VIETNAM DAILY NEWS

September 23rd, 2020

Table of content

Table of content

Market Analysis

1. Profit-taking sends market down

Shares cut early gains on Tuesday after a bout of profit-taking took large-caps prices lower, dragging down the overall market.

The VN-Index on the Ho Chi Minh Stock Exchange lost 0.19 per cent to end Tuesday's session at 906.19 points.

It had risen 0.78 per cent to end Monday's trading session at 907.94 points.

Nearly 229.4 million shares were traded on the southern bourse, worth VND3.8 trillion (US$163.7 million).

Market breadth was negative with 146 gainers and 220 decliners.

According to Thanh Cong Securities Company, the VN-Index may experience fluctuations while moving towards the resistance zone of 920-930 points in the last trading week of September with support from good fundamental large-cap stocks.

The company recommended that investors maintain the holding rate in their portfolio at 50-60 per cent for the medium and long-term.

The VN30-Index, which tracks the performance of the 30 largest stocks by market capitalisation and liquidity on HoSE, increased 0.14 per cent to close Tuesday at 852.72 points.

In the VN-30 basket, 15 stocks returned to negative territory due to increased profit-taking pressure.

Decliners included Vingroup (VIC), slumping 1.5 per cent, PetroVienam Gas JSC (GAS), losing 1.2 per cent, Coteccons Construction Joint Stock Company (CTD), declining 1.2 per cent, Vinamilk (VNM), losing 0.4 per cent, Hoa Phat Group Joint Stock Company (HPG) and down 0.6 per cent.

Some other blue-chips still gained ground and helped narrow the market's decline such as Vietcombank (VCB), rising 1.2 per cent, Mobile World Group (MWG), going up 1.2 per cent, Military Bank (MBB), up 0.8 per cent, Bao Viet Holdings (BVH), rising 0.9 per cent.

The minor HNX-Index on the Ha Noi Stock Exchange gained for five consecutive sessions, rising 1.23 per cent to end Tuesday at 132.19 points.

More than 75.6 million shares were traded on the northern exchange, worth VND1 trillion.

Supporters of the HNX-Index included Asia Commercial Bank (ACB), gaining 1.4 per cent, Sai Gon-Ha Noi Bank (SHB), climbing 2.7 per cent, Thaiholdings Joint Stock Company (THD), rising 4.7 per cent, PetroVietnam Technical Services Corporation (PVS), up 4.7 per cent, National Citizen Commercial Joint Stock Bank (NVB), going up 2.3 per cent and Vietnam Construction And Import-Export Joint Stock Corporation (VCG), up 3 per cent.

Foreign investors net bought VND81.84 billion on HOSE. They were net sellers on the HNX with the value of VND1.58 billion.

Macro & Policies

2. Vietnam initiates anti-dumping investigation on sugar imported from Thailand

Since eliminating the tariff quota on sugar imported from ASEAN, the sugar volume imported into Vietnam from Thailand increased sharply.

In the first eight months of 2020, Vietnam imported sugar reached nearly 950,000 tons, six times higher than the same period of 2019. In which, the amount of sugar imported from Thailand was 860,000 tons, while imported sugar from the country was 145,000 in the same period last year, the ministry said.

The sugar production for crop year 2019/2020 was estimated at 800,000 tons, down from 1.2 million tons in crop year 2018/2019.

The Vietnam Sugar Association wants to apply safeguard measures under the provisions of the ASEAN protocol on special treatment of rice and sugar or under the Safeguard Agreement of the World Trade Organization, according to a news website run by the General Department of Customs.

Vietnam currently only opens its market to sugar imported from ASEAN, trade remedies should be applied to these countries, trade ministry said.

Thailand is the main sugar exporter to Vietnam market. There is a lot of evidence that Thailand is subsidizing the sugar industry, leading to Thai sugar being sold at dumping price not only in the region but also globally.

