VIETNAM DAILY NEWS

JSI
JAPAN SECURITIES INC.

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Market Analysis

1. Market ends mixed, VN-Index recovers from morning loss

The benchmark edged higher on Thursday on the back of banking and real estate stocks, recovering from the morning session loss, while the HXN-Index ended lower.

The VN-Index on the Ho Chi Minh Stock Exchange increased by 0.11 per cent after a decline in the morning trading session. The index ended an eight-day rally on Wednesday, sliding away from a historic level of 1,204 points. At the end of the trading day, 258 stocks rose with 37 hitting the intra-day limit growth of 7 per cent, while 173 declined.

Sectors witnessing gains included finance and insurance, construction and real estate, production, IT and retail.

On the southern bourse, more than 779 million shares were traded, worth nearly VND17.1 trillion.

"Cash inflows increased. The market breadth returned to a positive status while liquidity was not so different from the previous session. In our view, the VN-Index maybe witness the balance of demand and supply in the last day's trading," BIDV Securities Co wrote in a daily report.

The VN30-Index posted an increase of 0.38 per cent to end the day at 1,168.99 points. In the large-cap basket, fourteen stocks climbed, of which one stock increased nearly 7 per cent. While fifteen stocks declined, one ended flat.

FLC Faros Construction Joint Stock Company (ROS) was the biggest gainer of the 30 large-cap stocks, up 6.84 per cent to end Thursday at VND3,280. SSI Securities Corporation (SSI) also increased 5.52 per cent to VND35,350.

Banking sectors still recorded good performance with VPBank (VPB) up 3.08 per cent to VND36,800. Sacombank (STB) also climbed 3.08 per cent to end the day at VND21,100. Other banks such as MBBank (MBB), Vietinbank (CTG), Techcombank (TCB) and Vietnam International Commercial Joint Stock Bank (VIB) ended the day with an increase of more than 1 per cent.

On the other hand, many big producers and property developers posted negative performance on Thursday. Property developer Vinhomes JSC (VHM) fell 1.29 per cent to VND99,600. Viet Nam Dairy Products Joint Stock Company (VNM), Saigon Beer - Alcohol - Beverage Corporation (SAB) and Masan Group Corporation (MSN) also decreased more than 1 per cent.

Utilities, transportation and logistics were among sectors with poor performance on Thursday.

On the Ha Noi Stock Exchange, the HNX-Index declined 0.1 per cent to 222.27 points after posting an increase of 0.23 per cent on Wednesday.

Foreign investors poured a net value of VND1 trillion into the southern market, while they were net sellers on the northern market, unloading shares worth a net sell value of VND17.72 billion.

Macro & Policies

2. Steel prices could peak in 2021: report

Steel prices are expected to maintain a positive momentum after their recovery in mid-2020, and rise in the coming months as global demand recovers and major producers worldwide experience supply disruptions due to the Covid-19 pandemic, brokerage SSI Securities Corporation says in its latest report.

The price of construction steel had hit a three-year trough in April last year, at slightly VND10 million ($434.77) per ton, but rose sharply in the second quarter to end at around VND14 million by the end of the year, according to data from the Vietnam Steel Association.

"Domestic construction steel prices increased 25 percent year-on-year and 36 percent from its April nadir, while the price of hot rolled coil (HRC) was up 43 percent year-on-year and 80 percent over its last through," the report said.

Steel prices began surging in the second half of 2020 on the back of strong domestic demand driven by the government stepping up disbursement for public construction projects, and domestic traders stocking up on inventory when prices began to rise.

Exports also benefited from production disruptions in major global steel producers such as the EU, U.S., India, Japan and South Korea, which saw their 11-month 2020 production fall 15 percent, 18 percent, 12 percent, 17 percent and 7 percent year-on-year, respectively, according to the World Steel Association.

Vietnam and China were two of the few countries that saw steel production growth in the first 11 months of last year, with increases of 28.8 percent and 5.5 percent respectively. China, in particular, had been pushing investment in public infrastructure to maintain its GDP growth as its private sector slows down.

With domestic demand set to climb 8 percent this year, fueled by infrastructure investment, FDI inflows and speculative hoarding, steel prices will likely hit their peak sometime during the year before turning the other way as exports face more competition from major global steel makers catching up in supply, SSI said.

