VIETNAM DAILY NEWS

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JAPAN SECURITIES INC.

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Market Analysis

1. VN-Index stays above 1,316 points, foreign investors return to market

Viet Nam's stock market settled higher on Wednesday with the benchmark hitting new highs on the back of bank stocks. Meanwhile, foreign investors flocked back to the market as they net bought a value of nearly VND180 billion.

On the Ho Chi Minh Stock Exchange (HoSE), the market benchmark VN-Index climbed 8.12 points, or 0.62 per cent, to 1,316.7 points. The index edged higher despite the market breadth remaining negative with 166 stocks rising while 244 stocks declined.

However, the market's liquidity was high as more than 713 million shares were traded on HoSE, worth nearly VND21.7 trillion (over US$1.17 billion).

The gains was mainly contributed by bank stocks and some big stocks from the materials sector. The VN30-Index, tracking 30 biggest stocks in market capitalisation on HoSE, increased 0.77 per cent to 1,455.11 points.

Sixteen of 30 biggest stocks in the VN30 basket jumped while 12 stocks fell and two stocks ended flat.

Bank stocks continued to dominate the market's rally with many big names gaining more than 1 per cent like MBBank (MBB, up 4.75 per cent), Techcombank (TCB, up 2.33 per cent), VPBank (VPB, up 1.2 per cent), Vietnam International Commercial Joint Stock Bank (VIB, up 3.28 per cent) and SEABANK (SSB, up 6.74 per cent).

Stocks from the materials sector also supported the market, such as Hoa Phat Group (HPG), Vietnam Dairy Products JSC (Vinamilk, VNM), Saigon Beer - Alcohol - Beverage Corporation (SAB) and Vietnam Rubber Group JSC (GVR).

Nevertheless, the index pared some gains as selling pressure resurged in real estate, utilities, transportation and retail stocks.

No Va Land Investment Group Corporation (NVL) posted the biggest losses in market capitalisation, down 1.48 per cent yesterday. It was followed by Vingroup JSC (VIC), PetroVietnam Gas JSC (GAS) and Vietnam National Petroleum Group (Petrolimex, PLX). These stocks lost around 0.49 - 1.6 per cent.

According to an analyst from Bao Viet Securities Company, the market is likely to face corrections to test the important resistance zone of around 1,285 points again, before heading toward higher resistance territories in the near future.

The firm also recommended investors should raise the stocks' proportion in their portfolio to 50 - 60 per cent. And investors maybe consider opening long positions in the short term when the market fluctuates in the next sessions.

On the Ha Noi Stock Exchange (HNX), the HNX-Index also finished higher on large-cap stocks. The index settled 1.08 per cent higher to 304.86 points, boosted by gains of 0.51 per cent in the HNX30-Index.

During the session, domestic investors poured over VND3.1 trillion (nearly US$134.3 million) into the northern market, equivalent to a trading volume of 138.8 million shares.

Meanwhile, foreign investors came back to the market as they net bought a total value of VND179.99 billion (nearly US$7.8 million). Of which, they net bought a value of VND114.46 billion (nearly US$5 million) on HoSE and a value of VND36.07 billion (US$1.56 million) on HNX.

Macro & Policies

2. PDP8 delay to unlock more cost-effective renewables

The process hit an unexpected delay in late March, however, as the approval process for finalising PDP8 was extended through June, raising important questions about how policymakers will contend with the rapidly-shifting energy sector landscape.

Vietnam remains Southeast Asia's most attractive energy growth market, with 68GW of new capacity expected to be added to the system between now and 2030 under a base case scenario. So far, there have been three key drivers of this process: a pivot from coal to gas, the growing importance of renewables, and a sea change in funding patterns.

As part of the PDP8 planning process, the country's top leadership has signaled a pivot away from coal to liquefied natural gas (LNG) for large-scale baseload power. According to the February draft, the 2030 installed capacity target for the coal power fleet was slashed by 18GW compared to the previous power development plan (PDP7). Half of that capacity gap is expected to be filled by additional gas-fired power plants.

There are numerous reasons for this shift, including ongoing setbacks for pipeline coal power projects and rising controversy related to environmental impacts, both at home and abroad. The challenge for power sector planners at the Ministry of Industry and Trade (MoIT) is that the pivot to gas is more closely aligned with the interests of high-profile gas sellers than the very real challenges that Vietnam's power sector will face if generation mix choices are linked to fixed imported gas offtake obligations.

