VIETNAM DAILY NEWS

JAPAN SECURITIES INC.

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Market Analysis

1. Shares climb on capital inflows

Vietnamese shares had a good start on Monday, driven by robust inflows on growing investor confidence.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange gained 1.28 per cent to end Monday's trading session at 1,081.08 points.

The index had gained 2.06 per cent last week.

Nearly 714 million shares were traded on the southern bourse, worth VND14.3 trillion (US$616 million).

Market breadth was positive with 292 gainers and 138 decliners.

"Lasting from the previous session, the excited upturn helped the VN-Index continue to rise and successfully surpass the resistance level of 1,070 points," said BIDV Securities Co.

"The market liquidity maintained an increase, its amplitude slightly decreased and the positive market breadth were all supporting this current uptrend. At the same time, foreign investors were net buyers on both HOSE and HNX.

"VN-Index might retest the resistance level of 1,100 points in the coming period thanks to the positive macro information along with the investment cash flow of both domestic and foreign investors maintaining this rally," the company said.

Foreign investors net bought VND150.71 billion on HOSE, including Hoa Phat Group (HPG) with VND53.3 billion and Vietcombank (VCB) with VND31.4 billion. They were net buyers on the HNX with the value of VND280 billion.

The large-cap tracker VN30-Index was up 1.26 per cent to 1,049.71 points.

Twenty-one of the 30 large-cap stocks in the VN30 basket increased while four decreased.

Cash flow was injected into the market. Nineteen out of 25 sector indices on the stock market gained ground, including construction, logistics, wholesale, real estate, retail, insurance, IT, energy, banking, food and beverage, rubber production, securities and healthcare.

They gained between 0.1 and 6.6 per cent.

On the opposite side, losers were seafood processing and construction materials.

Securities stocks made the strongest gains with the best performers in the group including SSI Securities Incorporation (SSI), Viet Capital Securities Joint Stock Company (VCI) and VNDirect Securities (VND).

Banking stocks also maintained their gains until the end of the session, strongly supporting the indices. The best performers in the group included Bank for Investment and Development (BID), Vietinbank (CTG), Military Bank (MBB), Techcombank (TCB), HDBank (HDB), VPBank (VPB) and Vietcombank (VCB).

On the Ha Noi Stock Exchange, the HNX-Index rose 2.88 per cent to end Monday at 182.11 points.

Nearly 133 million shares were traded on the northern market, worth VND1.8 trillion.

Macro & Policies

2. Demand for cold storage facilities grows with e-commerce popularity

It told a seminar held last week to discuss trends in logistics that investors are already partial to cold storage facilities after online grocery sales skyrocketed during the pandemic, requiring more refrigerated warehouses close to buyers.

"There has been a spike in short-term logistics requirements directly linked to the immediate impact of the pandemic, particularly in relation to the significant expansion of online grocery spending, and the need to support critical health services such as vaccines distribution."

Since all leading vaccines require very low temperatures to remain effective, cold storage for the new COVID-19 vaccines might be the next big thing in the supply chain and logistics industry.

Another trend seen in the market is automation.

Trang Bùi, head of markets, JLL Vietnam, said: "The COVID-19 pandemic is accelerating automation in the logistics sector and will become a major trend in the near future.

"Tenants are upgrading from outdated, often small and owner-occupied facilities, to newer facilities in premium locations. Simultaneously, the consolidation of logistics operations into more modern facilities is improving efficiency and reducing the overall logistics costs of tenants. Growth in other industries will also support three-party-logistics market expansion, including growth in the food and beverage, healthcare and pharmaceuticals and office and technology equipment industries."

Rapid urbanisation and the growing middle class are among the biggest drivers of growth. Demographic forces drive demand for commercial real estate, and this is a major factor that underpins demand in Việt Nam, and the Asia Pacific in general.

Around 35 per cent of Việt Nam's population currently lives in urban areas, up from 29 per cent just about a decade ago. As the market matures, the level of logistics space required to serve the population is likely to rise, leading to greater requirements for logistics space.

E-commerce is likely to drive demand for logistics real estate. Typically, e-commerce firms use more logistics space than brick-and-mortar retailers largely due to a more extensive product range, greater inventory levels, larger outbound shipping space requirements, and increased reverse logistics

In recent years the supply chain has become increasingly consumer-driven. Delivery speed has always been a major factor in the buying decision, with major online retailers offering same-day delivery options.

To keep ahead of the curve, retailers and logistics providers need to respond to changing customer needs.

