



VIETNAM DAILY NEWS

January 21st, 2021



JAPAN SECURITIES INC.

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Market Analysis

1. Shares struggle to stay positive, VN-Index surpassing 1,130 points

Vietnamese shares struggled to stem a bearish mood on Wednesday with the VN-Index surpassing the 1,130 points but selling pressure still weighed on the overall market.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange gained 0.33 per cent to end the trading session at 1,134.68 points.

More than 839.3 million shares were traded on the southern bourse, worth VND17.8 trillion (US\$772 million).

Market breadth was negative with 209 gainers and 235 decliners.

“The VN-Index fluctuated quite strongly in the morning session, it sometimes fell below 1,100-1,110 points. However, buying forces at low price ranges helped the index gain again in the afternoon,” said news site vietstock.vn

The large-cap tracker VN30-Index was up 0.80 per cent to 1,116.21 points.

Twenty-one of the 30 large-cap stocks in the VN30 basket increased while six declined.

Novaland was the strongest gainer with a gain of nearly 4 per cent. Khand Dien House (KDH), FLC Faros Construction (ROS), Mobile World Group (MWG) and FPT Corporation (FPT) were the followers that advanced 2 per cent.

Blue-chips like Phu Nhuan Jewelry (PNJ), PetroVietnam Gas JSC (GAS), Techcombank (TCB), Vietjet (VJC), Vinamilk (VNM) and PVPower (POW) all climbed more than 1 per cent.

On the other side, Hoang Huy Investment Financial Services JSC (TCH) and Thanh Thanh Cong - Bien Hoa Joint Stock Company (SBT) were the two biggest losers with a drop of more than 2 per cent. SSI Securities Inc (SSI), Vincom Retail (VRE) and Sacombank (STB) both fell more than 1 per cent and Vietinbank (CTG) were among the other losers.

“In the morning session, the VN-Index fluctuated significantly, but the market gradually stabilised in the afternoon session with a narrower range,” said BIDV Securities Co.

“Foreign investors continued to be net buyers on both exchanges, HoSE and HNX. However, market breadth was in a negative sideways state with lower liquidity compared to the previous session. According to our assessment, VN-Index may still have strong volatility sessions due to psychological factors and arbitrage transactions in the maturity week of derivative contracts,” it said.

Fifteen out of 25 sector indices on the stock market gained ground, including food and beverage, wholesale, real estate, construction materials, construction, retail, energy, IT, banking and logistics.

On the opposite side, losers were securities, insurance, healthcare, agriculture, seafood processing and rubber production.

On the Ha Noi Stock Exchange, the HNX-Index rose 4.12 per cent to close Wednesday at 233.26 points.

More than 173 million shares were traded on the northern market, worth VND2.2 trillion.

Macro & Policies

2. Demand for furniture rises ahead of Tet

Many are buying furniture either to move into new homes at housing projects completed late last year or to renovate their homes for Tet.

In District 10's Ngo Gia Tu Street and Tan Binh District's Truong Chinh Street, which are filled with furniture shops, the number of shoppers has not reduced since last year.

Shops said due to the impact of COVID-19, customers are seeking items at reasonable prices.

Many are offering promotions.

Nha Xinh Furniture supermarket chain has discounts of 15-25 per cent on sofas, beds, TV shelves, wardrobes, and others.

Dong A is offering a 50 per cent discount on sofas, free shipping and lifetime warranty.

Duong Thanh Dao, marketing director of Qui Phuc Production, Commerce and Service Co. Ltd, said a few months ago his company bought more machinery to increase production since it realised demand would spike before Tet.

In addition to working on new designs for Tet, the company has also expanded its storage and logistics capacity to better serve its customers, he added.

3. VN economy likely to enjoy long-term benefits despite COVID-19

According to the publisher, Vietnam has avoided a year of lockdowns, high death tolls, overwhelmed hospitals, and ongoing national arguments about the COVID-19 situation.

"The economy, bars and all, has stayed open, propelling it to one of 2020's highest growth rates even while neighbouring countries wrestled with recession," Nikkei Asia reports.

It adds that despite the decimation of health systems and economies globally, 2020 saw the country sign three trade deals with major foreign powers. In addition, it lured significant investors such as Apple, another airline was launched, and the nation rose to sixth in Southeast Asia in terms of per capita income.

