VIETNAM DAILY NEWS

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Market Analysis

1. Shares end higher, boosted by large-caps' gains

Vietnamese shares gained for a second consecutive day after a late recovery on Tuesday, bolstered by a series of large-cap stocks.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange (HoSE) was up 0.11 per cent to 915.67 points.

It had gained 0.52 per cent to close at 914.68 points on Monday.

A total of 496 million shares were traded on the southern bourse, worth VND8.2 trillion (US$354.3 million).

Market breadth was positive with 212 gainers and 174 decliners.

Many individual blue-chips gained ground and fueled the market's uptrend.

Tan Tao Investment Industry Corp (ITA), which owns a lot of real estate in industrial zones, hit the ceiling price as liquidity soared to 32 million shares.

Real estate developer FLC Group (FLC) and its affiliate FLC Faros Construction Joint Stock Company (ROS) also increased strongly, up 6.6 and 5.6 per cent, respectively.

Two giant steelmakers Hoa Phat Group (HPG) and Hoa Sen Group (HSG) rose significantly by 3.3 per cent and nearly 2 per cent, respectively.

The market also got a boost from the banking group, with notable gainers the Bank for Investment and Development of Viet Nam (BID), Vietcombank (VCB), Saecombank (STB) and Military Bank (MBB).

The large-cap tracker VN30-Index rose 0.42 per cent to 871.37 points with 14 of the 30 largest stocks by market value and trading liquidity rising.

"The VN-Index is forecast to oscillate between support zone 895-900 points and resistance around 920 points. If the support zone 895-900 points is penetrated, the index may enter a correction and retest lower supports in the short term," said Bao Viet Securities Co.

"During upcoming weeks, the market will fall under the influence of Q3 business results of listed companies while the market will suffer a wide divergence among stock sectors," the company said.

Foreigners net sold VND97.54 billion on HOSE. They were net sellers on the HNX with a value of VND2.79 billion.

On the Ha Noi Stock Exchange, the HNX-Index advanced 0.43 per cent to 137.77 points on Tuesday.

The northern market index had gained 1.69 per cent to close at 137.19 points on Monday.

More than 58.8 million shares were traded on the northern exchange, worth VND759.5 trillion.

Macro & Policies

2. Vietnam inflationary pressures predicted to remain weak in 2020 – 2021

Vietnam's inflationary pressures are predicted to remain weak in the 2020 – 2021 period, despite aggressive monetary easing by the State Bank of Vietnam (SBV), according to Fitch Solutions, a subsidiary of Fitch Group.

This is due to excess capacity in the economy as a result of the slowdown as well as weak demand. Noting an average inflation of 3.2% year-on-year over the first nine months of 2020, with the September print at 3.0% year-on-year, Fitch Solutions has revised down its inflation forecast to an average of 3.3% year-on-year for the full year, from 3.5% previously, with inflation set to dip in the final months of the year due to high base effects from 2019.

The forecast also reflects Fitch Solutions' view for inflation to come in safely under the government's 4.0% threshold.

While food inflation has been high, transport price deflation as well as a softening of inflation in housing and construction materials has aided a softening of headline inflation over most of 2020.

High food inflation is likely to subside from the final two months of 2020 and into 2021 on the back of high base effects from a reduced hog herd at the end of 2019 as a result of the African swine fever outbreak in Vietnam.

Meanwhile, lower year-on-year oil prices will also see transport price deflation persist into the first quarter of 2021 before returning to inflation. Accordingly, Fitch Solutions' forecast Brent oil price to average US$44.00/bbl in 2020 and US$51.00/bbl in 2021, versus US$64.16/bbl in 2019.

More broadly, inflation should pick up along with a demand recovery in 2021, but Fitch Solutions still expected the headline print to come in below the government's threshold for most of the year, with its average forecast at 3.5%.

Credit growth forecast to go up to 7%

On the other hand, Fitch Solutions has revised its credit growth forecast up to 7% from 6.5% previously.

This is in view of Fitch Solutions' forecast for real GDP growth to strengthen in the final quarter of 2020, to give a full year growth of 2.6%, from an average of 2.1% year-on-year over the first three quarters, as well as some tailwinds lower interest rates will nevertheless have on loan demand.

Fitch Solutions' forecast still reflects its view for credit growth to significantly undershoot the central bank's 10.1% target for 2020 (which it revised in August from 14% set at the start of the year).

