VIETNAM DAILY NEWS

May 19th, 2021

Table of content

Table of content

Market Analysis

1. 'Vin' stocks drag down Vietnam market

Shares dropped on Tuesday as investors dumped stocks in the 'Vin' family, weighing down the overall stock market.

The market benchmark VN-Index on the Ho Chi Minh Stock Exchange (HoSE) declined 0.48 per cent, or 6.02 points, to finish Tuesday at 1,252.68 points.

The southern market index had declined 0.60 per cent on Monday, to finish the trading day at 1,258.70 points.

The market breadth Tuesday was negative as 274 stocks declined while 143 rose and 46 ended flat.

The market's liquidity was high with over 692.5 million shares traded on the southern market, worth VND21 trillion (US$915 million).

The shares of the 'Vin' family performed poorly as IT-real-estate-manufacturing-retail conglomerate Vingroup (VIC) and real estate giant Vinhomes (VHM) dropped.

Vingroup (VIC) dropped 2.4 per cent, Vincom Retail (VRE) declined 2.3 per cent and Vinhomes (VHM) was down 1.9 per cent.

Bank stocks also performed poorly on selling pressure, including Asia Commercial Bank (ACB), Bank for Investment and Development of Vietnam (BID), Vietinbank (CTG), Saigon-Hanoi Bank (SHB), Vietcombank (VCB), VPBank (VPB) and HDBank (HDB).

"In this period, there is a lack of information supporting the market, thus, VN-Index is likely to continue fluctuate with alternating ups and downs in the 1,200-1,220 zone to 1,275-1,285 zone to accumulate and create a new base in the short term," said Bao Viet Securities Co.

"Investors should maintain the proportion of shares in the portfolio at 30-35 per cent, prioritising holding medium-long term positions and consider taking a short position in the short term when the index is testing the support zone of 1,200-1,220 points," it said.

On a sector basis, 28 out of 25 sectors witnessed downtrend, including insurance, seafood processing, real estate, agriculture, home appliance production, logistics, construction, banking, rubber production, securities, agriculture and healthcare.

The 30 biggest stocks tracker, VN30-Index, rose 0.53 per cent to finish Tuesday at 1,378.59 points.

Of the VN30 basket, 11 stocks increased while 18 decreased.

Meanwhile, on the Ha Noi Stock Exchange (HNX), the HNX-Index declined 0.72 per cent to close Tuesday at 294.64 points.

The northern market index had risen 0.70 per cent to close Monday at 296.79 points.

During the session, nearly 123 million shares were traded on HNX, worth VND2.5 trillion.

Macro & Policies

2. Logistics enterprises grow strongly in Q1, boosted by FTAs

Vietnamese logistics enterprises reported outstanding business results in the first quarter of 2021.

In the quarterly financial report, Transimex Joint Stock Company (TMS) said that its net revenue jumped 104.9 percent year-on-year to nearly 1.1 trillion VND.

As cost of goods sold increased during the period, Transimex's gross profit rose 55 percent against same period last year to 112.56 billion VND. After diminishing expenses, its profit after tax reached 101.2 billion VND, up 75.7 percent.

Transimex is a logistics service provider with businesses in international freight forwarding, warehousing, domestic transportation and distribution.

TMS stock also witnessed impressive performance. On May 14, TMS shares, listed on the Ho Chi Minh Stock Exchange (HoSE), traded at 49,700 VND, up nearly 37.3 percent since the beginning of the year.

The leading enterprise in the seaport industry, Gemadept Corporation (GMD), also posted good results in the first quarter with net revenue of nearly 687.5 billion VND, up 14.4 percent over last year. Of which, port operation activities accounted for 85 percent of total revenue, with the rest from logistics and office leasing.

Higher revenue led to a strong rise of 40.2 percent in profit after tax to over 171.8 billion VND.

GMD shares, also listed on HoSE, finished May 14 at 36,400 VND per share, up nearly 10 percent compared to earlier this year.

In the first quarter, Dong Nai Port JSC (PDN) posted net profit of over 144 billion VND, up 48 percent year-on-year thanks to higher revenue from port operation activities as the COVID-19 pandemic has been contained. The Vietnamese economy is entering a state of operation under normal conditions. PDN shares, trading on HoSE, also increased slightly by 3.1 percent compared to the beginning of the year.

