VIETNAM DAILY NEWS

JAPAN SECURITIES INC.

December 31st, 2020

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Market Analysis

1. Profit-taking pressure sends VN-Index down

The strong profit-taking pressure on many securities and bank stocks prompted the VN-Index of the Hochiminh Stock Exchange to fall slightly today, December 30, ending its three consecutive winning sessions.

With 228 winning stocks and 212 losing ones, the benchmark index closed the day down 1.95 points, or 0.18%, to 1,097.54 points. Trading volume ebbed slightly to 677 million shares while value declined by 7% to VND13.47 trillion against the previous session. There were 57.2 million shares worth nearly VND1.58 trillion traded in block deals.

After the strong gain in previous sessions, the profit-taking pressure pushed many securities stocks into the red today. CTS, HCM, AGR and VND suffered the steepest decline, closing down 3.9% to VND14,800, 1.91% to VND30,750, 1.87% to VND8,390 and 1.34% to VND29,400, respectively. Besides, SSI fell by 0.63% to VND31,500 and FTS lost 0.32% to end at VND15,800.

VCI was the only securities stock that gained ground, up 1.82% to VND55,800.

The profit-taking pressure also made a number of bank stocks such as VCB, BID, MBB and HDB shrink. Some other bank stocks such as TCB, VPB, STB, VIB and CTG advanced, but by only approximately 0.5%.

STB led the southern bourse by liquidity with more than 35.8 million shares changing hands. Property developer FLC came second with 22.5 million shares traded, closing the day up 3% to VND4,480.

Another outstanding cash magnet was industrial zone developer ITA, which had over 20 million shares traded. However, ITA declined by 2.93% to VND6,950.

On the Hanoi Stock Exchange, the HNX-Index lost a fractional 0.08%, or 0.16 point, to end at 196.94 points, with 111 winning stocks and 90 losers. There were 113 million shares worth nearly VND1.2 trillion changing hands.

Some of the main drags included securities company SHS, port operator PHP and lender SHB, which were down 2.94%, 2% and 1.16%, respectively.

In contrast to the southern market, many securities stocks on the northern market such as BVS and WSS gained ground. VIG, IVS and PSI even shot up to the ceiling prices.

Trading and food service firm KLF soared by 4.76% to VND2,200 and led the northern bourse by liquidity with 11.2 million shares changing hands. Property group HUT came second with 10.2 million shares traded. However, HUT fell by 2.17% to VND4,500.

Macro & Policies

2. Vietnam consumer spending rises 2.6% to $220 billion in 2020

Total retail sales of consumer goods and services in Vietnam reached an estimated VND5,059.8 trillion (US$219.53 billion) in 2020, up 2.6% against last year, according to the General Statistics Office (GSO).

"Such growth is the lowest during the past 10 years, but remains a positive result for Vietnam as the country continues to pursue the dual target of both containing the pandemic and boosting economic recovery," stated the GSO in its monthly-report.

While the Covid-19 pandemic has caused severe impacts on the global economy, the fact that Vietnam has effectively contained the pandemic is seen as a major factor to boost retail sales during final months of the year, noted the GSO.

In the fourth quarter, revenue from retail sales and services stood at VND1,387.6 trillion (US$60.2 billion), up 6.4% quarter-on-quarter and 8% year-on-year.

On breaking down, retail sales of goods in 2020 gained around VND3,996.9 trillion (US$172.76 billion), accounting for 79% of the total and increasing by 6.8% over the similar period last year.

Estimated sales of accommodation and catering services in this year attained VND510.4 trillion (US$22.14 billion), accounting for 10.1% of the total and down 13% from the same period last year.

Sales of tours achieved an estimate of VND17.9 trillion (US$776.8 million), making up 0.3% of the total and plunging by 59.5% year-on-year.

Sales of other services during this period were estimated at VND534.6 trillion (US$23.2 billion), representing 10.6% of the total and decreasing by 4% against the comparable period in 2019.