The high stakes debate about gas is playing out just as the MoIT has begun to reap the benefits of a rapid build-out of renewable power projects over the past two years. The sector was kick-started by successful feed-in tariff programmes that enhance Vietnam's energy self-sufficiency by tapping into the country's attractive solar and wind resources.

Renewables and realities

It is hard to overstate how much Vietnam's strategic power options have changed as a result. The rapid build-out of rooftop solar capacity in late 2020 has lifted non-hydro renewables penetration to a quarter of Vietnam's 70GW power system. In the first three months of 2021, despite curtailment, renewable power still contributed to 13.1 per cent of the total system output, up from just 5 per cent in 2020.

With renewables filling critical supply gaps, new system management challenges should be seen as inevitable in the first stages of the clean energy transition pathway, not as a reason to halt progress. If enabled, renewables will continue to deliver on the upside with a new focus on rooftop solar and offshore wind.

Over the past year, global funding flows have shifted as the pool of low-cost capital requiring guarantees for fossil fuel projects began to shrink as governments and investors shun carbon risks. This has been evident in the controversy surrounding the Vung Ang 2 coal power plant project in Central Vietnam, and recent new policy announcements by Japan and South Korea that signal the beginning of a serious move away from coal financing.

In the past decades, the power infrastructure funding challenge was met by lender-centric project finance strategies that were designed to put all the risks on governments that were compelled to offer guaranteed offtake with ratepayers taking all the market risks. Now, new sustainable finance strategies, such as green bond issuance, are beginning to fill the funding gap for renewables players that have been willing to take more market risks in exchange for long-term growth opportunities.

The net effect of these crosscurrents is that Vietnam's status as the Southeast Asian country on the most positive clean energy trajectory now hangs in the balance as the old economics of LNG are tested against the new economics of renewables. Economists would define this as a price discovery problem.

Simply stated, the MoIT's challenge is that it is virtually impossible for them to know what the cost of PDP8 will actually be or how its policy choices will affect the willingness of funders to back the developers who are able to win approvals.

In a worst-case scenario, this means that any decisions made now could be derailed over the next three years, resulting in high-profile project delays and sub-optimal decisions on critical system development plans. For a simple demonstration of how fast the scale of technology change can re-order system design priorities, it is instructive to compare the installed capacity targets for 2030 that were set in 2016 under PDP7 versus the scenario envisioned today in PDP8.

The challenge

With implementation risk rising, the government's decision to delay PDP8 should be applauded. This pause gives senior policymakers a valuable opportunity to stress test the key assumptions that have shaped PDP8 to minimise planning errors. The new power development plan should not lock in imperfect choices when there is an opportunity to design it to expand Vietnam's options and reject pathways that will lock the country into open-ended price risks.

The key to repositioning PDP8 is to recognise where price discovery risk is the highest and to design market-based mechanisms that will reveal realistic technology cost curves. The planners should also prioritise the market features that matter the most to those developers who have the funding capacity to take market risks. This is critical because the state utility Electricity of Vietnam faces very real funding constraints.

The lack of candid debate about the tariff assumptions emerging from PDP8 could prove particularly risky. While it is probably safe to assume that there will be scope for tariff increases in a post-pandemic recovery, it is crucial to clarify the full life-cycle economics of different technologies and the way that the terms associated with any funding could be a barrier to more competitive market structures.

For example, the MoIT has often pointed to plans for greater reliance on a wholesale power market, but LNG-to-power plants can be a bad fit for a wholesale market if they require guaranteed fuel offtake and fixed capacity payments.

Much of this work on potential market structures has already been tested in other markets, but any work done now should focus on the unique trade-offs that Vietnam may face between LNG and renewables over the next decade. For example, planners would be smart to study the question of whether bundling renewables and storage can cut curtailment risk in ways that will encourage more price competition and unlock cheaper financing by reducing curtailment risk.

A second thorny question that has not been discussed is whether LNG – both the fuel and associated assets – will be repriced if green hydrogen becomes a competitive threat to conventional LNG, changing how LNG is seen in the energy mix. This could also change assumptions about how Vietnam might approach the development offshore wind due to its potential to produce extremely low marginal cost power to produce green hydrogen.

With so many market fundamentals evolving rapidly, Vietnam has a unique opportunity to use this pause to maximum advantage. In addition to focusing on price discovery, a second priority should be placed on investment choices that will expand, rather than restrict, options to integrate new technologies as they are proven in the marketplace. Resilience and “future-proofing” can seem like strategy consultant buzzwords, but in Vietnam's case these issues will be more important than fine-tuning generation mix assumptions for the post-2030 period.