"This will take surging domestic steelmaker's profit margins back to normal levels," the report said.

According to the World Steel Association, demand is expected to increase 4.1 percent in 2021 after falling 2.4 percent last year. Demand in emerging markets, excluding China, is expected to increase 9.4 percent.

As a result, SSI expects Vietnam's steel exports to be able to achieve single-digit growth this year, taking into account rising competition from global producers.

On the stock market, at the end of 2020, the total market cap of stocks in the steel industry had risen 111 percent year-on-year, and 188 percent from its March bottom, much higher than the benchmark VN-Index.

The price-earnings (P/E) ration valuations of steel firms have recovered to pre-Covid levels, the report said.

3. Plastic producers complain about rising container hire charges

For the past three months, the rental prices for empty containers have increased from less than USD1,000 to USD10,000 for a 40ft container to the UK.

The Import-Export Department under the Ministry of Industry and Trade has recently held a meeting with the Vietnam Maritime Administration about the lack of empty containers and rising rental charges. At the meeting, many firms in the fisheries, plastic and timber sectors have raised concerns over the unprecedented consecutive price hikes in the past three months. According to the firms, the hike is unreasonable and shipping firms need to be more transparent and a more reasonable price hike rate.

Vietnam Plastics Association Secretary-General Huynh Thi My said increasing the prices by three to four times has badly affected plastic firms and import-export activities.

"One Indian firm in the Vietnam-Singapore Industrial Zone closed its factory in December 2020 because of high prices. They said the production cost was not as cheap as before. Other firms are selling products at flat prices but the inventory is still high," My said. "We hope the Vietnam Maritime Association will review the charges."

The association also proposed to mend the issued resolutions and decrees which don't have regulations about listing container rental charges.

Meanwhile, the shipping firms said because of Covid-19, all processes took longer than usual. Moreover, the amount of goods exported to the EU and the US increased sharply. They have increased the trips from Vietnam but can't find enough empty containers. This situation may last until March or even the second quarter.

The shipping firms asked the local authorities to deal with the abandoned goods at the ports to recover the containers.

Hoang Hong Giang, vice head of Vietnam Maritime Administration, said they had asked shipping firms to list the prices. They and the Import-Export Department held a meeting with the shipping firms in the north in December 2020 but haven't received reports from shipping firms.

"Supply and demand causes the price hikes. But the firms must be transparent. We'll consider proposals and solutions like clearing the abandoned containers at ports," he said.

Tran Thanh Hai, deputy head of the Import-Export Department, said he would report the problem to the PM. He also asked export firms to prepare for the worst situation when the shortage of empty containers continues. They will research switching to rail freight to export goods to the EU.

4. Local lenders increase fund reserves

State-owned lender Agribank last week signalled its plan to file for an initial public offering (IPO) in a bid to raise funds. The largest bank in terms of total assets has proposed a very promising IPO plan after years of delay.

The proposed schedule includes a two-stage equitisation, in which Agribank will first sell 0.5 per cent of its stakes to employees, then list on the stock exchange. In the second phase, after investors have found time to appraise and receive a more thorough overview, the official IPO will be conducted with a higher level of transparency.

“This is only a proposal at the moment, although we strongly support this bold movement. If approved, the proportion of the banking system in the VN-Index will skyrocket, and this could be a strong catalyst for the industry's growth,” brokerage SSI Securities noted.

At the moment, COVID-19 is not denting the stock market's ongoing rally, with local stocks climbing towards fresh records.

A handful of banks have also announced their ambition to increase their capital, thus enhancing their operation.

Ngo Quang Trung, general director of Viet Capital Bank, said the bank's capital increase schedule has been planned and is in its preparation stage. Trung emphasised that capital increase is an imperative condition for the bank to improve its financial capacity and cement its position in the market.

In addition to raising capital, Viet Capital Bank also consulted shareholders to raise its foreign ownership limit (FOL) to 30 per cent, the maximum allowed cap. Representatives of Viet Capital Bank revealed that the bank is currently negotiating with foreign investors.

Previously, Nam A Bank also increased its charter capital to more than VND4.56 trillion ($198 million) by offering shares to existing shareholders, issuing new shares under the employee stock ownership plan, and private placement.

