VIETNAM DAILY NEWS

JAPAN SECURITIES INC.

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Market Analysis

1. Shares rise for eighth consecutive session as cash flow increases

Shares recovered from early losses on Tuesday to inch upwards, marking the eighth consecutive gaining day as cash flow increased at the end of the session and pushed up many large-cap stocks.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange gained 0.08 per cent to close trading at 944.42 points.

The index had risen 2.8 per cent in the last seven trading sessions.

More than 444.3 million shares were traded on the southern bourse, worth VND9.2 trillion (US$396.9 million).

Market breadth was neutral with 189 decliners and 200 gainers.

"Market liquidity increased from the previous session, and market breadth was in equilibrium, showing the current profit-taking pressure is not strong enough to reverse the trend," said BIDV Securities Company.

"According to our assessment, the VN-Index is likely to continue struggling at 940-945 points in the next few sessions," the company said.

The VN30-Index, which tracks the performance of the 30 largest stocks by market capitalisation and liquidity on HoSE, increased 0.66 per cent to close Tuesday at 909.49 points.

In the VN-30 basket, 17 stocks gained ground, 10 decreased and three remained flat.

Cash flow was injected into banking stocks like Asia Commercial Joint Stock Bank (ACB), Bank for Investment and Development of Viet Nam (BID), Vietcombank (VCB), Sacombank (STB), Military Bank (MBB), VPBank (VPB) and Techcombank (TCB).

Other blue-chip stocks also performed well and rescued the VN-Index from early losses such as Vingroup (VIC), Vinhomes (VHM), Vincom Retail (VRE), steel company Hoa Phat Group (HPG) and Masan Group (MSN).

On a sector basis, 13 out of 25 sector indices gained ground, including real estate, retail, energy, banking, rubber production, seafood processing, construction materials, logistics, plastics and chemical production.

On the other side, 12 sector indices lost steam, including wholesale, insurance, securities, information and technology, health care, food and beverage and construction.

The minor HNX-Index on the Ha Noi Stock Exchange decreased 0.4 per cent to end Tuesday at 140.33 points.

The northern market index had gained 0.76 per cent to close Monday at 140.88 points.

More than 49 million shares were traded on the northern exchange, worth VND771 billion.

Foreign investors net sold VND952 billion on HOSE. They were net buyers on the HNX with a value of VND6.07 billion.

Macro & Policies

2. Canada removes anti-subsidy duties on Vietnamese corrosion-resistant steel

The move comes following relevant Canadian authorities concluding that the Vietnamese Government has not subsidised local enterprises to produce and export corrosion resistant steel, also known as galvanised steel or COR.

In line with the new adjustments, anti-dumping taxes faced by Vietnamese businesses will be reduced from 36.3% and 91.8% in the preliminary phase of the investigation to between 2.3% and 16.2%, respectively, in the final conclusion.

Canada is set to reach a conclusion on damage following investigations from now to November 13. In the event that no damage has been reported, it will decide not to impose anti-dumping duties on Vietnamese COR steel.

3. The financial issues clouding ambitious North-South railway

The ninth chapter of the study states relevant legal documents for the project financial calculations. However, because the study was made two years ago, some of the referred documents are already outdated, for instance, when it comes to calculations of labour costs.

The same chapter mentions costs for infrastructure, equipment, land clearance, taxes, and more. Accordingly, the total investment required for the first phase of the project, Hanoi-Vinh-Nha Trang-Ho Chi Minh City, amounts to $24.7 billion, while the second phase for Vinh-Nha Trang would cost around $34 billion. Both sections bring the total required investment to $58.7 billion, equalling a near 25 per cent of 2018's GDP. However, the calculations for these numbers are equally outdated and contain many variables that have already changed.

Besides this, the total interest expense and commitment fees were set at $258 million and are based on the assumption that interest rates during construction would be at 0.2 per cent per year. However, Vietnam has become a low-middle-income country since 2011 and is expected to become a high-middle-income country by 2030, meaning that concessional loan conditions will have major changes that need to be included in the calculations.

The current total investment is high, even higher than originally pre-calculated in 2010, and double that of the Ministry of Planning and Investment's announcement at the beginning of the year. Therefore, it is necessary to explain the reasons for the differences to the previous estimates.

In addition, the pre-feasibility study outlines and analyses three plans to mobilise the nearly $60 billion for the project. One option includes the entire state budget, the second the entirety of official development assistance (ODA), and the third a combination of state and private capital in public-private partnerships with various overseas markets. However, the evaluation of all three options is not convincing as they are all based on previous GDP forecasts, which is not reasonable or practical.