Meanwhile, Port of Hai Phong JSC (PHP) said that in the first quarter, the company's total cargo volume reached 7.126 million tonnes, exceeding 4 percent of its business plan. This led to an increase of 16.1 percent in revenue to 518.3 billion VND. The company's profit after tax also climbed 41.7 percent to 173.2 billion VND.

In March, the number of ships passing through Hai Phong Port reached 217, equaling 110.2 percent over the same period last year. As of March 31, the number reached 585 ships.

As the maritime channel in Hai Phong has its standard depth (-7.0m) published, shipping lines have increased the amount of goods imported and exported on each trip, especially for containers.

On the Hanoi Stock Exchange, PHP shares rose 6.8 percent from the beginning of 2021.

Another logistics company with good results in the first quarter was Petrovietnam Transportation Corporation (PVT).

During the period, the company recorded net revenue of over 1.7 trillion VND, with profit after tax of nearly 173.8 billion VND, up 8.8 percent and 94.6 percent, respectively. Its gross profit margin jumped from 14.3 percent to 15 percent.

On HoSE, PVT shares ended May 14 at 16,500 VND, a growth of 13.4 percent compared to the beginning of 2021.

Boosted by bright prospects of the industry, port stocks were also supported by bullish momentum.

According to SSI Securities Corporation (SSI), the port and logistics industry had very positive developments in 2020, with a growth of 42 percent.

This securities company assessed that the bullish sentiment in the port and logistics stocks was largely due to the expectation of Vietnam's trade growth, helped by the positive impact of signed free trade agreements, specifically, the European-Vietnam Free Trade Agreement (EVFTA) and the Regional Comprehensive Economic Partnership (RCEP).

Investors' expectations for growth in foreign direct investment (FDI) thanks to the wave of supply chain diversification and production is also supporting the industry.

3. US importers interested in made-in-Vietnam furniture

The US-based Furniture Today website on May 17 ran an article on Vietnam's overtaking China in furniture shipments to the United States for the first time ever in 2020.

The author of the article, Thomas Russell, wrote that when Furniture Today posted the information earlier this month, it came as no surprise to many in the industry.

However, many visitors to the website were fascinated by this development, as they thought that Vietnam wasn't even on the top 10 list of countries shipping to the US some 18 years ago.

The author stressed that Vietnam's rise has been slow but steady, starting with the shift of wooden bedroom from China to Vietnam when antidumping duties were finalised on those Chinese-made goods in 2005. That year, Vietnam shipped 670 million USD in furniture to the US, up from 362 million USD in 2004 and 168 million USD in 2003.

Last year, the Southeast Asian country's furniture export turnover to the US hit 7.4 billion USD, up 31 percent year-on-year.

The article also said that US companies are shifting the import of not only bedroom, but also other categories such as dining, occasional and home entertainment to Vietnam.

4. Steel consumption surges by 40% in 4-month period

Domestic steel production and sales in the first four months surged by 38-40% year-on-year, while exports of such products also rose by 68% year-on-year, according to the Vietnam Steel Association (VSA).

Nearly 2.82 million tons of steel were produced in April, a decline of 4.8% against last month, but more than double the amount recorded in the same period of 2020, noted the VSA.

In line with the large quantity produced, the amount of steel consumption increased by nearly 57% in the month to 2.7 million tons.

Overall, steel production in the January-April period was estimated at 10.48 million tons, up 38% year-on-year, of which 9.84 million tons, or an increase of 40% year-on-year, were sold domestically.

“This shows that domestic supply remains sufficient to meet products' demand,” stated the VSA.

In reality, however, domestic steel prices went up by 40-50% in the past months and put steel buyers under pressure. In its own report, the Ministry of Construction (MoC) said there have been abnormalities in steel prices.

For this issue, the Ministry of Industry and Trade (MoIT) attributed rising input materials costs for steel production in the global market in the past nine months.

“Vietnam's steel industry is highly dependent on imported input materials, therefore, price hikes in the international market would lead to higher domestic finished products,” noted the MoIT, adding such price hike is not showing sign of slowing down.

Among measures to cool down steel prices in the domestic market, the MoIT is encouraging steel plants to boost production capacity and expected to tighten steel exports.

According to the VSA, iron ore was traded at US$189.4-190 per ton on May 4 at Tianjin port (China), an increase of US$20 per ton against early April. Six days later, prices of such products rose to a record high of US$231 per ton.