Nam A Bank, after filing an IPO on the Unlisted Public Company Market (UPCoM) two months ago, has also now signalled its ambition to list on the Ho Chi Minh City Stock Exchange (HSX). The bank also lifts its FOL to 30 per cent, seeking to tap into the red-hot international markets.

LienVietPostBank also completed its plan to expand its charter capital to VND10.7 trillion ($465.2 million) in 2020. The bank's chairman, Huynh Ngoc Huy, said that enhancing capital will boost its network, improve competitive advantages in the retail segment, and modernise the IT system, thus developing the bank.

Meanwhile, Saigon Commercial Bank (SCB) recently announced its plan to raise capital to VND15 trillion ($625.2 million) in the period of 2020-2023. In addition, SCB's board also approved a roadmap for listing on the HSX, no later than 2025.

On the other hand, the sale of banks' subsidiaries could supplement their capital. For instance, rumour has it that VPBank has been negotiating with an important partner in the sale of shares of FE Credit, which is expected to be completed in the next 5-6 months.

In October, the government issued Decree No.121/2020/ND-CP amending Clause 2 under Article 12 of Decree No.91/2015/ND-CP from 2015 state capital investment in enterprises, and use and management of capital and assets in enterprises. Under the new decree, state-owned lenders are eligible to keep and use their profits to increase capital instead of paying cash dividends to shareholders.

Specifically, VietinBank might be one of the beneficiaries from the decree, as the bank has been stuck in the mud for years, struggling to increase its capital and satisfying the minimum capital adequacy ratio standards for Basel II.

Meanwhile, Dominic Scriven, chairman of Dragon Capital, noted that Vietnamese regulators should raise the FOL in the banking sector to a new threshold, such as 40-49 per cent, thus paving the way for international investors to access the Vietnamese market.

5. EIU report: Vietnam rises as an alternative to China, beating India

Vietnam has emerged as a low-cost manufacturing base in Asian supply chains, beating India and even China in indicators, including foreign direct investment (FDI) policy and foreign trade and exchange controls, according to the Economist Intelligence Unit (EIU).

In fact, Vietnam's rise as an alternative manufacturing hub to China predates a trade war between Washington and Beijing in recent years, it says in a report. Vietnam's incentives for international firms for setting up units to manufacture hi-tech products, pool of low-cost workers and proliferation of free trade agreements (the latest one is with the EU) place it at an enviable position among Asian peers, the report suggests.

According to the EIU, while Vietnam scored 6 on a scale of 10 in the FDI policy, both India and China have scored 5.5 each. Similarly, India scored just 5.5 in foreign trade and exchange controls, while Vietnam scored 7.3 and China 6.4. As for the labour market, Vietnam's score was 5.6, against India's 5.4. However, China here scores over both India and Vietnam with 5.7. While both Vietnam and India see a huge infrastructure deficit, New Delhi scored less than Hanoi (3 vs 3.5 out of 10).

Of the 14 countries in Asia that the EIU has focussed on, as many as 12 (except for Indonesia and Bangladesh) have outscored India in the FDI policy and labour. In foreign trade and exchange controls, only Pakistan performed worse than India, and in infrastructure, only Bangladesh scored less than it.

The EIU report highlights that Vietnam will continue to offer generous arrangements for international firms with incentives for investment, "with the downside that local supply linkages in more advanced manufacturing will remain limited for the next decade".

The country's low-skilled manufacturing wages will remain competitive for years to come, although scarcity of specialised labour will persist as a disadvantage of the business environment.

"Vietnam's proliferating membership of free trade agreements represents a strong point of its trade relations, reducing export costs. There are only modest risks to this advantage, mainly in the form of trade tensions with the US," the report said.

For instance, the EU-Vietnam FTA offers footwear manufacturers in Hanoi the biggest gain. Around 40% of exports to the EU in this category faced 30% tariffs, which were reduced to 0% from August 2020. The apparel sector of Vietnam, a competitor of India in this segment, will also get greater benefits. Vietnam is also a part of the China-dominated RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership involving 11 nations, including Japan.