Despite Fitch Solutions' revision, it continues to flag ongoing economic uncertainty as a key factor which will drag on credit demand, especially considering that Vietnam's large manufacturing sector is heavily tied to the external outlook, which remains clouded by a resurgence of Covid-19 infections in Europe and the US, key destinations of Vietnamese exports.

Moreover, weakness in the services sector will continue despite domestic demand providing some support, given strict travel restrictions globally, and Vietnam's continued border closure to international tourist arrivals.

A weak economic environment does not bode well for the creditworthiness of many borrowers.

As such, Fitch Solutions expected banks to continue enforcing tighter loan disbursement standards to safeguard against a sharp deterioration in asset quality, with this acting as another impediment to faster loan growth.

Indeed, credit growth as of September 22 was only 5.1% over end-2019 levels, reflecting weak demand for credit despite the SBV having lowered its interest rate caps thrice and cut its policy rates four times over 2020 thus far.

Short-term inter-bank lending rates which has fallen far below the policy discount rate also suggest already excess liquidity in the banking sector, which further informs its view for additional interest rate cuts to provide limited support to credit and economic growth.

3. LOGOS acquires first Vietnamese development site in greater Hanoi

The acquisition follows the establishment of LOGOS Vietnam Logistics Venture last month, which has an initial forecast portfolio of approximately $350 million by gross asset value.

Glenn Hughes, head of Vietnam, said that the company is pleased to have acquired its first development site, having spent the last two years assessing the local market.

“Our decision to invest in Vietnam Singapore Industrial Park (VSIP) Bac Ninh Phase 1 was reinforced by major occupiers having existing facilities in the park, including FM Logistic, Emergent Cold, LinFox, and DB Schenker,” Hughes said.

He believed the property is well suited to service the growing demand from international and local logistics operators within the greater Hanoi region and is confident that the company can set a new benchmark for the Vietnamese logistics market in terms of high-quality logistics buildings to meet this demand.

Located in VSIP in Bac Ninh province, the site offers immediate access to National Highway 1A and surrounding transport networks, and is 35 minutes from the Hanoi Central Business District and Nopi Bai International Airport, and 1.5 hours from Haiphong seaport.

The site is considered one of the key logistics locations in Hanoi and is strategically positioned for LOGOS' customers.

Subject to relevant planning approvals, LOGOS proposes to develop the site on both a speculative and build-to-suit basis, delivering up to 80,000 square metres of high specification logistics facilities.

On completion, LOGOS Bac Ninh Logistics Estate will have an estimated end value of circa $70 million.

LOGOS is currently in discussion with a number of existing and new customers regarding this property.

The Vietnamese logistics market continues to experience strong growth driven by global trade wars, decentralisation of supply chains, and the natural evolution of the market.

Vietnam has led a successful response to the COVID-19 pandemic and is well-positioned to rebound for further growth. Occupier demand, driven by e-commerce and third-party logistics operators, remains solid as occupiers are starved of suitable logistics facilities to sustain the growth of their business operations. LOGOS' Asia-Pacific portfolio comprises of 100 logistics estates across nine countries with assets under management of approximately $9.5 billion.

LOGOS counts some of the world's largest fund managers as its shareholders, including ARA Asset Management, a leading Asia-Pacific real assets fund manager with a global reach, which took a majority stake in the company in March 2020.

4. Central bank’s latest policy rate cut to have limited impacts on economy

The State Bank of Vietnam (SBV)'s latest policy rates cut, its fourth time of the year, is expected to have limited impacts on the economy, according to securities firms.

On September 30, the SBV announced it would slash 0.5 percentage points to the refinancing interest rate, discount interest rate, overnight lending rate, and interest via open market operations (OMO).

Accordingly, the refinancing interest rate is down from 4.5% per annum to 4%, rediscount rate from 3% to 2.5%, overnight interest rate from 5.5% to 5% and interest rate via OMO from 3% to 2.5%.

The SBV also lowered the interest rate cap to 4% annually from 4.25% for deposits with maturities of one month to less than six months.

Meanwhile, the SBV ordered banks to lower the maximum lending rate for short-term loans to 4.5% from 5%, with the aim of helping companies operating in the fields of agriculture, high-tech industries and exports, among others. Similarly, that rate at people's credit funds and micro finance services is down from 6% to 5.5%.