In order to achieve growth goals, Việt Nam's logistics industry will have to overcome the many challenges that remain. For Việt Nam to enter the next phase of the industrial/logistics cycle, become more competitive and move ahead of regional peers, it is vitally important to continue investing in infrastructure, both highways and utility networks, and renewable energy.

Also, Việt Nam's cross-border trade process still needs significant improvements in both processing time and costs.

According to the 2020 Vietnam Logistics Report by the Ministry of Industry and Trade, the global logistics sector has been seriously affected by the COVID-19 pandemic. Although governments work to maintain the supply chain of goods and give priority to the circulation of essential goods, due to disease control measures like social distancing and work-from-home orders, there are times when most commercial markets are paralysed.

3. Conference on Medical Investment Promotion to be held soon

The conference is among the activities to deploy Resolution No.20-NQ/TW dated October 25, 2017 on enhancing healthcare for people in the new development period, as well as the government's policies on strengthening the attraction of private investment in the medical sector.

The event will be a chance to boost ties between the MoH and potential domestic and international investors, thus enabling the development of more infrastructure and attracting more resources into medical development.

IT is expected that the list of prioritised investment areas in 2021-2025, investment attraction orientations by 2030, and the list of prioritised projects will be announced at the conference. Prioritised investment projects will include medical facilities, preventive healthcare, and training in line with the country's socioeconomic development plan in 2021-2025.

The master planning of the country, sectors, and regions will also be announced to create a motivation for investment in the medical sector.

Vietnam's medical sector has been taking actions and introducing policies to attract private investment to serve healthcare development, with public-private-partnership (PPP) projects being among the promoted investment models.

Over the past years, private investment has contributed greatly to the development of medical infrastructure, technology transfer, and training of health professionals, thus helping to meet the growing demand for healthcare.

According to experts, the medical sector is forecast to continue to attract more private investors in the upcoming time thanks to the growing population, economic growth, lifestyle changes, new healthcare models, and rising medical insurance demand.

4. Vietnam's wood exports grow in anticipation of UKVFTA

The UKVFTA will see 99 per cent of tariffs between the two countries eliminated over the course of seven years. According to the Import and Export Department of the Ministry of Industry and Trade of Vietnam, Vietnam's wood sector will reap significant benefits from the UKVFTA.

Currently, Vietnam is one of the UK's largest wood and wooden product exporter. In 2019, Vietnam was the UK's sixth-largest wood and wooden product exporter with the export turnover reaching 421.8, accounting for 3.6 per cent market share of the UK's wood and wood product imports. According to data from the International Trade Center (ITC), the leading exporters of wooden furniture to the UK are China, Italy, Germany, Poland, and the US.

Once the UKVFTA comes into effect, many Vietnamese wood and wood products are subjected to zero per cent tax rate within five years. Therefore, Vietnam's wood industry will enjoy tremendous benefits from this agreement.

Furthermore, Vietnam has many opportunities to increase the export of wooden products to the UK, thanks to their highly-competitive prices, good raw materials, and high product quality. In addition, a number of major companies in the wood industry in the UK already have production facilities or signed long-term partnership contracts with manufacturers in Vietnam such as IKEA, the largest furniture retailer in the UK. The UKVFTA is expected to make Vietnam more attractive to foreign investors to invest in Vietnam's wood processing industry.

Despite the impact of the COVID-19 pandemic, the wood and wooden product sector have enjoyed good growth. In the first 11 months of 2020, the sector witnessed an increase of 14.1 per cent over the same period last year, reaching $10.88 billion.

5. Steel exports surge in November

Steel exports in November surged 21.52 percent month on month and 40 percent year on year, reaching more than 478,300 tonnes, reported the Vietnam Steel Association (VSA).

The same month, steel production of all kinds reached more than 2.4 million tonnes, a month-on-month increase of 4.34 percent, and year-on-year increase of 15.6 percent.

Sales of steel also reached a record of more than 2.4 million tonnes, a sharp increase of nearly 36.9 per cent compared to October, and up 20.9 percent over the same period last year.

However, steel production, sales and exports were still almost flat in the 11-month period.

Specifically, the production of steel in the period increased only 1 percent over the same period last year, reaching more than 23.3 million tonnes, while sales decreased by nearly 1 percent to more than 21 million tonnes. Meanwhile, exports fell 2.8 percent over the same period in 2019 to over 4.1 million tonnes.

The economy in November continued to recover in new normal conditions, while production, business, trade and consumption continued as a growth factor for the steel market, according to the VSA.

Price of raw materials for steel production such as iron ore and scrap steel has soared in the past three years and set a new price mark in November, which affected prices in Vietnam.

