VIETNAM DAILY NEWS

February 4th, 2021

Table of content

Table of content

Market Analysis

1. Shares gain on recovery optimism

Shares gained on Wednesday as investors continued to look for signs of an economic recovery in the near future.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange rose 3.32 per cent to end the session at 1,111.29 points. It had gained 3.86 to end Tuesday at 1,075.53 points.

More than 703 million shares were traded on the southern bourse, worth VND15.9 trillion (US$690.7 million).

A new report on Viet Nam's macroeconomics and GDP was recently released by Can Van Luc and researchers from the BIDV Training and Research Institute, an academic branch of the Bank for Investment and Development of Vietnam.

In 2021, the world economy is forecast to recover stronger thanks to the better control over the COVID-19 pandemic and the development and distribution of vaccines, the report said.

Countries would continue to roll out stimulus packages, supporting policies and start a faster recovery path after a long time facing the disease, it said.

In a positive scenario, the report predicted Viet Nam's GDP growth in 2021 could reach 7.5-8 per cent with the main drivers exports, up 10-12 per cent, investment capital, up 5-6 per cent, and consumption, up 10-11 per cent and Government spending, up 2-2.5 per cent.

Under a less positive scenario, Viet Nam's GDP growth in 2021 will only reach 4-4.5 per cent with exports only increasing 4-5 per cent, investment capital up 4.5-5 per cent, consumption rising 2- 3 per cent and Government spending only up 1-2 per cent.

The large-cap tracker VN30-Index was up 3.55 per cent to 1,117.98 points.

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

A number of blue-chips attracted cash flow such as Vietinbank (CTG), FPT Corporation (FPT), PetroVietnam Gas JSC (GAS), Masan Group (MSN), Vietcombank (VCB), Vinamilk (VNM), Sabeco (SAB), VPBank (VPB), HDBank (HDB) and Techcombank (TCB).

On the Ha Noi Stock Exchange, the HNX-Index rose 3.84 per cent to 223.62 points. It had climbed 3.12 per cent to end Tuesday at 215.36 points.

More than 134 million shares were traded on the northern market, worth VND1.8 trillion.

The upcoming long holiday may limit cashflow and overall, the index is entering a short-term recovery, yet may face a wide divergence, said BIDV Securities Co.

Stock exposure should be raised to 50-70 per cent of total investment. Investors with high cash proportion may consider raising short-term positions during the market's correction. Investors with large stock proportion may take advantage of the market's rallies to lower the stock proportion, the company said.

Macro & Policies

2. Additions to auto accident rules ease insurers' responsibilities

The government has issued Decree No.03/2021/ND-CP on compulsory insurance for civil liability of motor vehicle owners, which will come into effect from March 1. The main focus of the decree is the addition of cases in which insurances can refuse to compensate for.

Along with seven existing regulations, insurers will no longer indemnify for damage if accident-causing vehicle drivers have alcohol levels in their blood or on their breath, or if they have been found to have used banned drugs.

Tran Nguyen Dan, director of the Institute of Insurance and Financial Risk Management said that he agreed on updates, which should contribute to lowering incidents involving drugs and alcohol in traffic.

"However, if the accident-causing drivers do not have the capacity to compensate for victims, it is still unsure as to who will be in charge of protecting and compensating for victims," Dan said. "Thus, it is necessary to add a special regulation relating to compensation for victims in such cases. Notably, the insurers could build a fund to provide humanitarian aid for the victims," Dan said.

Decree 03 also added numerous regulations on compulsory insurance for civil liability of motor vehicles owners. Notably, people can be granted an e-certificate when they buy compulsory insurance.

Regarding two- and three-wheel motors and motorbikes regulated by the Law on Road Traffic, the insurance period is at least one year and a maximum of three years.

In addition, Decree 03 also clarifies preliminary compensation on damage in term of health and life, simultaneously simplifying files for compensation. Elsewhere, insurers are ramping up their automobile and accident insurance products, while enhancing their customers experience in a synchronous approach.

For instance, US insurer Liberty Insurance Vietnam provides a wide range of suitable services, including personal automobiles, specialty lines, reinsurance, and commercial automobiles, to name a few.