3. UK-Vietnam FTA to become effective from 23:00 on December 31

Representatives from Vietnam and the United Kingdom signed a free trade agreement between the two countries in London on December 29 evening (Vietnam time).

The two countries' ambassadors were authorised to sign the deal as leading officials of the Vietnamese Government and Minister of Industry and Trade Tran Tuan Anh were unable to travel to the UK to sign directly amid the COVID-19 pandemic.

Earlier on December 11, Minister Anh and UK Secretary of State for International Trade Elizabeth Truss signed the minutes on the conclusion of negotiations over the UKVFTA to create a foundation for the two nations to conduct necessary legal documents for the official signing.

The UKVFTA was negotiated based on principles of commitments of the EU-Vietnam FTA with necessary adjustments to ensure the deal conforms with the Vietnam-UK bilateral trade framework.

Accordingly, the deal includes nine articles, one Appendix revising some articles of the EVFTA, one Protocol and one bilateral exchange letter between Vietnam and the UK.

Currently, the two sides are rushing to complete domestic procedures in accordance with the laws of each party so as to ensure the agreement can be implemented from 23:00 on December 31.

In the context that the UK official left the EU and the Brexit transition period is about to end on December 31, the signing of the free trade agreement will ensure the bilateral trade cannot be disrupted.

As it inherits the EVFTA, the UK-Vietnam Free Trade Agreement will create a comprehensive, long-term and stable economic-trade cooperation framework between the two countries, thus contributing to deepening their multifaceted cooperation, especially when the two sides just extended the maintenance of bilateral relations at the strategic partnership level.

Vietnam and the UK set up diplomatic relations in 1973. Over the past 47 years, bilateral ties have unceasingly developed. According to the General Department of Vietnam Customs, two-way trade reached 6.6 billion USD in 2019.

The UK has been the third largest trade partner of Vietnam in Europe after Germany and the Netherlands in recent years.

Vietnam mainly exports garment and textiles, footwear, wood and wooden furniture and seafood to the UK, while importing pharmaceuticals, machineries and equipment from the UK.

Due to impacts of the COVID-19 pandemic, as of the end of October, two-way trade reached only 4.7 billion USD, down about 15 percent, with Vietnam's exports to the UK hitting 4.1 billion USD, a decline of 14.19 percent year on year.

In the first eight months of 2020, the UK run 400 valid projects in Vietnam with total registered capital of 3.6 billion USD, ranking 16th among countries and territories investing in Vietnam.

However, the investment scale has yet to match the potential of the UK – one of the largest countries in terms of investing abroad with about 300 billion USD each year. The UKVFTA is expected to bring about more investment and cooperation opportunities for the two sides, supporting them in post-pandemic recovery.

Areas which the UK is strong in and Vietnam needs include renewable energy, consumer goods production, and greenhouse gas emission mitigation.

4. Reduction extended until mid-2021 for 29 fees

Specifically, the Government will continue to cut the citizen identification card issuance fee by 50%, medical fees by 70%, fees related to food safety by 90% and fees related to the securities sector by 50-100%.

Some other fees that enjoy the fee cut extension are the environment data use fee, the construction project evaluation fee and the technical design evaluation fee.

Without further extension, these fees will return to normal from July 1, 2021.

The 50% reduction on the registration fee for locally made cars will not be extended and will return to normal from January 1, 2021.

The Ministry of Finance said that since Covid-19 broke out, the Government has implemented many solutions to lessen the negative impacts of the pandemic, help production and trade recover and support affected people. The ministry has worked with other ministries to issue 21 circulars on fee reduction.

5. Competitive taxes to make Vietnam manufacturing hub in SE

Vietnam has become a major alternative manufacturing destination for businesses that want to diversity supply chain amid uncertainties caused by the global health crisis.