Along with that, trade tensions between countries, the trend of increasing trade protectionism and the impact of the COVID-19 pandemic have made steel prices increase, the VSA said.

Domestic steel price is currently at an average of about 12,000 VND-12,500 VND (around 0.5 USD) per kilogramme at the beginning of this month, depending on the type of product and enterprises.

Price of construction steel currently sold on the market is around 15,000 VND per kilogramme, an increase of about 2,000 VND per kilogramme compared to last month.

6. Upcoming laws on Enterprises and Investment to improve Vietnam business landscape

Both the Law on Enterprises and Investment Law, which have been ratified by the National Assembly on 2020 and set to take effect next year, are expected to have a major impact on the business community.

Lawyer and Chairman of Vietnam International Arbitration Center (VIAC) Tran Huu Huynh made the statement at a workshop on December 18.

“While the current business law has not been up to expectation in terms of consistency, feasibility and transparency, there have been gradual improvements in this regard with strong efforts from the government,” he noted.

Vice Chairman of the Vietnam Chamber of Commerce and Industry (VCCI) Hoang Quang Phong said amid a global economic recession as a result of the Covid-19 pandemic, Vietnam has put in place measures, including stimulus programs, to support enterprises and people.

“Efficiency of these measures, however, remain limited, due to the global scale of the crisis that leads to low demand from international market, disruption of supply chains and limited working capital,” said Mr. Phong.

The VCCI Chairman noted Vietnam is participating in a large number of free trade agreements, including next-generation trade deals with high commitments for market access and economic integration.

“Local firms need to thoroughly understand the Law on Enterprises and the Investment Law to take advantage of opportunities from new updates in these laws," he said.

Director of the Legal Department at the British University of Vietnam Nguyen Kim Dung said the revised laws will help create more convenience for enterprises' operation in the future.

"The 2020 Investment Law has included investment in education at university level into the list of fields subject to preferential treatment, I hope in the future universities could receive more incentives in terms of taxes and land resources," she noted.

7. Production shift from China to Vietnam set to increase demand for industrial parks

The US-China trade war and the Covid-19 pamdemic have prompted many manufacturing companies to plan to relocate their factories out of China or expand production to another country. Having the advantages of low labor costs, geographic location which is close to China and being signatory of many trade agreements will help Vietnam to become a potential destination, according to Viet Dragon Securities Company (VDSC).

So far, with the current minimum wage of US$132-190 per month, Vietnam is in the group of the three countries in ASEAN with the lowest labor cost.

Another key factor is that the country's membership of a number of trade agreements, with the newest being the EVFTA and RCEP, which "is an attractive point for foreign investors," noted the VDSC.

Compared to Thailand, Indonesia and the Philippines, Vietnam is considered a safe destination thanks to political stability and without terrorists and domestic war issues.

The VDSC also pointed to the Vietnamese government's strong efforts in improving the business environment, which is currently ranked at 5th out of 10 in ASEAN, after Singapore, Thailand, Malaysia and Brunei.

In the first 11 months of this year, the disbursed FDI reached US$17.2 billion, down by 2.4% year-on-year and registered FDI reached US$26.4 billion, down by 16.9%.

The decline of FDI followed the worldwide general trend in the context of the US-China trade war and the Covid-19 pandemic where investors are halting their activities due to increasing instability

Another reason comes from the slow equitization of state-owned enterprises (only 7 out of 98 enterprises in the 2020 plan already equitized), which has a negative impact on investors' interest, added the VDSC.

FDI mainly went into the manufacturing and processing sectors, accounting for 67% of total. Most of it was channeled to cities and provinces such as Hanoi, Hai Phong in the North and Ho Chi Minh City, Binh Duong and Ba Ria Vung Tau in the South.

Positive outlook for developers with large land bank

A status of ideal destination for companies that want to diversify production outside of China is set to help increase demand for industrial land in Vietnam. The move is backed with a forecast that FDI inflows to Vietnam are set to recover in 2021, given the bright prospects of the Covid-19 vaccines.

"It is expected that companies with large land that can be put into use soon such as Kinh Bac Company (KBC), Viglacera (VGC) in the North and Becamex IDC (BCM), Phuoc Hoa Rubber (PHR) in the South have many opportunities to take advantage of the coming FDI," stated the VDSC.

Both KBC and VGC have huge leasable land banks which are around 1.000 ha. These land bank represents a major part of the northern industrial land and possesses favorable locations, mostly in Bac Ninh, Hai Phong. This should help KBC and VGC better capture rental demand from electronics and parts & accessories FDI enterprises. BCM and PHR, in the South, also own enormous areas of industrial land, more than 1,000 ha each, located in Binh Duong. Major tenants are timber enterprises, including domestic and FDI ones. Various tenants with diverse backgrounds include those in logistics, electricity, mechanism, timber and consumer goods.

