



VIETNAM DAILY NEWS



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Market Analysis

1. VN stocks extend gains for sixth day on bargain hunting

The rally continued on the Vietnamese stock market as purchasing power increased in the afternoon session to offset market-wide selling pressure.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange inched up 0.16 per cent to 995.76 points to extend its rally for a sixth consecutive day.

The index had a choppy trading day as it struggled to recover from a daily loss of as much as 0.93 per cent.

Profit taking pressure increased after the VN-Index had marked a five-day rally of total 4.56 per cent to approach the resistance of 1,000 points.

Brokerage firms had warned the 1,000-point level would be a strong resistance and there would be some struggles for the market.

Large-cap stocks underperformed as the blue-chip tracker VN30-Index was down 0.04 per cent to 959.61 points.

Eighteen of the 30 largest stocks by market capitalisation and trading liquidity declined while nine increased.

Among decliners in the blue-chip basket were consumer firm Masan (MSN), PetroVietnam Gas (GAS), retailer Mobile World Investment (MWG), aviation firm Vietjet (VJC), and brewer Sabeco (SAB).

The VN30 futures due on December 17 gained 0.48 per cent to 964 points on Tuesday, showing investors were quite confident in the market's short-term outlook.

Shares of property firm Vinhomes (VHM), sugar company Thanh Thanh Cong-Bien Hoa (SBT), and SSI Securities (SSI) remained positive.

VHM and SBT soared 4.0 per cent and 5.7 per cent, respectively.

While most large-cap stocks were negative, mid-cap and small-cap stocks drew attention from investors.

The mid-cap and small-cap trackers on HoSE were up 0.40 per cent and 0.04 per cent, respectively.

The VN-Index was pushed back to 985 points but rebounded in the last minutes of Tuesday thanks to stronger market demand, BIDV Securities Co (BSC) said in its daily report.

Foreign investors continuing net-buying stocks on HoSE was also a positive signal for the market, the company said.

Foreign investors on Tuesday were net buyers on HoSE for a fifth day as they logged a net purchase value of VND134 billion.

After the last five trading days, net foreign buying on HoSE was VND1.26 trillion (US\$54 million) in total.

“The pull-about trend below 1,000 points will still be the main movement of the VN-Index in the coming sessions,” BSC forecast.

On the Ha Noi Stock Exchange, the HNX-Index slid 0.40 per cent to 147.58 points.

The northern market index retreated from a five-day increase of total 3.36 per cent.

More than 628.5 million shares were traded on the two exchanges, worth VND13.66 trillion.

Macro & Policies

2. Ministry wants environment tax on aviation fuel to stay low until late 2021

If the proposal is passed, the tax on flight fuel will return to normal at VND3,000 per liter from January 1, 2022.

The local aviation market will gradually recover this year and next year, but will still face multiple challenges, according to the ministry.

The aviation industry has been hit hard due to a sharp drop in the number of passengers and flights due to the coronavirus pandemic.

At the end of 2020, Vietnam Airlines is expected to see the number of flights and passengers dip 32,700 and 5.67 million, respectively.

Meanwhile, local airlines are burdened with fixed service costs, including aircraft leasing costs, parking fees and other charges, to maintain their operations.

Vietnam Airlines must pay aircraft leasing costs at US\$30 million per month, while the monthly cost shouldered by Vietjet stands at US\$20 million. The monthly parking fees paid by Vietnam Airlines, Vietjet Air and Bamboo Airways are VND6 billion, VND3.6 billion and VND1.24 billion, respectively.

These costs may affect the performance of local carriers, especially Vietnam Airlines, which is expected to lose VND49.3 trillion.

The proposal to continue cutting the environmental protection tax on flight fuel will help ease the burden on local airlines, said the Ministry of Finance.

Earlier, the National Assembly Standing Committee gave the green light to cut the environmental protection tax on flight fuel from VND3,000 to VND2,100 per liter until late 2020 to help eliminate the difficulties facing local airlines due to the coronavirus pandemic.