Specifically, the firm is working with e-wallet MoMo to offer an online insurance platform for cars in a bid to bring safety to customers in a more convenient setting.

Other foreign lenders such as Shinhan Bank Vietnam and HSBC Vietnam are also cooperating with locally-invested Bao Viet Insurance to introduce "hassle-free driving" vehicle insurance with many attractive benefits and competitive premium rates.

Other significant players in the auto liability coverage and financial protection regarding accidents include Bao Minh Insurance, PVI, PTI, Bao Viet, and Pjico. What is more, the new decree also mentions that both Vietnamese and foreign insurers can consider an increase in the levels of insurance premiums.

Thus, from March 1 insurers are allowed to proactively increase their premium by up to 15 per cent compared to the prescribed premium based on accident history of each motor vehicle, and risk-accepting capacity of the insurance firm.

3. Viet Nam's PMI dips to 51.3 in January

According to the latest survey from Nikkei and IHS Markit revealed on Monday, although business conditions in the Vietnamese manufacturing sector improved at the start of 2021, growth was softer than at the end of 2020. Production, employment and purchasing activity were all broadly unchanged in January, while new orders increased at a slower rate.

Meanwhile, a lack of shipping containers and raw material shortages meant severe supply-chain disruption, which in turn contributed to the fastest rise in input costs since June 2018.

The survey showed new orders continued to rise, extending the current sequence of expansion to five months. There were some reports of customers increasing the size of their orders. That said, the rate of growth eased from December. Meanwhile, new export orders were broadly unchanged, with weakness noted in markets where coronavirus (COVID-19) case numbers remained elevated.

January saw a broadly stable picture for manufacturing production. While the rise in new orders supported increases in output at some firms, others reported that the effects of the COVID-19 pandemic continued to lead to falls in production.

The aforementioned increases in size of some orders started to impart pressure on capacity during January. Although backlogs of work decreased for the twelfth successive month, the rate of depletion was the softest in this sequence.

According to the survey, manufacturers kept their workforce numbers broadly unchanged, following a rise in December. Some firms raised employment in response to higher new orders, while others noted a reduction amid the pandemic and staff resignations. Purchasing activity was also little changed.

Efforts to secure inputs were stymied by severe disruption to supply chains again in January. In fact, the extent of the latest lengthening of delivery times was the greatest for almost a decade, except for during the worst of the COVID-19 lockdowns in March and April last year. Firms often reported a lack of shipping containers, as well as shortages of raw materials.

Issues with shipping and raw material supply added to inflationary pressures. The rate of input cost inflation quickened for the fifth month running and was the fastest since June 2018.

Output prices, meanwhile, increased for the fifth successive month, albeit at a modest pace that was much weaker than that seen for input costs.

Efforts to guard against raw material price rises led firms to increase their stocks of purchases, the second month running in which this has been the case.

On the other hand, stocks of finished goods decreased, and to the greatest extent in five months.

Although manufacturers remained confident regarding the 12-month outlook, sentiment dipped to a five-month low amid concerns about the ongoing effects of COVID-19. Where firms were optimistic, this reflected hopes for a reduced pandemic impact and plans for investment and production expansions.

"The Vietnamese manufacturing sector struggled to gain momentum at the start of 2021, as the ongoing effects of the COVID-19 pandemic and substantial disruption to supply chains hampered operations. The data suggest that while the Vietnamese economy remains one of the better performers globally, there are significant headwinds that could prevent a return to the stellar growth rates seen pre-pandemic in the near-term at least," Andrew Harker, Economics Director at IHS Markit, said.

IIP up over 22%

The General Statistics Office (GSO) reported Viet Nam's index of industrial production (IIP) rose by 22.2 per cent year-on-year in January, demonstrating the sector's strong growth.

Manufacturing recorded the largest gain at 27.2 per cent, followed by an increase of 16.3 per cent in power generation and distribution.

Water supply and waste treatment climbed 8.4 per cent while mining and quarrying declined by 6.2 per cent.

Major industrial products with strong growth in January included television sets, phone parts, rolled steel, raw iron and steel, automobiles, cement, textiles from natural fibre and powder milk.

Director of the GSO's Industrial Statistics Department Pham Dinh Thuy suggested ministries, agencies and local governments should continue carrying out reform so that enterprises can have prompt and easy access to support policies.