Realizing about the potential of the industrial parks, many companies in other industries are entering this market, including Asanzo, Hoa Phat, Vingroup, or Dong Nai Rubber, among others.

"Companies in different industries expanding their business to the industrial park will initially increase the supply of leasable land and also increase the demand through their existing business partners," stated the VDSC.

Northern market

Covid-19 affects travel and behavior of investors, thus partly impacting the demand for industrial land in the Northern provinces. However, since Vietnam is considered an emerging manufacturing area, industrial parks developers have more power to negotiate, leading the average rental rate in the third quarter of 2020 to reach US$102/m2/rental cycle, up 7.1% year-on-year. Factory rentals fluctuated in the range of US$4.1-5.2/m2/month, up 2.1%.

Southern market

Currently, the average occupancy rate in the south is at a high level of 84% and part of the vacant land is facing difficulties in compensation and site clearance, leading to a scarcity of vacant land for rent. At the same time, the demand for industrial park land is still high and is expected to increase further when the Covid-19 is controlled, causing the average rental price to increase to US$106/m2/rental cycle, up by 9.7% year-on-year. Factory rent prices fluctuated in the range of US$3.5-5/m2/month which has not changed much.

Corporate News

8. BID: Moody's raises BIDV's foreign-currency deposit rating

↑0.96%

The Bank for Investment and Development of Vietnam (BIDV)'s foreign-currency deposit rating has been raised from B1 to Ba3 by Moody's.

The bank's long-term local deposit and long-term issuer ratings were maintained at Level Ba3. The Moody's continued to keep the BIDV's long-term issuer rating at an equal level of the Vietnam's national credit ratings.

In this review, the Moody's recognised the stable improvement of BIDV in property quality. Capital mobilisation capacity is still a strength of the bank.

BIDV's successful selling of shares to the Republic of Korea's KEB Hana Bank in 2019 contributed to increasing the bank stockholder's equity. The Moody's held that the bank's selling of more stocks to foreign investors will contribute to its ratings rise.

2020 marks the 15th consecutive year that BIDV has been reviewed by Moody's. This confirms BIDV's commitment to financial transparency as well as compliance with international standards.

9. GEX: Gelex mulls capital increase via share issuance

↓-0.24%

The shares will be sold to current investors. Each share is equal to one purchase right and every shareholder will have the right to purchase six new shares for each 10 rights they have.

Gelex will set the price at minimum VND12,000 (US$0.52) apiece, hoping to raise more than VND3.5 trillion ($151.4 million) from the sale to raise charter capital to VND7.8 trillion.

The deal will be discussed at the firm's extraordinary shareholder meeting on December 29. If approved, it will be done by the end of June 2021.

In recent years, Gelex has continuously made borrowings to expand operations and enhance investments.

Those loans helped the company raise revenues annually from VND8.6 trillion in 2015 to an estimate of VND17.5 trillion in 2020.

Gross profit also rose from VND1.1 trillion in 2015 to an estimated VND2.5 trillion in 2020.

However, financial expenses soared from VND75 billion ($3.24 million) in 2016 to an estimated VND1 trillion in 2020, mostly because of the firm's acquisition of Viglacera Corporation.

After the acquisition completes in 2021, total revenue and gross profit are expected to reach VND33.4 trillion and VND5.2 trillion in 2021, respectively.

Earnings per share (EPS) is forecast to rise to VND1,500 apiece in 2021 from an estimate of VND1,348 apiece in 2020.

The upcoming capital increase will serve the group's planned projects such as two wind power projects in Quang Tri Province and two hospitality projects in Ha Noi.

In addition, Gelex plans to widen its working capital by VND415 billion and spend VND800 billion restructuring and increase capital for its subsidiary Gelex Electrical Equipment JSC.

In July-September, Gelex reported nearly VND4.75 trillion of net revenue, up 21 per cent on-year, and VND218 billion in post-tax profit, down 5.2 per cent on-year.

In January-September, the corporation earned a combined net revenue of total VND12.06 trillion, an annual increase of 9.6 per cent.

Nine-month post-tax profit dropped 7.89 per cent on-year to VND641 billion.

Gelex is listing more than 488.2 million shares on the Ho Chi Minh Stock Exchange with code GEX.

The company's shares edged up 0.5 per cent to end Friday at VND20,800 apiece.

Recently, Gelex has decided to sell 12 million treasury shares to employees at VND12,000 apiece.

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