VIETNAM DAILY NEWS

JSI
JAPAN SECURITIES INC.

October 22nd, 2020

Table of content

Table of content

Market Analysis

1. Rally ends after earnings season comes to a close

Vietnamese shares retreated from an eight-day rally yesterday as investors looked to sell after the earnings season ended.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange lost 0.57 per cent to 939.03 points after having gained as much as 0.4 per cent during the day.

The VN-Index put an end to its eight-session rally, in which it made a total gain of 2.78 per cent between October 9 and October 20.

The growth of the index slowed in the previous three days.

All three indices tracking stocks by market capitalisation declined on Wednesday.

The large-cap tracker VN30-Index fell 0.37 per cent to 906.10 points. On Wednesday, the VN30 futures due on November 19 was down 0.29 per cent to 908.50 points.

The mid-cap and small-cap trackers tumbled 1.24 per cent and 0.68 per cent, respectively.

The market was dragged by financial-banking stocks after some large-cap firms in the sector released third-quarter earnings reports.

Vietcombank (VCB) lost 1.7 per cent, Vietinbank (CTG) plunged 3.3 per cent, insurer Bao Viet Holdings (BVH) tumbled 3.7 per cent and TPBank (TPB) declined by 2.5 per cent.

The four largest securities firms SSI Securities (SSI), HCM City Securities (HCM), VNDirect Securities (VND) and VietCapital Securities (VCI) all declined.

In the third-quarter financial report, Vietcombank said post-tax profit fell a fifth year-on-year to nearly VND4 trillion and total bad debt rose 36 per cent in nine months to nearly VND7.9 trillion.

TPBank reported post-tax profit gained 26 per cent year-on-year to VND792 billion, but total bad debt increased by 60 per cent after nine months.

Among the four brokerage companies, only VietCapital Securities recorded a decline in third-quarter earnings. The firm earned VND95.5 billion in post-tax profit in July-September, down 37 per cent year-on-year.

Other sectors that also were hit by increased selling included technology, retail, mining and energy, seafood processing, agriculture-aquaculture-forestry and materials.

The market declined as blue chips suffered from the increase of profit-taking, Thanh Cong Securities (TCSC) said in its daily report.

"The VN-Index really struggled with the 945-point level," TCSC said. "The decline may extend in coming days and stocks will be divided on their third-quarter earnings."

But liquidity being lower than the 20-day average indicated the pressure was not too harsh on local stocks, Sai Gon-Ha Noi Securities (SHS) said in a note.

"What pushed the market down was profit-taking as the market has nearly reached the pre-pandemic level," SHS said.

The closest support level for the market now is 925 points, the two companies forecast.

On the Ha Noi Stock Exchange, the HNX-Index slid 0.25 per cent to 139.98 points.

The northern market index has decreased by a total of 0.65 per cent in the last two days.

Macro & Policies

2. VEPR revises down Vietnam's 2020 GDP growth forecast to 2.8%

The Vietnam Institute for Economic and Policy Research (VEPR) has revised down its GDP growth forecast for Vietnam this year to 2.6 – 2.8% for this year from the previous estimate of 3.8% in July, assuming the Covid-19 pandemic is still under control domestically.

However, in a scenario where the pandemic breaks out again the final months of the year, the economy would probably grow 1.8 – 2% or lower for the whole year, said VEPR's Chief Economist Pham The Anh at the launch of the think tank's quarterly economic report on October 21.

According to Mr. Anh, factors that would support Vietnam's economic growth during the remaining months of the year include the EU – Vietnam Free Trade Agreement (EVFTA) and the EU – Vietnam Investment Protection Agreement (EVIPA); faster disbursement of public investment funds; low input material costs as a result of declining global consumption demand and production; a shift in global investment capital to Vietnam as the result of the US – China trade war; and a stable macro-economic environment.

However, a resurgence of Covid-19 in a number of countries across the world, as well as geopolitical tensions between major powers continue to pose major risks to such a country with high level of economic openness as Vietnam, noted Mr. Anh.

Internal issues, including high dependence on the foreign-invested sector for growth, low productivity, and the sluggish privatization process of state firms, among others, are also major weaknesses of the Vietnamese economy, he added.

The VEPR's chief economist suggested Vietnam give priority to ensuring social security and stabilizing the macro-economic environment, and extend support for enterprises forced to suspend operations or those severely affected by the pandemic.

