VIETNAM DAILY NEWS

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JSI
JAPAN SECURITIES INC.

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Market Analysis

1. VN-Index climbs to two-week high in fourth gaining session

The VN-Index climbed 0.27 percent to 840.04 points Thursday, the fourth straight gaining session taking it to its highest point since July 23.

The benchmark index saw steady growth throughout the day with strong gains in the session's last hour to end 2.24 points higher than the previous day.

The Ho Chi Minh Stock Exchange (HoSE), on which the index is based, saw 167 stocks gain and 199 lose. Total transaction volume fell 23 percent over the previous session to VND4.15 trillion ($180 million).

The VN30-Index, a basket of HoSE's 30 largest capped stocks, rose 0.11 percent, with 13 gaining and 14 losing.

Topping gains in the basket again was SAB of Vietnam's largest brewer Sabeco, up 3.7 percent, followed by VNM of dairy giant Vinamilk, up 2.4 percent, and HDB of HDBank with 2 percent.

But most other private banks ended in the red, with TCB of Techcombank down 1.3 percent, MBB of MB down 1.2 percent, and VPB of VPBank down 0.7 percent.

Among the three largest state-owned banks by assets, only VCB of Vietcombank gained 0.1 percent, while BID of BIDV fell 1.3 percent and CTG of Vietinbank went down 1.1 percent.

Other gainers included GAS of state-owned Petrovietnam Gas with 1.3 percent, PNJ of jewelry company Phu Nhuan, 1.3 percent and VJC of budget airline Vietjet, 1.2 percent.

The HNX-Index for stocks on the Hanoi Stock Exchange, home to mid and small caps, fell 0.59 percent, while the UPCoM-Index for stocks on the Unlisted Public Companies Market added 0.11 percent.

Foreign investors turned net buyers with a margin of VND10.74 billion ($463.8 million), with buying pressure focused mainly on VNM of Vinamilk and CTD of Coteccons Construction Jsc..

Economy & Policies

2. Deputy PM demands faster SOE equitisation, State capital divestment

Deputy Prime Minister Truong Hoa Binh on August 6 requested the utmost effort from ministries, sectors, and State-owned enterprises (SOEs) to achieve the best result possible in equitising SOEs and divesting State capital from businesses.

At its meeting in Hanoi, the steering committee for enterprise reform and development reported that from 2016 to June 2020, more than 218 trillion VND (9.4 billion USD) was collected from SOE equitisation and State capital divestment, up 2.79-fold against the figure recorded in the 2011-2015 period as a whole, of about 78 trillion VND.

State capital divestment, however, is still behind schedule, it said, pointing out that under the PM-approved plan for 2017-2020, divestment at 348 enterprises is to be completed within the period but has been carried out at just 92, or only 26.4 percent.

Also head of the steering committee, Binh blamed the problem on the slow revision of regulations on equitisation and divestment as well as the lax implementation of the land law and the law on the management and use of public assets, while noting that many enterprises waited until the equitisation process began before beginning to address land-related issues.

Some ministries, sectors, localities, and SOEs haven't been serious in completing the task, he said, adding that the COVID-19 outbreak has had an adverse impact in every socio-economic regard, including equitisation, divestment, and the stock market, not to mention certain existing barriers to the private sector development.

Noting that the remaining months of this year is also the final period for implementing the equitisation and divestment plan for 2016-2020, Binh asked ministries, sectors, and SOEs to exert every effort to restructure SOEs while accelerating equitisation and divestment to record the best possible results..

3. Forbes announces VN's top 50 brands in 2020

The total brand value of the 2020 list is worth more than US$12.6 billion, up 22% compared to the previous list. The top 10 brands include popular names such as Viettel, Vinamilk, Sabeco, Vinhomes, Vietcombank, FPT and Vincom Retail, accounting for 30% of the total value.