The Ministry of Industry and Trade said the most effective and fairest solution is to initiate an investigation for cases of anti-dumping and anti-subsidy for Thai sugar.

Regarding this issue, the Vietnam Sugar Association said that some enterprises imported raw sugar from Thailand to Laos for refining and then export to Vietnam to evade trade remedies.

With the special relationship of Vietnam-Laos, Vietnam-Cambodia, it is difficult for Vietnam to apply an anti-evasive tax to these activities, the customs news website reported.

3. VN's livestock industry grows fast, but problems still exist

In its report reviewing the livestock industry development strategy by 2020, the Ministry of Agriculture and Rural Development (MARD) said the industry has been growing fast in the last 10 years, producing 5.4 million tons of meat a year.

In 2008-2018, the total meat output of different kinds increased by 1.5 times from 3.6 million tons to 5.4 million, the egg output by 2.3 times from 5 billion to 11.6 billion eggs, fresh milk by 3.6 times from 262,000 tons to 936,700 tons, and animal feed by 2.4 times from 8.5 million to 20.2 million tons.

Some products have been exported, such as not fully grown and suckling pork, poultry meat, salted eggs, honey, salangane nests, silk, milk, and dairy products.

MARD Deputy Minister Phung Duc Tien said Vietnam has cemented high positions in the world in some segments. It ranks fifth in number of pigs raised and sixth in output. It ranks second in number of water fowls. And it ranks first in Southeast Asia in milk cow productivity and animal feed output.

Together with cultivation, animal husbandry has created livelihoods for 8.6 million households, thus improving the face of rural areas. More and more businesses and economic sectors have invested in livestock projects, developing closed, farm-to-table farming chains.

Problems

MARD Minister Nguyen Xuan Cuong said, however, that problems in the livestock industry still exist.

The industry generates 100 million tons of waste each year which still cannot be recycled to bring money, while it is polluting the environment.

The livestock industry has been growing fast, but the product structure is unreasonable with pork accounting for 70 percent of the food basket.

He thinks the structure was reasonable in the past, but not now. The average income of Vietnamese has increased from $400 per head per annum to $3,000 and demands have changed a lot.

The three most important sectors in the livestock industry are production, processing and consumption. Vietnam is good at production, but moderate at processing.

Animals are mostly slaughtered at small-scale, privately run establishments, while there are very few modern slaughterhouses.

Regarding consumption, meat is mostly sold at rural markets. Periodically, pork prices drop dramatically and consumers are called to buy pork to 'rescue' pork products.

Agricultural exports bring export turnover of $40 billion a year, but only a modest amount of suckling pork, salted eggs and honey is exported.

4. MoIT strives to ensure power supply

The latest calculations from Vietnam Electricity (EVN) show that the power demand of the national electricity system in 2020 is expected to reach 255.6 billion kWh, up 6.5 per cent from last year. The power demand was some 4 billion kWh lower than the MoIT's previous forecast due to the impact of the COVID-19 pandemic.

The ministry said power supply this year would be ensured and there would be electricity cuts absent any abnormal changes.

The MoIT has worked with ministries and sectors to propose a development strategy and a special mechanism for the electricity industry. It has also specified policies and solutions for the Government and Prime Minister Nguyen Xuan Phuc to ensure the progress of power projects. It has regularly updated power demand, reviewed electricity projects and calculated to balance the power system. These efforts have helped the ministry propose solutions to ensure power supply for the country's socio-economic development.

According to the Institute of Energy, the power demand will increase by 8 per cent a year in 2021-30. The power supply in 2025 is expected at 337.5 billion kWh and 478.1 billion kWh in 2030.

With the current growth rate, Viet Nam would need to add on average 5,000MW to 6,000MW a year into operation. The total investment for power generation and projects would be around US$8 billion a year. Meanwhile, primary energy sources are running out and the ability to provide the source is limited, resulting in an increase in imports of fuel.

This was why renewable energy projects should be brought into operation in 2021-23 to supplement the insufficient power supply of thermal power plants which have been delayed, said the MoIT's Electricity and Renewable Energy Authority.