Meanwhile, forecasts from the World Economic Forum, the World Bank, and the Prime Minister's Advisory Group from 2018 are now very inaccurate and far from reality. Vietnam's growth rates since were higher than forecast, however, due to the pandemic's impact, this year's growth rate stands at around 2-3 per cent, which renders prospects for the period until 2025 still uncertain.

The study stated that it is possible to mobilise 0.69 and 0.53 per cent of GDP for the project's two phases, respectively, even up to 1.67 and 1.29 per cent at the highest. However, the study does not base these estimates on the actual investment developments in the previous period, the capital demand for projects, and the change in capital management according to the medium-term public investment plan.

In particular, the three capital mobilisation options stated in the report are not feasible, and state budget expenditure has been and remains at a very high level. To balance the state budget and reduce its deficit and public debt, instead of continuing to increase the state's revenue, it can only reduce its expenditures, especially investment and development costs in infrastructure construction.

Vietnam set the target to reduce the state's budget deficit to below 3 per cent of GDP by 2030. However, the budget deficit is causing difficulties in spending capital for the North-South high-speed railway as well as for borrowing additional funds, while ODA is forecast to be very limited in the coming years. The state budget deficit between 2006 and 2019 increased sharply in both absolute numbers and as a percentage of GDP compared to the previous period. The current global economic crisis promises to make the state budget deficit even worse.

Finally, the rise in public and external debts makes the state borrow even more. According to the Ministry of Finance, public debt has been growing rapidly from 56.3 per cent of GDP in 2010 to a peak of 63.7 per cent in 2016, only slowly decreasing in the following years until 2019 to around 56 per cent of GDP.

Foreign debt consists mainly of concessional loans, with the average loan term being 20 years at an interest rate of about 1.6 per cent per year, but because domestic debt comes mainly through short-term government bonds with high interest rates, pressure and direct debt repayments increase rapidly in the short term.

Currently, Vietnam is categorised as a low-middle-income country, so ODA mobilisation tends to decrease gradually with shorter terms and increased interest rates which lead to public debt obligations while state debts tend to increase.

To sum up, although it has been meticulously prepared, the financial problems of the North-South high-speed railway remain, and forecasts and planning need to be brought closer to reality with updated direction and variables in accordance with forecasts in each financial plan.

In addition, each financial option should be built based on updating and analysing the situation as well as economic growth trends, state and development expenditures, and the ability to utilise public debt and ODA loans to increase the feasibility of each possible direction.

The pre-feasibility study by the consortium of consultants for the North-South high-speed railway project proposed to build a railway line of about 1,560km, running along the North-South corridor of the country and passing through 20 localities while connecting Hanoi and Ho Chi Minh City. The proposed trains are designed for a speed of up 350km/h, and the commercial operating speed for passenger transport was planned to be 320km/h.

The planned investment capital amounts to $58.7 billion, separated into two project phases. Phase 1 from 2020 to 2032 is meant to research and invest in the construction of the Hanoi-Vinh-Nha Trang-Ho Chi Minh City sections. In the second phase from 2032 to 2050, the construction of Vinh-Nha Trang would take place, in which the Vinh-Danang and Danang-Nha Trang sections were set to be completed in 2040 and 2050 respectively.

4. Mobile phone retailers shift to other services as market saturated

To solve the problem of revenue and profit, leading businesses in mobile phone retail are making strong changes, expanding into many different business fields.

There are not many retail businesses distributing mobile phones on the stock exchange.

Large companies on the stock exchange include Mobile World Group (MWG), FPT Digital Retail JSC (FRT) and Digiworld Corporation (DWG).

Despite the heavy impact of COVID-19, MWG's net revenue and pre-tax profit in the first six months of this year still recorded growth of 7.8 per cent and 2.2 per cent respectively over the same period last year.

In the first six months of 2020, MWG's market share in the mobile phone segment has risen to more than 50 per cent from 48 per cent at the end of last year.

However, the group's The Gioi Di Dong chain's revenue decreased by 15 per cent year-on-year as the mobile phone market has been saturated and people were tightening their spending due to COVID-19.

To increase revenue, MWG has implemented more related services such as payment instalments money transfer, electricity and water bill collection.

The implementation of these services does not incur any additional costs, so net profit margin will improve as revenue from these services increase.