As many market commentators are now acknowledging, the decisions that emerging markets make about power now will position them for success or failure over the next nine years. That's why regional energy growth markets with high climate risk exposures like Bangladesh and the Philippines are embracing this lens to avoid lock-in and to prioritise grid investment.

If the MoIT wants to get maximum benefit from this pause, it is time to go back to project fundamentals and market incentives. Many fossil fuel project developers' aggressive lobbying efforts over the past year have created a chaotic picture. Some of the projects that are claiming priority positioning in PDP8 suffer from project fundamentals that seem to be at odds with the careful work that has been done by policymakers to develop a disciplined public-private partnership legislation and project qualification standards.

3. Wood exports post 50.5-percent surge in four months

The export turnover of wood and wood products hit 4.99 billion USD in the first four months of 2021, a surge of 50.5 percent year-on-year, according to the Ministry of Agriculture and Rural development.

In April alone, the export value of wood and wood products reached 1.2 billion USD, the ministry said.

The US, China, Japan and the Republic of Korea were the biggest importers of Vietnam's wood in the period, accounting for 87.1 percent of the total export value.

In the last four months, the value of exports increased in almost all markets except for Taiwan (down 0.1 percent) and the UK (down 0.7 percent).

In the reviewed period, Vietnam spent 978.8 million USD on importing wood, up 33.6 percent compared to the same period last year, the ministry added.

Export turnover of wood and wood products is the sixth largest among Vietnamese export commodities. Wood and wood products are also the items with the largest trade surplus, contributing to improving the trade balance.

Vietnam currently has about 12,000 enterprises operating in wood production and processing, with about 500,000 employees and 320 trillion VND (nearly 14 billion USD) of production-business capital over 120 trillion VND in value of fixed assets, and nearly 360 trillion VND in net revenue.

4. Vietnam, Japan to work closely for effective implementation of CPTPP

Vietnam and Japan have agreed to boost their close cooperation with a view to effectively implementing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

The consensus was reached during phone talks between Minister of Industry and Trade Nguyen Hong Dien and Japanese economic revitalisation minister Yasutoshi Nishimura on May 26.

Dien suggested Nishimura encourage and create favourable conditions for Japanese investors who want to invest in Vietnam.

He said the move will help Vietnam become an important link in the supply chain of Japanese enterprises, particularly in the fields of automobile manufacturing, electronics, medical equipment, garment and textiles, and sectors that bring benefits to bilateral economic-trade ties.

Nishimura, for his part, proposed that Vietnam support Japan's initiatives, and continue to work with Japan to implement the trade pact.

As several countries, including the UK, have expressed an interest in joining the agreement, the Japanese minister hoped Vietnam would endorse the organisation of the fourth CPTPP Commission meeting in early June, which will consider negotiating with the UK after it made a formal request to join on February 1.

The CPTPP covers 13 percent of global GDP and groups together Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

China, the Republic of Korea, Taiwan (China), and Thailand have also expressed an interest in joining.

5. Cement corporation's output surges despite pandemic

The Vietnam Cement Industry Corporation (VICEM) produced and sold 9.72 million tonnes of cement from January to April, a year-on-year rise of 12.1 percent amid the complex developments of COVID-19.

According to VICEM Chairman Bui Hong Minh, the corporation has paid due regard to pandemic prevention measures to maintain stable business operations.

Besides keeping member companies updated on the COVID-19 situation, VICEM has also directed them to remain vigilant in fighting the pandemic, he said, adding that all companies have been ordered to enhance their prevention measures, including body temperature checks for workers and guests, the preparation of essential medical supplies, the strict implementation of the Ministry of Health's "5K message", and the installation of negative pressure booths.

Meetings have been held online and social distancing measures put in place, while billboards have been placed around companies to raise staff awareness.

To ensure safety in the corporation's production, VICEM has ordered member units to operate concentrated quarantine centres within their plants, he said.

6. Newly-registered FDI rises 18.6 per cent in first five months

The total newly-registered and added capital, as well as capital contributions and share purchases in the first five months of the year amounted to nearly $14 billion as of May 20, a rise of 0.8 per cent on-year, according to the Ministry of Planning and Investment's Foreign Investment Agency.

Of these, 613 projects (down 49.4 per cent on-year) received new investment certificates, with a total registered capital of nearly $8.83 billion (up 18.6 per cent on-year).

342 projects (down 21.6 per cent) asked to adjust capital with a total of over $3.86 billion (up 11.7 per cent on-year). The most outstanding project is the adjustment of Polytex Far Eastern Vietnam Co., Ltd. (Taiwan), which raised capital by $610 million after receiving the adjusted investment certificate on May 13, 2021.