Giving a more detail look into Vietnam's key driving forces, economist Can Van Luc said the EVFTA has given Vietnam a much-needed support.

While the country's exports to the EU declined by 10.3% year-on-year in the first seven months of this year, the decline slowed to 4.6% by the end of September.

Meanwhile, the agricultural sector has been able to maintained a similar growth rate in the nine-month period to that of last year (1.84%), despite impacts from Covid-19 pandemic and natural disasters.

For 2021, Mr. Luc expected Vietnam to continue pursuing the dual target of both containing the pandemic and boosting the economic recovery.

At a time of crisis, Vietnam should look for new growth drivers namely digital economy or domestic consumption as the current ones such as exports are struggling to overcome the pandemic.

"Any future economic relief package must take into account a long-term view to ensure a better position for Vietnam once the pandemic is rolled back," Mr. Luc suggested.

3. Government considers additional support policies for industrial sector

"The ministry is in the process of reviewing and amending Government Decree 68 on the development roadmap of the industrial sector 2016-2025 and development strategy for textiles and footwear," said Nguyễn Hữu Thành, deputy head of MPI's Department of Industrial Economy.

In the meantime, measures have been taken to aid domestic businesses, boost demand and mitigate the adverse effects of the COVID-19 pandemic.

Since the initial outbreak of the novel coronavirus, a large number of Việt Nam's industries have been hit hard as raw material supply was severely disrupted due to strict measures imposed to limit the spread of the virus.

As of recently, however, the bigger problem is how to find markets for Vietnamese products as the industries have slowly regained their production capacity.

"In order to find new markets, the ministry has been working closely with trade agencies. It has also recommended the Government to reduce business fees and extend deadlines for business taxes, all done to encourage and help businesses get on their feet sooner," Thành said.

In addition, the Ministry of Finance has been working on a plan to offer a slew of tax incentives for support industry businesses.

The plan would allow businesses with investment to build or expand production capacities finished before 2015 to benefit from corporate income tax incentives for a duration of five years until the end of 2020.

4. VN needs a credible local rating agency as reforms drive demand

The report which evaluated the attractiveness of the Viet Nam bond market pointed out that the Vietnamese corporate bond market grew rapidly since 2019 and issuances of US$12.8 billion in 2019 were larger than those for Indonesia and the Philippines. Private placements accounted for 94 per cent of corporate bond issuance in 2018 and 2019 following the easing of disclosure requirements and issuance conditions.

“However, the lack of a credit culture poses significant risks to the bond market and the financial sector, particularly as individual investors currently own almost a fourth of all bond issues,” the report said.

The report pointed out that the lack of demand for credit ratings in the past had been the limiting factor for domestic crediting rating agencies in Viet Nam.

Two domestic rating agencies have been licensed by the Ministry of Finance, Phattinh Rating in 2017 and FiinGroup in March 2020. Both are yet to become operational.

The recently passed 2019 Securities Law requires some public bond issues (but not private placements) to be rated by a domestic rating agency from January 2021.

Further, draft regulations that guided the implementation of the new Securities Law required few, if any, bond issues to be rated, unlike other ASEAN markets that mandated credit ratings for public and often private offerings during their formative years, according to the report.

“Viet Nam's policymakers are keen to see an orderly growth of a healthy bond market and have expressed a strong commitment for a domestic credit rating agency,” the report wrote.

The report added that the urgent need for a domestic rating agency in Viet Nam was clear based on feedback from investors, intermediaries, issuers, and Government officials.

The growth in the corporate bond market since 2017 was sustainable and the business case for a global rating agency to enter the Vietnamese market through a technical service agreement was compelling. A technical service agreement would provide low-risk entry, the report said.

Donald Lambert, Principal Private Sector Development Specialist, Southeast Asia Department, ADB, in a blog on ADB's website wrote that the credible local rating agency was a key missing ingredient in Viet Nam's otherwise flourishing corporate bond market.

“Partnerships with global rating agencies would unlock the market's potential, but these agencies want certainty that the demand for ratings is real,” he wrote.

“The Government can lay the groundwork through reforms that drive the demand for credit ratings and spur the prudent development of the corporate bond market."