A MWG representative told the Vietnam News Agency that the monthly revenue from these services is over VND10 trillion (US$), which is greater than the revenue of its The Gioi Di Dong chain.

The group's management board sees instalment service as a new opportunity for MWG, therefore, they will focus and exploit the service.

MWG recorded about VND3.6 trillion (US$) in revenue from other services in the six months, equivalent to a contribution of about VND200-300 million in revenue per store per month.

For FRT, this is the second largest mobile phone retail chain in terms of market share and network in Viet Nam.

FRT's after-tax profit was more than VND15.8 billion in the first quarter of this year, declining 90 per cent compared to the same period last year.

VietCapital Securities (VCSC) assessed that FRT's mobile phone segment still faced many challenges in the context of economic disruption related to COVID-19, low growth of the industry and competition from top companies like MWG.

FRT's mobile phone segment in the second quarter decreased by 24 per cent compared to the same quarter last year.

Facing difficulties from the mobile phone retail segment, FRT has accelerated the opening of pharmaceutical retail stores.

FRT had 596 mobile phone stores by the end of the second quarter, while there were 593 stores at the end of last year.

However, its pharmacy chain has increased from 70 stores by the end of last year to 135 stores by the end of the second quarter.

The two leading companies in the mobile phone retail market have made big moves in order not to depend too much on revenue from this segment. However, there are also businesses that take advantage of the opportunity, increase market share and revenue in the mobile phone retail segment even in the difficult context.

For example, DGW, although the impact of the COVID-19 pandemic reduces the consumption of the mobile phone segment, the company still achieved a high growth rate thanks to effective market development for Xiaomi, which currently accounts for about 10 per cent of the mobile phone market share in Viet Nam.

DGW's mobile phone segment ended the first half of the year with revenue reaching nearly VND2.3 trillion, up 48 per cent over the same period last year.

5. EVN's solar power buyback up 2.6 times in first nine months

Vietnam Electricity (EVN) purchased a total of 8.16 billion kWh of renewable power in the first nine months of this year, of which 7.23 billion kWh, or 88.6 percent, were generated by solar power projects.

The nine-month solar power buyback was 2.6-fold higher year-on-year.

EVN's electricity output in September, including imported power, totalled 21.32 billion kWh, a year-on-year increase of 8.17 percent, thanks to surging demand amid the post-COVID-19 economic recovery.

The State-run corporation produced 710.7 million kWh per day on average, with the highest daily figure touching 778.75 million kWh.

Electricity output reached 185.37 billion kWh in the first nine months, up 2.68 percent year-on-year.

EVN has broken ground on 107 power projects this year and put into operation 100 110-500kV transmission lines.

6. Banks urged to diversify loan products, aiming to keep people away from black credit

According to Ngo Hong Vuong from the Ministry of Public Security, black credit remained rampant in many localities with high rates, which were seriously affecting social order.

Black credit was now increasingly associated with organised crime and illegal debt collection measures, he said, adding that the punishments were not strong enough.

Deputy Minister of Public Security Nguyen Van Thanh said that the focus would be placed on checking, investigating and handling lending activities which were showing signs of violations, especially peer-to-peer lending and online lending apps and websites.

In the long term, it was necessary to improve the legal framework for online lending and peer-to-peer lending to increase punishments and tighten management, Thanh said.

Tran Lan Phuong, deputy director general of the Viet Nam Bank for Social Policies, said that the bank was implementing a number of solutions to expand credit for production and consumption with an aim to keep people away from black credit.

For example, a household could be provided with loans worth up to VND100 million (US$4,300) without mortgaged assets. Poor, near-poor and households who just escaped from poverty could have lending terms of up to 120 months.

Pham Toan Vuong, deputy director general of the Viet Nam Bank for Agriculture and Rural Development (Agribank), said that Agribank was pushing consumer credit services nationwide with simple document requirements.

According to Tu, the central bank would join the Ministry of Public Security to increase communication and improve awareness of citizens of black credit as well as enhance accessibility to banking services, especially for those living in remote, rural and mountainous areas.

Tu urged credit insitutions to diversify their credit products, improve banking services, reduce rates and simplify lending procedures so that more people could get access to official loans.

With a nationwide network, credit institutions, financial companies and micro-finance organisations must meet the legitimate borrowing demand, especially of those with low income and who did not have bank accounts, Tu said.

Relevant ministries and organisations must enhance cooperation to implement drastic measures in improving awareness about problems and harms of black credit, Tu said, adding that strict punishments must be implemented for violations in lending.

