VIETNAM DAILY NEWS

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JAPAN SECURITIES INC.

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Table of content

Table of content

Market Analysis

1. VN market advances for a fourth straight day

Local shares extended gains for a fourth straight day on Tuesday as market sentiment returned to the positive territory and strong domestic purchasing offset foreign net selling.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange advanced 1.14 per cent to 891.73 points.

The VN-Index has increased by more than 2.09 per cent in the last four trading days since Thursday.

The blue-chip tracker VN30-Index added 0.98 per cent to 832.03 points while mid-cap and small-cap indices moved by 1.55 per cent and 0.81 per cent, respectively.

In the blue chip basket, 24 of the 30 largest stocks by market capitalisation and trading liquidity expanded values while four was down.

Leading the chart were property developer Vingroup (VIC), Techcombank (TCB), Vietinbank (CTG), PetroVietnam Gas (GAS) and dairy producer Vinamilk (VNM).

Their shares gained between 1.8 per cent and 3.0 per cent.

By sector, insurance, real estate, securities, brokerages, consumer staples, and aquaculture were the best performing sectors.

The aviation sector was lifted by strong gains of Vietnam Airlines (HVN) and Vietjet (VJC), which advanced 3.1 per cent and 2.4 per cent, respectively.

On the Ha Noi Stock Exchange, the HNX-Index moved up 0.45 per cent to 125.41 points.

The northern market index fell 0.78 per cent on Tuesday.

According to MB Securities Co (MBS), the market was not put under the strong pressure from foreign net selling.

"Domestic investors' purchases for local stocks absorbed the selling of foreign investors," MBS said in its daily report.

Nearly 368.5 million shares were traded on the two exchanges, worth VND6.63 trillion (US$287.6 million).

Foreign investors net-sold nearly VND200 billion worth of local shares, down a third from Monday's figure.

"The gains of large-cap sector also had positive impact on mid-cap stocks and it may suggest the VN-Index now targets its previous peak of 905 points made in June," MBS said.

In addition, part of the improved sentiment came after China announced its Purchasing Managers' Index (PMI) was 51 in August, the highest in 10 years.

Thanh Cong Securities Co (TCSC) said that the market rally would continue but investors should be aware of the bull trap as the VN-Index might struggle when it approaches the 895-905 range.

The Vietnamese market will take a break on Wednesday for the celebration of the Independence Day.

Macro & Policies

2. Dong Nai to have three more IZs to avail of post-pandemic investment shift

Dong Nai is now home to nearly 12,000 hectares of land space for IZ development, but the province sees ample potential in further IZs.

The recent proposal of the province to add three new IZs to Vietnam IZ Development Planning in 2020 would increase its total land space for IZ development to about 20,000ha.

Two of the proposed IZs would be in Long Thanh district and the remaining one in Cam My district. These districts have large land areas growing rubber trees (Cam My has about 13,000ha and Long Thanh about 3,000ha) which could house the new IZs.

If approved, the new IZs would be in close proximity to Long Thanh International Airport.

According to Cao Tien Sy, director of Dong Nai IZ Management Authority, there is limited land space available for lease with most areas scattered across province-based IZs. Therefore, it would be rather difficult to accommodate the several foreign businesses planning to settle down in the province to lease about 8-10ha space to set up production factories.

Prime Minister Nguyen Xuan Phuc has, thereby, mandated relevant ministries and agencies to consider approving additional land space, allowing Dong Nai to push up industrial growth.

Cao Tien Dung, Chairman of Dong Nai People's Committee, said that the province will be gearing its efforts towards building specialised, eco-friendly, and smart IZs.

The IZs will then be gradually upgraded with science, technology, and qualified human resources as the fundament while lowering investment into non-core industries that are land- and labour-intensive, or are doing harm to the environment.

Like Binh Duong, Dong Nai has emerged as a hub for industrial development. Prime Minister Nguyen Xuan Phuc has, thereby, mandated relevant ministries and agencies to consider approving additional land space, allowing Dong Nai to push up industrial growth.

“The new IZs would help Dong Nai expand land space to attract investment and prepare to hail the post-pandemic investment shift. Priority will be given to luring projects belonging to processing and supporting industries with deeper engagement into the global value chain,” said Dung, adding that this is also the prerequisite enabling the province to successfully push back COVID-19 and spur economic development.

According to Dong Nai IZ Management Authority, of 31 operating IZs in the province, nearly 20 IZs have filled up their space with tenants. At remaining IZs, little vacant space is left while the land lease demand has been on steady rise.

3. More export chances for winter crops

The agricultural production area of the winter crop in northern provinces was expected to increase by 20 percent to meet the increasing demand from China, said Minister of Agriculture and Rural Development Nguyen Xuan Cuong.