The deposit rate for maturities of over six months is subject to each credit institution's decision on the basis of supply – demand.

Bao Viet Securities Company (BVSC) said the liquidity of the banking system since May has remained abundant, forcing inter-bank interest rates to drop to a record low, so banks are not in much need of borrowing money through OMO or rediscounting from the SBV.

This means that reducing lending interest rates through the above-mentioned channels will not have too much effect in reducing interest rates. Meanwhile, for the ceiling deposit interest rate of less than six months, the actual deposit rates of commercial banks of these terms are hovering at 2.5 – 4% per annum, much lower than the new ceiling issued by the SBV which is at 4%.

While the decrease in short-term deposit rates at commercial banks was mainly driven by the excess liquidity when credit growth was alow at 5.12% year-on-year as of September 22, far away from meeting the target of 14% set by the government for this year, room for further rate cut for terms of less than six months is limited.

BVSC expected the move to demonstrate the SBV's efforts to boost GDP growth in the last quarter of the year.

"In the current context, the easing monetary policy has a relatively limited impact on aggregate demand. Instead, we believe that fiscal policy should play a major role in stimulating the economy," BVSC asserted.

Sharing the same view, KB Securities Vietnam (KBSV) said the SBV's move to lower policy rates will be more to provide a clear message to commercial banks for further lowering lending rates than to provide liquidity to the system as it remains abundant for months.

Besides other fiscal support packages, the move, however, follows trend of central banks globally in helping the economy cope with Covid-19's severe impacts, KBSV added.

As credit growth is expected to recover in the last quarter of the year, given positive results from industrial production and retail growth in September, KBSV expected medium and long-term deposit rates will tend to only decrease marginally by 10 – 20 basis points.

5. Long Thanh Airport price tag down $111 mln after assessment

It estimated the cost of the proposed airport in the southern Dong Nai Province at VND109.1 trillion ($4.7 billion), or 2.2 percent lower than the Ministry of Transport's price tag, due to lower construction and management costs.

It expressed concern about the ministry's completion deadline of 2025, saying the complexity of the work could delay the process of awarding consultancy and construction contracts.

The cost has worried some lawmakers, who say it is higher than for similar projects in other countries.

But the Airports Corporation of Vietnam (ACV), which is developing the project, has said it is similar to the cost of Beijing Daxing International Airport in China and Istanbul Airport in Turkey.

Following the appraisal by the council, the feasibility report is ready for submission to Prime Minister Nguyen Xuan Phuc for final approval.

Land acquisition is ongoing. Dong Nai Province will acquire 5,000 hectares.

In the first phase the airport will have one runway and one terminal with a capacity of 25 million passengers and 1.2 million tons of cargo a year.

After all three phases are completed in 2050 at a total estimated cost of VND336.63 trillion ($16 billion), it will be able to handle 100 million passengers and five million tons of cargo a year.

6. Vietnam's economy weathers the COVID-19 storm — good policy or luck?

According to the World Bank's July 2020 Taking Stock report, Vietnam's recent economic performance is a result of its twin engines of growth — export demand and domestic consumption — firing sequentially during the first two quarters of 2020.

From January to mid-April, Vietnam's exports recorded a 13 per cent per month increase before its trading partners, such as the United States, Japan and China, began contracting. During this period, domestic consumption was subdued because of strict social distancing and lockdowns. Then from mid-April to the end of June, the domestic economy was in recovery mode with manufacturing growing at 30 per cent while merchandise exports collapsed. The World Bank forecasts an annual growth rate of 2.8–3 per cent for Vietnam in 2020, and a return to pre-crisis growth of 6.8 per cent in 2021.

This forecast is subject to the government actively using fiscal policy to support growth in the very short-term, and the economy continuing to benefit from the trade and investment diversion in the medium-term through participation in regional free trade agreements like the EU–Vietnam Free Trade Agreement concluded in June 2020.

One of the immediate measures to support growth is to ease mobility restrictions given tourism contributes around 10 per cent to GDP growth. After months of very few COVID-19 infections and no deaths, reports in August swirled of some 1000 infections with 25 deaths originating from the Da Nang region, a popular domestic tourist destination. As at the end of September, the tally is reported to be 1100 cases of infections, 35 deaths, but no domestic transmission for 27 days. Hence restrictions imposed are again being lifted, and the economic impact from this episode may not be significant.