It was necessary to assist the business community in looking for new markets for materials and spare parts, as well as encouraging people to prioritise buying local goods so as to help domestic firms overcome this difficult period, he added.

4. Rice prices hit 10-year high

"Such a high price indicates high quality of Vietnamese rice," said Vice Chairman of Vietnam Food Association (VFA) Do Ha Nam, pointing out growing demand for rice from major markets, including the Philippines, as a key factor for higher prices.

Since the beginning of 2021, major rice buyers of the region, including China, Bangladesh and the Philippines are importing a large amount of rice. Meanwhile, Thailand, one of the world's largest rice exporters, could see its export volume reduced this year given an appreciation of the Bath value.

Tran Thanh Hai, deputy director of the Ministry of Industry and Trade (MoIT)'s Import and Export Department, expected the current Covid-19 situation would be a major factor keeping high demand for rice in the global market.

Sharing the same view, General Director of Trung An Hi-tech Farming Company Pham Thanh Binh noted the outlook for Vietnam rice exports remain bright thanks to the country's recent signing of new free trade agreements.

Under the EU-Vietnam Free Trade Agreement (EVFTA), EU country members have committed to allocating tariff quota of nearly 10,000 tons of rice for Vietnam in 2021, while the UK-Vietnam Free Trade Agreement (UKVFTA) would reduce import tariff for Vietnamese rice into the UK to 0%.

To ensure sustainable rice export in the future, agricultural expert Hoang Trong Thuy suggested local producers should focus on product quality with high value (aromatic rice, Japonica rice) and study the target market's preferences to ensure efficiency in the trading process.

"Otherwise, Vietnam would face difficulties in competing with low quality rice from India or Pakistan," added Mr. Thuy.

This year, the VFA forecast Vietnam to export more than six million tons of rice. In 2020, the country exported 6.15 million tons of rice worth US$3 billion, down 3.5% year-on-year in volume but up 9.3% in value.

As of January 18, the MoIT has issued rice export licenses for 205 traders.

5. Transport enterprises adjust to grab profits

According to Nguyen Chinh Nam, director of the Planning and Business Department at wholly state-owned Vietnam Railways (VNR), in the face of the drop in passenger transport, the railway industry strengthened cargo operations, including two-way international transport.

"Railway transport firms have diversified their products and services for international transport to attract customers. They now include self-powered reefer container trains to haul frozen products and fruit for import-export," he added.

Railway Transport and Trade JSC (Ratraco), a member unit of VNR focusing on cargo transport, is one of the companies enjoying success during this time. Nguyen Hoang Thanh, deputy director of Ratraco, said that his company is working to replace by-transit cargo trains with trains from Thailand and Laos to China, and then from China to Cambodia and vice versa. It is also working to transport less-than-container load cargo from Russia to Vietnam, with the first train to run in late September.

According to VNR statistics, the group handled over 5.37 million tonnes of cargo last year, up 4.7 per cent on-year, while cargo revenue ascended 7.7 per cent on-year to VND1.56 trillion ($67.83 million). With the improvements in the cargo segment, VNR's losses and dropping revenues were partly offset. The giant ended 2020 with an estimated loss of VND1.33 trillion ($57.83 million) while its consolidated revenue reached VND6.56 trillion ($285.2 million) during the year, equal to 78.3 per cent of the year earlier.

The railway route from Vietnam to Russia, Central Asia, and Europe with transit in China and

Kazakhstan is often referred to as the Silk Road. In addition, other potential railway routes include the direct China-Russia-Europe and the China-Mongolia-Russia-Europe routes.

In the maritime industry, the country's shipping giant Vietnam Maritime Corporation (VIMC) has been venturing into customised services to adapt to the global health crisis in 2020, when it has begun to operate as a joint-stock company since September 1, 2020.

Tran Tuan Hai, head of Communiations at VIMC told VIR, "Instead of pouring money into expanding operations or projects the way we did in the past, we focused on upgrading and maintaining devices, and applying IT solutions to better service customers."

"In the shipping business, we have been focusing on routes to countries and areas that were hit less by COVID-19. Southeast Asia and Asia were among our key markets during the year," he added.