Viet Nam's corporate bond market has blossomed in recent years with total bond issuance growing from $11 billion in 2012 to $24 billion in 2019.

While Government bond issues grew 63 per cent between 2012 and 2019, corporate bond issuance, including private placements, grew tenfold. However, Government-guaranteed issues declined by 67 per cent and municipal issues declined by 79 per cent during this period.

Issuances totalled VND303.8 trillion ($13 billion) in the first nine months of this year, according to the Ha Noi Stock Exchange.

5. Vietnam fails to realize 5-year economic target on Covid-19

The emergence of the Covid-19 pandemic has slowed Vietnam's economic growth during the 2016 – 2020 period to 5.9%, lower than the 6.5 – 7% target for the five-year term, according to Prime Minister Nguyen Xuan Phuc.

This comes as Vietnam's GDP growth in 2020 is set to expand by 2 – 3%, much lower than the 6.8% target initially set for the year, stated Mr. Phuc at the opening session of the one-month National Assembly sitting on October 20.

A lower than expected GDP growth rate also leads to income per capita of US$2,750, below the target of US$3,200 – 3,500.

Mr. Phuc noted of the nine economic objectives for the 2016 – 2020 target, only six would meet their targets.

Nevertheless, from a global perspective, Mr. Phuc said Vietnam's economic performance in 2020 is considered a success.

Vision for 2021 - 2025

For the 2021 – 2025 period, the government's target would be rapid and sustainable development, while the dual target of both containing the pandemic and boosting economic growth is considered a priority in 2021. In the remaining years, Vietnam aims to modernize the industrial sector and escape the low-middle income status.

Among key economic indicators for the next five years, Vietnam targets an average GDP growth rate of 6.5 – 7%. By 2025, the country's GDP per capita is set to reach US$4,700 – 5,000.

Additionally, the digital economy is expected to make up 20% of GDP, and productivity growth to average over 6.5% per year.

The PM added the government would focus on speeding up the construction of major transport infrastructure projects in the next five years, including the North – South expressway, Long Thanh International Airport, and urban railway projects, among others.

Mr. Phuc expected Vietnam to soon complete construction of over 1,700 kilometers of coastal road from Quang Ninh province to the southernmost province Ca Mau.

6. Vietnam growth may slow to 3% in 2020, likely to rebound to 7.8% in 2021: StanChart

Vietnam's economy is projected to grow by 3% in 2020 and surge to 7.8% in 2021 as rising consumption on improving sentiment, and faster manufacturing will drive growth in the fourth quarter (Q4) this year, Standard Chartered has said in a note.

Vietnam's economy expanded 2.62% in Q3, bringing the three-quarter growth to 2.12%, according to government data.

"Vietnam is one of the few Asian economies to have registered positive growth so far this year, despite the second wave of infections. We expect Q4 growth to increase as domestic activity resumes and sentiment picks up. Improving services growth and infrastructure investment should help Vietnam outperform the rest of Asia. We maintain our positive view on Vietnam's medium- and long-term economic outlook." said Chidu Narayanan, economist for Asia, Standard Chartered Bank.

According to Standard Chartered's latest macroeconomic report on Vietnam titled "Vietnam – Q3 disruption, but recovery remains intact", a likely improvement in external demand in Q4 should support manufacturing growth, forecast at roughly 7.3% in full-year 2020. Both exports and imports are expected to increase as a result. Trade is likely to remain in surplus for the rest of 2020 as exports and imports move in tandem.

Construction activity is anticipated to improve in Q4, supported by increased public infrastructure investment. Private consumption, accounting for nearly 68% of GDP, should grow strongly in Q4 on improving domestic sentiment. Private investment, however, is likely to remain subdued on lingering uncertainty about medium-term demand.

Standard Chartered's economists project newly registered FDI inflows into Vietnam to decline in 2020, but remain strong at close to US$13 billion. Lingering uncertainty on global demand and depressed investment sentiment are likely to weigh on FDI inflows in the medium term.

While Vietnam stands to benefit from the ongoing relocation of manufacturing amid elevated geopolitical tensions, inflows are likely to be lower than in previous years. Further government measures and a sustained move of low-tech manufacturing should support FDI inflows.

The study also forecasts that the Vietnamese central bank will remain accommodative in the near term to support growth. The central bank cut the policy rate by a further 50bps to a historical low of 4% on October 1. The central bank's 200bps of rate cuts in the year to date and the reopening of the economy should aid further credit growth in the near term.