Viettel - a military-run industry and telecoms group, with a brand value of more than US$2.9 billion, has topped the list, followed by Vinamilk – a producing and trading milk and dairy products company, with a brand value of more than US$2.4 billion (in 2019, the brand values of Viettel and Vinamilk were US$2.1 and US$2.2 billion respectively).

Novaland and Nam Long, the two businesses operating in real estate, are named in the top 50 brands of this year, occupying the position of 26th and 38th, respectively.

Representatives in the list are mainly operating in food, beverage and finance sectors (nine ones), real estate, technology, materials and retail sales.

Forbes Viet Nam implemented this list according to Forbes US's assessment method, calculating the role of brand contribution in the business performance of enterprises. The most valuable brand is the brand that achieves a high turnover in the industries in which it plays a key role.

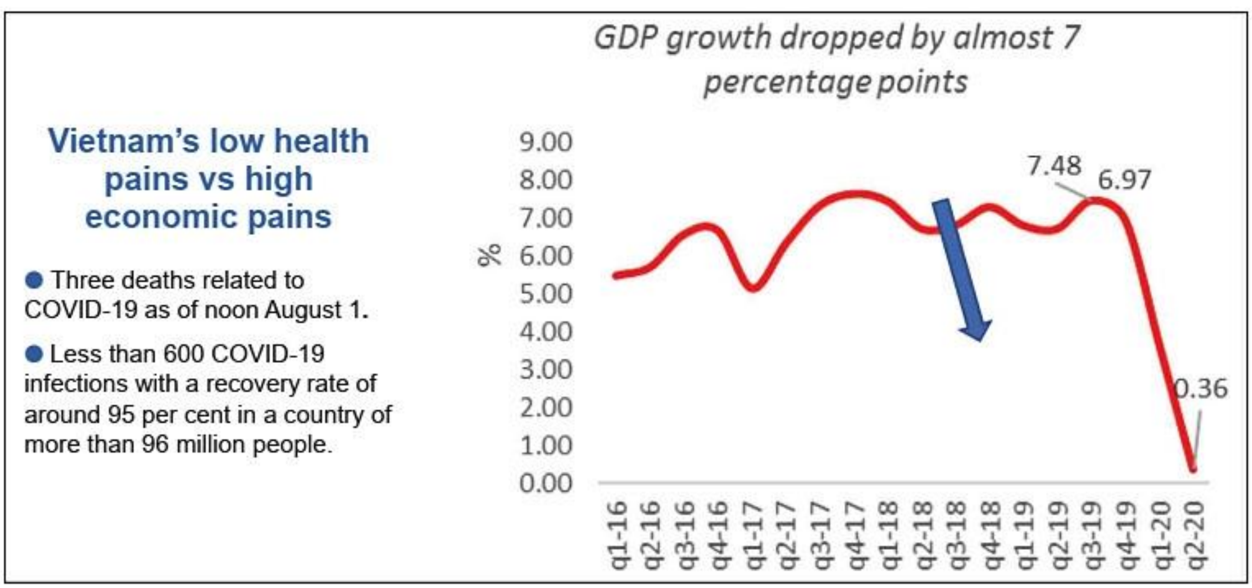
After making a preliminary list of more than 100 companies with strong brands, products with wide coverage and high level of consumer awareness, Forbes Viet Nam calculates income before taxes and interest, then determines contribution value of intangible assets.

4. Unique advantages can pull Vietnam out of uncertainty

The country's GDP was still growing at a 0.4 per cent in the second quarter of 2020, but it was the worst performance recorded over the past 35 years. The magnitude of the economic slowdown, a drop of almost seven percentage points, was equivalent to the one observed in most affected countries – except that Vietnam's economy, like a healthier body, was in a better initial position to resist the pandemic.

The magnitude of the COVID-19 shock might have been bigger than captured by the slowdown from the perspective of jobs and income. The authorities estimate that over 30 million Vietnamese workers – approximately half of the labour force – were affected at the height of the lockdown during the month of April.