"The contrast between life inside and outside Vietnam's borders could hardly be starker. Outside, hospitals are deluged and families hole up indoors for the better part of a year. Inside, people share entrees, go to school, fly on weekly business trips, hit the gym, and cram into buses and elevators. The same dynamic is reflected in the economy," Nikkei Asia adds.

"Recall that when the COVID-19 epidemic first emerged, the World Trade Organization and others

forecast a plunge in global trade," Don Lam, CEO of VinaCapital told Nikkei Asia, adding that some suggested, "Vietnam was among the countries at the greatest risk because exports play such an important role in its economic growth."

"Instead, the opposite has come true. Vietnam's openness to trade is playing a key part in its quick economic recovery," he explained.

According to Nikkei Asia, with work-from-home shopping booming in the United States and Europe, local electronics and furniture exporters took advantage its rise in demand. Manufacturers moved to take orders from nearby countries where COVID-19 shutdowns had rendered rival factories idle.

The article also praises the performance of health services, whose successful performance has allowed the country to enjoy its biggest economic opportunity in decades. Last year Vietnam achieved an economic growth rate of 2.9%, emerging as one of few countries with positive growth. It aims to reach 6.5% in GDP growth in 2021.

Moreover, 2020 also saw the country sign three trade deals, including the Regional Comprehensive

Economic Partnership (RCEP), and another deal with the United Kingdom.

Nikkei Asia believes that thanks to economic growth, Vietnam has reached a small milestone. Indeed, GDP per capita squeezed past that of the Philippines, according to October projections from the International Monetary Fund. In absolute terms, Vietnamese GDP overtook that of Singapore and Malaysia, making it the fourth-largest economy throughout Southeast Asia for the first time.

According to reports by the Japanese media outlet, the Communist Party's economic tool of choice, the five-year plan, puts the technology sector at the centre of Vietnamese ambitions to become an upper-middle-income country by 2025. In an effort to meet this goal, Vietnam recorded a handful of

high-profile investments last year, including Pegatron, a supplier for Apple and Samsung, and LG Electronics, which relies on the Vietnamese market for its vehicle and smartphone businesses.

The electronics sector already comprises the largest Vietnamese export category, although it is dominated by basic production and assembly. Vietnamese officials state that they will approve high-tech and eco-friendly investments with more added value moving forward.

Nikkei Asia also reports that Qualcomm, the world's biggest supplier of phone chips, is a tech firm keen on relocating to Vietnam. In June it debuted a research and development centre in Hanoi, its largest in Southeast Asia outside of Singapore.

4. Insurance industry continues good trends in 2021

Under a recent report on the insurance industry, Saigon Securities Incorporation (SSI)'s experts said growth of the premium revenue for life and non-life insurance segments in 2021 would be 22 per cent and 10-12 per cent, respectively, against last year.

In 2021, insurance companies can reach a larger group of potential customers thanks to new exclusive bancassurance contracts signed last year and the demand for life insurance products remains good, according to the report.

Experts also predict that if the COVID-19 pandemic is controlled and social distancing lifted, insurers can recover their promotion activities such as meetings and customer conferences as before.

Economic recovery will also contribute to boosting non-life insurance. SSI expects GDP growth to return to 6.5 per cent in 2021 as economic activity recovers. As a result, insurance in cargo, aviation and travel will be able to achieve levels as high as they reached before the pandemic.

However, the insurance industry would still have to encounter risks this year including low interest rates and increasing re-insurance costs, the experts said.

The low interest rate environment, which has lasted for a long time, will a reduction in profits as most of the insurers' investment portfolios are bank deposits and Government bonds.

In addition, if the Government bond yields drop, profits will be negatively affected due to higher life insurance reserves.

As for increasing reinsurance costs, in recent years, since Vietnamese insurance companies have suffered big losses, particularly in asset insurance, international reinsurers have increased the reinsurance prices. This trend is forecast to continue in medium- and long-term, affecting the capacity of non-life insurance, according to the SSI's report.

Last year, aviation, travel and freight insurance which accounted for about 6 per cent of the total non-life insurance premium revenue, was heavily affected by COVID-19.

But the demand for health and life insurance products has recovered fairly well after a period of social distancing. The revenue of the segment mainly dropped in the social distancing period in March and April 2020, but then has recovered strongly. According to the Association of Vietnam Insurance, the health and life insurance premium revenue in the first three quarters of 2020 increased

by 25.6 per cent and 21.2 per cent, respectively, against the same period of the previous year.