The changes enabled the shipping giant to make a profit of over VND1 trillion ($43.5 million) throughout the year, despite the pandemic.

As the industry leader, VIMC currently has 35 member companies, managing and operating over 13,000 metres of piers, accounting for nearly 30 per cent of the country's total, capable of handling over 100 million tonnes of cargo (over 20 per cent of the country's total). Its key seaports include Haiphong Seaport, Saigon Seaport, Danang Seaport, Quy Nhon Seaport, and the Cai Mep-Thi Vai port area.

Following the trend, Airports Corporation of Vietnam (ACV), state-run Vietnam Expressway Corporation (VEC), and national flag carrier Vietnam Airlines have also taken action to withstand the disruptions of the year.

For instance, Vietnam Airlines has been turning towards domestic travellers by launching special promotional programmes and opening more domestic flights, while waiting for the resumption of international flights.

According to statistics from Vietnam Airlines, it conducted 46,700 flights in the first three quarters of 2020 with a total of nearly 11.9 million passengers and 146,000 tonnes of cargo. Dang Anh Tuan, head of Vietnam Airlines' Communications Department, said that during the 2020 summer season when the pandemic was successfully controlled, Vietnam Airlines opened 22 new air routes.

This resulted in a quarterly increase in the passenger segment. As a result, the airline estimated that the parent company incurred a loss of over VND12 trillion ($521.74 million) last year, about VND2.42 trillion ($105.2 million) lower than the estimation made in August.

Looking towards 2021, leaders said that VNR will continue to focus on cargo trains. Vietnam Airlines continues launching promotional programmes to stimulate travelling demands, while ACV and VEC will focus on key national projects, which are part of the country's plans to accelerate public investment to create a driving force for socioeconomic development.

Experts, however, warned that more efforts and changes are required among the giants as exactly how the pandemic will go down remains uncertain in the coming months.

6. HCM City attracts increasing interest from US companies

Hứa Quốc Hưng, head of the HCM City Export Processing and Industrial Zones Authority (Hepza), said their investments were mostly in transportation, urban infrastructure, smart city, agriculture, health, education, and services.

US chipmaker Intel Corporation recently invested US$475 million in Intel Products Vietnam (IPV), the company's largest assembly and test plant, IPV chief financial officer Alan Danner said.

It had originally invested over $1 billion.

The fresh investment is meant to bolster production of 5G products, Intel Core processors with Intel Hybrid Technology, and the 10th Gen Intel Core.

Another US company to invest over $1 billion, First Solar, a global manufacturer of thin-film modules, has said it plans to increase its head count in Việt Nam to over 950 and open a second factory in the country at the Đông Nam Industrial Park in HCM City.

With its favourable geographical location, improved infrastructure and attractive incentives, the city is a popular investment destination, according to Hưng.

More than 160 US businesses have invested in the city.

Marie C. Damour, the US consul general in the city, said trade between Việt Nam and the US had seen impressive growth over the last 25 years, with more and more American businesses being interested in partnering with their Vietnamese counterparts and investing in the country.

Bilateral trade rose from $450 million in 1995 to $77 billion last year, she said.

"Việt Nam has great demand for energy, infrastructure and the digital economy, areas in which many US companies are strong."

The US ranks 11th in terms of FDI in Việt Nam.

Hưng said major US companies were paying closer attention to Việt Nam as an investment destination to set up sustainable supply chains due to the market volatility caused by COVID-19, and so the Government should focus on improving the business climate.

Businesses should also consider producing goods made with US raw materials and technologies and exporting back to that country, forming a closed supply chain that could be beneficial to both countries' businesses, he added.

Việt Nam, especially HCM City, is expected to attract investment from US businesses in sectors like technology, health, education, telecom, aviation, the digital economy, renewable energy, and finance and banking.

7. EU firms show optimism about Vietnam's business climate in 2021

The latest Business Climate Index (BCI) unveiled by the European Chamber of Commerce (EuroCham) in Vietnam on February 3 indicates that EU companies in Vietnam ended 2020 with overall optimistic view about the country's business climate.

The BCI picked up 6 points in the fourth quarter of 2020 to reach 63.6 percentage points for the whole year, the highest since the outset of COVID-19. The index stood at a record low of 27 percentage points in the first quarter of last year, following the first wave of COVID-19 in Vietnam.