China has just experienced a severe flood, causing a shortage of vegetables, Cuong told a meeting on August 31 reviewing the winter crop in 2019 and implementation of this year's crop in the northern region.

Since earlier this year, the agriculture sector had been exposed to double risks of the COVID-19 pandemic and epidemics in livestock and poultry, as well as natural disasters, said Cuong.

In such circumstances, the sector set two goals to organise the production of food for 100 million people and meet export demand, the minister said.

So far, total cultivated area of 6.7 million hectares had been planted, he said.

The most important tasks for farmers in the northern provinces was to focus on producing the winter crop, because of favourable natural conditions in 31 provinces and cities who experience cold winters, which could be considered an advantage for agricultural production, Cuong said.

“The winter crop has short production time but high economic value and is less affected by natural disasters and pests. If the production was well organised, reaping 200-300 million VND (8,600-13,000 USD) per hectare was possible," he said.

"Moreover, China has been facing rain and flooding, so they are suffering a shortage of food, especially vegetables. We need to take advantage to enhance cultivation for export,” Cuong said.

The minister suggested local administrations actively choose the plant variety structure, convert rice land and saline areas to promote the production of the crop.

He also asked businesses to help farmers sell their agricultural products as well as recommended provincial People's Committees to issue mechanisms and policies supporting farmers in trade promotion, market research, and encouraging enterprises to sign contracts to purchase products and support branding and traceability to ensure product quality.

The ministry sets a target of increasing this year's winter-spring crop area to 430,000-450,000ha, rising 20 percent compared to last year's crop, while the yield was expected to reach 4.6-4.9 million tonnes, increasing 10-15 percent against previous years.

The total production value was expected to reach about 34-36 billion VND (1.5-1.6 million USD) or 75 million VND (3,200 USD) per ha.

Corn, sweet potatoes, soybeans, peanuts, and other vegetables will account for about 55 percent, while potatoes and legumes is about 45 percent.

According to Nguyen Nhu Cuong, head of the ministry's Plant Department, each province will consider the harvested area, water source, soil conditions and market to produce the crop to ensure the highest economic efficiency.

The provinces should focus on plating corn for animal husbandry. The department's figures showed that the corn demand for cattle breeding is 27.6 million tonnes per year.

4. Local manufacturing PMI drops to 45.7 in August

The survey details how the effects of the COVID-19 pandemic led to a deterioration of business conditions among the manufacturing sector in August.

Most notably, both output and new orders fell for the second consecutive month, and to a greater extent than what had been recorded in July, while the rate of job cuts was also accelerated.

The decline in the Vietnam Manufacturing PMI represented a second successive deterioration in terms of the health of the local manufacturing sector, after previously enjoying a return to growth in June.

The latest decline to occur in business conditions can be considered much less severe than that seen during the worst of the COVID-19 related downturn back in April, according to figures within the survey.

Respondents indicated that the negative effects of the COVID-19 pandemic has led to declines to occur in both output and new order, with new businesses declining at a solid pace amid reports of weak customer demand.

Data also indicates a sharp reduction in relation to new export orders, with this rate being faster in new businesses. The latest reduction to hit the manufacturing output was the eighth to occur over the past nine months, and far faster than what had been recorded in July. All three broad sectors recorded falling output, with the rate of contraction being sharpest for intermediate goods producers.

The decline in new orders led to further reductions to occur in both backlogs of work and employment, especially due a lack of pressure on operating capacity. Whilst the depletion rate in outstanding business remained sharp, firms moved to scale back their staffing levels to an extent only exceeded during the worst of the downturn during April.

Furthermore, a faster reduction in purchasing activity was also seen amid lower new orders and production requirements. However, the fall in input buying was still far weaker than had been previously seen in April's record. Elsewhere, the scaling back of inventories also continued, with stocks of both purchases and finished goods witnessing a decline in August.

Moreover, a number of respondents also indicated that finished products had been dispatched to customers as soon as they were ready in order to avoid a build-up of inventories.

Input prices also increased for the third month running in August, albeit at only a pace that was slightly slower in comparison to the average, with a scarcity of materials occurring due to the COVID-19 pandemic being the principal reason of the rise in input costs, according to respondents.

Similarly, the impact of the COVID-19 pandemic was central to the increase in the delivery times of suppliers, with manufacturers responding to weak demand conditions by lowering their output prices again midway through the third quarter of the year.

As selling prices have now decreased in each of the past seven months, the latest fall is the fastest to occur since May. At present, there are many concerns relating to the ongoing effects of COVID-19 on demand, a factor which has led to a drop in confidence among manufacturers regarding their 12-month outlook for production.

