wave of FDI to be driven by companies relocating their factories out of China and have a bigger impact on Viet Nam's economy than previous inflows because multinational companies now have an incentive to help local firms "move up the value chain" to build supply chains in Viet Nam capable of supporting those FDI companies.

Viet Nam's FDI inflows would accelerate despite de-globalisation, it said.

The world has been slowly de-globalising since the financial crisis of 2008.

"The COVID crisis exposed serious weaknesses in many supply chains and the WTO predicts that the pandemic will result in a 30 per cent fall in global FDI flows," Lam said.

"Part of that is related to politicians in some countries who want to bring manufacturing jobs back home, a sentiment that has grown during the outbreak.

"We don't believe it will slow FDI into Viet Nam at all. In fact, we and others believe it is set to increase.

"Furthermore, we believe that the ability of the US/European companies to repatriate manufacturing activity is limited, and that Viet Nam is still an extremely attractive destination for FDI, which helps explain why we expect Viet Nam's FDI inflows to accelerate and not decline in coming years."

Another factor that supports the idea that more FDI will flow into Viet Nam is the country's effective management of the pandemic.

The government's decisive action to control the virus has earned praise from international organisations, public health experts and news media.

The Economist magazine too opined that foreign companies would keep in mind how countries responded to Covid-19 when deciding where to locate a factory.

Funnel approach to FDI

To immediately eliminate many countries from consideration while deciding where to invest, decision makers use a "funnel" approach that disqualifies countries based on increasingly stringent factors.

The disqualifying factors include criteria such as political instability, very poor physical infrastructure, and/or unnavigable geographic terrain, lack of factory workers and line managers, and high labour costs.

At the narrowest section of the decision-making funnel are criteria such as the reliability of the country's electricity supply and logistics. These are lower down in the pecking order because multinationals can work around such impediments, if needed.

"Viet Nam easily passes all the usual filtering criteria, and that is one reason why Viet Nam appears on most multinationals' shortlist of countries for locating a new factory," Lam said.

Another ranking scheme used by companies is the Global Supply Chain Readiness Index.

This was developed to help managers of global supply chain assess the strengths, weaknesses, opportunities, and threats of various countries by evaluating individual facts relating to the economy, politics, infrastructure and competence.

This currently ranks Viet Nam ahead of Indonesia, the Philippines and Thailand, but below Malaysia.

It does not lay emphasis on low wages but on the size and attractiveness of the domestic market.

With a 100 million population and growing middle class, Viet Nam is considered an attractive market and so a number of companies invested in Viet Nam even before the pandemic outbreak.

One example of the next wave of investment is Apple and its contractors like GoerTek and Foxconn recently beginning to produce more items in Viet Nam.

7. Urban unemployment hits 10-year high in Vietnam

The national unemployment rate for the first six months was at 2.26 percent, higher than the 1.99 percent recorded last year. The H1 unemployment rate in urban and rural areas was 3.62 percent and 1.59 percent, respectively.

The GSO attributed the surge in unemployment rate to the economic impacts of the Covid-19 pandemic.

It estimated the Q2 labor population of 15 years and above at 53.1 million people, down 4.32 percent over the same period last year. For the first six months of 2020, this figure was 54.2 million, a year-on-year drop of 2.34 percent.

The GSO calculated the labor force participation rate for the first half of the year at 73.8 percent, down 2.8 percentage points year-on-year.

The average monthly income recorded in the second quarter was VND6.3 million ($273), down 2.78 percent year-on-year.

Meanwhile, the average monthly income of workers in the first six months was VND6.7 million ($290), down 0.16 percent compared to the same period last year.

The number of people receiving unemployment benefits in the country in the first half of the year rose 32 percent year-on-year to 565,000. The government has paid VND7 trillion ($300 million) in benefits, a 40 percent increase, the GSO said.

Reflecting the economic downturn, the number of businesses temporarily suspending operations in H1 2020 went up 38.2 percent year on year to 29,200.

There are about 760,000 businesses operating in the country and Vietnam had targeted taking this up to a million this year.

Vietnam's GDP grew by just 1.81 percent in the first half, the lowest since 2011.

Corporate News

8. SAB: Government to sell stake in country's biggest brewery

↑ 4.85%

The Ministry of Industry and Trade has been asked to transfer the Government's stake in Sabeco to the State Capital Investment Corporation before August 31.

Early last month, the ministry refuted a rumor stating that it would buy back 53% of Sabeco's shares from the Thai Beverage Public Company Limited (ThaiBev). In a document sent to the Singapore Exchange on May 29, on which ThaiBev is listed, the Thai investor also confirmed that it is not seeking buyers for Sabeco's shares.

In late 2017, ThaiBev spent over US$4.8 billion buying 53.59% of Sabeco's shares from the Ministry of Industry and Trade.

After the deal, Sabeco operated efficiently until the Government issued Decree 100 banning drunk driving, followed by the Covid-19 outbreak, which saw the company's revenue and profit fall in 2019 and the early months of 2020.

Regarding the business plan for this year, Sabeco expects to generate VND23.8 trillion in net revenue, the lowest since 2012, and VND3.252 trillion in after-tax profit, a year-on-year decrease of 37% and 39%, respectively.

Sabeco is one of the 139 enterprises from which the Government will sell its stake this year, according to VnExpress news site.

9. DXG: Change of personnel

↑ 0.44%

Dat Xanh Group Joint Stock Company announced personnel change as follows:

- Approving the resignation of Mr. Luong Tri Thin as CEO.
- Approving to appoint Mr. Bui Ngoc Duc as CEO cum the legal representative.
- Approving to appoint Mr. Le Hao and Mr. Ha Duc Hieu as Deputy CEO.
- Approving the resignation of Ms. Tran Thi Thuy Trang as Deputy CEO.
- Approving to appoint Ms. Bui Thanh Thao as Chief Accountant.
- Approving to choose Ernst &Young Vietnam Co., Ltd to audit its 2020 financial year.

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