The Vietnamese government has revised down its growth target to 2-3% for this year, lower than the initial 6.8% estimate.

The World Bank earlier this month expected Vietnam's 2020 growth at 2.5-3%. Meanwhile, the International Monetary Fund (IMF) on October 14 trimmed its growth forecast for Vietnam to 1.6% in 2020 from a previous estimate of 2.7% in June.

7. Viet Nam's e-commerce forecast to grow 20 per cent in Q4

This is the forecast by the Ministry of Industry and Trade (MoIT) in a recent report on Viet Nam's e-commerce market against the backdrop of the COVID-19 pandemic.

In the early stages of the pandemic (from February to April), 57 per cent of surveyed e-commerce-related businesses reported their revenue growth was below 30 per cent compared to the same period of 2019 with some even seeing negative growth, the report said.

However, 24 per cent of businesses saw revenue increasing more than 51 per cent.

E-commerce revenue in the first six months declined 6 per cent year-on-year despite the number of transactions increasing by 25 per cent. Most transactions at that time were of low value.

Under circumstances when the disease is kept at bay, the ministry forecasts e-commerce revenue to rise 20 per cent in the last three months to reach $12 billion.

If the pandemic worsens, impacting production and consumption, supply and operations of transport and catering services, growth could reach only 13 per cent with estimated market value of $11 billion.

Viet Nam is one of the most dynamic e-commerce markets in the world with an average growth rate of more than 30 per cent per year in the last five years.

In May, the Government approved the national e-commerce development master plan for 2021-25, targeting annual industry growth of 25 per cent with more than half of the population shopping online and average spending of about $600 per person per year by 2025.

The market size is expected to reach $35 billion by 2025, ranking third in Southeast Asia.

Business-to-consumer (B2C) sales will rise 25 per cent per year, accounting for 10 per cent of total retail sales of goods and services. Cashless payments in e-commerce would make up 50 per cent and about 70 per cent of transactions on e-commerce platforms would have electronic invoices.

At the same time, the gap in e-commerce development between Ha Noi and HCM City and other localities is also expected to narrow.

To achieve this goal, the MoIT is building mechanisms and policies to promote digital transformation and enhance the capacity to manage and organise e-commerce activities and boost consumer confidence.

In the first nine months of this year, the authority handled more than 2,200 cases of e-commerce violations and other acts of taking advantage of e-commerce to trade in smuggled goods, goods of unknown origin, goods infringing intellectual property rights and counterfeit goods with fines worth more than VND16 billion ($690,000).

A number of cases attracted attention including fake products sold by Ansan Cosmetics chains and through the Kagawa.vn platform, as well as food safety scandal of Minhchay.com.

In addition, since the beginning of the year, the ministry has asked e-commerce platforms to review and remove nearly 223,600 shops and more than one million products, handling more than 30,000 violating shops with nearly 48,000 products.

Corporate News

8. VPB: VPBank completes 92% of earnings plan

↑ 1.21%

The bank said in a statement on Tuesday that pre-tax profit in January-September was VND9.4 trillion (US$406.7 million). The pre-tax profit logged by the parent division was more than VND6.2 trillion.

The impressive result was reached as the bank made its way to diversify the sources of revenue and maximise the control of spending during the nine-month period, the lender said.

“The nine-month performance proves the bank has gone the right way amid the COVID-19 pandemic, which has broken out in Viet Nam twice since the beginning of the year,” VPBank said.

The pandemic has been brought under control thanks to drastic measures imposed by the Government, helping Viet Nam's economy bounce back and boost the performance of the whole banking sector, the bank said.

Expectation-beating earnings

Total revenue in the nine-month period was up 7.6 per cent on-year to VND28.3 trillion. The parent division logged an 18.7 per cent annual increase in total revenue.

In the third quarter alone, retail banking activities brought VND5 trillion revenue, up nearly 8 per cent from the second quarter, showing VPBank's strong efforts amid the second wave of coronavirus in Viet Nam.

Net fee income (NFI) of the parent unit grew nearly 36 per cent on-year to more than VND2.2 trillion and the NFI accounted for 15.1 per cent of the total operating income, up 1.9 percentage points on-year.

