



VIETNAM DAILY NEWS

September 7th, 2020



Table of content

Table of content

- 1. VN-Index inches downwards**
- 2. Tough spot for steel ventures as pandemic cuts off progress**
- 3. Vietnam 42nd in global innovation index**
- 4. Vietnam government targets 2.5% GDP growth for 2020**
- 5. Smart cities in Vietnam hold solution to pandemic**
- 6. Vietnam's garment industry needs drastic changes to profit from EU deal**
- 7. HCM City to auction 9 land plots in Thủ Thiêm**
- 8. VJC: Vietjet kicks off self-handling ground operations**
- 9. HPG: Hoa Phat sells nearly 500,000 tonnes of steel products in August**

Market Analysis

1. VN-Index inches downwards

The VN-Index snapped a five-trading day gaining streak on Friday as many investors decided to cash in on stocks which had rallied substantially in recent days.

Viet Nam's benchmark index inched down 0.27 per cent to close Friday at 901.54 points. The Ho Chi Minh Stock Exchange's index gained 3.5 per cent in the previous five trading sessions since August 26.

Blue chips were the main drag as 21 of the top 30 shares by market value and liquidity declined while only seven advanced. The two others closed flat.

Banks were hard hit with nine of 10 listed lenders on the southern bourse losing value, with Vietcombank (VCB), VPBank (VPB) and Tien Phong Bank (TPB) decreasing 1.5 per cent, 1.1 per cent and 1.7 per cent, respectively.

Losers also included oil and gas companies as the three largest listed firms including PV Gas (GAS), PV Power (POW) and Petrolimex (PLX) all slipped by more than 1 per cent.

On the other end of spectrum, gains from big companies like Vinamilk (VNM), Vincom Retail (VRE) and Masan Group (MSN) cushioned the market.

Securities firms were also gainers. Big names like Saigon Securities Inc (SSI), Ho Chi Minh Securities (HCM), Viet Capital Securities (VCI), FPT Securities (FTS) and VNDirect Securities (VND) increased between 0.8 per cent and 4.1 per cent.

"Various stock sectors have entered overbought zone, thus the market may experience strong volatility and correction during its uptrend," said Tran Xuan Bach, a stock analyst at Bao Viet Securities, in a daily market report.

Despite the second wave of the COVID-19 pandemic, Viet Nam's stock market still rallied in August with the VN-Index increasing 10.4 per cent compared to July, making it the best performer in the world.

Many stocks gained substantially during August's uptrend as 50 stocks on the three exchanges, the Ho Chi Minh Stock Exchange, Ha Noi Stock Exchange and Unlisted Public Company Market (UPCoM), jumped by more than 50 per cent in one month while eight stocks increased by more than 20 per cent, including large caps such as Petrolimex, Mobile World Investment (MWG) and Vinaconex.

According to Viet Dragon Securities, the VN-Index is still widening its uptrend and getting close to the old peak of 905 points. This is also a resistance level in the short term, so investors should still keep their portfolio stable and wait for specific signals.

On the Ha Noi Stock Exchange, the HNX-Index edged up 0.07 per cent to end Friday at 126.15 points.

A total of nearly 399 million shares worth VND7.4 trillion (US\$317 million) were traded in the two markets, down 6 per cent in volume and 11 per cent in value compared to the previous session.

Macro & Policies

2. Tough spot for steel ventures as pandemic cuts off progress

According to a World Steel Association report, global production in the industry witnessed a fall in the first seven months of 2020, with crude steel production for the 64 countries reporting to the association sitting at 152.7 million tonnes in July, a 2.5 per cent decrease compared to 156.7 million tonnes in July last year.

In response to the slower demand at home and abroad, a number of giant steelmakers such as Nippon Steel Corporation and Tata Group said they will possibly halt the production of further blast furnaces to cope with the situation amid the ongoing coronavirus pandemic. And while Vietnam is relatively better off than many in terms of the pandemic, it will not be an exception to steel industry impacts. The World Steel Association also noted recovery is on trend but the steel picture remains less rosy than in other areas.

Locally-invested Hoa Sen Group is set to withdraw its capital contribution from the \$10 billion Ca Na steel complex in the central coastal province of Ninh Thuan, instead looking to focus on other areas such as plastics and corrugated iron. Insiders remarked that it would be a wise move for Hoa Sen, but it would not be easy to find investors for the project anytime soon. Hoa Sen used to bet on this project. Constructing the steel complex was planned to help Hoa Sen overtake Hoa Phat as the largest Vietnamese steel producer, following only Taiwanese Hung Nghiep Formosa Ha Tinh Steel Co., Ltd., which has an annual capacity of 7.5 million of tonnes in its first phase.