SSI's report said that among the top 10 leading non-life insurers, only BVH and PVI recorded market share decline in nine months of 2020, while among the top 10 leading life insurers, six including

Manulife, AIA, Generali, MB Ageas, FWD and AVIVA succeeded in increasing their market share.

Most notably, at the end of 2020, Manulife completed the acquisition of AVIVA Vietnam. This helps the company's life insurance market share increased to about 18.5 per cent, ranked behind Prudential with 18.8 per cent.

5. Vietnam becomes fourth most important market for Taiwanese investors

This assessment was given at a recent seminar held by PwC Taiwan, a member firm of the PwC Global Alliance in Taiwan (China), aimed at analysing and discussing the digital transformation strategy of the six leading ASEAN countries, including Vietnam.

Despite hundreds of Taiwanese investors being unable to enter the country to survey and invest in new projects due to the nation's entry suspension, foreign direct investment (FDI) capital from Taiwan (China) continued to pour into the country last year, with an increase of 53%. Of which, there were many major projects in the electronics sector, such as Pegatron project in Hai Phong worth US\$485 million, in addition to the Wistron project in the northern province of Ha Nam valued at approximately US\$300 million.

In the context the ongoing US-China trade war and potential risks, Taiwanese businesses all recognise and evaluate the country as a crucial link in Southeast Asia in terms of supply chain shifts, with a particular focus on the electronics and telecommunications sector.

Hundreds of industrial parks with attractive incentives are gradually transforming northern Vietnamese provinces into technology production ecosystems, while southern provinces still prove to be attractive for Taiwanese investors. This is the case in traditional fields such as fiber, garments and textiles, footwear, mechanics, and wood processing.

Vietnamese digital transformation promotion attracts greater investment

PwC Taiwan said that the digital transformation being promoted by the Vietnamese Government will almost be a free "incentive" policy aimed at all foreign investors in the nation. This is due to digital

transformation not only boosting production and business efficiency nationwide, but also helping to reduce production costs faced by firms.

Furthermore, Vietnamese economic development indicators in 2020 were highly impressive. In addition, the market and its population of roughly 100 million people, the majority of whom are young consumers enjoying rapidly increasing incomes, will prove to be very attractive to Taiwanese businesses in the domestic consumption sector.

Taiwan (China) has so far opened branches of more than 10 banks throughout Vietnam, with the consumer payment field making use of electronic payment applications as a means of promoting future development. This is also part of digital transformation in order to develop a transparent and competitive payment environment in the country.

Due to these factors, there remains ample room for domestic and foreign banks to exploit e-commerce, especially in the context that per capita Vietnamese income is forecast to increase by between 6% and 10% annually throughout the 2021 to 2025 period.

Challenges remain ahead

According to Taiwanese digital economists, Vietnamese digital transformation is set to encounter some difficulties, with three main bottlenecks, including human resources, applied technology platforms, and the gap between large and small and medium sized enterprises. These are similar to the issues Taiwan (China) has been working hard to solve in recent years.

Despite these challenges, the implementation of commitments from many new generation free trade

agreements (FTAs) will serve as a tool to prompt Vietnamese enterprises to conduct digital transformation more strongly in order to meet strict requirements set by development partners such as the EU and Japan.

Moreover, these FTAs also represent the driving force for enterprises with high technology and new technology to invest in the nation to promote production and business. According to the latest data released by the Ministry of Economic Affairs of Taiwan in 2020, the nation was among the top five countries and territories that Taiwanese enterprises invest in, after Hungary, Hong Kong (China), and the US.

In terms of the ASEAN region, Taiwanese investment in the country cumulatively accounts for roughly 55%, far exceeding second place which is Indonesia, making up about 23%.

The Ministry of Economic Affairs of Taiwan indicated that if the Vietnamese Government considers loosening permission for Taiwanese businessmen and investors to enter the nation to survey for investment in 2021, the number of new investment projects will increase above the level recorded last year.

6. Impressive 2020 for Vietnam's corporate bond market

Notably, the total issuance volume in August accounted for over 25 per cent of the total corporate bond issuance volume in 2020. The issuance volume that month broke the record with over VND100 trillion (\$4.35 billion) in corporate bonds.

Enterprises issuing bonds before September 1, 2020 – the effective date of Decree No.81/2020/ND-CP on amendments to Decree No.163/2018/ND-CP dated December 4, 2018 on issuance of corporate bonds – might explain the uprising corporate bond issuance volume.

