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Market Analysis

1. Securities, consumer staples boost local market

Local shares improved little on Wednesday as strong gains of securities and consumer staples sectors countered worries about a prolonged economic recession after coronavirus cases surged worldwide.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange inched up 0.13 per cent to end at 864.5 points, extending its rally to a fourth day with total growth of 2.63 per cent since last Friday.

The strong growth of securities and consumer staples sectors helped propel the market as the two industry indices grew by 1.1 per cent and 1.0 per cent, according to vietstock.vn.

Among the best performers were brewer Sabeco (SAB), VietCapital Securities (VCI), FPT Securities (FTS) and HCM City Securities (HCM).

Sabeco shares on Wednesday jumped 4.3 per cent to close at VND193,000 apiece, having rallied a total 22.9 per cent in six trading days since July 1 on expectations the Government will soon sell entire its stake in the largest brewery firm by market value and that the company will release better-than-expected earnings reports for the second quarter.

Securities stocks have also been boosted by similar second-quarter earnings expectations as the market saw a significant increase in trading liquidity.

Construction firms and banks also performed well.

However, investors were main cautious after reports from Australia showed coronavirus infections surged when states re-opened, leading to a six-week lockdown in Melbourne.

In the US, the total number of infections hit nearly 3.1 million, according to Worldometers.

The blue-chip index VN30 slid 0.08 per cent to 805.06 points to weight on the market while the mid-cap and small-cap indices rose 0.53 per cent and 0.15 per cent, respectively.

The VN30 futures, which mature on July 16, was up 1.02 per cent to end at 802.1 points.

Real estate, mining and energy, construction materials, and seafood weighed on the market.

On the Ha Noi Stock Exchange, the HNX-Index increased by 0.58 per cent to close Wednesday at 114.37 points.

The northern market index has gained a total of 2.53 per cent since the beginning of the week.

Nearly 267.5 million shares were traded on the two exchanges, worth VND4.64 trillion (US$200 million).

Foreign investors net-sold some VND317.4 billion worth of local shares on Wednesday. They net-bought VND50.2 billion worth of shares on Tuesday.

The market was balanced on Wednesday and it signalled the VN-Index may keep progressing in the next days, Thanh Cong Securities Co (TCSC) said in its daily report.

But investors should be aware that resistance would be strong when the benchmark nears 870-880 points and attention may be driven into the companies' shares that are expected to release good Q2 earnings reports, the company said.

Macro & Policies

2. 2019 Provincial Open Budget Index released

The Vietnam Institute for Economic and Policy Research and the Centre for Development and Integration on July 8 released the 2019 Provincial Open Budget Index (POBI), which assesses how transparently localities spent their allocated public funds last year.

The average transparency score was 65.55 out of 100 points, up from 51 points in 2018 and 30.5 in 2017.

The southern-coastal and southern regions boasted the highest average POBI scores, of 77.16 points and 73.81, respectively.

The north-central region placed last among Vietnam's seven regions, with 52.62 points.

The Mekong Delta province of Vinh Long continued to have the most transparent administration in terms of budget spending, posting 90 points.

Meanwhile, central Phu Yen province and northern Thai Binh province were ranked last, with just 10 points each.

Researchers surveyed 63 cities and provinces regarding two main pillars - budget transparency and civil participation - to evaluate localities' efforts to fully disclose all relevant fiscal information in a timely and systematic manner.

The index is built on the five main criteria of completeness, timeliness, availability, convenience, and reliability in providing seven documents that the 2015 Law on State budget mandates be disclosed and three other documents that need to be published under international best practices.

The POBI is a national initiative implemented independently by non-profit research institutes since 2017. Along with other indexes such as the PCI (provincial competitiveness index), it has become a tool to enhance openness, democracy, and transparency and also helps Vietnam demonstrate its international commitment to promoting open government.