The Ca Na steel complex is set to be carried out towards 2031 in multiple stages and will have final capacity of 16 million tonnes a year, including long and flat steel.

COVID-19 has bitten into the profits of Formosa Plastics Group, which operates a \$10.5 billion steel and port complex in the central province of Ha Tinh. Although there is no official data from the company, a provincial report said that in the first half of the year, Formosa's production output and consumption of steel billets and finished steel products fell sharply because the price of finished steel products continues to decline while raw

material prices continue to move in the opposite direction.

The initial impact of the pandemic also caused problems. Facilities suffered shutdowns for maintenance and repair of hot-rolled machinery for 20 days in January and 10 days in February. Over the first six months, it is estimated that the Formosa steel facility's billet output hit 2.67 million tonnes (down 12.7 per cent) and steel output was 1.96 million tonnes (down 18.3 per cent) over the same period in 2019.

The Formosa steel facility is now capable of producing 7.1 million tonnes of crude steel per year, but the slowing growth of the company has reduced the index of industrial production for Ha Tinh.

Last year, Formosa announced that it could increase its capacity in both 2021 and 2023 after its first blast furnace went into use in 2017 and the second came a year later. However, the current pandemic has ensured the moves are currently a non-starter.

Besides the slowing demand, Nguyen Van Sua, former chairman of the Vietnam Steel Association (VSA), said that the industry currently endures other problems such as the difference between the domestic demand and production capacity, as well as the competition created when other countries use trade remedies to protect their domestic production.

However, locally- invested Hoa Phat is one of few steelmakers reaping profits despite COVID-19. In the first seven months of 2020, it exported 160,000 tonnes of high-quality roll steel, up 2.3 per cent on-year. The key export markets were the United States, Japan, Canada, China, South Korea, and Singapore. It will export 30,000 tonnes in this September and October to Kenya and Ghana.

The VSA suggested that the local authorities should be wary of accepting a new steel project in order to avoid the unbalanced supply and demand as well as trade disputes between nations. The VSA also said that it is necessary to consider many factors when adopting a steel project.

3. Vietnam 42nd in global innovation index

Vietnam ranked 42nd among 131 economies for the second consecutive year in the 2020 Global Innovation Index (GII), the World Intellectual Property Organisation (WIPO) has announced.

In economies making the most significant progress in their GII innovation ranking over time, Vietnam was first among 29 lower middle-income countries and third in Southeast Asia.

Compared to its own index last year, it posted higher levels in a number of indicators, including business sophistication, from 69th to 39th place, and creative output, from 47th to 38th.

It secured 19th position in the global brands value indicator, a new feature this year, with 33 brands listed among the top 5,000 best brands.

Switzerland, Sweden, the US, the UK, and the Netherlands led in the innovation rankings. The top 10 was dominated by high-income countries.

GII's indicators provide a comprehensive overview of the innovation landscape, including the political environment, education, infrastructure, and business development.

Vietnam has used the GII as an important management tool since 2017, with its index rising from 71st place in 2014 to 59th in 2016 and 42nd last year.

4. Vietnam government targets 2.5% GDP growth for 2020

Vietnam targets an economic growth rate of 2% for this year in normal conditions and 2.5% if favorable factors emerge, according to Nguyen Chi Dung, minister of Planning and Investment.

The Vietnamese government remains steadfast in ensuring macro-economic stability and focusing on three major growth driving forces which are investment, export and domestic consumption, said Mr. Dung at a monthly government meeting on September 4.

For 12 socio-economic development goals in 2020, seven are highly to be achieved and potentially exceed their set targets.

According to Mr. Dung, Vietnam would continue to pursue the dual target of containing the Covid-19 pandemic and grasping opportunities for the resumption of economic activities.

While the pandemic has caused severe impacts on various economic sectors, the economy has not fallen into a recession and kept maintained a positive growth momentum, Mr. Dung asserted, adding this is a positive situation given a bleak

outlook for countries in the region and all over the world.

Meanwhile, Mr. Dung pointed to a number of shortcomings that have not been able to be fully addressed, including the low productivity and competitiveness of the economy, weak linkages between domestic and foreign-invested firms, and limited integration into regional and global value chains, among others.

Looking ahead, Mr. Dung expected negative impacts from the Covid-19 pandemic to persist for the whole 2021.

With growing global uncertainties, Vietnam's major economic partners are predicted to take at least two to four years to return to their pre-Covid-19 levels. However, Vietnam's GDP growth should rebound to around 6.7% in 2021, for which the government is set to continue to look for a rapid and sustainable economic growth rate, Mr. Dung suggested.

Mr. Dung's GDP forecast for this year is not vastly different from that of World Bank in July with 2.8%, making Vietnam the fifth fastest-growing economy

globally, while HSBC also expected the country to reach growth of 2.9%.