The BCI steadily grew throughout the year as the result of Vietnam's successful containment of the novel coronavirus and the enforcement of the EU-Vietnam Free Trade Agreement (EVFTA) which took effect in August. The two factors have improved confidence in local economy and boost business activities.

According to the BCI report, about 57 percent of surveyed EuroCham members believed the Vietnamese economy is likely to stabilise and improve in the first quarter of 2021, compared to 39 percent in the third quarter of last year.

A more optimistic sentiment is also seen among European business leaders compared to the last three months of 2020. One third of the surveyed company members forecast that the number of their employees would increase in this quarter while 57 percent planned to maintain the same level of headcount. Some 30 percent believed investment is likely to expand and 43 percent expected increases in the volume and revenue of orders.

Some 70 percent said they have benefited from the EVFTA since the trade deal entered into force last year. About 33 percent, however, said public administrative procedures are likely to be their biggest obstacle to maximize advantages from the pact.

EuroCham Chairman Nicolas Audier said the latest BCI provides a positive outlook on Vietnam's business climate and perspectives for 2021. Confidence of the business community on the economy has been strengthened over the last year, showing the Vietnamese government's swift response to COVID-19 and promotion of the EVFTA, he said, adding that these would lay basis for the country's economic growth over the next five years.

European business leaders expect growth in both investment and trade brought about by the EVFTA, he continued, they also expect that several barriers would be removed to ensure the smooth and successful implementation of the trade deal.

Corporate News

8. PAN: PAN group shrugs of pandemic to achieve revenue, profit targets

↑ 6.90%

It reported after-tax profit of VND186 billion (about US$8.1 million) on revenues of VND8.338 trillion (nearly $362.5 million) last year, an increase of 7 per cent from 2019, with after-tax profit 23 per cent higher than the target approved at its annual general meeting of shareholders.

Shrimp exports accounted for the largest share of the revenues after growing by 20 per cent, the highest rate in the industry.

Seeds and other agricultural inputs, agricultural produce and confectionary also contributed considerably to sales.

It had five product groups recognised as National Brands last year, all typical value-added products sold both in the domestic and foreign markets.

The company made donations to support the fight against the Covid-19 pandemic and to the central region which was devastated by natural disasters, and launched an afforestation project in the central region.

9. POW: PV Power to divest subsidiaries and streamline operations

↑ 6.87%

PetroVietnam Power Corporation JSC (PV Power, HSX: POW) has just announced its plans for the period of 2021-2025 with several large sell-offs of its interest in subsidiaries.

Specifically, PVPower would reduce its majority ownership in four subsidiaries, including Hua Na Hydropower JSC (UPCoM: HNA), PetroVietnam Power Nhon Trach 2 JSC (HSX: NT2), PetroVietnam Power Technical Services Center (PV Power Services), and PetroVietnam Power Renewable Energy JSC (PV Power REC).

Besides, a number of new subsidiaries might be established to serve future activities.

PV Power will also take a different approach on Luang Prabang Co., Ltd., an associate, following the directions of the government and relevant authorities.

PVPower also plans to continue the full divestment of several other firms which it had plans to cut loose in 2016-2020. These include Nam Chien Hydropower JSC, Song Hong Energy JSC, PetroVietnam Urban Development JSC, Song Tranh 3 Hydropower JSC, EVN International JSC, PetroVietnam Mechanical and Electrical JSC, Viet Lao Power JSC, and PetroVietNam Machinery-Technology JSC.

At the same time, PetroVietnam will reduce its interest in DakDrinh Hydropower (PV Power DHC) below 65 per cent of the charter capital or the entire contributed capital. In case the corporation successfully equitises the company, it has to comply with regulations of the Vietnamese government, the Ministry of Finance, and credit contract with Crédit Agricole Corporate and Investment Bank - its foreign lender.

In addition, the firm is also implementing relevant procedures for the termination of the operation of Son Tra-Song Da Hydropower and Asia-Pacific Energy in accordance with the law.

As of September 2020, the company recorded a revenue of VND21.795 trillion ($947.6 million), down 17 per cent on-year. Its after-tax profit reached VND1.487 trillion ($64.65 million), down 40 per cent on-year.

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