In addition, the authority proposed to continue to sign power-purchasing contracts with Laos to ensure electricity imports of some 3,000MW by 2025 from the country. Viet Nam could also consider importing power from China's 220 kV voltage level.

The MoIT said it had been accelerating the building of the power master plan VII to submit to the PM for approval.

The master plan will clarify a list of national big and important power resources as well as important power grids at a voltage level of more than 220 kV. The plan also clarifies prioritised projects to diversify power resources and having a more suitable electricity structure in each region.

While the plan has not been approved, the ministry will continuously review to report, propose adjustments and supplements to the planning of power sources and grids.

In parallel with the planning of power sources and grids, the ministry is studying to propose to the Government and the PM mechanisms and policies to encourage the development of renewable energy resources including electricity price and bidding mechanisms.

It is expected that coal-fired power would reach nearly 50,000MW by 2030, accounting for 33.6 per cent of total installed capacity of power sources (down 9 per cent compared to the revised Power Master Plan VII); gas thermal power would be about 27,800MW, accounting for 19 per cent (up 4 per cent compared to the revised the Power Master Plan VII). The large hydroelectricity plants with a capacity of more than 30MW would reach 19,200MW, accounting for 13 per cent of the total while small hydro and renewable energy would reach 38,300MW, accounting for 27 per cent.

Coal-fired thermal power would account for 42 per cent, gas thermal power 27.5 per cent, hydropower 12.5 per cent and power imports 4 per cent. The total capacity of wind and solar power would reach 55 billion kWh by 2030 (exceeding the target set in the Renewable Energy Development Strategy of 4 billion kWh).

The ministry will report and submit to the PM the Draft Power Master Plan VII and the Draft Strategic Environmental Assessment Project for appraisal by the end of October 2020.

5. VN needs to develop raw materials production to take advantage of EVFTA

The Ministry of Industry and Trade (MoIT) said the European Union (EU) had the largest demand for textiles and garments in the world with an import value of about US$250 billion per year.

In 2019, Việt Nam's export value to the EU reached $4.3 billion, 3.8 per cent higher than 2018. However, Việt Nam accounted for only about 2 per cent of this market which was very small compared to the demand.

The EVFTA, effective from August 2020, was expected to help Việt Nam's textile and garment industry to increase its exports to the EU by about 67 per cent by 2025 compared to the scenario without this agreement, according to the MoIT.

However, according to the commitments of the EVFTA, besides meeting strict quality criteria, to enjoy preferential tariffs local businesses must implement strict origin requirements. Specifically, the EVFTA requires rules of origin to apply from fabric onwards, meaning that exports to the EU must use fabric produced in Việt Nam or the EU. The agreement also allows firms to use fabric from countries which have FTAs with both Việt Nam and the EU.

This issue is still a weakness for the local textile and garment industry because most raw materials are imported from countries that have not signed FTAs with the EU.

Accordingly, local textile and garment producers should use local material for products that were going to be exported to the EU, but many of them were still unaware of the origin of the raw materials they were using, said Vũ Đức Giang, chairman of the Việt Nam Textile and Apparel Association. Meanwhile, new-generation FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and EVFTA had very strict regulations on materials and manufacturing processes.

Bùi Kim Thùy, a former member of Việt Nam's negotiation delegation for FTAs and country representative on the US-ASEAN Business Council, said to solve this issue, the textile and garment industry could initially use fabrics imported from countries that had FTAs with the EU such as South Korea to enjoy the preferential tax rates of the EVFTA.

But the amount of fabric imported from South Korea was low due to distance and price. Therefore, in the long term, Việt Nam needed a comprehensive strategy to seize opportunities provided by the EU market, Thùy said.

To enter the EU, many businesses have invested in factories, technology, machinery and the implementation of technical standards for this export market.