3. Legal clear-up may assist M&A boom

At last week's conference held by the Vietnam Chamber of Commerce and Industry, businesses, lawyers, and economists discussed how the changes in the Law on Investment 2020 will impact future investment inflows, including stake acquisitions.

Tran Thi Thanh Huyen, partner at law firm NHQuang & Associates, said that the changes are expected to open new opportunities for businesses and investors to participate in merger and acquisition (M&A) deals.

"In the previous law, investors could invest in project transfers. Now they will be able to venture further afield into the separation and merger channel," Huyen told VIR.

In addition, the simplification of procedures will spur the M&A market. According to Vaibhav Saxena, lawyer at Vietnam International Law Firm, the new law simplifies many procedures for M&A approvals by eradicating their need for transactions that do not

result in an increase of the foreign ownership ratio in the target company.

Such conditions apply even if the target company operates in sectors subject to market entry conditions applicable to foreign investors. Further, if any M&A transaction results in an increase of the foreign ownership ratio in the target company, with the foreign investor holding more than 50 per cent of the shares or charter capital after the transaction, the same shall be subject to the new conditions.

"This is a significant relief provided from administrative angle and will support businesses to cut-short on the timeline for M&A transactions," Vaibhav added.

Lawyers and experts, however, noted that to leverage M&A investments in this channel, the to-be-issued decree should detail the regulations to prevent misunderstandings about corporate and project reorganisations, thus facilitating funds in

adjustments of capital, assets, labour, land, and others.

There are concerns over lack of transition regulation on treating an economic organisation with foreign-owned capital, as there are conceptual differences in the Law on Investment 2020 and the previous one. The new version includes a reduced foreign ownership threshold, from 51 down to 50 per cent, to determine if an economic organisation with foreign-owned capital must satisfy conditions prior to investment.

As stated in the new law, economic units with foreign ownership of over 50 but less than 51 per cent, which are treated as domestic businesses in line with the 2014 law, will be treated as foreign investors and have to follow all business procedures and conditions applicable to them. For instance, they must have investment registration certificates.

A representative from the Vietnam Association of Securities Business stated, “The change is expected to create no favourable conditions for businesses and investors, and even creates additional burdens for them,” while pointing out that the transition rule is missing.

“The draft decree should add the transition rule towards allowing economic units between 50 and less than 51 per cent of foreign ownership before the Law on Investment 2020 comes into effect. Accordingly, these units should continue to enjoy investment incentives and not be subject to the

conditions applicable to foreign investors, regardless of having an investment registration certificate,” the representative proposed.

In wake of future possible misunderstandings after the enforcement of the law, groups like Honda Vietnam want regulations to be clarified on the list of business lines with restricted market access for international ventures by adding foreign investors holding over 50 per cent of chartered capital.

Currently, the draft law is being completed and expected to deal with the concerns, thus enabling the country to welcome a possible new wave of M&A when it comes into effect in early 2021.

M&A has been proven to be an attractive investment channel in Vietnam. Nevertheless in 2020, the pandemic impacted Vietnam's foreign investment attraction, with M&A no exception. As shown in statistics from the Ministry of Planning and Investment, the country attracted \$6.11 billion worth of foreign-led stake acquisitions in the first 10 months of the year, down 43.5 per cent on-year.

According to researchers at the Vietnam M&A Forum, the country is one of the few Southeast Asian nations that will see a strong rise in M&A transactions in the upcoming years, focusing on fields like banking and finance, realty, retail, energy, infrastructure, healthcare, and education. Singapore, Japan, and South Korea are currently the biggest players in the local M&A market.

4. Vietnam customs steps up fight against origin frauds in trade

Under Prime Minister Nguyen Xuan Phuc's instruction in Directive No.824 on tightening state administration against trade frauds, the General Department of Vietnam Customs (GDVC) has been working on perfecting the legal framework and identifying offenses in trading activities.

In terms of legislation, the GDVC has issued specific instructions for provincial customs in dealing with act of trade and origin frauds, illegal transshipment as well as violations of intellectual property rights.