Meanwhile, prices of hot-rolled coils also rose by US$130 month-on-month to US$925 per ton on May 4.

“High prices of hot-rolled coils are causing difficulties for domestic steel producers, especially those who are relying on these materials for steel production,” stated the VSA.

The VSA expected steel prices to continue rising in May to offset rising prices from imported input materials.

5. WB: Most of Vietnam's economic indicators in April good

The World Bank in Vietnam has recently announced its updated report on Vietnam Macro Monitoring in May 2021, which states that most of Vietnam's economic indicators in April were good.

However, it warns of several risks to the Vietnamese economy due to the most recent outbreak of the COVID-19 pandemic in late April.

According to the report, industrial production continued its strong growth momentum last month, increasing by 1.1 percent compared to March, 24.1 percent higher than the same period in 2020.

Revenue from retail sales in April also expanded by 2.3 percent month-on-month, after two consecutive months of decline. The consumer price index in April also recorded an increase of 0.5 percent compared to March, reflecting a recovery in household consumption.

In terms of exports, a double-digit growth rate was recorded in all major export items, with the fastest increase in the export revenue of machinery. This was attributed to the ongoing economic recovery in the US and China.

According to the WB, although foreign direct investment (FDI) decreased in April, reaching only 2.2 billion USD (53 percent lower than the previous month), it was generally stable.

The bank also valued the accelerated progress of vaccinations against COVID-19 in Vietnam with 506,000 doses administered in April compared with about 50,000 doses in late March.

However, it warned that Vietnam is experiencing its fourth COVID-19 outbreak from the end of April 2021, forcing the government to quickly respond by closing schools and applying new restrictive measures on travel. This will affect domestic economic activities, especially tourism, transportation and retail.

Therefore, the World Bank recommended that if it is necessary to maintain or tighten these new restrictive measures on health and travel, the Government of Vietnam should consider a new fiscal stimulus package, including a support package on a larger scale for people and businesses affected by the pandemic.

6. Franchising model the way ahead for burgeoning domestic coffee outlets

Within the franchise model, profits mostly come from franchised investors. The larger the chain, the more investors will be attracted to participate.

“Franchising helps businesses quickly reach a large number of sale points and optimise investment costs via streamlining the operating team and cost for decoration, furniture, lighting, uniforms, and other factors,” said James Duong Nguyen, general director of Dcorp R-Keeper Vietnam.

There are two popular franchise models in Vietnam – zero-dong and traditional.

Representatives of the two largest zero-dong franchise coffee chains in Vietnam are Milano and

Napoli, with more than 1,000 points of sale per brand. The founders of these coffee chains do not collect brand copyright fees and no monthly maintenance fees from franchisers. Instead, their main revenues come from providing full-service coffee shop design solutions, including decoration, to partners.

For example, Napoli offers three franchise packages from $3,000-15,000 with an area of 50-100 square metres. These packages include a 5-year warranty, decorations, furniture, lighting, and uniforms, which are enough for a coffee shop to start operating.

The devices serving for decoration and construction of a coffee shop are manufactured by Napoli, thus, the cost is at least twice as cheap compared to franchisers doing it themselves, and construction time takes only 7-10 days.

Nguyen Duc Hung, founder of Napoli, reaffirmed that this model has been a source of life for Napoli for more than 20 years. "Opening a cafe usually costs a lot initially but the zero-dong franchise model helps to simplify these cost for investors," he said.

Within the traditional franchise model, partners will have to pay much more to the founders of a chain.

According to statistics published by news publisher FnB Vietnam, as of late 2019, Highlands Coffee – one of the most successful names in the local coffee and franchising scene –charges a franchise fee much higher than the average competition, with stricter rules to comply with.

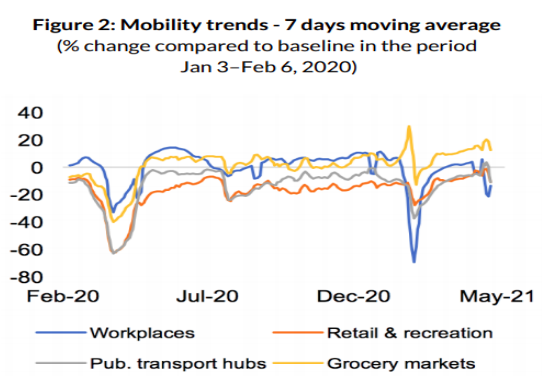
Notably, the initial franchise fee amounts to up to VND5 billion ($217,000). The monthly franchise fee makes up 7 per cent of the franchiser's monthly profit, and the management fee is 5 per cent of the monthly profit.