Savills Vietnam has pointed two critical factors for the growing trend in which local developers are planning more industrial parks to capture this increasing foreign investment and further ramp up appeal.

The first factor is competitive commercial tax regimes. There are corporate income tax (CIT) incentives, fixed asset import duty exemptions, and exempted land rental fees. Notable incentives include zero profit tax for the first two years (usually 20%), followed by a 50% reduction for the next four years.

The government provides even more preferential CIT incentives for strategically prioritized industries, such as those in Industry 4.0 and hi-tech manufacturing. Projects in special economic zones (SEZ) or in socio-economically challenged regions; and large scale projects that meet minimum requirements for investment capital, revenue, and headcount.

Projects qualifying for any of the above will have a 10% CIT rate for 15 years, four years CIT exemption; and a -50% tax reduction for the next nine years.

Vietnam is also one of the most cost-efficient markets for industrial building costs, according to Turner & Townsend's 2019 Construction Costs Survey. In Ho Chi Minh City, the average construction cost of basic factory and warehousing is US$352/m2 while factory units and larger distribution centers cost US$412/m2; and hi-tech factories US$618/m2.

Ms. Hoang Nguyet Minh, Associate Director of Investment of Savills Hanoi, said Vietnam is clearly benefiting. Developing fresh industrial real estate is a smart long term play, especially considering the clear advantages Vietnam offers from trade agreements, tax regimes, and low labor costs. Adding further appeal is the ongoing national infrastructure development which is now ranked second in ASEAN after Indonesia."

The second reason is that Vietnam possibly secures immediate gains and the longer term strategic benefits of diversifying and developing local supply chains in the context that multinationals, including those in electronics industry, are under mounting cost-cutting pressure to offset pandemic induced revenue disruption

Historically wage inflation tends to happen after a global crisis abates. Labor costs in China already being three times higher than in Vietnam will further prompt multinational manufacturers to consider relocating to more cost effective Southeast Asian markets.

During the first outbreak, several multinational manufacturers announced expansions or planned relocations to Vietnam, such as Apple Computers suppliers Pegatron, and Foxconn from Taiwan; Sharp, Nintendo, and Komatsu from Japan; and Lenovo from Hong Kong.

The majority produce medical equipment, semiconductors, mobile phones and spare parts, and air conditioners. The Japan External Trade Organization (JETRO) confirmed these moves were encouraged to improve supply chain efficiencies, plug gaps caused by pandemic effects, while strengthening economic and industrial ties with ASEAN.

Local manufacturing salaries of US$252/month remained regionally competitive, after rising from US$237/month in 2018. By comparison, China manufacturing salaries are US$968/month and those in Malaysia are US$766/month.

Savills Vietnam argued that while labor costs do not drive sustainable industrial growth, they remain important for lower value-add industries such as textiles and furniture. However, as Vietnam turns its manufacturing focus to higher value-add industries such as high-tech or supporting high-tech manufacturing, these companies may be forced to relocate elsewhere in Southeast Asia. While the transition to higher value industries continues, focus will switch from labor force to quality of labor.

To effectively accommodate higher-value projects, it is essential to continue investing in education, notably IT, mathematics, and the sciences. This issue has been recognized with the government committing to create a national skills development plan as part of FDI Strategic Recommendations from 2020 to 2030.

6. Property prices surge in 2020 despite pandemic

Apartment prices in Thu Duc City, a new urban area in eastern HCMC, are at an unprecedented VND60-90 million ($2,600-3,900) per square meter in the premium segment as the creation of the new city pushes up demand.

In the affordable segment, prices have risen by 20-40 percent to VND30-35 million as the new city is expected to usher in administrative reforms and growth.

Other areas in Vietnam's largest city have also seen prices rise this year. The ready-built landed property segment in HCMC saw average prices climb by nearly 36 percent to $5,277 per square meter in the second quarter and a new record of $5,337 in the third, and a further increase is expected in the last quarter this year, according to real estate consultancy Jones Lang LaSalle.