In general, local firms still predict that output will rise over the coming year, with many hopeful that the pandemic will be brought under control shortly. Despite this, optimism was at its weakest point since the series began in April, 2012.

Andrew Harker, economics director at IHS Markit, said the data is currently moving in the wrong direction, with the latest PMI data for Vietnam highlighting the ongoing effects of COVID-19 on the manufacturing sector, in addition to the challenges faced in trying to overcome them as customer demand remains weak, with firms scaling back production accordingly.

"The picture around employment was particularly worrying, with jobs lost at the second fastest pace in nine-and-a-half years of data collection. Firms will be hoping that the virus can be brought back under control so that the recovery that got underway in June can get back on track", noted Harker.

5. Foreign investors could get easier entry to Vietnam

Facilitating the entry of foreign investors to Vietnam was an important issue raised at the meeting of the Standing Committee on COVID-19 Prevention and Control.

In addition, it is necessary to simplify administrative procedures to decrease the entry time for experts and skilled workers, including documents relating to flights and health certificates.

The prime minister approved the Ministry of Planning and Investment's proposal to allow senior personnel of South Korean enterprises to enter Vietnam for long stays and short-term business trips alike. In addition, the authorities will consider applications from investors interested in entering Vietnam to look for investment opportunities.

Since the pandemic broke out in Vietnam, about 8,500 foreign experts and employees are waiting to enter Vietnam to resume work, 2,000 of whom are working on key national projects.

As of March 15, based on statistics submitted by locals, a total of 8,459 foreign experts and employees were looking to enter Vietnam, 2,000 of whom are working on key projects such as the Cat Linh-Hadong Metro Line (100 people), Vinh Tan 1 thermal power plant (76 people), the LG Display project in Haiphong city (200 people), Samsung Display Vietnam in Bac Ninh province (700 people), and Texhong Co., Ltd. (77 people). Besides, Samsung Electro-Mechanics Vietnam Co., Ltd. and its partner in Thai Nguyen province are waiting for 150 experts and senior employees.

As of now, experts, skilled workers, business managers, and officials are allowed to enter the nation but they must comply with the nation's quarantine regulations. Previously, at the peak of the pandemic in early April, 700 South Korean engineers of Samsung Display, a supplier of Samsung Electronics and Apple, were exempted from the mandatory quarantine requirement to allow the urgent preparation for the production of screens for new smartphones.

6. Opening trade, investment, developing supply chains critical to growth, coping with COVID-19: AEM

The point was highlighted at the ASEAN Economic Ministers (AEM) and Japan's Ministry of Economy, Trade and Industry (METI) Consultations which took place virtually on Friday as part of the 52nd meeting of the ASEAN Economic Ministers (AEM-52).

Ministers at the event expressed their concerns about the COVID-19 pandemic's widespread impacts on the lives of people and economies in the region and around the world.

They reaffirmed their commitments to work together to reduce the negative impacts of the pandemic and to ensure macro-economic and financial sustainability through the market opening to trade and investment and develop sustainable supply chains, especially for essential goods such as healthcare products, medicines and food.

Ministers also stressed the importance of the joint effort in promoting regional economic growth and social stability, including the signing of the Regional Comprehensive Economic Partnership this year.

Ministers highly appreciated the progress of the ASEAN-Japan Economic Resilience Action Plan passed on July 29 with three objectives, including sustaining the close economic ties developed by ASEAN and Japan, mitigating the adverse impact of COVID-19 on the economy and strengthening economic resilience in response to the economic challenges brought about by the COVID-19 pandemic.

Japan was the fourth largest trade partner and the second largest investor of ASEAN in 2019, with a two-way trade of US$225.9 billion in 2019, accounting for eight per cent of the total trade of ASEAN. Japan poured $20.4 billion investment in ASEAN, or 12.7 per cent of the total foreign investment in the region last year.

Consultations with Hong Kong, Russia

The cooperation between ASEAN and Hong Kong, China through free trade agreements was an important factor to economic recovery and growth as well as two-way trade, ministers said at the AEM and Hong Kong Consultations also taking place online yesterday.

Agreeing the importance of ultilising the ASEAN-Hong Kong Free Trade Agreement (AHKFTA) and ASEAN-Hong Kong Investment Agreement (AHKIA) in boosting economic growth and bilateral trade, ministers said that the consultations needed to be sped up to bring the two deals into force by the end of this year.

The two FTAs came into force to between Hong Kong and eight ASEAN member countries but the consultations for approval of the trade deals were underway in Brunei and Cambodia.

Trade between ASEAN and Hong Kong reached $111 billion in 2019 or 3.9 per cent of the ASEAN's total trade, making Hong Kong the seven largest trade partner of ASEAN.

