VIETNAM DAILY NEWS

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Market Analysis

1. New decree lifts sentiment, extends market rally

Vietnamese shares rebounded on Monday as market sentiment remained positive, following a new decree released last week to cut tax for virus-hit businesses.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange (HoSE) was up 0.47 per cent to 912.50 points, bouncing back from a two-day decline of total 0.46 per cent.

The VN-Index gained a total of 0.81 per cent last week.

Prime Minister Nguyen Xuan Phuc on Friday officially issued Decree 114/2020/ND-CP to cut income tax for businesses that report total revenue of less than VND200 billion (US$8.64 million) in 2020.

Such information helped lifted investors' confidence in local stocks.

Large-cap tracker VN30-Index rose 1.01 per cent to 863.31 points with 16 of the 30 largest stocks by market value and trading liquidity rising.

The mid-cap and small-cap trackers on HoSE on Monday increased by 0.79 per cent and 0.67 per cent, respectively.

Banks, securities companies and retailers were the driving factor of the stock market on Monday.

The three sector indices rose 1.2 per cent, 2.2 per cent and 2.4 per cent, respectively, according to vietstock.vn.

Large-cap stocks in the three industries all grew, such as retail firm Mobile World Investment (MWG), Vietinbank (CTG), VPBank (VPB), Techcombank (TCB), SSI Securities (SSI), HCM City Securities (HCM), and VNDirect Securities (VND).

In the banking sector, Sacombank (STB) jumped 3.8 per cent on Monday and the stock was also the most active on the southern bourse with nearly 29 million shares being traded.

Sacombank shares have soared total 36.6 per cent since July 31 on speculations that Truong Hai Auto Corporation (Thaco) will soon buy the bank's stake.

Though the two sides have denied such information, investors still hope that the deal will be realised someday, thus extending the bank's stock rally, according to Vietinbank Securities Co's analysis director Dao Tuan Trung.

On the negative side, foreign investors remained net sellers. They sold a net value of nearly VND390 billion, up nearly 191 per cent from Friday's figure.

"Domestic purchasing power is backing up the market against the strong, prolonged net-selling by foreign investors," Thanh Cong Securities Co (TCSC) said in its daily report.

"That proves investors are highly expecting the market will keep increasing in the near future," the company said. "The VN-Index may quickly touch 920-930 points in the coming days."

On the Ha Noi Stock Exchange, the HNX-Index advanced 1.22 per cent to 133.12 points on Monday.

The northern market index gained a total of nearly 1.8 per cent last week.

Nearly 480 million shares were traded on the two exchanges, worth VND8.06 trillion ($348 million).

Macro & Policies

2. Renewables are solution to Vietnam's power thirst

In order to ensure power supply amid upward demand, developing renewable energy should be prioritized when traditional resources are depleting, according to local authorities.

In the 2011 - 2015 period, power supply increased 13%, but the growth slowed to about 8% in the following five years. Total produced and imported electricity volume reached 239 billion kWh.

In the power mix, thermal power and coal take the highest proportion and will continue to increase in the coming time, estimated at nearly 50,000MW by 2030, accounting for 33.6% of the total.

Hydropower is currently the second largest source, but has reached limits and its proportion has tended to decrease in recent years. The growth of this source was only 5% per year in the 2016 - 2019 period.

Meanwhile, gas-fired power is the third largest source and also tends to decrease, mainly due to the depleting gas fields offshore the Southeast region from 2022.

Against this backdrop, Vietnam needs to increase electricity production while reducing reliance on non-renewable resources, especially coal. Recently, there have been many proposals on tapping into other resources such as solar, wind, and ocean energy which are abundant thanks to the country's geographical location.

Renewable energy has been developed rapidly in recent years, especially in 2019, mainly due to the impact of the government's initiatives for the sector. By the end of June, there were 89 solar power farms connected to the grid with a total capacity of 4,442MW. In addition, wind power farms, located mainly in Ninh Thuan, Binh Thuan, have a combined capacity of 4,880MW, raising the share of renewables to over 10% in the energy mix.