5. Smart cities in Vietnam hold solution to pandemic

Smart cities hold the answer to the modern world's problems including rising population, pollution, traffic congestion, climate change and even global-scale disasters such as the COVID-19 pandemic, according to experts.

Nearly half of ASEAN's population is in urban areas. In a forecast by the ASEAN Smart Cities Network (ASCN), a collaborative platform which aims to synergise smart city development efforts across ASEAN by facilitating co-operation, there will be 90 million people living in cities across the region by 2030.

According to ASCN, those cities, with populations typically ranging from 200,000 to 2 million, will account for as much as 40 percent of economic growth for ASEAN countries.

However, rapid urbanisation has come with challenges such as traffic congestion and accidents, especially in large cities, which caused the region to lose out from 2-5 percent GDP growth annually. In addition, other pressing issues for large cities included worsening air and water quality, inadequate waste management, rising poverty and crime.

IT infrastructure development

Countries should look to information technology (IT) for solutions, said Dr Pham Khanh Toan, head of the department of international co-operation under the Ministry of Construction (MoC).

Toan said IT and telecommunication infrastructure play a key role as cities seek to meet such challenges. ASEAN countries may also learn valuable lessons in developing smart cities from more advanced economies.

Dr Dao Thi Nhu from the MoC's urban development department said ASEAN's smart cities should develop a platform to cooperate and share experience in city development with a focus on sustainability. Vietnam is building three of the first

26 smart cities in the region: Hanoi, Ho Chi Minh City and Da Nang.

Nhu said the cities' objectives include increased living standards, building competitive economies and achieving environmental sustainability.

In August 2018, the Prime Minister's Office approved a project to develop smart cities in Vietnam for 2018-25 with a vision to 2030 in which the Government identified three pillars of smart city-building: planning, management and utilities.

Hanoi, HCM City and Da Nang City have seen the development of public infrastructure to provide residents services in education, health care, transportation, construction and environmental protection.

For example, more than 1,500 administrative procedures have been made available online in Hanoi. The capital has also rolled out an online health care management system for nearly 1 million residents. More than 2,700 schools and universities in the city have implemented online communication channels between teachers and parents.

Notably, HCM City has been planning to establish Thu Duc city, a city made up of areas currently span District 2, District 9 and Thu Duc district. The new city has been earmarked to become a financial hub and a research and development centre that may account for a third of HCM City's economic output or 7 percent of the country's, said the city's Party leader Nguyen Thien Nhan.

Meanwhile, the city has been building itself as a financial centre in the region to start providing financial services for neighbouring countries such as Cambodia, Myanmar and Laos. There are currently more than 2,100 banking and credit institutions in the city, the most in the country. Last year, HCM City accounted for nearly a quarter of the country's capital raised with the HCM City Stock Market Exchange made up 95 percent of total market

capitalisation and some 54 percent of Vietnam's GDP.

6. Vietnam's garment industry needs drastic changes to profit from EU deal

It is projected that Vietnam's total garment exports in 2020 will fall by 20% against the previous year to about US\$31-32 billion. To overcome the difficulties, garment makers must implement urgent and flexible measures to adapt to the new situation and take full advantage of the opportunities brought about by new-generation free trade agreements, especially the one with the EU (EVFTA) which took effect on August 1.

With a population of 500 million, the EU's total garment imports are estimated at US\$250 billion a year, accounting for 34% of global demand, while Vietnam's clothing exports to the union are only US\$5.5 billion, or a market share of 2.2%. This means there is still a lot of room for Vietnamese garment producers to bolster exports and expand their markets. It is forecast that garment exports to the EU will grow rapidly by 67% over the next five years.

But capitalising on the EVFTA's advantages is not easy because of the “yarn forward” rule while the infrastructure of Vietnam's garment industry remains modest with a severe lack of material supply. Vietnam needs more than 9 billion metres of fabric annually, domestic suppliers can meet only one third of this and the rest must be imported.

As such, the Ministry of Industry of Trade should include fabric from Japan and the Republic of Korea, which also have trade agreements with the EU and account for 23% of Vietnam's total imports.

In the long run, comprehensive measures are needed to fill the shortfalls facing the garment sector. Specifically it is necessary to build concentrated and large industrial parks in all the northern, central and southern regions, and introduce incentives to call for investment in the spinning, weaving and finishing stages.

The government needs to soon issue a garment development strategy for the 2020-2040 period, consider abolishing value added tax when domestic enterprises purchase materials locally and reduce their logistics costs. The government should also act to help enterprises connect with each other to form close linkages, thus bolstering their growth and keeping them competitive with foreign firms.