Additionally, the GDVC has given priority to training customs staff to ensure greater efficiency in determining cases of frauds in trade.

Meanwhile, the GDVC has been active in collecting and analyzing information domestically and internationally to identify products with high risk of trade and origin frauds; reviewing suspect transactions or traders with sudden surge in trade turnover although their capacity and operation scale remain the same.

Vietnam's customs authorities are scheduled to intensify supervision over specific import items,

including wood planks, bicycles, e-bicycles, among others to timely uncover offenses.

To date, the customs authorities have carried out inspection at 78 enterprises with export-bound goods worth VND647 billion (US\$28 million), in which 391 certificates of origins were found to be fake and other 1,894 cannot provide sufficient information for verification.

In order to better combat trade fraud activities in the future, the Ministry of Finance is requesting related agencies to soon issue specific criteria for domestically-produced goods.

Moreover, international cooperation is considered essential in prevent cases of trade and origin frauds or illegal transshipment, in turn protecting lawful rights of local compliant traders.

The GDVC is currently cooperating with the European Anti-Fraud Office (OLAF) to prevent origin frauds related to some products and goods, including solar battery, shrimp, bicycle, e-bicycle, among others.

The GDVC would continue to raise public awareness related to the rule of origins, and negative impacts of trade and origin frauds to domestic companies and the economy as a whole.

5. Vietnam central bank set for 5th policy rate cut to realize GDP growth target

As inflation could further ease in the coming time as a result of declining pork prices and low petroleum and gas prices, the State Bank of Vietnam (SBV), the country's central bank, could cut its policy rates for the fifth time this year to ensure the economy realizes its growth target of 2.5 – 3%, according to KB Securities Company (KBSC).

A low capital mobilization rate, therefore, would have a positive impact on banks' net income marginal (NIM), stated the KBSC in a report.

Since the beginning of the year, the SBV has lowered its interest rate caps four times to support the economy amid Covid-19 impacts, with the latest made on September 30 by slashing 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%.

As of November 17, the country's credit growth was estimated at 7.26% against the end of 2019, resulting in outstanding loans of VND8,790 trillion (US\$377.7 billion), significantly lower than the rate of 10.28% in the same period last year.

As such, credit expanded by nearly one percentage point in the first half of November against late October, or VND90 trillion (US\$3.86 billion), indicating the economic recovery following Vietnam's effectiveness measures in containing the Covid-19 pandemic.

By the end of the third quarter, credit growth of listed banks averaged 7.5% year-to-date, in which state-run commercial banks (except Agribank) posted a modest credit growth rate of 3.6% and joint-stock banks 12.5%.

Notably, strong growth in corporate bonds had significantly contributed to high credit growth in the three-quarter period in a number of banks, including Techcombank, VP Bank, and Military Bank, among others. As credit growth rates at some commercial banks are now exceeding the limit set by the SBV in the beginning of the year, the central

bank has set higher limit for credit growth for banks in the third quarter.

For this year, KBSC forecast Vietnam's credit to expand by 9–10%, equivalent to an increase of VND180 trillion (US\$7.77 billion) in outstanding loans in the rest of the year, given positive economic outlook.

6. Racing for rubber dominance

The global rubber price is expected to see an upward trend in the second half of next year and may hit \$2.45 per kilogramme as early as 2022. Particularly, as one of the most commonly traded commodities, rubber is envisaged to gradually gain, depending on actions taken by the next US administration in fighting economic slowdown next year.

Furthermore, a rebound from the Chinese manufacturing industry and a pick-up in automobile sales are also viewed as an impetus for the rubber sector.

Currently, Danang Rubber, Sao Vang Rubber, Southern Rubber Industry JSC (Casumina), and Inoue Rubber Vietnam are four major players in the local market, in all of which state-owned Vietnam National Chemical Group (Vinachem) has the ownership.

State-run Vietnam Rubber Group (VRG) has also made a big splash by announcing its efforts to strike up deals with Vinachem's subsidiaries.