Other fiscal measures include ramping up spending on the approved public investment program, in particular spending on Official Development Assistance projects in the pipeline. Strategic support from the private sector, such as investment in the country's digital infrastructure, is also being implemented.

In mid-August, the Ministry of Information and Communications announced the launch of the akaChain blockchain platform which helps companies shorten the time spent on tasks like electronic Know Your Customer procedures, credit scoring and customer loyalty programs. Improved security and transparency are also possible in future developments of this technology. In a country with a relatively young demographic, remote teaching and learning, as well as telemedicine, are advancements that have been given impetus by COVID-19.

The formal private sector is only one area that needs support. Vietnam's informal private sector (in tourism and other services) is large, and can rebound faster than the formal sector once COVID-19 restrictions are eased. The World Bank report points out a number of risks associated with this short- to medium-term strategy.

First, in terms of Vietnam's external position, strong export growth, foreign direct investment and remittance inflows in the last five years have resulted in a reasonably comfortable buffer of international reserves. Vietnam's industrial structure is such that exports are strongly linked to imported inputs. So a significant reduction in merchandise exports is generally accompanied by a fall in imports so that the merchandise trade balance is not seriously affected. Paradoxically, this lack of backward linkage in Vietnam's industrial structure is a serious impediment to rapid growth in the longer term.

Second, fiscal consolidation in the past three years means there is some space for a fiscal boost in the short run without significantly increasing the burden of public debt, which has fallen to around 55 per cent of GDP. Indeed, the expected uptick in public debt could add pressure to reinvigorate the privatisation of state-owned enterprises (SOEs) — a program that has been stalled since 2018. This would have significant long-term benefits.

Finally, monetary easing is necessary now, but could result in a further deterioration of loan quality and an increased amount of non-performing loans in the banking system. Management of this risk would test the effectiveness of the regulatory structures of the government necessary for long-term growth.

The fundamental reforms needed to achieve Vietnam's ambition of breaking out of the middle-income trap remain unchanged. They include banking and SOE restructuring, and the building of effective and accountable public institutions. In a highly open economy like Vietnam's, and during a period when the world economy has been badly hit by COVID-19, short-term resilience needs to be matched by a political will to continue with structural reforms that will keep building momentum for long-term growth.

While there might have been an element of luck in the short-term trade and investment diversion as well as in timing for handling the pandemic, good policy has generally been adopted and will continue to be crucial in ensuring Vietnam's long-term economic growth.

7. HCM City businesses resume operation as pandemic eases: city official

More than 6,000 enterprises in HCM City have resumed operations following the containment of the COVID -19 pandemic and more than 30,000 new ones with capital of 696 trillion VND have been set up this year, the city chairman has said.

Nguyen Thanh Phong, Chairman of the municipal People's Committee, said of the new companies, 579 have registered capital of over 100 billion VND (4.3 million USD) each, indicating the vitality of the business community.

There are more than 438,000 enterprises in the city, accounting for 32 percent of the country's total number, 54 percent of the city's economy and 67 percent of its investment.

Phong said the city would continue to support enterprises as part of its effort to revive business activities.

"The city has basically contained the second wave of the outbreak and not detected any local infection for more than two months.

"It has entered a new normal status with the task of both containing the outbreak and reviving the economy."

The top priority would be to help businesses maintain production and avoid bankruptcy, and prevent workers from losing jobs, he said.

He has urged the HCM City Business Association to develop software to collect information about businesses such as how seriously they have affected by the pandemic so that the city could easily address their problems based on the data.

Speaking at a seminar last week on reviving the city's economy amid the continuing global pandemic, Phong pointed out the challenges facing the city.

"The city's economy grew at less than 1.2 percent, the lowest ever. More than 27,000 businesses suspended operations because of the pandemic. The total registered capital of enterprises in the city has fallen by more than 140 trillion VND."

Services, accounting for more than 60 per cent of the city's economy, have been hit hardest, especially tourism and accommodation.

"Some 4,400 companies, including 1,300 travel businesses, have been affected with 100,000-120,000 jobs lost," Phong said.

Small and medium-sized enterprises, which account for 98 percent of all enterprises, have been severely impacted, he said.

He promised the city would continue to help companies reduce costs and encourage replacement of imports with local goods.