As planned, by 2025 around 12,500MW of solar power and 7,200MW of wind power, and about 2,000MW of rooftop power will likely be connected to the national grid, but short of the planned 35,000MW of renewable energy, of which two-third is solar and one-third is wind.

In order to achieve the target, Vietnam needs to focus on solving a number of issues. The first is investment capital. Private investors are interested in and capable of investing in power plants with an average investment of VND1 trillion (US$43 million) each. The second problem is site clearance which requires support from localities.

Another problem is the transmission and connection from 110KV to 220KV and 500KV lines. State-run Electricity of Vietnam (EVN) needs to urgently build the grid to match the power development. Last but not least, the Feed-inTariff (FiT) is the decisive factor.

As Cambodia has more advantages in irradiance, the FiT is only VND900 (US$0.04) per kWh. Meanwhile, Vietnam offers a tariff for solar power plants built before July 2019 at VND2,086 (US$0.09) per kWh and for wind power farms at VND1,928 (US$0.08) per kWh, drawing great interest from investors.

Demand on the rise

The number of blackouts in 2020 has decreased, partly due to the Covid-19-caused decrease in demand for production and business.

Electricity consumption of industrial use accounts for 59.1% of the total, with an average price of VND1,684 (US$0.07) per kWh. The growth rate of industrial electricity is 10 -13% per year.

On the other hand, the low electricity price for industrial purposes makes bring double benefits for foreign investors. Therefore, investors are not paying much attention to acquiring energy-efficient equipment and technology.

Electricity used for other needs include business (that accounts for 6.6%) with an average price of VND2,809 (US$0.12) per kWh; public services 3.8%, with an average price of VND1,845 (US$0.08) per kWh; residential use 28.24%, with an average price of VND2,056 (US$0.09) per kWh.

The average electricity consumption per capita in Vietnam has continuously increased at a relatively high rate, reaching 133.1 kWh in 1990 and 2,356.9 kWh in 2019. It is forecast to reach 2,375.5 kWh by 2020, representing an average annual increase of more than 10%.

Vietnam's Prime Minister Nguyen Xuan Phuc has repeatedly required EVN to ensure electricity supply and avoid power cuts by 2030.

3. Vietnam PM enacts 30% cut in 2020 corporate income tax

Prime Minister Nguyen Xuan Phuc on September 25 signed off government Decree No.114/2020/ND-CP, stipulating a cut of 30% in the corporate income tax (CIT) for enterprises having their revenue of less than VND200 billion (US$8.61 million) in 2020.

Under the decree, enterprises' revenue would be the main criteria to assess whether they are qualified for such tax cut.

The decree, scheduled to take effect for this fiscal year, stated for enterprises expecting their revenues of less than VND200 billion (US$8.61 million) in 2020, they would pay 70% of their corporate taxes in quarter, and later apply for a CIT cut by the year-end.

On June 19, Vietnam's National Assembly (NA) ratified the government's proposal to lower 30% of CIT for businesses with revenue under VND200 billion (US$8.61 million).

Chairman of the NA's Committee of Finance – Budget Nguyen Duc Hai said the tax amount forgone as a result would be around VND23 trillion (US$987.41 million).

Before the voting, many deputies voiced concern that the business community is in need of more direct and substantial support, rather than a CIT cut to recover from the Covid-19 pandemic.

At a NA hearing on June 11, Minister of Finance Trinh Dinh Dung said the majority of the business community would benefit from this policy as 97% of total enterprises in Vietnam are of small and medium size.

To date, the government has rolled out supporting programs such as a credit aid package worth VND300 trillion (US$12.87 billion), including a VND180-trillion (US$7.63 billion) fiscal stimulus package in forms of delay of payment of value-added tax, corporate income tax, and a financial support package for vulnerable people worth VND62 trillion (US$2.7 billion).