3. M&A set for a bustling second half

According to a government document released last week, the Vietnamese government will sell its remaining 36 per cent stake in Sabeco by the end of this year. The state can collect VND37.6 trillion (around $1.63 billion) from the divestment. The Ministry of Industry and Trade will complete the stake transfer to State Capital Investment Corporation by late August to facilitate the deal. With an investment sum of nearly $5 billion, Thai Beverage's takeover of Sabeco in 2017 was Vietnam's biggest mergers and acquisitions (M&A) to date. If the mega deal of 2017 can be replicated in 2020, it will keep the deals flowing in Vietnam, especially as the overall M&A market in the region has slowed down due to the coronavirus pandemic.

According to Baker McKenzie, despite a slowdown in global deal-making due to worldwide economic uncertainty, Vietnam remains active in M&A. The US law firm predicted cross-border acquisitions to dominate M&A deals in the coming years, as the country's solid fundamentals continue to attract foreign investors.

Vu Thi Que, chairwoman of law firm Rajah & Tann LCT, is upbeat about the prospects of deals in the second half of this year. She said that the number of M&A transactions will increase, spread across many areas as well as in size, ranging from small to medium and big deals. The main reason of this is that many enterprises will be torpedoed by the coronavirus and be left with no option but to sell or merge with others. In addition, M&A is the fastest option to expand business scale and market share for businesses with strong capital operating in areas not or only a little affected by the epidemic.

Indeed, M&A activity in Vietnam was down 56.8 per cent on-year in the first half of 2020 with 4,125 instances of capital contribution and stake purchase worth $3.5 billion. According to fresh data from the Ministry of Planning and Investment's Foreign Investment Agency. There have been a number of high-profile deals recently, buoyed by investor interest in Vietnam's M&A market. Japan's Mitsubishi UFJ Lease & Finance Co., Ltd. is acquiring a 49 per cent equity interest in VietinBank Leasing, a wholly-owned subsidiary of VietinBank. The transaction was signed on June 22 and is pending government approval.

Meanwhile, Manulife Financial Corporation is emerging as the leading bidder for Aviva Plc.'s Vietnamese unit as it looks to expand in Southeast Asia. The Canadian insurer is weighing a deal that would include a so-called bancassurance agreement with Aviva's local partner VietinBank to sell insurance products through the state-owned lender's branches, as reported by Bloomberg.

In June, a consortium led by global investment firm KKR that includes Singapore's Temasek has completed an investment in Vinhomes, the leading integrated real estate developer in Vietnam. The consortium has collectively invested VND15.1 trillion ($656.5 million) which translates into a 6 per cent equity stake in Vinhomes. The investment underscores the attractiveness of Vietnam as a regional investment destination with its strong development and growth prospects.

In May, SK Investment III, a subsidiary of South Korea's third-largest conglomerate SK Group, got more than 12 million shares (nearly 25 per cent) of Imexpharm Corporation at an undisclosed value in further testimony to the group's longterm designs in Vietnam.

Commenting on the latest deals, Masataka Sam Yoshida, head of the Cross-border Division and CEO of Vietnam RECOF Corporation, said, “If we look at the VietinBank deals, without knowing the detailed background, the deals with Mitsubishi and Aviva look like ‘given' transactions which had to happen due to their existing relations. The Mitsubishi UFJ Lease & Finance deal was a direct result of the firm relationship between their parent banks and the deal with Aviva may also come from the long-standing historical relations between Aviva and VietinBank.”

Only SK Group's deal looks like a new development, however, this may be more of a financially-oriented transaction supported by the bright prospects of Vietnam's pharmaceutical sector. Thus, the driving factors activating the market in the coming time are the Vietnamese government's policies to open the gates wider for visiting investors as early as possible as well as optimising decision-making on the side of local authorities not to interfere unduly and to approve foreign investors with intentions of finding local partners and willing to pay a fair price.

Sam Yoshida believed in the dynamism of the Vietnamese economy to attract big investments led by mega companies. However, he said he would monitor this trend further to see if it will be a prevalent trend or will be slowed down by the numerous factors clearly affecting the business activities of global corporations.