The Ministry of Labour, Invalids, and Social Affairs also reported that urban unemployment rose by 33 per cent during the second quarter, while the average income per worker decreased by 5 per cent. Granted, thanks to the easing of social distancing since late April, most family businesses have resumed their activities, and almost all wage workers are back to work, according to a recent phone survey conducted by the World Bank Group.



However, one can argue that the economic shock has been unexpectedly large for a country used to recording full employment during the last two decades.

Looking ahead, Vietnam's economy remains vulnerable to new waves of coronavirus outbreak and, even in their absence, it could be stuck in what we can label as the "COVID-19 economic trap."

In the immediate future, we believe that the Vietnamese economy will not be able to fully rely on its two traditional drivers of growth – foreign demand and private consumption. Given the uncertainties in the domestic and international contexts, risk-averse households will limit their investment and consumption plans, while exporters will continue to suffer from international mobility restrictions and falling global income.

For example, the tourism sector is likely to miss the 20 million foreign travellers that were expected to visit Vietnam in 2020. The export manufacturing industry will face a further decline in orders from abroad. All manufacturing exports – with the notable exception of computer parts – have contracted in the past six months.

According to the World Bank's latest economic update on the new normal for Vietnam, the country is nonetheless in a good position to escape this economic trap for at least two reasons.

Firstly, the government has created enough fiscal space to implement an ambitious fiscal stimulus. At the end of 2019, the level of public debt to GDP ratio was about 7 per cent – lower than in 2016 – and the authorities had accumulated massive cash reserves. The government can therefore enhance both the aggregate demand in the short term and the aggregate supply in the longer term by spending more and better.

Of course, such a tool should be used with caution to maintain fiscal and debt sustainability over time. It will also require an effort to improve the allocative and financial efficiency of public expenditures. The positive impact associated to the fiscal stimulus can be maximised only if the authorities are capable of selecting and rapidly implementing the projects with the highest multiplier effect on jobs and the entire economy.

Concurrently, to further stimulate the aggregate demand, this fiscal drive should also provide smart support to the private sector through tax relief and financial assistance.

Because Vietnam's performance has been uneven in these aspects, our economic update offers a series of recommendations on how to improve them. While the fiscal stimulus can boost Vietnam's economy in the short term, the return to the pre-crisis trajectory of sustained and inclusive growth might require more effort.

Fortunately, the country can count on a second, and perhaps unique, advantage. By staying ahead of the curve in the fight against the pandemic, Vietnam can increase its footprint on the world economy by attracting foreign businesses that are now looking to diversify their activities and mitigate the risks.

Vietnam can also diversify its trade by forging alliances with countries that have also low rate of infections, while exporting rice and other agriculture products to the increasing number of countries facing higher food insecurity. On the domestic front, Vietnam can accelerate contact-free, digital services such as e-learning, e-commerce, e-government, and telemedicine.

Such a move will help meet the growing demand for quality services by the emerging middle class and also improve the country's competitiveness.

Escaping the COVID-19 economic trap has become the priority for Vietnam, as it will be for many other countries. Vietnamese policymakers have the opportunity to move faster than others. Not only can this opportunity help Vietnam adapt its own economy to the new realities, but also inspire other governments in their efforts to define what will be the new normal in the post-pandemic world.

5. Vietnam receives positive global exports outlook

Vietnam is expected to continue growing its share of global exports despite decline amid the resurgence in the COVID-19 pandemic after three months of no local transmissions, according to an HSBC report.

"If there was a new wave of infections in Vietnam, it could still be relatively better off given that the situation is worse in many other markets and regions," according to HSBC Global Research.

Vietnam is not alone as Hong Kong, which had also largely contained the outbreak, has also seen a surge in cases recently, showing the risks are far from over and investors need to position themselves accordingly.

"Vietnamese authorities have done a good job in containing the transmission by far, which increases our confidence that the country is better prepared to deal with any further waves.

"Vietnam is one of the best long-term growth stories in Asia.