4. New coastal economic zone set up in Quang Ninh

Prime Minister Nguyen Xuan Phuc recently signed a decision on the establishment of the coastal Quang Yen Economic Zone in the northern province of Quang Ninh.

The 13,303ha economic zone, located in the southwest of Quang Ninh, will include an urban, industrial and hi-tech complex and the Dam Nha Mac seaport, related services, industrial and urban complex.

In particular, the urban, industrial and hi-tech complex will span over 6,403ha in Uong Bi city and Quang Yen town.

Meanwhile, the Dam Nha Mac seaport, related services, industrial and urban area will spread on more than 6,899ha in Quang Yen town.

This economic zone is aimed at capitalising on natural and geographical advantages in economic, trade and service connection with other coastal economic zones like Van Don in Quang Ninh, Dinh Vu-Cat Hai in nearby Hai Phong city and Thai Binh in

Thai Binh province, thereby helping to optimise competitive edges of each zone and forming socio-economic development connectivity between the economic zones with neighbouring areas.

The Quang Yen Economic Zone will closely combine investment attraction and economic development with defence-security ensuring, and preservation and promotion of values of local marine ecosystems, historical relics and culture.

It also looks to become a multi-sectoral economic zone and a modern and smart industrial, port logistics services and urban centre of Quang Ninh as well as the Red River Delta; create a modern living environment via synchronous development of technical and social infrastructure; while boosting hi-tech and environmentally friendly sectors and R&D centres.

The economic zone is scheduled to be developed from now to 2035, according to the Prime Minister's decision.

5. Investors seeking piece of PPP cake

Do Van Nam, representing a group of public-private partnership (PPP) experts, said at a webinar last week that there are some long-standing issues in the guiding decrees that should be addressed.

"Lending and bank support should also be part of future decrees. There need to be specific regulations on loans to facilitate future PPP developments," Nam recommended. "Banks hesitate to offer loans for these projects, some even refuse them straightaway."

Going into the issue of special concern – retroactive risk-sharing arrangements – Tran Van The, deputy chairman of the Board of Directors at Deo Ca Group, said, "We have worked on a number of key national projects when there was no legal framework on the risk-sharing mechanism. We are suffering losses at some projects, which reduces our loan repayment capacity." He suggested that there should be transitional provisions to enable them to enjoy the mechanism.

Vaibhav Saxena, attorney at Vietnam International Law Firm, quoted that the current investment law and the new Law on Investment 2020, which will take effect on January 1, 2021, provide favourable investment incentives and ensure security for the investors from changes in law circumstances, where if a new law provides less favourable investment incentives than those currently enjoyed by the investor, the investor can switch to the new incentives for the remaining duration of their original arrangements for the investment project.

Previously, PPP regime followed the investment law as the apex law to drive investment activities in Vietnam. However, the new law on PPP investment is now a comprehensive legislation to cover PPP related investment activities in Vietnam.

"The old investors having contracts signed may follow the Law on Investment which allows them to access new policy benefits, and the PPP law provides an option for the same. The Vietnamese government is working on this matter and the regulations guiding the new PPP law are expected to have clearer guidelines," Saxena told VIR.

Under Article 101 of the new PPP law, the National Assembly assigns the government to give specific guidance on transitional provisions. As current rules dictate, risk-sharing allocation should be set out in the feasibility study. Thus, projects which had their investment plans approved without risk-sharing arrangements will face challenges in enjoying such a mechanism. This forces investors who require such an arrangement to redo their investment plans.

"Retroactive risk-sharing arrangements should be carefully considered on a case-by-case basis while taking into account the state budget," cautioned Vu Quynh Le, deputy director of the Ministry of Planning and Investment's Public Procurement Agency.