For instance, the Japanese M&A market saw a 16 per cent drop on-year in deals during the first half of 2020, accompanied by a 59 per cent decrease in transaction value. There are similar trends in the United States, however, it is not easy to make a clear comparison as there are very different circumstances. The RECOF expert hoped Vietnam would maintain the current trend and stay a healthy M&A market post-pandemic.

Meanwhile, Que of Rajah & Tann LCT said that recent big deals are mostly due to two reasons. Firstly, the epidemic has plunged many economies into deep recession and disruption. In many of the affected countries, despite social distancing, the epidemic cannot be controlled and has taken a heavy toll on many big corporations who, in turn, are looking to disperse risks and make considerable investments in potential markets which are not seriously affected by the epidemic, like Vietnam. Accordingly, the sectors seeing large M&A deals are the ones with elevated potential like insurance, healthcare, and banking.

Secondly, Vietnam has had relatively stable GDP growth during the past three years (about 7 per cent in 2017-2019). In contrast with the global economy, the Vietnamese government's success in fighting the virus means it has first-mover advantage in reopening the economy, and projects could be implemented with much greater ease.

4. Southern Vietnam sees surge in industrial land prices

Ho Chi Minh City had the highest rent at $182.3 per square meter per lease term, followed by Long An ($133), Dong Nai ($98), Binh Duong ($88) and Ba Ria-Vung Tau ($80), according to a recent report by real estate service firm Jones Lang LaSalle (JLL).

The cost of ready-built factories was more stable than land at $3.5-5 per square meter per month due to short-term contracts of between 3-5 years and the impacts of the Covid-19 pandemic, the report says.

Even though businesses were affected by the pandemic, market studies showed industrial real estate in Vietnam still attracting many enterprises and investors.

In the second quarter, the south of Vietnam had registered a total leasable land area of 25,045 hectares. Some of the remaining industrial real estate in HCMC was not available for leasing since compensation payments related to site clearance had not been completed.

Because the pandemic is still happening locally and globally, leases in the second quarter were mainly from domestic investors or deals reached before the outbreak. The average occupancy rate of the southern industrial parks reached 84 percent by the end of the second quarter.

5. Car sales rocket after registration fee cut

Prime Minister Nguyen Xuan Phuc decided to cut 50 per cent of registration fees for locally-manufactured and assembled cars till the end of this year. The reduction was proposed by the Ministry of Industry and Trade to help local businesses recover production and trade as well as stimulating consumption of cars.

Cars currently have a registration fee of 12 per cent of the car value in Ha Noi, and 10 per cent in other cities and provinces nationwide.

Auto dealers said the number of car buyers had increased by some 20 per cent.

In the Vietnamese automobile market, locally-assembled cars are priced at the lowest from VND299 million (US$12,892) for Kia Morning and up to VND4.9 billion for Mercedes-Benz S 450 L Luxury.

For the cheapest Kia Morning priced at VND299 million, with a registration fee from 10 to 12 per cent, car buyers only need to pay VND14.95 million to 17.94 million, instead of VND29.9 million to 35.88 million as before.

For the best-selling cars in the Vietnamese auto market such as Toyota Vios priced from VND470 million to 570 million or Hyundai Accent with VND426 to 542 million, car buyers can save up to VND34.2 million due to the registration fee cut.

Luxury car production and assembly in the country with high prices will benefit the most. In Viet Nam, the only luxury car brand assembled in the country is Mercedes-Benz, with the most expensive model the S 450 L Luxury, priced from VND4.2 to VND4.9 billion. Registration fees were previously from VND420 million to VND596 million but now cost only from VND210 million to VND298 million.

Nguyen Thi Thuy, a car buyer in Ha Noi's Hoang Mai District told Viet Nam News that she took advantage of the policy to buy a new car a few days ago.

"I planned to buy an old car due to a limited budget. However, I decided to buy a new one at the last minute thank to the registration fee reduction. I saved some VND40 million from the cut," she added.

Some auto dealers in Ha Noi said the policy has been warming up the market after a long stagnation due to the COVID-19 pandemic.