At a recent meeting with the Committee for Management of State Capital at Enterprises, VRG announced it is considering investment in tyre and tube production via mergers and acquisitions (M&A) with brands of Vinachem. The move will help VRC close the value chain of rubber products and will be the core for developing tyre and tube products in the future.

According to Vinachem's restructuring plan for the 2017-2020 period, the group was to divest three tyre companies to below 51 per cent. Vinachem organised an auction of 17.2 million Danang Rubber shares with a starting price of VND25,170 (\$1.09)

In this context, the SBV could allow some banks to increase credit growth limit in the fourth quarter, including HD Bank or TP Bank, KBSC suggested.

Fitch Solutions, a subsidiary of Fitch Group, predicted credit growth to weaken to 7% in 2020 from 13.7% in 2019. Nevertheless, as Fitch Solutions expected Vietnam's GDP growth to reaccelerate to 8.2% in 2021, it predicted credit growth to pick up to 12%

apiece in May 2019 – however, the auction failed to attract investors as anticipated. Vinachem remains the parent company holding nearly 60 million shares of Danang Rubber, equivalent to 50.51 per cent of charter capital.

In contrast, the group did successfully sell 4.2 million shares of Sao Vang Rubber with the initial price of VND46,452 (\$2.01) apiece. After divestment, Vinachem holds 36 per cent of charter capital.

Similarly, Casumina has been stepping up its divestment plan to move from 51 to 36 per cent. Saigon VRG Investment, a subsidiary of VRG, purchased more Casumina shares in July last year in order to raise its ownership to over 8 per cent of charter capital.

Meanwhile, Inoue Rubber Vietnam is a joint venture between Vinachem, Japan Inoue Rubber, and Bridgestone Corporation. The company specialises in manufacturing tyres in the northern province of Vinh Phuc for world-famous automobile companies such as Honda and Yamaha.

As of present, VRG has yet to finalise its M&A plan. However, if these deals are successful, it would likely breathe new life into the whole industry, helping local players to consolidate their presence in order to compete with foreign counterparts.

Harsh competition

Experts at Vietcombank Securities Company (VCBS) told VIR that a weaker US dollar tends to boost all dollar-denominated commodities, so the rubber price will recover or even reach a new high.

Meanwhile, R.B. Premadasa, general secretary of the Association of Natural Rubber Producing Countries, said rubber production across the globe was expected to witness further capacity addition until around 2023, and then stagnate thereafter.

“If prices become attractive coinciding with the stagnation of mature areas between 2023 and 2024, farmers are expected to adopt short-term measures to maximise the yield from existing trees. In that case, average yield from existing mature trees can improve in the next year,” Premadasa said in a recent announcement.

VCBS states that risks for rubber firms in Vietnam are still lingering. In the case of Casumina, the company has paid a large amount of money to deal with waste problems to protect the environment and pressure relocation of the company's plants out of Ho Chi Minh City.

“Meanwhile, there are many foreign players entering into domestic market, approaching many market segments including current and potential segments of the company. The material rubber price is on an upward trend so it will affect to the final product price of the business,” VCBS highlighted.

Casumina's pre-tax profit reached nearly VND40 billion (\$1.72 million) in the first half of 2020, while that of Danang Rubber reached VND107 billion (\$4.64 million).

Casumina said that its profit was considerably affected by the high interest expense, as well as the all-steel radial tyre segment that has not yet reached break-even point.

At present, there are almost 250 private enterprises and establishments engaged in rubber processing, with a capacity of over 1.24 billion tonnes per year. The total capacity of the current processing facilities exceeds the rubber output by 15-20 per cent.

There are still some limitations, as no national standards for rubber materials have yet been developed – as a result, price regulations have not been achieved, instead depending on the world market. Moreover, there is no national rubber-processing facility planning, thus many private construction facilities are spontaneous and results in competition in rubber latex trading.