Decree 81 was issued to raise the standards on corporate bond issuance, limit private issuance to minimise the risks for individual investors, and also increase the responsibility of parties participating in the process of issuing corporate bonds. Accordingly, during the last four months of 2020, the total issued value dropped significantly to a monthly average of below VND25 trillion (\$1.09 billion).

In terms of sectors, albeit a decline in the last quarter of 2020's issuance volume, real estate groups witnessed the largest corporate bond issuance volume in 2020 of over VND140 trillion (\$6.09 billion), accounting for over 35 per cent of total issuance value at an average coupon rate of 10.52 per cent.

Next was the banking sector, accounting for nearly 30 per cent, with an average coupon rate of 6.69 per cent, lower than 7.06 per cent in 2019. Elsewhere, other industries such as power, water, petroleum,

and natural gas had their corporate bond issuance accounting for nearly 7 per cent, with an average coupon rate of 10.5 per cent, inching up from 2019 (10.2 per cent).

Enterprises with a large total issued value in 2020 included state-owned lender BIDV at more than VND21 trillion (\$913 million), Sovico Holdings JSC at VND18 trillion (\$783 million), Masan Group Corporation with over VND17 trillion (\$739 million), privately-held lender HDBank at about VND14 trillion (\$609 million), and VIB also reaching \$609 million.

Regarding 2021's outlook, corporate bond issuance volume is expected to decline, from our viewpoint.

Moreover, a credible local rating agency is a key missing ingredient in Vietnam's corporate bond market. The Ministry of Finance has repeatedly raised its concern on high risks associated with high yield corporate bonds. Bondholders, on the other hand, might be left empty-handed if the companies fail to pay back the debt.

On December 31, 2020, the government issued Decree No.153/2020/ND-CP, regulating the offering and transactions of corporate bonds through private placement in the domestic market and the offering of corporate bonds to foreign markets, to replace Decree 163 and Decree 81. This new decree, which became effective on January 1, continually tightens regulations on the issuance of corporate bonds with more specific provisions.

Notably, Decree 153 only grants corporate bond purchase permit to professional securities investors (as prescribed under the securities law provisions) and strategic investors, on a case-by-case basis, to participate in the purchase of corporate bonds. This is one of the government's efforts in minimising the risks of mass issuance of corporate bonds as in the past year for investors (especially individual investors) and the economy.

As a result, some businesses may find it challenging to raise capital through bond issuance, forcing them to borrow money through banks. In addition, while

the economy is on the road to recovery from the COVID-19 pandemic, interest rates are forecast to remain at the current low level and credit growth should increase – we estimate at around 12-14 per cent.

Due to this, we believe that the demand for corporate bond issuance of domestic firms will also decrease, and insolvency risk may occur in a number of businesses in 2021. However, we believe that this risk is unlikely to spread and negatively affect the financial system.

7. Fruit, nut exports to demanding markets enjoy growth

The ministry reported that Vietnam's fruit and nut exports in December 2020 alone recorded an increase of 3.3% to US\$175 million in comparison to November, but a fall of 24.4% against December 2019.

Fruit and nuts are among the key farm produce for export, with their export value accounting for 67.5% of the country's total exports of fruit and vegetables.

However, China, Vietnam's largest commodity consumer, lowered fruit and nut imports in 2020 after it enforced stricter regulations with regard to origin traceability, food hygiene, and safety due to COVID-19.

In contrast, fruit and nut exports to some markets such as Thailand, the United Arab Emirates,

Australia, the Republic of Korea (RoK), Taiwan (China), and Japan, witnessed a sharp increase during the January-November 2020 period. Yet, the export proportion to these markets remains low compared to their import demand.

The sharp increase recorded in the export of fruit and nuts in high-end markets such as Japan, Australia, the RoK, and the EU has opened up prospects for the products to penetrate other markets globally, said the MoIT.

The MoIT has advised businesses to improve product quality, enhance origin traceability and diversify export markets as Vietnam has the chance to increase the export of various types of tropical fruit such as dragon fruit, mangoes, watermelons, bananas, longan, litchi and jackfruit.

Corporate News

8. HPG: The giddy rise of Vietnam's steel billionaire

↑ 0.24%

"All I had at the time was passion and a lack of fear," Long, founder and chairman of Vietnam's biggest steelmaker, Hoa Phat Group, said in a recent interview with Bloomberg.