Dinh Van Trong, director of Hyundai Dong Do, said the number of car transactions had increased by 30 to 40 per cent against the time of the height of the pandemic. Small cars with prices of VND500 to 600 million each had the highest sales. The market is receiving positive responses from the Government's stimulus policy while businesses also reduce the cost burden.

Nguyen Van Hau, a representative from Mazda Giai Phong, told Viet Nam News that their car sales increased from 42 in May to 120 in June (up 300 per cent) after the registration fee cut took effect. There were some 100 car buyers lodging deposits to buy cars before June 28 to enjoy the fee cut.

"We are offering VND40-80 million off depending on kinds of cars on registration fees for customers. After June 28, the number of signed contracts waiting for car delivery was still high. We still have 80 cars that have not been delivered to customers who reserved due to a lack of supply," he said.

He added that car demand at his dealership was higher than the supply, making them roll back some promotional programmes which were applied during the COVID-19.

In areas neighbouring Ha Noi, car dealers' representatives also noted that the market for assembled cars had heated up, as opposed to imported cars. For example, Mitsubishi with six out of seven models imported cars, the number of transactions did not change significantly. Locally assembled car manufacturers had a sudden increase in the early days after the policy took effect.

Experts said car sales would continue to increase this month as many customers signed contracts before and would get their car later to enjoy the policy.

However, they said the registration fee cut only applies to domestically-assembled cars, so businesses need to balance their policies to avoid the situation of consumers turning their backs on local cars after the fee cut ends and waiting for imported ones.

6. COVID-19 a once-in-a-century opportunity to boost digital transformation

Hung spoke at a conference reviewing results in the first half of the year and setting orientations for the second half, saying that Viet Nam had a significant advantage in digital transformation, given a large number of strong information technology and telecommunications companies.

"It's time to invest heavily in digital transformation, promoting the development of digital technology companies in Viet Nam for the country to create breakthroughs," Hung said.

He urged ICT companies to focus on developing the domestic market which had a population of 100 million, stressing that the domestic market was a ground for companies to go global.

The ICT sector must also contribute to developing an autonomous economy. The pandemic also provided opportunities to invest in healthcare and promote the use of digital technology in the healthcare sector.

Hung urged firms to apply new management models and new business models based on the application of digital technologies.

Regarding foreign direct investment, Hung said that Viet Nam should focus on attracting investment in high technology, promoting research and development (R&D), urging ICT firms to get ready for not only technology transfer but also cooperation in R&D for core technology and products.

Telecommunications companies must hasten the development of 5G services and ensure digital infrastructure at industrial parks, hi-tech zones and IT zones as a preparation to receive the new wave of investment.

Hung stressed that new-generation telecommunications infrastructure or digital infrastructure was the most important factor in a digital economy.

Hung also emphasised the mission to master the network security ecosystem.

Hung said this year, digital transformation strategies would be developed for ministries and localities.

In addition, ministries and localities must enhance efforts to put all public services online at level four (service payments can be settled online) by 2021 at the latest.

All provinces and cities must have data systems connected. The IT system must have four-layer security this year.

Of note, the ministry targeted that every Vietnamese had smartphones and every household had a high-speed, fibre optic internet connection.

The ministry would also focus on developing four types of digital technology companies in Viet Nam: those owning core technology, providing solutions and developing products, operating technologies and start-ups.

7. Rush of high-tech breeders expanding into Vietnam

Hung Nhon Group and Dutch group De Heus are currently developing a VND1 trillion ($44 million) high-tech agricultural complex in the Central Highlands province of Gia Lai.

Covering an area of 100 hectares, the complex will host a complete production chain, including breeding facilities for pigs, slaughter, and the manufacturing of organic feed and fertiliser meeting international standards. The entire complex will be designed using advanced agricultural technology.

Half of the facility will be used to breed around 2,500 pigs imported from the Netherlands. The remaining area is to serve the remaining components of the project.