At Viva Star Coffee, the franchise fee is VND160 million ($7,000) for a 5-year contract, while the monthly fee amounts to 5 per cent of the profit, with total expenditures to set up a shop estimated at around VND1.1 billion ($48,000).

A representative of Ong Bau coffee said it is upbeat about its adaptability to the pandemic. He told VIR that most of Ong Bau's partners are those who own the premises or rent them to run another business. They incorporate Ong Bau's franchise to make the most of their premises and increase their income. Therefore, these partners are not much affected by the current complications.

7. Vietnam ongoing economic recovery affected by fourth Covid-19 outbreak: WB

Vietnam's ongoing economic recovery can be negatively affected by the fourth Covid-19 outbreak, started in late April.



Source: World Bank

According to the World Bank, the Covid-19 resurgence has led to a sharp increase in community transmitted infections, forcing the government to close schools in many provinces and to reinstitute precautionary health and mobility restrictions measures.

Depending on the magnitude of the outbreak and how quickly the government will be able to bring it under control, domestic economic activities will be affected, especially those in sectors such as tourism, transports, and retail.

"The government may want to consider a new fiscal stimulus that would include a more generous assistance package for Covid-19 affected people and businesses," stated the bank in a note.

Mobility improving prior to fourth wave

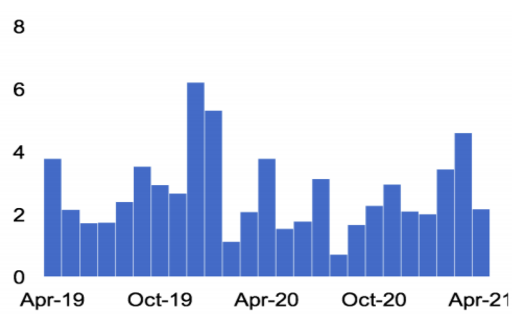
"Prior to the fourth wave, mobility was improving fast, but it is deteriorating again with new restrictions," it added.

During April, most mobility indicators improved significantly as the third Covid-19 outbreak was brought under control. They also spiked up at the end of the month as Vietnamese celebrated the second-longest national holidays in observance of National Reunification Day and International Labor Day. "Yet, such indicators are deteriorating in May as the result of stronger mobility restrictions," stated the World Bank.

Industrial production index increased by 1.1% month-on-month and 24.1% year-on-year in April.

"The high year-on-year growth rate is to a large extent due to the low base effect as production was hit hard by the pandemic related lockdown in April 2020," stated the bank.

Figure 6: Foreign Direct Investment (USD billion, NSA)



Source: World Bank

The continued expansion also reflects recovering domestic consumption in addition to solid external demand for high-tech manufacturing products. The most dynamic sub-sectors include beverage, clothing, and home appliances, basic metals, electronics, computers and optical products, and machinery.

The PMI index rose from 53.6 in March to 54.7 in April, marking it the sixth consecutive month of continuous expansion of manufacturing, while retail sales grew by 2.3% month-on-month in April, reflecting the partial recovery of consumer demand from the third outbreak of coronavirus in late January 2021.

On the trade front, exports and imports in the first four months grew by 26% and 31% year-on-year, respectively. Trade expansion was fueled by the recovery in the U.S. and China and to a lesser extent by the EU, ASEAN, and South Korea.

Double-digit growth rates were recorded across all major export categories in the first four months of 2021. The fastest expansion was in machinery, followed by computers and electronics, and phones.

The World Bank also noted foreign direct investment (FDI) inflows declined in April, "but the overall level has been almost stable during the first four months of the year."

Meanwhile, credit to the economy grew by 2% month-on-month, reflecting increased demand for credit as businesses responded to the stronger consumer demand during the national holidays in late April and early May.

Corporate News

8. VPB: Dragon Capital becomes largest shareholder of VPBank

↑ 2.13%

By acquiring an additional 3.15 million shares, Dragon Capital has increased its ownership in VPB from 4.99 to 5.12 per cent. The value of VPB shares held by Dragon Capital is about VND8.376 trillion ($364.17 million).