"The scale of both newly- and additionally-registered projects has increased remarkably since last year, from $2.2 million in the first five months of 2020 to $14.4 million per new project this year, and from $7.9 million per adjusted project in 2020 to $11.3 million this year," the Foreign Investment Agency representative added.

Additionally, capital contributions and share purchases also reported an on-year decrease in the first five months with 1,422 instances (down 59.7 per cent) and a total investment of $1.31 billion (down 56.3 per cent).

"The capital contributions and share purchases are still on the downtrend, but the decline has been smaller both in the number and value of transactions," he said.

In the first five months, Singapore led among the 70 countries and territories investing in Vietnam with a total investment of $5.26 billion, making up 37.6 per cent of the total investment. Japan ranked second with a total investment of $2.59 billion (18.5 per cent) while South Korea ranked third with $1.83 billion (13.1 per cent), followed by China, Hong Kong, and Taiwan.

"Of these, most investment from Singapore and Japan is newly-registered capital, making up 84.4 and 70.7 per cent of their FDI into Vietnam," the Foreign Investment Agency representative said.

As of May 20, foreign-invested projects have disbursed $7.15 billion, a rise of 6.7 per cent on-year, which reflects that the FDI sector has recovered and remained strong after the pandemic.

The export turnover of the sector increased sharply during the period, reaching $98 billion, up 36.5 per cent on-year (including crude oil) and $97.4 billion (excluding crude oil), up 37 per cent on-year, equivalent to around 74.6 per cent of the country's total export turnover.

The import turnover of the FDI sector is estimated at $85.4 billion, up 39.7 per cent on-year, and capturing 65.3 per cent of the country's total import turnover. In the first five months, the trade surplus of the sector is estimated at $14.4 billion (including crude oil), and $12.6 billion (excluding crude oil). This has offset the trade deficit of $12.5 billion of local businesses, resulting in an overall trade surplus of $131 million.

7. Shipping lines continue to increase fees, enterprises face more difficulty

Six months on from when a lack of containers globally pushed up marine transportation fees, import and export companies were expecting that the fees would be reduced thanks to the vaccination campaigns which helped control COVID-19.

However, experts said it would be very difficult for the container shipping fees to come back to the pre-pandemic levels despite successfully containing the virus and no severe shortage of containers.

But from mid-May, several container shipping lines announced increases in transportation fees from US$400 to more than $1,000 per container.

Germany's Hapag-Lloyd raised the general rate increase (GRI) for routes from East Asia (including Viet Nam) to the US and Canada to $960 per 20 feet container and $1,200 per 40 feet container starting from May 15.

The US shipping line CMA CGM announced an increased freight rate from mid-May for routes from Somali to Northern Europe, the Mediterranean, Black Sea, India and Pakistan.

The Swiss shipping line MSC raised sipping surcharges to $800 per container from May 18.

Duong Thanh Lan, deputy director of Blue Sea Cargo Logistics Transport Corporation, said freight rates for the route to the US saw the biggest increases.

In April, the popular freight rates to the west coast of the US was around $5,000 per 40-foot container. However, the quotation is now more than $10,000.

Freight rates to Europe kept increasing steadily and were also at high levels.

The rates for routes from Viet Nam to the Europe was now at around $7,000-8,000 and to the US at more than $10,000 compared to $1,500 and less than $1,000 in pre-pandemic times, respectively.

Thanh said that shipping lines said this was due to stockpiles at ports, enterprises wanted to speed up shipping, especially to the US, which pushed up transportation demand as well as freight rates.

Tran Van Linh, chairman of Thuan Phuoc Seafood and Trading Corporation said that marine transportation fees were not at unreasonably high levels but import-export companies like his had no choice but to accept the increases.

Halting import and export activities was impossible because of commitments to the partners, Linh said, adding that cancellation of orders or failure to deliver on time would undermine the company's prestige and efforts in finding customers in the future.

Truong Tien Dung, director of Sai Gon Aquatic Products Trading Joint Stock Company, said that high marine transportation fees were weighing down import and export companies, with many small scale operations forced to close down or temporarily halt business.

Despite increases in transportation fees, it would be impossible to negotiate for increases in products prices because the COVID-19 pandemic made consumers in markets like the US and the EU tighten their budget and focus mainly on essential goods and products with reasonable prices, Dung said. High transportation fees were eating into companies' profits, he stressed.