Under these rules, the eastern cluster of the North-South Expressway, which has five PPP sections, and many other projects cannot add risk-sharing allocations unless they redo the entire investment process – and hundreds of private firms are seeking for retroactive access to risk-sharing.

Despite this, it is worthy to note that risk-sharing mechanism, including minimum-revenue risk sharing, is one of the major changes in the new PPP law, showing a significant effort to improve the appeal of this investment mode amid budgetary constraints.

Available from early 2021, the new revenue-risk sharing mechanism will be restricted to only certain projects to ensure bankability.

For years, revenue-risk allocation in PPP initiatives has been a controversial topic because of their high risk of losses and the lack of a completed legal framework. Thus far, the power sector has been the most successful at attracting foreign investment in build-operate-transfer (BOT) projects, while others have seen failures.

Some BOT initiatives have hit the rocks for several years, including Dau Giay-Phan Thiet Expressway, Van Don-Mong Cai, and Trung Luong-My Thuan expressways.

6. Foreign capital still heads to manufacturing, processing

The total amount of foreign investment poured into Vietnam this year to September 20 reached 21.2 billion USD, equivalent to 81.8 percent of the same period last year, reported the Ministry of Planning and Investment.

Of the sum, 13.76 billion USD were disbursed, or 96.8 percent of last year's same period.

Of the amount, 10.36 billion USD was invested in 1,947 new projects, down 5.6 percent in value and 29.4 percent in project number annually.

As many as 798 projects added a combined over 5.11 billion USD to their investment capital, down 23 percent year-on-year in project number but up 6.8 percent in value.

Up to 5.73 billion USD were spent on shares, equal to 55.1 percent of the same period last year.

Foreign investors invested in 18 sectors, with manufacturing and processing absorbing about 9.9 billion USD, or 46.6 percent of the total investment. It was followed by electricity production and distribution with more than 4.3 billion USD, or 20.6 percent, real estate with around 3.2 billion USD and wholesale and retail 1.3 billion USD.

Among 111 countries and territories investing in Vietnam, Singapore took the lead with 6.77 billion USD, making up 32 percent of the total, followed by the Republic of Korea (RoK) with 3.17 billion USD, China 1.87 billion USD, Japan, Thailand and Taiwan (China).

In term of project number, the RoK came first with 499 projects, ahead of China with 271 projects, Japan 209 and Singapore 173.

Foreign capital was poured into 60 cities and provinces. The Mekong Delta province of Bac Lieu was the top destination with a liquefied natural gas project worth 4 billion USD, or 18.8 percent of the total investment. It was followed by Ho Chi Minh City with 3.25 billion USD, Hanoi 2.92 billion USD, Ba Ria-Vung Tau, Binh Duong and Hai Phong.

On the number of new projects, Ho Chi Minh City topped the list with 719 projects, followed by Hanoi with 409 and Bac Ninh 119.

7. Vietnam's participation in the global value chain

The global value chain (GVC) index reflects an economy's connection with the global value chain in foreign trade. The index comprises two factors which show backward and forward GVC participation.

In essence, separate economies (the second countries) participate in the GVC by importing input materials from foreign countries (the first countries) to produce goods and services which they (the second countries) export to third countries. This activity is backward GVC participation.

The other form of participation in the GVC of the second countries is exporting domestic goods to third countries which are used as input materials for those countries to produce goods for export to fourth countries. This activity is forward GVC participation.

Vietnam: More backward than forward participation

The table below shows that Vietnam has participated more in the GVC over the past years, with the share of both backward and forward participation rising, from 50.6% in 2005 to 52.5% in 2010 and 55.6% in 2015. These ratios reflect the increasing participation of Vietnam's production and export sectors in the GVC. In Asia, Vietnam's GVC participation is only after Malaysia and Singapore.

Still, there are some notable points over Vietnam's participation in the GVC in the short term.