In May 2019, both investors signed an MoU with Daklak People's Committee to develop the DHN Daklak high-tech agricultural complex. The construction has been implemented on schedule and is expected to be completed in the fourth quarter of 2025. The planned complex in Gia Lai is similar to another one already based in Daklak.

The complex in Daklak includes an 80ha farm for breeding 2,400 imported from the Netherlands; a 30ha chicken breed area; and a 15ha plant for slaughtering and organic fertiliser production.

Asked about the wastewater treatment system, Dao Duy Bien, general director of DHN Daklak High Tech Agriculture Development JSC, told VIR, "We spent 5-10 per cent of the total investment capital building this system. The entire machine line and technology will be imported from Germany, Denmark, and the Netherlands."

"Fertiliser manufacturing plants can help limit the discharge of waste into the environment. In addition, the treated water will be recycled thoroughly," Bien said.

Following establishment of the Gia Lai complex, the two groups plan to develop further breeding facilities in Daklak, Kon Tum, and Lam Dong provinces.

Bien, who is also a member of Hung Nhon Group, told VIR that the products of these farms are expected to be exported to all of Southeast Asia. "De Heus and Hung Nhon aim to expand pig farming across five Central Highlands provinces over the next 5-10 years. These projects are hoped to turn the Central Highlands into a hub of pig farming in Southeast Asia," Bien said.

In early June, one investment promotion and consultancy company began to survey possible investment destinations for a foreign partner to develop pig breeding and processing plants for export with a total investment capital of $1.5 billion.

According to its plan, the project would cover an area of over 1,200ha with six components, including a 30ha genetic centre, three breeding centres over 90ha, a cattle feed plant (10ha), three mixed processing plants (127ha), three pork processing factories (127 ha), and 43 pig breeding farms (860ha).

Meanwhile, C.P. Vietnam, Japfa, and Group JSC also plan to expand operations here. The groups confirmed that husbandry is one of the riskiest sectors due to the possible impact of diseases. However, the continuous expansion of these groups in spite of all risks is showing that the cattle and poultry breeding sector offers huge profit. In recent times, these companies reported both strong revenue and profit despite the pandemic.

Dabaco, a multi-field group specialising in animal feed, cattle, and poultry breeding, is an example for the sector's speed of growth. In the first half of the year, the group gained VND744 billion ($32.35 million) in profit, 27 times as much as in the year before and surpassing the annual plan by 63 per cent.

This year, the company targets to earn VND13.2 trillion ($574 million) in revenue and VND512 billion ($22.26 million) in after-tax profit. At the 2020 shareholders' meeting two months ago, Nguyen Nhu So, chairman of the Board of Directors, stated that the group's profit could well reach its charter capital of VND911 billion ($39.6 million) in the current market, and it is firmly on track to reaching the targets.

Corporate News

8. SVC: Board resolution on capital increase

↑ 0.00%

According to the Board resolution dated July 02, 2020, the Board of Directors of Saigon General Service Corporation approved to issue shares to increase its charter capital increase as follows:

- Stock: Stock of Saigon General Service Corporation
- Stock type: common stock
- Par value: VND10,000/share
- Number of issued shares: 24,995,573 shares
- Number of outstanding shares: 24,975,507 shares
- Number of treasury shares: 20,066 shares
- Number of shares expected to issue: 8,325,169 shares
- Value of shares expected to issue: VND83,251,690,000
- Issue ratio: 1:3 (those who own 03 shares will receive 01 new share)
- Financial resource: capital surplus
- Issue time: in 2020, after the State Securities Commission approves.

9. GAS: Board approves the draft of agreement with PVFCCo

↑ 0.69%

On July 01, 2020, the Board of Directors of PetroVietnam Gas Joint Stock Corporation (PVGas) issued Resolution No.70 approving the settlement draft of gas sale and purchase in 2019 between PVGas with Petrovietnam Fertilizer and Chemicals Corporation (PVFCCo.) in order to pay for gas sale and purchase from January 01, 2019 to December 31, 2019 after adjusting gas resources and fees.

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