Hong Kong invested around $11.3 billion in ASEAN last year, or 7 per cent of foreign investment into the bloc.

At the consultations with Russia, ministers said that the joint efforts would continue to minimise the impacts of the COVID-19 pandemic on the economy and maintain macro-economic and financial sustainability.

Ministers highly appreciated the achievements in the bilateral cooperation in agriculture, energy, infrastructure, financial services and digital technology, adding that the cooperation would help

ASEAN to improve competitiveness and develop technology and the regional infrastructure.

Ministers also stressed the importance of enhancing linkage between ASEAN and the Eurasian Economic Union to effectively exploit the potential of both sides.

The two-way trade between ASEAN and Russia totalled $18.2 trillion in 2019. Russia invested $45 million in ASEAN last year.

7. Vietnam to reopen air routes to RoK, Japan on September 15

The Civil Aviation Authority of Vietnam (CAAV) has built a plan to resume international air routes, firstly the ones linking with the Republic of Korea (RoK) and Japan on September 15.

CAAV Director Dinh Viet Thang told Vietnam News Agency on August 31 that the country has finished discussion about flight resumption with the two Northeast Asian nations.

Accordingly, there will be eight flights per week in total, four linking with Japan and another four with the RoK.

All passengers boarding those flights to Vietnam will be subject to mandatory 14-day quarantine to prevent COVID-19 transmission, he noted.

The Ministry of Transport is set to have a meeting on September 1 with the Ministry of Foreign Affairs, the Ministry of National Defence, the Ministry of Health and the Ministry of Labour, Invalids and Social Affairs to discuss the resumption of international air routes in detail, especially the quarantine of passengers.

Before the resurgence of COVID-19 in late July, the Transport Ministry had proposed commercial international air routes be reopened on August 1.

Facing the latest outbreak, air travel demand in the country has dropped sharply.

The International Civil Aviation Organisation forecast it would take until 2024 for the world's aviation industry to recover their business to the 2019 level. Vietnamese airlines are predicted to suffer from losses of over 4 billion USD this year.

Corporate News

8. SAB: Government sells stake in Viet Nam's largest brewer

↓ -0.78%

The value handed over to SCIC was more than VND2.3 trillion (US$99.3 million), accounting for 36 per cent of Sabeco's charter capital, or more than 230 million shares.

Sabeco has become the first enterprise to complete such a transfer among 14 companies that must transfer State capital to SCIC before August 31 according to a prime minister decision issued in June.

Up to now, SCIC has taken over VND21.9 trillion ($945.3 million) in State capital in 1,068 enterprises.

After the transfer, SCIC will have to divest all State capital from Sabeco in accordance with the Prime Minister decision.

Speaking at the handover ceremony on Friday, Deputy Minister of Industry and Trade Cao Quoc Hung said the transfer will not interrupt production or business activities of Sabeco and will comply with the current regulations.

Meanwhile, SCIC Chairman Nguyen Duc Chi said SCIC would create the best possible conditions for Sabeco to continue to grow, bringing investment efficiency to all shareholders, including state shareholders.

9. VNM: Arisaig Asia Consumer Fund to soon divest from Vinamilk

↑ 1.82%

Arisaig Asia Consumer Fund's decision has shocked the Vietnamese securities market because the fund reported an annual profit rate of 20 per cent from the local dairy giant during the past 11 years. As of the end of last year, Arisaig Asia Consumer Fund held 28.8 million VNM stocks worth more than VND3.3 trillion ($143.5 million).

Through observing consumption trends in China – a market with many similarities to the local market – in recent years, the investment fund reassessed its expectations for the growth of the Vietnamese dairy sector. It showed that the market with a 100-million population is getting closer to the saturation point.

The fund stated that although Vinamilk has performed well in diminishing threats stemming from competitors such as Abbott, Coca-Cola, and Danone, its strategic alterations are not enough to recover the snail-paced growth in the liquid milk and formula milk for babies categories.

The market has seen signs of saturation for a few years now. According to a report by AC Nielsen, milk consumption in 2019's second quarter grew by 2.1-3.9 per cent, a slight rally against the downturn in the previous six quarters (since the fourth quarter of 2017).

Moreover, increasing expenses for material supply have been a burden for local dairy producers. According to Global Dairy Trade, the price of skimmed milk powder spiked by 30 per cent and full cream milk powder by 4 per cent against the year prior. To maintain the profit margin, Vinamilk, TH True Milk, and Dutch Lady all raised prices by 1-5 per cent.

Assessing prospects for 2020, SSI forecast the local dairy sector would keep growing at a single-digit rate. Currently, spending on fast-moving consumer goods has slowed down because the essential needs are met. As a result, consumers will increase expenses on higher demands and non-essential items.

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