Trần Như Tùng, a member of the Thành Công Textile and Investment Joint Stock Company (TCM)'s board of directors, said with benefits from the EVFTA, the company aimed to increase its exports to the EU by 30-50 per cent. It had also built a fabric dyeing factory to meet the demand for production.

In the long term, the company planned to open another fabric dyeing factory in the southwest region. That would help to provide enough raw materials for production, Tùng said.

Chairman of the Việt Thắng Jean Company's board of directors Phạm Văn Việt said to meet the EVFTA's origin requirements, Việt Thắng Jean had signed contracts to purchase raw materials from partners in South Korea and Turkey instead of China.

Besides these efforts from businesses, according to experts, the Government should issue a development plan for industry sectors until 2040, including textiles, garments, leather and footwear, to produce raw materials for the textile and garment sector according to the rules of origin set out in the FTAs.

At present, the MoIT is completing a development plan for the textile and garment industry until 2040 to develop large-scale textile and dyeing industrial parks with wastewater treatment systems that reach international standards to attract investors.

Giang said this plan must focus on building textile industrial zones with modern wastewater treatment to encourage investment and complete the cycle of weaving - dyeing - sewing.

That would help the domestic textile and garment industry join the global supply chain and reduce the dependence on imported materials as well as take full advantage of the EVFTA and other FTAs, he said.

The State also needed to adjust tax policies on imported goods and raw materials imported for production of export goods, creating more favourable conditions for businesses.

Trần Thanh Hải, deputy director of the MoIT's Import and Export Department, said both the Government and local businesses need to act at the same time to take full advantage of the EVFTA.

Accordingly, the Government needed to develop support industries to meet the local demand for raw materials and to increase the localisation rate so export goods met the rules of origin. Initially, Việt Nam should look at attracting investment projects in the textile and dyeing industry, especially projects that used advanced technological equipment and environmentally friendly wastewater treatment processes.

For local businesses, Hải said they needed to study the tariffs and rules of origin outlined in the EVFTA and adjust their production processes and sources of raw materials accordingly.

In recent years, the MoIT has implemented policies to develop the support industries for various sectors, including textiles and apparel. It has also opened a database on the support industry, including information about 1,400 enterprises in the textile and garment industry.

6. Support for domestic pharmaceutical industry to rise in Vietnam

Under a report released last week, the UK-based financial information group said this was in part driven by the authorities' push to meet domestic healthcare needs. In addition, the economic potential of the pharmaceutical sector will incentivise continued Government support for the domestic industry.

Although the Government aims to increase the share of locally produced pharmaceuticals to 80 per cent, an average of 55 per cent of medicines in Vietnam are imported every year.

One of the reasons for Vietnam's reliance on imports is that most domestic companies lack research and development capabilities, and do not meet the European Union Good Manufacturing Practice (EU-GMP) or Pharmaceutical Inspection Co-operation Scheme Good Manufacturing Practice (PIC/S-GMP) standards required to manufacture high-quality generic drugs. Further, Vietnam imports more than 90 per cent of drug inputs, half of which are from China.

According to Fitch, partnerships with local firms are integral. As a result of Government initiatives, domestic pharmaceutical firms will play an increasingly dominant role in Vietnam.

“This accentuates the need for multinational pharmaceutical companies to partner with local drugmakers to adapt to this trend. Finding a local company to start such a joint venture is an important first step to enter the market in Vietnam,” Fitch said.

Foreign companies often work with domestic companies, such as Diethelm Vietnam, Zuellig Pharma Vietnam, and Mega Lifesciences, to fill in different needs in the supply chain.

Fitch forecast a shift from pharmaceutical production to a more research-based industry was likely. The boost in attractiveness of the Vietnamese market comes at a time when the business environment for drugmakers in neighbouring countries has not been favourable. In December 2018, Indonesia enacted a regulation for the compulsory licensing of every medical product that is not being made in the country.