The bank's annual report from last year said that no shareholder held more than 5 per cent at the end of 2020. Therefore, Dragon Capital has become the largest and only major shareholder of VPBank.

In particular, Dragon Capital's funds bought 3.15 million VPB shares. Of this, Vietnam Enterprise Investments Limited (VEIL) bought the most with 1.5 million shares, DC Developing Markets Strategies Pcl. bought 600,000 shares, CTBC Vietnam Equity Fund and Norges Bank bought 500,000 shares;, and Samsung Vietnam Securities Master Investment Trust fund bought 50,000 shares.

VPB shares have doubled since the beginning of the year. Since the sale of 49 per cent stake in FE Credit, the bank not only earned nearly $1.4 billion and planned to triple its charter capital by 2022 but its stock has grown even more strongly with record liquidity.

In 2021, VPBank plans to make a pre-tax profit of VND16.654 trillion ($724 million), an increase of nearly 28 per cent compared to 2020. However, Ngo Chi Dung, chairman of the Board of Directors, said that the board is putting pressure on the board of management to achieve a higher profit.

In the first quarter of 2021, VPBank's business results are very positive with a profit increase of 38 per cent, reaching more than VND4 trillion ($173.9 million). Of this, the profit of individual banks increased by more than 55 per cent on-year. The divestment from FE Credit provided VPBank with more capital to put into business, increasing growth room.

9. MSN: Alibaba, Baring Private Equity Asia invest $400m in Masan retail arm, The CrownX

↑ 0.86%

Pre The CrownX is Masan's integrated consumer retail arm that consolidates its interests in Masan Consumer Holdings (MCH) and VinCommerce (VCM). The transaction implies a pre-money valuation of $6.9 billion for the company, or $93.5 per share.

Masan will own 80.2 per cent of the company after the consortium's investment.

The formation of The CrownX last year brought together two industry leaders to form a consumer and retail powerhouse. As part of Alibaba's investment, The CrownX will now partner with Lazada to build the company's digital presence and capabilities and accelerate the offline to online (O2O) market in Viet Nam.

The transaction marks a shared vision across the company's shareholders that The CrownX has the potential to establish Viet Nam's first tech-enabled consumer ecosystem and expand its reach to serve consumers nationwide.

Danny Le, chief executive officer of Masan Group, said: "This strategic partnership will accelerate our ability to achieve our goal of transforming The CrownX into a one-stop shop to serve consumers' everyday needs, whether offline or online, 'Point of Life.'

"Our immediate priority is to modernise Viet Nam's grocery market and develop an unparalleled consumer proposition from assortment to shopping experience.

"I strongly believe that this partnership will reduce our learning curve and enable us to reach our endgame more efficiently and effectively."

Janice Leow, managing director at BPEA, said: "We are delighted to be partnering with Masan and Alibaba, and believe this strategic investment has the potential to supercharge The CrownX's growth in a nascent retail market and create the largest consumer ecosystem in Viet Nam.

"As a long-term investor in the country, we think Viet Nam has a long runway for growth supported by strong macroeconomic tailwinds and attractive demographics.

"The CrownX also has tremendous digital potential, particularly in e-commerce and data analytics. BPEA prioritises digital transformation in all of our portfolio companies, and we look forward to working with the company in its next stage of growth."

As a part of the transaction, VCM will enter a strategic cooperation agreement with Lazada, Alibaba's Southeast Asian e-commerce platform.

It will be the grocery retailer of choice on Lazada in Viet Nam.

The parties will share know-how, co-develop analytics to develop grocery as a key online category, transform VCM's offline stores into pick-up points for online orders, and explore synergies between the respective parties' logistics platforms for service and cost optimisation for consumers.

Grocery accounts for 50 per cent of Viet Nam's retail market and 25 per cent of consumer wallet share and is of essential daily use, but online penetration is still nascent.

Masan targets The CrownX's online gross merchandise accounting for at least 5 per cent of its total sales in the near future.

Credit Suisse (Singapore) Limited and Deutsche Bank acted as the exclusive financial advisors respectively to Masan Group and BPEA. The transaction is subject to customary corporate regulatory approvals.

Masan is also in advanced discussions for a further strategic investment of $300 - 400 million in The CrownX from other investors, and these are expected to be wrapped up in 2021.

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