Looking on the bright side, Casumina believes that implemented free trade agreements such as the EU-Vietnam Free Trade Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and the newly-ratified Regional Comprehensive Economic Partnership will further strengthen the company's footprint in other countries. These deals are envisaged to boost regional and global supply chains as well as exports, including rubber products.

In addition, the Vietnamese strategy of infrastructure development together with the evolution of the domestic automobile manufacturing and assembling industry is paving the way for tyre manufacturers to grow.

Impressive profits

In 2019, Vietnam's passenger car tyre exports to the US rose by 14 per cent to \$469.6 million, from \$411.43 million in 2018, cited from data compiled by the US Census Bureau.

Specifically, foreign-invested enterprises (FIEs) are outweighing local ones in terms of production scale and quality, while the price of automobile tyres and tubes originating from China is lower (around 10-15 per cent) compared to domestic products of the same category.

Sailun Vietnam, a subsidiary of Chinese tyre giant Sailun, recorded that its profit tripled from VND1.15 trillion (\$49.79 million) in 2017 to VND3.14 trillion (\$135.96 million) last year. Elsewhere, Cheng Shin Rubber Vietnam, a local franchise of Taiwan's Maxxis Group, recorded 2019 profit of VND587 billion (\$25.42 million).

Some other FIEs such as Kumho Tire Vietnam and Kenda Rubber Vietnam also achieved impressive after-tax profits last year, at VND200 billion (\$8.66 million) and VND248 billion (\$10.7 million) respectively.

In terms of production scale, such FIEs are larger compared to domestic equivalents. Specifically, the annual radial tyre capacity of Sailun Vietnam reached 12 million tyres, Kumho Tire Vietnam churned out 6.3 million tyres, and Bridgestone Vietnam manufactured 17 million products, while the largest domestic companies also only achieved about one million tyres per year.

7. Government issues new decree on retirement age, applicable from 2021

According to the new decree, the retirement age will be increased to 60 years and three months for men and 55 years and four months for women in 2021.

After 2021, the retirement age will be increased by three months per year for men and four months per year for women. Accordingly, the male retirement age will be raised to 62 by 2028, while the female retirement age will increase to 60 by 2035.

The decree also allows laborers to retire no more than five years sooner or later than the standard retirement age depending on their circumstances following articles 3 and 4, clause 169 of the Labor Code.

People who work for 15 years or longer in toxic or dangerous environments according to the regulations of the Ministry of Labor, Invalids and

Social Affairs and people working in especially underprivileged regions are allowed to retire sooner than the standard retirement age.

Meanwhile, highly-skilled workers or people who work in the private sector can retire later based on the negotiations and agreements between the laborers and the employers.

Vietnam's population was around 96.2 million last year and is estimated at 97.3 million this year. The average life expectancy of Vietnamese people has increased from 59 in 1960 to 73 in 2014 and over 75 in 2018.

The adjustments in the retirement age aim to restrict interruptions in the labor market and align with Vietnamese laborers' health and life expectancies.

Corporate News

8. KDH: Board approves to buy back bonds prior to maturity

↓ -1.69%

Khang Dien House Trading and Investment JSC announces the Board resolution dated November 18, 2020 as follows:

The Board of Directors approved to repurchase a part of KDH_BOND2020 bonds prior to maturity:

- Trading method: direct negotiation

- Number of bonds expected to buy back: 58 bonds, equivalent to VND58 billion

- Buying price: 100% principal plus the unpaid interest amount

- Estimated trading time: December 10, 2020.

9. POW: Record date for EGM 2020

↓ -0.50%

On November 23, 2020, the Hochiminh Stock Exchange issued Announcement No.1932/TB-SGDHCM about the record date of PetroVietnam Power Corporation as follows:

- Ex-right date: December 02, 2020
- Record date: December 03, 2020

1) Reason & purpose: to hold the 2020 Extraordinary General Meeting of Shareholders.

2) Content:

- Exercise ratio: 01 share – 01 voting right

- Expected meeting time: December 2020

- Meeting venue: 167 Trung Kinh Street, Yen Hoa Ward, Cau Giay District, Hanoi.

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