In Hanoi, apartment prices rose 10 percent year-on-year in the third quarter to $1,500 per square meter as developers delayed launches due to the pandemic, real estate consultancy Savills said.

GDP growth fell to a 10-year low of 2.9 percent and the number of businesses that suspended operations rose to 62 percent.

This bucked the normal trend of economic crises dragging prices down, Dang Hung Vo, a former deputy minister of natural resources and environment, pointed out.

One explanation for the counterintuitive trend, according to him, could have been the lack of supply due to legal discrepancies that delayed new developments, he said.

Difficulties in getting permits have been the main roadblock for developers. From 106 housing projects approved in 2016, the figure fell to 16 last year and 12 in the first six months of this year, the Ho Chi Minh City Real Estate Association (HoREA) said.

The number of new housing units fell 79 percent in the first half of this year compared to the same period in 2017 to 4,569, and 2020 could be the third consecutive year that new supply falls, HoREA forecast in September.

A similar trend was seen in Hanoi where Q3 new apartment supply fell 60 percent year-on-year to a five-year low of 3,100 units, Savills said.

Prices remain high despite a slump in rents. Shophouse rents in HCMC have fallen 25-40 percent from pre-pandemic levels, and apartment rents by 15-20 percent.

Phan Cong Chanh, CEO of HCMC-based real estate firm Phu Vinh Group, said since owners have not been affected too badly by the pandemic there are no distress sales, and this, combined with a supply shortage, keeps prices high.

But rents have fallen because businesses have had to scale down to survive, he added.

Nguyen Loc Hanh, CEO of HCMC-based Asia Gem Real Estate Investment Jsc, said so far the real estate market has coped with the challenges posed by the pandemic.

"But the unexpected Covid-19 blow has made the market difficult to forecast, and I believe there are still surprises ahead."

7. State budget revenue meets 98.3% of target, higher than expected

Dung said the revenue was VND148-150 trillion higher than the figure predicted in August-September, the local media reported.

This year, State management agencies have saved 70% of costs for conferences, workshops and local and foreign business trips and 10% of regular expenses.

The high State budget revenue together with the gross domestic product growth of 2.91% have proved that Vietnam has stood firm in the face of difficulties caused by the pandemic and natural disasters as well as confirmed the Government's statement that the country has successfully achieved the dual goals of fighting the pandemic and ensuring stable socioeconomic development in 2020, the minister added.

He said the finance sector would employ various solutions next year to support enterprises to overcome difficulties and maintain the momentum of economic recovery. The Ministry of Finance set a target to increase the State budget revenue in 2021 by at least 3% over the figure assigned by the State.

Depending on the reality, the ministry will propose the Government and other competent agencies exempt and reduce taxes and fees for enterprises.

It will also ask agencies and localities to continue saving costs for meetings and business trips and limiting the purchase of cars and other expensive equipment.

Next year, the equitization of State-owned enterprises should be accelerated, while the banking sector should be restructured. In addition, the ministry will also look into loss-making projects.

Assessing socioeconomic development targets in 2021, Minister of Planning and Investment Nguyen Chi Dung said it is necessary to speed up the restructuring of the economy and the development of new economic models, such as sharing, the night-time and digital economy.

However, Covid-19 prevention and control must be the top priority, Dung stressed.

The minister urged the relevant agencies to come up with a plan to develop an international financial center in HCMC and submit it to the Politburo and the Government for approval.

He also called for the development of new business models, public services and national innovation centers and digital transformation support for enterprises.

Corporate News

8. VIC: Vingroup sells stake in Vinmec for $203 million

↑ 1.88%

VMC is the parent of private hospital developer and operator Vinmec.

The investment will be used to expand Vinmec's medical network and "pursue breakthroughs in excellence of care and patient treatment," Vingroup said in a statement.