6. Vietnam to cut 2021 renewable energy output

An oversupply of renewable energy, especially during midday peak sun hours, and the overload on the transmission line from the central region to the north are among the biggest power management challenges this year, Nguyen Duc Ninh, director of the National Load Dispatch Center (NLDC), said at a Tuesday meeting.

There was a surge in renewable energy development last year, especially in the rooftop segment, which saw capacity rising 66 percent to 10,000 megawatt peak (MWp) between June and December, he said.

This has caused an oversupply, with overloads recorded in the central provinces of Ninh Thuan and Binh Thuan, which forced Vietnam Electricity (EVN) to cut down 365 million kWh of solar output last year, he added.

Ninh also proposed that the power generation timings of small hydropower plants be changed to avoid the 11 a.m.–1 p.m. period when the sunshine peaks.

The national utility, Vietnam Electricity (EVN), said in a report last week that the increased solar power capacity has made it difficult for it to ensure stable power distribution nationwide.

Solar power capacity in Vietnam had reached 19,400 MWp by the end of last year, accounting for 25 percent of total power capacity, the utility said.

7. Promising figures offering confidence for pharma future

Last year marked a hard 12 months for businesses, and Vietnamese-run pharma firms were not an exception, although the impacts on them have turned out to be less serious than in other sectors.

Faults in the global ingredient supply chain and lower purchasing power have prompted Vietnamese drugmakers to make changes to business plans to shelter from the storm and maintain growth.

Nguyen Vu Cuong, an analyst at brokerage and investment advisory firm FPT Securities, told VIR, "Some players in the pharma industry obtained improvements in operations in the last months of last year, while some others saw no growth, but no falls either. Improvements are mainly attributed to effective cuts in intermediary costs and the launch of new products and strategies."

For instance, while focusing on the over-the-counter (OTC) market Traphaco also started to venture into the $3-billion beverage market last summer with a new product - herbal tea Traphaco Boganic, which was included in its revenue structure in the third quarter.

Le Trung Thanh, former general director of Pepsi Vietnam, said that in the local lucrative beverage market, players tend to create specific and unique products to gain an advantage. The market has many kinds of drinks, but not so many healthy ones.

"Healthy products are very popular in the US, the EU, Japan, and South Korea," Thanh noted. "This is a courageous move from Traphaco because obviously drugs and beverages are not the same thing."

A new bold step into the beverage market illustrates the challenge Traphaco has to attain new successes amid growing competition. Despite being a leading brand in the local pharma industry, making up nearly 50 per cent of market share of liver-tonic products for example, the group has not achieved better growth as it did in the past, despite having taken a number of major decisions.

Encouraging results came when Traphaco reported total revenues of over VND1.3 trillion ($56.52 million) and after-tax profit of VND141 billion ($6.13 million) in the first nine months of 2020, up 12 and 31 per cent on year, respectively – a strong performance in comparison with a fall of about 10 per cent among other listed drugmakers.

Elsewhere, Hau Giang Pharmaceutical JSC (DHG), the biggest domestic publicly-traded drugmaker, has trended towards the ethical drugs channel (ETC), or the hospital channel, and increased capacity for exports. The company has restructured its product portfolio towards focusing on investment in high-quality drugs meeting JAPAN-GMP and PICS-GMP standards.

DHG decided to pour $40 million in a GMP factory in the Mekong Delta province of An Giang, with the target to put it into operation in 2023. Also last year, DHG got the JAPAN-GMP certificate for its two assemblies. Drugs meeting JAPAN-GMP, PIC/S-GMP, EU-GMP, CGMP-USA certificates are among the prioritised in drug tenders for the hospital channel.

With the move, DHG showed off its ambition to conquer the strict Japanese market and some ASEAN member countries where subsidiaries of Taisho Pharmaceutical Holdings have presence. Taisho, one of the five biggest pharmaceuticals in Japan, is a major foreign shareholder of DHG, with a take of 50.78 per cent.

Imexpharm Pharmaceutical JSC, Vietnam's fourth-biggest pharma firm, has similar focus on the ETC segment. The drugmaker has made investments to gain an EU-GMP certificate for its factories to gain advantages in drug tenders. During the past year it also restructured its product portfolio, concentrating on EU-GMP drugs.

Notably, Imexpharm gained market authorisation from Spain for its Cephalexin 500mg capsules produced at its EU-GMP factory located in the southern province of Binh Duong.