"If Vietnam were a company, we would highlight market share gains, a strong balance sheet, robust growth, and good management. We maintain our positive view on Vietnam."

The pandemic and US-China trade tensions have urged companies to diversify their supply chains. Japan recently announced a first list of companies it will subsidise to relocate from China to Southeast Asia.

Some 30 companies plan to move to Southeast Asia, half of which could move to Vietnam to produce medical equipment, semiconductors, phone components, air conditioners, and power modules.

The report, titled Asia Frontier Insights: Reassessing the markets: Vietnam encore, expected Vietnam's GDP to grow by 3 percent this year, the only ASEAN country to have positive growth this year.

Despite the outbreak, most economic indicators are showing signs of normalisation. The economy is getting back on track. Vietnam's second quarter GDP growth was 0.4 percent year-on-year despite lockdowns and other impacts of the pandemic.

Retail sales rebounded by 6.2 percent year-on-year in June while industrial production grew by 7 percent.

But experts warn that the pandemic is too unpredictable and could impact Vietnam more negatively than anticipated.

The Asian Development Bank has forecast Vietnam to grow at 4.1 percent this year.

In its latest update on June 18 it said developing economies in Asia would grow very little this year since preventive measures against COVID-19 have affected their economic activity while import demand has weakened.

The International Monetary Fund forecast the global economy to grow at minus 4.9 percent this year, the US at minus 8 percent and the EU at minus 10.2 percent, and China by only 1 percent.

The World Bank expects the global economy to shrink by 5.2 percent, developed countries by 7 percent as domestic demand and supply, trade and finance have been severely disrupted and emerging and developing markets by 2.5 percent.

Trade pact

The EU-Vietnam Free Trade Agreement (EVFTA), which took effect on August 1, will reduce duties to zero percent on 71 percent of goods, rising to 99 percent in seven years. This should also be positive for Vietnam's exporters in sectors like electronics and textiles, according to the HSBC report.

Speaking at a recent meeting on trade cooperation with EU partners, Deputy Minister of Industry and Trade Hoang Quoc Vuong said bilateral trade has increased from about 4.1 billion USD in 2000 to 56.45 billion USD last year. Vietnamese exports to the EU were worth almost 41.5 billion USD.

With a population of more than 500 million and a combined GDP of over 15 trillion USD, or 22 percent of the world's GDP, the EU is the largest exporter and importer in the world with annual trade of 3.8 trillion USD.

Under the EVFTA, the EU will immediately remove import duties on 85.6 percent of tariff lines – equivalent to 70.3 percent of Vietnam's exports.

After seven years, 99.2 percent of tariff lines, equivalent to 99.7 percent of Vietnam's exports, will be eliminated.

Vietnam will cut 48.5 percent of tariff lines, equivalent to 64.5 percent of EU exports, to zero immediately and 91.8 percent of tariff lines in seven years.

6. Industrial property proves most resilient to COVID-19

Real Capital Analytics data show Asia-Pacific office transaction volumes fell by 59 per cent year to date (June, 2020) compared with the same period in 2019. Retail dropped by 68 per cent by the same metric. However, industrial and logistics transactions fell by only 24 per cent, suggesting the segment has proved more resilient in the face of the COVID-19 crisis.

According to Simon Smith, Savills Asia-Pacific head of Research and Consultancy: "Industrial and logistics properties, especially warehousing, have been at the top of many investor lists for a while now. The sector taps into megatrends such as the growth of online retail and almost every market in the region is undersupplied with modern logistics space."

The segment continues to grow in appeal to global investors as a stable and secure asset class. Industrial and logistics property have been resilient across most of Asia-Pacific real estate markets, especially in Vietnam.

Vietnam – supply urgency

According to Focus Economics, Vietnam's index of industrial production (IIP) in June 2020 was up 7 per cent on-year, largely driven by manufacturing and electricity production. Manufacturing and industrial output is estimated to grow 2.71 per cent overall in 2020, with 9.2 per cent growth forecast in 2021.