After the transaction, Vingroup will remain "the sole controlling shareholder of VMC" and "GIC will receive a share of income from VMC proportionate with its equity interest, whilst Vingroup will continue to re-invest all income into the business, in line with the group's existing commitment that its investment in healthcare will remain non-profit," the company said.

"Vinmec aims to collaborate with GIC to continue to pursue operational excellence and leverage on GIC's extensive expertise and investments in the healthcare sector globally, including GIC's partnership with Metro Pacific Hospital Holdings Inc in the Philippines since 2014."

The investment emphasises "the attractiveness of Vinmec's comprehensive suite of service offerings and leadership in the development of quality private healthcare," Vingroup said.

The financial advisor to VMC in this deal is Credit Suisse (Singapore) Limited.

Vinmec is a non-profit business and manages seven international hospitals and five clinics across the country.

Vinmec is the first hospital to secure two JCI accreditations for Vinmec Times City International Hospital and Vinmec Central Park International Hospital.

Its parent firm – Vingroup – is the largest local private enterprise with main focus on technology, industrials and services.

Vingroup is listing more than 3.38 billion shares on the Ho Chi Minh Stock Exchange (HoSE) with code VIC. Its shares rose 0.6 per cent to VND106,500 apiece on Tuesday.

Vingroup also sees two of its subsidiaries listing shares on HoSE, which are Vincom Retail (HoSE: VRE) and Vinhomes (HoSE: VHM).

The Singapore-based investment business GIC was established in 1981 to oversee Singapore's foreign reserves.

9. HAG: HAGL to sell stake in agriculture subsidiary

↓ -3.30%

It registered to sell 47.5 million shares of the subsidiary between December 31, 2020 to January 29, 2021 via the put-through option, according to a filing made Monday with the Ho Chi Minh Stock Exchange (HoSE).

With the Agrico ticker HNG trading at VND14,200 (62 cents), the deal is expected to fetch VND675 billion ($29.29 million). It will reduce Hoang Anh Gia Lai Group's ownership in the company from 40.83 percent to 36.55 percent.

HNG's current price is currently 31 percent higher than its most recent nadir, which was VND10,850 on November 13.

The decision to divest comes two weeks after Agrico notified the HoSE that it planned to hold an extraordinary general meeting in January to seek shareholder approval on a private placement to swap debts and supplement capital for business activities.

According to its third quarter financial statement, 2020 has been a difficult year for the agricultural firm, posting a net loss of VND80 billion in the first 9 months, down from VND853 billion the same period last year.

Rising expenses, administrative costs, financial expenses and falling revenue from financial investments caused the loss, Agrico said. Net losses suffered in the first quarter have also caused the HoSE to restrict trading of HNG shares since April this year, only allowing transactions in the afternoon session.

As of September 20, HNG had VND12.25 trillion in short- and long-term loans, accounting for roughly 50 percent of its total assets.

While the company has been paying off debt it borrowed from banks, it has borrowed more from leading auto firm Truong Hai Auto Corporation (Thaco) and Truong Hai Agriculture Joint Stock Company (Thadi). Loans from these two companies now account for 38.12 percent of Agrico's debts.

Thaco and related companies have been instrumental in bailing out Agrico, which has been growing mostly fruits since 2016, for several years.

Hoang Anh Gia Lai chairman Doan Nguyen Duc had revealed in early 2018 that he had pleaded with Tran Ba Duong, chairman of Truong Hai Motor (Thaco), for investment at a critical time when HAGL lacked the funds to grow fruit trees and debts had fallen due.

After trips to HAGL's farms in Laos, Cambodia and Vietnam and ongoing property projects in Myanmar, Thaco decided to invest in both, and pumped a total of $1 billion into Agrico and sister companies via purchases of convertible bonds and loans that year.

It continued to gradually buy up shares in Agrico, and currently owns 26.29 percent in the agricultural firm, up from 7.86 percent in May last year.

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