To serve the future strategy, a resolution from Imexpharm's board of directors was issued on January 5 approving a loan of $8 million from the Asian Development Bank. At present, Imexpharm's foreign ownership limit currently remains set at 49 per cent, with Balestrand Ltd. (5.92 per cent), and KWE Beteiligungen AG (14.26 per cent) as foreign shareholders.

Like Traphaco, Imexpharm, and DHG, OPC Pharmaceutical JSC – one of the biggest domestic pharma firms – and others had to make adjustment in its business strategy during the last year. OPC also suffered from interruptions in the global ingredient supply chain, although it has growing areas to supply for itself.

At present, Vietnam's pharmaceutical production relies much on imported ingredients which make up 80-90 per cent of local demands, with which China and India account for over 80 per cent.

OPC focuses on expanding in functional food by investing in product assembly, while increasing production of alcohol-related products and others to satisfy growing demands due to the pandemic. Moreover, the company continued to strengthen the ETC channel as well as develop in the OTC market.

As noted in documents from OPC's annual general shareholder meeting last June, some new businesses were added, including functional food, cosmetics, import and export of pharmaceuticals and ingredients, and automobile cargo transportation business.

Corporate News

8. VGC: Ceramic firm Viglacera report profit up 15 per cent in 2020

↑ 0.37%

This is a positive result especially in the context of the COVID-19 pandemic. Not only has the demand for construction and use of construction materials decreased, but the competitive pressure of the domestic market has also increased sharply.

The falling oil prices helped the company reduce direct fuel costs and input material costs, thereby reducing production costs.

The company has new opportunities for increasing exports as the US-China trade war redirected the demand for construction materials to Viet Nam. Bilateral and multilateral free trade agreements with Japan, Canada, the US and Europe have also opened up opportunities for exporting new products.

Viglacera General Director Nguyen Anh Tuan said in the coming years the company aimed to expand and invest strongly in the southern market.

He said the glass segment in the southern market had shown positive development, adding that the company had successfully set up Viglacera Float Glass Company in Binh Duong Province and Phu My Ultra White Float Glass Factory in Ba Ria - Vung Tau Province.

9. VNM: Vinamilk and GTNFoods to buy 39.2 million shares of Mộc Châu Milk

↓ -1.22%

They are Việt Nam Dairy Products Joint Stock Company (Vinamilk) and GTNFoods Joint Stock Company (GTNFoods), who are about to buy 9.7 million shares, equivalent to 8.85 per cent of MCM's charter capital, and 29.5 million shares, equivalent to 26.8 per cent to MCM's charter capital, respectively.

The transactions are expected to take place from January 11 to February 10.

MCM will also issue 3.34 million shares to existing shareholders at the price of VNĐ20,000 (US$0.87) per share and issue shares to its employees under the employee stock ownership plan (ESOP) at the price of VNĐ10,000 per share.

The mobilised capital will be financed to develop projects, MCM said.

In the first nine months of 2020, Mộc Châu Milk recorded revenue of VNĐ2.14 trillion and post-tax profit of VNĐ208.7 billion, up 9.6 per cent and 68.9 per cent year-on-year, respectively. Thus, after nine months, the company had completed 132.9 per cent of the annual profit plan.

MCM targets to earn net revenue of VNĐ2.9 trillion in 2020, an increase of 13.5 per cent compared to 2019. After-tax profit was estimated at VNĐ157 billion, down 5.9 per cent year-on-year. the expected cash dividend rate in 2020 is 25 per cent.

As of September 30, 2020, total assets of the enterprise increased by 13 per cent to VNĐ1.2 trillion. Of them, cash and short-term financial investments reached VNĐ696.1 billion, accounting for 57.4 per cent of total assets of the business.

MCM shares closed Wednesday at VNĐ76,800 per share.

Research Team: **Tsugami Shoji** *Researcher* jsi@japan-sec.vn

Disclaimer:

Japan Securities Incorporated – JSI

Address: 14F, TNR Tower, 54A Nguyen Chi Thanh, Lang Thuong, Dong Da, Hanoi

Tel: (024) 3791 1818 *Fax: (024) 3791 5805*

Email: info@japan-sec.vn

Website: www.japan-sec.vn