Manufacturing PMI was 51.1 points in June 2020, up from 42.7 points in May, marking the first growth above the 50-point threshold since January. This rebound is attributed to a solid increase in new orders, increased overall purchasing activity, while pre-production inventories were at their highest since November 2018.

In June 2020, Vietnam had 336 IPs over a total of approximately 97,800 hectares. Of these, 261 IPs are operational while 75 are under site clearance or construction. Operating industrial park average occupancy is now 76 per cent nationwide.

John Campbell, Savills Vietnam manager of Industrial Services, emphasised: "Demand continuing to outpace supply underscores the need for more segment supply in key industrial provinces. Occupancy rates in key hubs such as Binh Duong, Dong Nai, Long An in the south and Bac Ninh, Hung Yen, and Haiphong in the north, have all risen significantly since 2018."

"Most lease transactions in the first half of 2020 were derived from discussions which started last year, while many others were confirmed from companies in Vietnam looking to expand production facilities. The travel restrictions have limited "market entry" enquiries, postponed site inspections from key international investors, in turn, reducing executed lease volumes with local developers," he said.

While there are no guarantees for next year, Vietnam's Industrial Sector reliance on continued supply chain migration out of China is increasingly apparent. Many landlords are anticipating a great year once travel restrictions are lifted.

7. Top banks by profits switch places on pandemic fallout

While the top 10 list in terms of profits remained unchanged from last year, there were major changes in rankings.

In the public sector, VietinBank reported a sharp rise in profits but Vietcombank, Agribank and BIDV saw declines. Vietcombank, Vietnam's biggest lender by market cap, remained the most profitable, a position it has held for the last few years.

But while it had achieved double the profit of the second most profitable bank last year, the 3 percent decrease in its first half profits to VND11 trillion ($476.7 million) has helped close the gap.

BIDV reported a 5 percent drop in profits to VND4.45 trillion, while Agribank said profits plunged by over 35 percent to VND4.8 trillion. Both blamed falling revenues from lending, their main source of income, due to low credit growth and interest-reduction programs.

Agribank fell from third place last year to sixth in terms of profits, while BIDV fell from fifth to seventh. Nevertheless, the slump in their profits was less severe than an estimate made earlier in the year by SBV Deputy Governor Dao Minh Tu, who said interest rate cuts would cause state-owned banks' profits to fall by at least 30-40 percent.

VietinBank was the outlier in this group, with its pre-tax profits surging by nearly 40 percent to take it into second place in the top 10 list. But it was not due to better business performance, but a 10 percent decrease in provisioning for bad debts.

Similarly, private lender VPBank also saw virtually no change in revenues, but a 17 percent decrease in provisioning resulted in a 40 percent surge in profits.

Techcombank saw profits rise 19 percent on a 30 percent surge in revenues, which took it down from second position to third.

The State Bank of Vietnam's latest report said Covid-19 is expected to affect the quality of VND2 quadrillion ($85.2 billion) worth of debts issued by Vietnamese banks, or 23 percent of the total issuance.

This, along with rising bad debts across the banking sector this year, would put a strain on the performance of the sector and make it harder for weaker banks to recover, the central bank warned.

Corporate News

8. Vietnam Airlines plans to sell nine planes due to financial woes

↓ -1.04%

The selling of these planes, which were produced between 2007 and 2008, is also part of Vietnam Airlines' plan to replace planes aged 12 years or more. The selling will be discussed and approved at the airline's shareholder meeting scheduled for August 10.

The airline cited the International Air Transport Association as saying it would take two to three years for the aviation sector to recover to the 2019 levels.

Therefore, Vietnam Airlines and Vietnam Airlines Group, including Pacific Airlines, would have 25 nonoperational planes in the second half of 2020 and six in 2021.

The airline expects its revenue to reach over VND40.5 trillion in 2020, equivalent to 40.5% of the 2019 revenue. In terms of profit, it would suffer a loss of more than VND15 trillion and hoped to serve 14.5 million passengers this year, down 36.8% year-on-year.