First, Vietnam has more backward and than forward GVC participation. This means that Vietnam uses the added value of foreign countries for her exports more than foreign countries use Vietnamese goods for their exports. The illustrative figures are 36.1% (backward participation) and 14.5% (forward participation) in 2005, 40.5% and 12.5% in 2010, and 44.5% and 11.1% in 2015, respectively.

Second, Vietnam's forward GVC participation was declining, from 14.5% in 2005 to 12.5% in 2010 and 11.1% in 2015. The decline tells two things. First, since the assembly activities in Vietnam are continuously growing and devoted primarily to end-consumption goods, Vietnamese products are consumed directly in third countries instead of being used as input supplies (intermediary products) for another product; or put in other words, made-in Vietnam goods are favored in foreign countries. Second, this can be seen as an achievement of the economic restructuring process, specifically, the transformation of export, from raw materials (crude oil, coal and raw agro-products) to goods for consumption with high production content.

Nevertheless, the above figures also reflect a weakness in local added value, which has been decreasing while the ratio of backward participation has been increasing. They show that Vietnam has to import large amounts of components and intermediary goods for export production and domestic consumption. This is the often-stated weakness: the supporting industry. The industry plays a key role in supplying inputs for the assembly industry. With a weak supporting industry, the local added value will not be high.

Some discussions

In view of the (objective) weakness mentioned above, the matter is to upgrade the economy, which requires the creation of more local added value in exports. An example is the case of iPad in the studies by Xing and Detert in 2010 and Kraemer and associates in 2011 where they emphasized the low added value of assembly in the production process, which is less than 5% of the sale price of an iPad produced in China.

However, it's not a complete assessment if only the local added value is used to make an overall assessment of the efficiency of production in the long term, as it may miss another key factor, the volume of assembly which may be equally important to the local added value. Though assembly generally makes up a very small share of the value of the finished product, the single activity of assembly on a large scale can bring about important benefits possible.

As an example, specialization in electronics assembly benefits greatly some companies in Asia. They have become excellent assemblers and attracted customers like Apple, Dell, Amazon, Nokia and Samsung.

Nevertheless, in the long term, a country or an economy cannot stand still and benefit from a production phase like assembly, be it a subjective will, as with the progress of technology and the low labor cost being no more an advantage, companies will relocate assembly activities to countries where the labor cost is lower or there is advanced technology with high efficiency automation. As an illustration, Taiwan has moved assembly activities to China and China is applying exactly this strategy.

Corporate News

8. HDB: Board resolution on international convertible bonds

↑ 0.96%

On September 23, 2020, the Board of Directors of Ho Chi Minh City Development Joint Stock Commercial Bank approved some issues related to international convertible bonds as follows:

- Approving contents of bond redemption;
- Conversion time: after 12 months 01 day or until 59 months from the issue date;
- Conversion price: not less than the Bank's book value according to the latest financial statements. The estimated conversion price will be VND41,800 and may be adjusted by dilution events in the future.

9. VJC: Vietjet to resume services on Vietnam-S. Korea route

↓ -0.09%

The carrier will operate one weekly flight on the HCMC-Seoul route on Wednesdays beginning from September 30, and the return leg of the flight will depart from Seoul every Wednesday from October 7.

Besides this, Vietjet will operate more flights on the Hanoi-Seoul-HCMC route on September 29.

All Vietjet flights are operated in accordance with global standards and recommendations from the authorities, the World Health Organization and the International Air Transport Association, aimed at ensuring the health and safety of passengers, the flight crew and the community.

Passengers departing from Vietnam or South Korea are required to possess a medical certificate with a negative Covid-19 test result taken within three days before departure and comply with the mandatory quarantine requirements of the host countries.

The South Korean Government demanded that passengers travelling to South Korea declare their medical information before departure and comply with the 14-day mandatory quarantine requirement at their residences or at paid quarantine facilities after entering the country.

Passengers arriving in Vietnam can register for paid quarantine services at hotels and lodging facilities appraised by the local authorities.

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