"The city plans to soon announce specific policies to help badly affected enterprises and sectors such as travel, restaurants, hotels, and transport- and tourism-related services."

It also plans to roll out a second aid package worth 12 trillion VND (517.64 million USD) exclusively for enterprises with preferential loans for employers to maintain production, retain workers and ward off bankruptcy with priority given to micro and small-sized enterprises, he said.

Chu Tien Dung, President of the HCM City Business Association, said the city should relax the conditions for enterprises to get easier access to support packages.

The State Bank of Vietnam should also amend Circular 01 for this purpose, he added.

It is important to support enterprises to ensure production and create domestic supply chains and reduce corporate income tax and value added tax for them, he said.

Phong also noted the importance of the city's digital transformation as it aims to become a smart city with e-government, e-enterprises and an electronic society by 2030.

By 2030 it also aims to push all public services online and provide them on multiple platforms, including mobile devices. The digital economy is expected to account for 40 percent of the city's economy.

The rate of individuals and enterprises having electronic accounts for payments will exceed 85 percent.

To obtain these goals, Phong said the city would strengthen communications and improve awareness among its workers, public and enterprises and create shared databases.

Corporate News

8. HPG: Hoa Phat's September steel exports double

↑ 3.29%

Hoa Phat Steel said it shipped 62,700 tonnes of finished steel abroad in September, doubling the figure a year ago.

During the month, the group posted record sales of 522,000 tonnes, including 352,000 tonnes of finished steel and 170,000 tonnes of steel billet. The finished steel consumption rose by 82,3 percent from the same period last year.

Hoa Phat steel sales in the first nine months of the year reached more than 4 million tonnes, two times higher than the corresponding period last year. The figure included nearly 2.5 million tonnes of finished steel, while the remaining was steel billet and hot-rolled coil (HRC).

The finished steel sales posted a 27 percent year-on-year increase. Hoa Phat steel continued to take the lead in the market with over 32 percent.

The group's steel sales in the southern region reached around 600,000 tonnes in the January-September period, doubling the figure in the same period last year. Hoa Phat construction steel products have been used at many public investment projects and constructions such as south of Trung Luong-My Thuan Expressway, Song Hau 1 Thermal Power (Hau Giang), GemaLink International Port (Cai Mep - Vung Tau), hospital projects, wind and solar power plants.

Hoa Phat exported more than 370,000 tonnes of construction steel in the first nine months of the year, representing 95 per year-on-year rise. Its major import markets include Japan, the Republic of Korea, Malaysia, Australia, Canada, Thailand, Cambodia and Laos.

The total volume of Hoa Phat's steel billet exported under the signed contracts reached 1,25 million tonnes.

9. CTD: Chairman of Vietnam's largest contractor resigns

↓ -3.73%

The Ho Chi Minh City-based company announced the resignation of 61-year-old Nguyen Ba Duong on Monday. Duong said he was stepping down because his health would not allow him to contribute his best to the company and he wants to spend more time with his family.

The Coteccons board has approved his resignation and selected Kazakhstani Bolat Duisenov, currently the CEO of Kusto Vietnam, a construction and property developer unit of Singapore-based Kustocem, as the company's new man at the helm.

Nguyen Ba Duong was a founder of Coteccons in 2004 after the equitization of a state-owned company under the Ministry of Construction.

Duong had a major role in building the company into an industry leader with revenues of VND23.7 trillion ($1 billion) last year and a pre-tax profit VND890 billion ($38 million).

His resignation follows a series of problems since 2017 between Coteccons and Kustocem which owns a 18.23 percent stake in the company.

After starting out as strategic partners, the relationship became confrontational after Kustocem twice called for extraordinary general meetings in October 2019 and early June to elect a new board of directors and order special audits of the management practices. It even wanted Duong to step down as chairman.

By June it had been able to rally support from a number of local and foreign shareholders owning around 45 percent of the company's shares.

Coteccons had accused the Singaporean investors of launching a hostile takeover bid.

But things changed after Vietnam's leading construction firm announced the resignations of two board members on June 22.

Kustocem representatives publicly thanked Duong for acting in the best interests of the company and shareholders, while he said geographical distance, cultural differences and the difference in views between the major shareholders and Coteccons board were the main causes of the recent "fuss."

"Resolving these bottlenecks is the start of a new chapter for Coteccons," he'd said.

The six-member Coteccons board now has just one who was part of Duong's team.

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