The revenue and profit of the airline dropped steeply in the first half of this year. Its loss was VND6.64 trillion between January and June.

The domestic aviation sector has gradually recovered but the international market remains gloomy as many countries still impose travel restrictions. Vietnam Airlines had to cut costs and negotiate with foreign credit institutions to delay debt payments. It has also planned to borrow VND12 trillion from the Government.

As of May, the airline's debts amounted to US$780 million.

9. Novaland has successful first half 2020 thanks to M&A strategy

↑ 0.15%

In its financial report which was recently released, the company also announced a year-on-year increase in post-tax profit of 48 per cent to VND1.177 trillion.

For the second quarter Novaland reported profit after-tax of VND874 billion, a 72 per cent rise.

As of the end of the first half 2020, its total assets were worth VND98.8 trillion, an increase of 10 per cent in the year-to-date.

The company has maintained liquidity, with its current ratio being 3.52, the same as in 2019 and 1.8 times higher than in 2016 - 2018.

Its quick ratio was 0.8.

Apart from project development, Novaland is also very active in investment and divestment activities. While investment activities are aimed at increasing land bank with potential for development and high prices in future, divestment is considered when projects achieve the expected rate of return.

It reported an income of over VND2.5 trillion from the sale of two projects in the first half. The proceeds from the sales will be used for investment in new projects with higher profits, prepayment and preserve capital for operations, and will be a solid foundation for future growth.

In H1 the company made repayments, including early repayments, on its VND8.359 trillion debts from cash and cash equivalents, collection from sales and services and cash from project sales.

As at June 30, its long-term borrowings and finance lease liabilities were down to less than VND25.7 trillion. Its short-term borrowings and finance lease liabilities were up to VND12.4 trillion, accounting for 32.5 per cent of total debts.

To develop its distribution system and improve its services, Novaland has tied up with many leading property sales agencies to sell its products across the country.

It has organised several launching events to introduce its new projects to prospective customers.

For instance, its Aqua City project in Dong Nai Province attracted great interest, and the company sold around 95 per cent of all villas, shophouses and townhouses in it at every sales event.

This month a new phase is planned to be introduced, and it promises to heat up the real estate market.

In the hospitality segment, the company is developing a number of projects, including NovaWorld Ho Tram. The Wonderland phase of this project has been launched since June including shophouse, retail complex, hotel, villas, and over 270 second homes.

Earlier over 100 ocean villas in the previous phase of the project, The Tropicana, were launched.

Novaland said 2020 is a challenging year but it does not plan to change its strategy and would continue to focus on developments that meet actual demand for housing.

It plans to continue developing 22 projects in HCM City, Dong Nai, Binh Thuan, Khanh Hoa,and Ba Ria-Vung Tau, and hand over units in around 10 of them to buyers this year.

Novaland (NVL) is a large listed company on the Viet Nam stock exchange, which, following a review in July 2020, continued to be included in the VN30 index of the 30 largest companies.

The share again made it to Viet Nam Sustainability Index (VNSI). VNSI targets standardising sustainable development for listed companies, supporting organisations and individuals in identifying good companies for investment, boosting sustainable development of the economy, and providing a new tool to foster the development of stock markets and the economy.

With its focused and clear business strategies, steady land holdings, solid financial structure, sophisticated risk management framework, and attitude of complying with the law, Novalandwill always strive to contribute to society.

At the same time the Novaland workforce is committed to the company's core values of Integrity – Efficiency – Professionalism.

Thus, in the next five years, Novaland will develop steadily and well.

Novaland firmly believes that the mission of "Creating Community – Building Destinations – Cultivating Happiness" will bring valuable products to society, which will recognise it as a national and reputed international brand, always contributing to the nation's overall development.

Novaland Group was listed on the Ho Chi Minh Stock Exchange in December 2016. As of June 30, 2020, the company's market capitalisation was approximately VND59.6 trillion..

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