According to the World Bank's report about ease of doing business 2020, Viet Nam ranked second in ASEAN and 25th out of 190 economies in term of the ease of getting credit.

7. Vietnam's public debt pegged at over VND4 quadrillion in 2021

According to a report the Government sent to the National Assembly, Vietnam's public debt is projected to surpass VND3.6 quadrillion in 2020, along with an obligation to pay interest and principle at over VND360 trillion.

With a population of around 97.5 million, each citizen in the country shoulders around VND37 million worth of public debt, the report said.

In 2020, the ratio of foreign debt to exports is 34.6%, or 10 percentage points higher than the ratio of 25% allowed by lawmakers. This ratio is noticeable in the current context, said the Government.

As estimated, the Government will borrow over VND579.7 trillion to balance the central budget, including around VND318.8 trillion to compensate for budget overspending and VND260.9 trillion to pay the principle. Therefore, Vietnam will see public debt exceeding VND4 quadrillion in 2021.

The Government will have to pay around VND368 trillion, mainly domestic debt with around VND323 trillion, or 27.4% of tax revenue. The figure is 25% higher than the level allowed by the National Assembly in the 2016-2020 period, as some VND187 trillion worth of government bonds issued previously will be due next year.

Regarding risks, the Government said the central budget liquidity risks mainly come from domestic debts, as debt obligations will be high next year.

In the coming time, official development assistance loans from the World Bank (WB) and the Asian Development Bank (ADB) will be applicable with quick payment terms, while the principle payment periods will be shortened. The period for application is July 2021 and 2023 from WB and ADB, respectively.

Meanwhile, official development assistance (ODA) credits will fall before coming to an end in the next five years, leading to a shortage in long-term capital sources for development investment.

Aside from the issuance of VND300 trillion worth of government bonds, ODA capital disbursement and preferential overseas debts worth VND94.2 trillion, the Government has yet to figure out domestic sources to borrow VND227 trillion.

Interest risks may increase considerably as the scale of the bond market remains small and the capability of non-bank financial institutions is still limited. Therefore, the Government is only able to issue bonds with long tenors.

Corporate News

8. FMC: Resolution on the EGM 2020

↑ 3.28%

Sao Ta Foods Joint Stock Company announces the Resolution of Extraordinary General Meeting 2020 dated October 18, 2020 with the following contents:

1.The EGM approved the investment plan to build new plant:

- Project name: Sao Ta Seafood Plant
- Address: lot K, An Nghiep Industrial zone, Soc Trang Province
- Capacity: 15,000 tons/year
- Total construction investment cost: expected from VND 200 billion to VND 250 billion
- Time to carry out the project procedure: after being approved by the General Meeting of Shareholders.
- Construction time: 2021

2. The EGM approved the plan to issue shares to existing shareholders and the plan for capital use after the issuance:

- Stock name: Sao Ta Foods Joint Stock Company
- Stock code: FMC
- Stock type: common share
- Par value: VND 10,000/share
- Offering volume (estimated): 9,808,800 shares
- Exercise ratio: 5:1 (01 share will receive 01 right, and with every 05 rights will be entitled to purchase 01 new share).
- Plan to deal with fractional shares: The distributed shares will be rounded down, the fractional shares and unsold shares (if any) will be decided by the BOD.
- The rights should be transferred only once
- Offering price: no less than the book value at June 30, 2020.
- Expected offering time: 2020 or 2021 after being approved by the State Securities Commission of Vietnam (SSC).

3. The EGM approved the plan for use of capital: Total proceeds from the offering will be used to finance the project of Sao Ta Seafood Plant.

9. CII: Resolution of Extraordinary General Meeting 2020

↑ 0.53%

Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) announces the Resolution of Extraordinary General Meeting 2020 dated October 14, 2020 as follows:

1. Approving the regulations on organizing Extraordinary General Meeting 2020 of Ho Chi Minh City Infrastructure Investment Joint Stock Company.

2. Approving a plan for issuing 1,600 billion dongs of bonds with warrants to the public.

- Bond code: CII_W_BOND2020
- Total issue value at par value: up to 1,600,000,000,000 dongs
- Issue volume: 1,600,000 bonds

- Par value: 1,000,000 dongs/bond
- Issue price: 1,000,000 dongs/bond
- Estimated interest rate: 11%/year
- Bond term: 05 years
- Issue date: in Quarter 4 of 2020 or Quarter 1 of 2021.

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