“This is expected to have significant negative consequences for foreign direct investment in the country, with Vietnam being the one of the beneficiaries of pharmaceutical companies shying away from Indonesia. This, combined with the geopolitical position of Vietnam, place the country in a favourable position to become a regional pharmaceutical research and export hub,” Fitch said.

In July 2019, Pharma Group, the Pharmaceutical Sector Committee of the European Chamber of Commerce in Vietnam, highlighted that the country has the ability to reach a higher position in the value chain of the science and life sector in comparison with other countries in the ASEAN region. However, it was noted that further deliberation is required before the positive steps taken by the country can materialise.

However, Fitch noted, Vietnam's pharmaceutical industry also faced challenges in foreign investment.

“We note that despite our positive outlook on the pharmaceutical market, significant risks remain. There are a number of shortcomings, including underdeveloped infrastructure, lack of staff and finance, and low healthcare access among people in rural and remote areas. Access to medicines will remain a key challenge for pharmaceutical companies seeking to capture the commercial prospects in Vietnam as the population is highly ruralised. Patients continue to face challenges over medical access and rising out-of-pocket healthcare costs.”

Moreover, it said, there are large regional variations with regards to the number of healthcare facilities, doctors and beds between the rural and urban regions of the country, which exacerbates these access issues.

7. SBV eyes further interest cut

Hồng said the central bank will continue to support credit institutions in all possible ways including cash injection.

The SBV encouraged credit institutions to reduce red-tape, cut cost and better support new customers all the while maintaining high lending standards to ensure the long-term sustainability of the banking sector.

Demand for loans this year has stayed low as the economy was hit hard by the COVID-19 pandemic. The country's credit growth experienced modest growth of just 4.8 per cent compared to the same period last year.

Bad debt ratio remained at under 2 per cent as most commercial banks finished the implementation of Basel II. During the first seven months of 2020, banks managed to recovered over VND63 trillion (US$2.7 billion).

Exchange rate versus the greenbacks has remained stable since the beginning of the year as the SBV continued to shore up its forex reserves. The central bank expressed confidence in keeping inflation in check this year but said economic growth will be dwarfed due to the pandemic.

Since the initial outbreak of the novel coronavirus last year, central banks around the world have cut interest rate 185 times. The SBV alone has slashed interest rate four times by 1-1.5 per cent since April 2019.

Corporate News

8. GEX: Gelex raises offer for Viglacera shares

↑ 1.43%

The bid was increased to VND23,500 (US$1.01) per share from VND21,500 per share. The offer was previously raised to VND21,500 per share from VND17,700 per share.

Gelex had planned to purchase 95 million Viglacera shares between August 26 and September 25 at an initial price of VND17,700 per share.

If successful, Gelex will take a controlling stake in Viglacera and expand its influence in the industrial realty sector.

Gelex shares (HoSE: GEX) rose 1.9 per cent to end Monday at VND24,500 apiece. Viglacera shares (HoSE: VGC) inched up 0.2 per cent to finish Monday at VND23,450 apiece.

Recently, Red Capital Asset Management JSC sold 5 million Viglacera shares.

Gelex targets to reach a total net revenue of VND19.6 trillion ($842.36 million) and a pre-tax of VND975 billion this year if its acquisition of Viglacera is completed in the fourth quarter.

9. CII: CII completes the study of overhead route

↓ -0.54%

In implementing the Board Resolution No.242 dated June 29, 2020 by the Board of Directors, CII completed the study of overhead route the North – South of Ho Chi Minh City (First point: Truong Chinh Street, Tan Binh District - Final point: Nguyen Van Linh Street, Binh Chanh District).

Research Team: **Tsugami Shoji** *Researcher* jsi@japan-sec.vn

Disclaimer:

Japan Securities Incorporated – JSI

Address: 14F, TNR Tower, 54A Nguyen Chi Thanh, Lang Thuong, Dong Da, Hanoi

Tel: (024) 3791 1818 *Fax: (024) 3791 5805*

Email: info@japan-sec.vn

Website: www.japan-sec.vn