The company was in the beginning distributing machinery and equipment and furniture, but it was steel that ultimately took it to dizzy heights. Hoa Phat had a 32 percent share of Vietnam's steel market as of August 2020, making it the biggest player in the industry, according to the Vietnam Steel Association.

The name Hoa Phat cropped up again and again in the news in the past year when its HPG stock, listed on the Ho Chi Minh Stock Exchange (HoSE), chalked up some of the most impressive gains on the VN-Index, thanks to record profits despite the Covid-19 pandemic and a growing market share.

On Monday, the share closed at VND44,600 (\$1.94), more than three times up from its nadir in last March at the height of the Covid-19 crisis when most Vietnamese stocks hit the bottom, and its all-time high price.

According to the Bloomberg Billionaires Index, HPG's performance took the net worth of Long and his wife to \$1.9 billion. He believes the stock is still not overvalued though its price-earnings ratio (P/E) is nearly at its highest level in 10 years.

Long started his business in the early 1990s. In 1992, he and some friends set up the Hoa Phat Equipment and Accessories Co., Ltd. to sell machinery and equipment.

In 1995 it diversified into furniture, becoming a distribution agent for imported products.

It was in 1996 that Hoa Phat established its first steel unit, at first called Hoa Phat Steel Pipe Co., Ltd. and four years later becoming Hoa Phat Steel JSC.

"A newly industrialized country has to build a lot of infrastructure," Long said in the Bloomberg

interview, explaining that was the reason he had bet on steel.

By the time Hoa Phat was listed on HoSE in 2007, Hoa Phat Steel and Hoa Phat Steel Pipe accounted for more than 60 percent of the company's revenues and profits.

In the following years, despite a long slump in the housing market, steel still dominated HPG's business in overwhelming fashion.

In 2017, when HPG had become the market leader, Long continued to bet on steel by building the Dung Quat Steel Production Complex at a cost of \$2.6 billion in the south-central Quang Ngai Province.

With the market growing, owning the entire value chain is helping Hoa Phat improve its profit margins. It also gives Long the wherewithal to engage in price wars when he wants to increase market share in new markets such as southern Vietnam.

And if it cannot sell finished products to the market, Hoa Phat could instead sell billets to other manufacturers, he said.

The pay-off from this strategy has been partly reflected in HPG's performance in 2020. "Since the Dung Quat plant went on stream in the third quarter of 2019, HPG has been gradually gaining shares from other major steelmakers such as Posco SS, Pomina and VNSteel," securities company FPTIS said in a recent note.

Thus, from 26 percent at the end of 2019, its market share rose to 32 percent by August last year.

In 2020 it sold over five million tons for the first time, with sales of construction steel rising 22.5 percent to 3.4 million tons. Billets sold in the domestic and export markets accounted for 1.7 million tons.

In the final quarter of the year, the company benefited from the government's determination to increase spending on public infrastructure, Vietcapital Securities said.

Hoa Phat plans to expand even further in the steel supply chain with the second phase of its Dung Quat Complex. Construction is set to begin in January 2022 and take three years. It will increase capacity by five million tons a year, with the main output being hot-rolled coil (HRC).

"It is estimated that after completion Hoa Phat can supply five million tons of HRC per year, equivalent to about 50 percent of current domestic demand," FPTC said.

The focus on HRC is expected to increase the company's income since it is an input in the manufacturing of steel pipes, a product with higher profit margins than construction steel. The segment itself also has plenty of room for Hoa Phat to grow, FPTC said.

Long estimated that when the Dung Quat plant is fully operational, Hoa Phat's revenues and profits could increase by 80 percent.

"Vietnam ranks low in per capita steel consumption and has only taken the first steps in infrastructure development," said Pham Mai Trang, associate director of research at fund manager Dragon Capital Group.

"With the Dung Quat complex, Hoa Phat became the dominant player." Dragon Capital Group owns a 6 percent stake in Hoa Phat.

Though Vietnam's steel industry has made great strides, it still has to import large volumes of finished steel and semi-finished products from China.

Hoa Phat executives have confessed to being worried China could dump cheap steel on Vietnam if its exports continue to be hampered by U.S.-China trade tensions.

In the first nine months of 2020 Hoa Phat reported a 40 percent year-on-year increase in revenues to VND65 trillion, and 56 percent increase in post-tax profits to VND8.85 trillion.

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