For their part, garment makers need to reform themselves towards becoming a sustainable part of the global garment supply chain if they want to quickly increase their market share in the member countries of the agreement.

7. HCM City to auction 9 land plots in Thủ Thiêm

The auction will be organised by the city's Land Fund Development Centre, which is working with the Thủ Thiêm area management to map the nine lots for auctioning, according to the Department of Natural Resources and Environment.

The parcels, in a highly developed commercial hub, are on the city's list of major projects soliciting investments.

To take part in the auction, bidders need to pay a deposit of 20 per cent into a bank account. The department said bank guarantees would not be accepted.

They must be in real estate, use the land as stipulated in zoning plans and purpose, and demonstrate the capability to develop their project in harmony with the surroundings.

Nguyễn Toàn Thắng, director of the Department of Natural Resources and Environment, said the auction would be held publicly, with the city directly appraising bidders about the starting prices to ensure transparency.

Nguyễn Thế Minh, head of the Thủ Thiêm new urban area management, said the city had sought the Government's approval to use the money from the

auctions to repay loans and loan interest worth VNĐ2.873 trillion (\$123.63 million), and pay for land compensation and construction of infrastructure in the new urban area worth a total of VNĐ 26.32 trillion.

Lê Hoàng Châu, chairman of the HCM City Real Estate Association (HoREA), said Thủ Thiêm had been extensively provided with roads, lights and other infrastructure.

“The city should have special payment methods to support investors.”

Trần Vĩnh Kim, sales director of real estate technology company Review Việt Nam, said the city should split up land plots before auctioning them to attract more investors.

Nguyễn Thế Minh, head of the management board of the new urban area, said the Government Inspectorate had concluded that 61 land lots would need to be auctioned.

The urban area spreads over 657ha with nearly 30 per cent of the land meant for commercial purposes. The rest is for public services including a central square, riverside park and children's playground.

Approved by the Government in 1996, the proposed financial district and mixed-use urban area is expected to become the largest inner-city development in Southeast Asia.

Acquiring all the required lands and clearing them have taken more than 10 years, with nearly 15,000 households being resettled.

Corporate News

8. VJC: Vietjet kicks off self-handling ground operations

↑ 0.00%

The new-age carrier Vietjet on September 4 officially self-handled its ground operations at Noi Bai International Airport in Hanoi, becoming the first ever private carrier to set up its own ground handling arm in Vietnam.

The move aims to improve the airline's service quality, independently and flexibly adjust its own flight schedule to meet seasonal flight operations, especially in peak season, and effectively manage its operation costs. It would also help to unify Vietjet's images and brand recognition as well as to ensure the airline's thorough and safe operation.

“The launch of Vietjet ground services in Hanoi today is one of the milestones of Vietjet's strategic

development to indeed optimise our cost-reducing opportunities while enhancing ground handling service quality and facilitating more sources of revenue,” said Vietjet Vice President Nguyen Thanh Son.

Vietjet is currently one of largest airlines in Vietnam in terms of domestic flight frequency, particularly at Noi Bai International Airport. The carrier operates over 30 domestic and international routes from and to the airport, serving thousands of passengers daily. Noi Bai is hence selected as the first airport for Vietjet to handle its own ground services, paving the way for the airline's further service expansion in the future.

9. HPG: Hoa Phat sells nearly 500,000 tonnes of steel products in August

↓ -0.20%

Hoa Phat Group sold nearly 500,000 tonnes of products in August, including over 320,000 tonnes of steel and 170,000 tonnes of billets despite COVID-19 pandemic.

The volume of steel soared by 65 percent month-on-month, including 54,000 tonnes for export, tripling that of the same period last year.

Despite unfavourable weather conditions and social distancing order caused by the pandemic, consumption of Hoa Phat steels in civil construction area remains high.

In eight months of this year, Hoa Phat produced 3.2 million tonnes of steel products, including 2.1

million tonnes of construction steel and the remaining are billets.

Steel for export surpassed 17 percent annually to over 310,000 tonnes, nearly doubling year-on-year. Its major markets include Japan, the Republic of Korea, Malaysia, Australia, Canada, Thailand, Cambodia and Laos.

The group also sold 1.5 million tonnes of billets to domestic and foreign markets.

This month, it will also begin supplying hot-rolled coil steel to the market.



Research Team:

Tsugami Shoji *Researcher*

jsi@japan-sec.vn

Disclaimer:

Copyright 2015 Japan Securities Incorporated (JSI). All rights reserved. This report has been prepared on the basis of the information believed to be reliable at the time of publication as provided by StoxPlus (www.stoxplus.com) - An associate company of Nikkei Inc. and QUICK Corp. JSI makes no representation or warranty regarding the completeness and accuracy of such information. This report is provided, for information purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of JSI.

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