Corporate News

8. ACB: ACB expects pre-tax profit up 10 per cent this year

↑ 1.18%

ACB forecasts that total assets will increase by 10 per cent, customer deposits will rise by 9 per cent, credit will grow by 9.5 per cent and bad debt ratio will be controlled below 2 per cent. ACB's strategic focus will be on retail banking to optimise profitability.

According to Bao Viet Securities Joint Stock Company (BVS), the increase in outstanding loans to customers of ACB was mainly due to the growth of loans to individuals, small and medium enterprises. The proportion of loans to these groups accounted for 93 per cent of the bank's loans last year. This means ACB's strategic focus was on retail banking in order to optimise profits, with higher profitability ratios, at the same time, focusing on individual customers, small and medium enterprises.

The Current Account Saving Account (CASA) continued to increase thanks to the bank's initiative of the Vietnamese Human Resource Financial Services Package (Employee Banking) and the implementation of a trade finance solution (Transaction Banking).

In the first quarter of 2021, ACB's customer base expanded to 3.3 million, including 3.1 million individual customers accounting for 82 per cent of customer deposits. The remaining 200,000 are corporate customers.

CASA at the end of the first quarter of 2021 reached 22.1 per cent compared to 21.6 per cent at the end of 2020. According to ACB, CASA from individual customers was at 18 per cent, while CASA from business was more than 40 per cent. ACB is targeting CASA to reach 25 per cent, making it more competitive in raising capital costs.

According to Vietnam Construction Securities Joint Stock Company (CSI), an increase in the CASA ratio of banks will help reduce the cost of capital and increase the lending interest rate as the preferential loan policies will be gradually limited with the recovery of the economy. As a result, the net profit margin (NIM) trend will be high.

Income from insurance distribution through banks (Bancassurance) is also expected to be a bright spot in the profit picture of banks as it brings stable profits thanks to the distribution of insurance products and fees earned from investment-linked products.

ACB and Sun Life Vietnam Insurance Company Limited (Sun Life Vietnam) have formed a 15-year exclusive bancassurance partnership in Viet Nam.

In the first quarter of 2021, ACB's operating expenses dropped sharply, equivalent to 16.7 per cent, to VND1.97 trillion (US$85.6 million).

Recently, ACB has been approved by the State Bank to increase maximum charter capital by more than VND5.4 trillion, to more than VND27 trillion, by issuing 540 million shares to pay dividends, equivalent to 25 per cent.

According to ACB, the increase in charter capital is to ensure safety ratios for the bank, increase medium and long-term capital for credit extension activities, invest in government bonds, add capital for renovation and invest in strategic projects in the coming years.

At the end of the first quarter of 2021, ACB recorded pre-tax profit of VND3 trillion, an increase of more than 61 per cent over the same period in 2020, fulfilling nearly 30 per cent of the profit plan for the whole year.

On the stock market, ACB share is traded at VND37,900 apiece, up 31 per cent in value compared to the beginning of the year.

ACB's net interest income in the first quarter of 2021 reached VND4.6 trillion, up 36 per cent over the same period last year. Profit from service activities increased sharply by 69 per cent to

VND625 billion, in which profit from the foreign exchange segment increased by 37 per cent, reaching VND196 billion. Profit from trading securities increased nearly 8 times, reaching VND113 billion.

As of March 31, 2021, ACB's total assets reached VND449.5 trillion, up 1.1 per cent compared to the beginning of the year. Outstanding loans to customers increased by 4.1 per cent to reach VND324.3 trillion.

In 2020, ACB's consolidated pre-tax profit reached VND10 trillion, up 28 per cent compared to 2019. Total assets reached VND445 trillion, up 15.9 per cent.

9. MWG: Mobile World profit up 26 pct

↓ -0.75%

Revenues rose 9 percent to VND40.4 trillion, which was attributed to double-digit growth in mobile phone sales, thanks to iPhone sales.

Sales of watches grew 50 percent year-on-year to VND670 billion. The company currently runs over 850 stores selling watches.

Laptop sales fell, but Mobile World explained that was because of the high base effect in 2020 when sales were high as people bought laptops for working and studying from home due to the pandemic.

There were 923 Mobile World outlets as of the end of April, which contributed 26.8 percent of revenues. It also had 1,628 Dien May Xanh electronic retail outlets that accounted for 53.2 percent of revenues.

Bach Hoa Xanh, with 1,803 stores that sell vegetables, seafood, meat, and fast-moving consumer goods, accounted for 20 percent.

It has started selling bicycles at some Dien May Xanh outlets and launched a joint program with small retailers at localities where it lacks electronics stores.

It targets revenues of VND125 trillion and post-tax profits of VND4.75 trillion this year.

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