VPBank has also done well to lower its operating expenses by maximising the efficiency of all working components and using big data in approving credit profiles, credit risk assessment and customer care in order to become the most customer-friendly banking institution.

In July, the bank became the first to follow all requirements in eKYC (know your customer), allowing clients to open accounts and perform transactions in a few minutes.

The number of digital users rose 33 per cent in nine months to nearly 1.7 million at the end of September. VPBank's combined operating expenses, therefore, dropped 5.7 per cent during the same period.

Such results proved the bank's determination to monitor its operating cost closely to sustain its development, VPBank said.

In late July, the international rating agency Moody's kept its assessment of VPBank's creditability at “stable” status, highlighting the bank's capital competency, profitability and working efficiency were higher than Viet Nam's sector average.

According to Moody's, the bank has optimised the use of deposits for lending, assuring the capital safety requirements and keeping its assets liquidated.

As the COVID-19 pandemic has been well-contained and the market has shown big improvements, the bank is expected to at least reach the full-year earnings targets, or even beat them at the end of the year.

Sustained bad-debt rate, credit risk

At the end of September, VPBank recorded a total of 16.50 per cent growth rate in credit expansion, of which retail banking increased by 19.34 per cent – higher than the banking sector's average and creating a good foundation for further improvement in retail banking in the near future.

The combined bad-debt ratio was kept below 3 per cent after three quarters despite the spread of the coronavirus, driven by a lower bad-debt ratio in retail banking activities – which was curbed to 2.01 per cent in September-end from 2.18 per cent at the beginning of the year.

VPBank also raised its risk provision by 14.4 per cent, indicating the bank is always prepared to act against any negative impacts of the global disease on the economy, the bank said.

Also in the third quarter, the private-equity bank restructured its lending/saving balance by cutting saving rates by 1-2 per cent in all terms to curb the cost of capital (COF).

In addition, VPBank maintained its co-operation with the International Finance Corporation (IFC). The most recent deal between the two sides was a low-rate $100 million loan to help VPBank optimise its medium- and long-term COF.

Growth was also seen in the volume of non-term deposits, which gained 15.60 per cent in nine months. At the end of the second quarter, the rate was 12-13 per cent.

The increase of non-term deposits reflected the bank had made great efforts to alternate the source of long-term deposits at lower cost, the bank said.

All capital security ratios were kept at a good level. The lending-over-total deposit rate (LDR) was 67 per cent, lower than the bar of 85 per cent set by the State Bank of Viet Nam.

The ratio of short-term capital used for funding medium- and long-term loans was 27.8 per cent, lower than the limit of 40 per cent required by the SBV.

In addition, the capital adequacy ratio (CAR) was 11 per cent, beating the minimum required by the SBV by 3 per cent, assuring the bank's capital sufficiency even if the pandemic worsens.

Those factors helped keep VPBank's return on total equity ratio (ROE) and return on total asset ratio (ROA) at 21.8 per cent and 2.5 per cent, respectively, topping the market.

9. KSB: Record date to pay stock dividend for 2019

↓ -3.83%

On October 20, 2020, the Hochiminh Stock Exchange issued Announcement No.1765/TB-SGDHCM about the record date of Binh Duong Mineral and Construction Joint Stock Company as follows:

- Ex-right date: October 27, 2020
- Record date: October 28, 2020

1) Reason & Purpose: to pay stock dividend for 2019.

2) Content:

- Exercise ratio: 10:2 (shareholder who owns 10 shares will receive 02 new shares.)
- Expected issue volume: 10,688,896 shares
- Plan to deal with fractional shares: The distributed shares will be rounded down to dozen, the fractional shares due to rounding down will be cancelled.
- For example: at the record date, shareholder A owned 16 shares. With 10:2 performing ratio, the shareholder A will receive: 16 *2/10 =3.2 shares. According to rounding policy, the shareholder A receives 03 new shares and fractional shares of 0.2 will be cancelled.
- Place to receive subscription:

+ Shareholders whose shares have been deposited: at the securities firms where shares have been deposited.

+ Shareholders whose shares have not been deposited: at Binh Duong Mineral and Construction Joint Stock Company (Address: Binh Duong Boulevard, Hoa Lan 1 Area, Thuan Giao Ward, Thuan An City, Binh Duong Province).

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