VIETNAM DAILY NEWS

June 24th, 2021

JSI
JAPAN SECURITIES INC.

Table of content

Table of content

Market Analysis

1. VN-Index misses 1,380-point range

Vietnam's benchmark VN-Index failed to secure a place in the 1,380-point range with a 0.22 percent drop to 1,376.87 points Wednesday as most blue-chips ended in the red.

The index shot up to 1,385 points in the morning but quickly fell to close with a 3-point drop. It has been stuck in the 1,370-point range for the past four sessions.

Trading value on the Ho Chi Minh Stock Exchange (HoSE), on which the index is based, fell nearly 6 percent to VND21.12 trillion ($921 million). The bourse saw 298 tickers lose and 94 gain.

The VN30 basket, comprising the 30 largest capped stocks, saw 20 tickers in the red, led by SBT of sugar producer Thanh Thanh Cong – Bien Hoa with a 2.7 percent drop.

The ticker has fallen for three consecutive sessions, losing a total 5.3 percent.

Two real estate tickers followed, with PDR of Phat Dat Real Estate Development and TCH of real estate company Hoang Huy Investment Financial Services both falling 2.6 percent.

POW of electricity producer Petrovietnam Power Corporation fell 2 percent, while BVH of insurance company Bao Viet Holdings lost 1.8 percent.

Both tickers have lost more than 16 percent since their January peaks.

On the winning side, nine blue-chips ended in the green, led by VPB of private lender VPBank with a 4.5 percent gain after the bank requested its shareholders permission to pay dividends by shares and issue more shares to increase its charter capital.

Other gainers include VCB of state-owned lender Vietcombank, up 2 percent, and CTG of state-owned lender VietinBank, up 1.5 percent.

Foreign investors were again net buyers to the tune of VND164 billion with strongest pressure on VHM of real estate giant Vinhomes and VCB.

The HNX-Index for stocks on the Hanoi Stock Exchange, home to mid and small caps, fell 0.41 percent while the UPCoM-Index for the Unlisted Public Companies Market dropped 0.07 percent.

Macro & Policies

2. Escalating shipping charges hinder local manufacturers

Nguyen Chanh Phuong, deputy chairman of the Handicraft and Wood Industry Association of Ho Chi Minh City, told VIR that in recent months shipping container rates have increased by 30 per cent to reach over $10,000. Most American importers will pay as shipping is done through the free-on-board model, however, Phuong said this increase will expand the retail price of Vietnamese-made furniture in the US market.

“Imported materials also rose by 40-60 per cent due to freight cost surges. If a company uses all imported materials to make furniture, it needs to increase its selling prices by 20-30 per cent. Local manufacturers still have large export orders until the year-end due to the strong demand in the US market but they have to suffer a lower profit margin due to the costly rates,” he said.

On the other hand, Phuong noted that local consumers prefer imported items. It means the rising shipping costs will result in higher construction expenses, which in turn delays the development of local property projects and raises concerns about bubbles.

The soaring freight cost is a global phenomenon. With upwards of 80 per cent of all goods transported by sea, freight cost surges are threatening to raise the price of everything from toys, furniture, and car parts to coffee, sugar, and anchovies, compounding concerns in global markets already bracing for accelerating inflation, according to Bloomberg.

Jola Pasku, senior economist at IHS Markit, told VIR that similar to other countries in the region, the outbound flow of Vietnamese goods has been squeezed by a shortage in containers. Representatives of shipping lines in Vietnam reported that they are facing a serious shortage in empty shipping containers, which has spiked rental prices of these containers and interfered with a lot of enterprises' ability to export goods.

“Container rental prices have been on an accelerating trend since October 2020 with exporters complaining having to pay five times the regular price, as well as paying to import an empty container just to have it available for export,” Pasku explained.

“The key driver of this has obviously been the pandemic, which has slowed down the processing cycle of unpacking and rotating containers at various ports around the world, but the soaring demand for Vietnamese exports has exacerbated this issue even more,” Pasku said. “Many exporting factories are reporting having to make tough adjustments from this development from being forced to close or delaying orders, as skyrocketing rental prices are weighing on their profits.”

Apart from an outbreak in southern China, Vietnam has also been hit with a more intense resurgence of COVID-19 cases since late April. A number of industrial zones in the north were forced to close and Ho Chi Minh City has extended a city-wide lockdown. Depending on how severe the current outbreak proves and whether it prolongs closures, it is expected to see more disruptions in Vietnam's manufacturing production activities in the coming months.

According to the Vietnam Logistics Association, transporting a 40-feet container of cargo by sea from Vietnam to the United States and the European Union now costs into five figures, wreaking havoc for businesses. Many ocean carriers attributed the high shipping costs to the critical shortage of empty containers, and so raised the rates to around $10,500 currently for a 40-feet container.

Pre-pandemic, freight only accounted for a small proportion of the cargo value such as 6-7 per cent for electronic products and 15-20 per cent for agri-products. Transport expenses from ports to import destinations are now equalling or even exceeding order values, and thus shipping bottlenecks are hurting the transport of Vietnamese products.

Andrew Harker, economics director of IHS Markit, said that higher freight charges were one of the key reasons given by Vietnamese manufacturers for increasing cost burdens during May, and has also contributed to surging input prices globally. In fact, a JP Morgan Global Manufacturing index has signalled the sharpest rise in input costs for a decade in May. Any further disruption is likely to exacerbate these trends.

"Rising charges have the potential to dissuade customers from committing to new orders, but so far the strength of the rebound in demand seen globally in manufacturing has meant that Vietnamese companies have continued to see new export business expand despite these price rises," Harker said.

In terms of measures to help deal with higher costs and disruption to supply chains, he noted that one thing companies have started to mention is efforts to stockpile materials to guard against supply shortages. They have been ramping up their input buying in recent months and inventories of purchases have risen in the past quarter.

3. Vietnam's steel industry remains attractive in second half

Mirae Asset estimates that the hot-rolled coil (HRC) segment has grown the most with the additional capacity of 3.5 million tonnes from the Dung Quat Hoa Phat project (DQCP).

In April, the strong demand from both export and domestic markets helped the steel industry's output grow faster than expected, reaching the standard of 10.5 million tonnes, equivalent to an increase of 38.3 per cent over the same period. Besides, export products reached more than 3.8 million tonnes with an increase of 88 per cent in value to $2.67 billion.

Vietnam's steel production is expected to grow strongly, reaching 30.6 million tonnes, 6 per cent higher than the previous forecast.

Vietnam's total output of hot-rolled and cold-rolled coils (HRC and CRC) of the whole year is expected to reach 11.5 million tonnes, up 30 per cent on-year. Meanwhile, steel pipes and galvanised steel sheets in 2021 would reach 11.23 million, 2.73 million, and 5.14 million tonnes, respectively.

However, the dropin iron ore prices, especially HRC, in the third quarter, would first and directly affect steel and galvanised steel companies.

Additionally, there are risks of a slowdown of the domestic construction market due to escalating steel prices as this material accounts for about 6.2 per cent of construction expenses.

Mirae Asset believes that the supercycle of construction material price, which is led by steel, can cause the construction industry to either grow very slightly or decline in the worst case.

It emphasised that a rise in construction steel prices above VND17.2 million ($747.83) a tonne will be good in the short term but in the long term, there will be certain impacts on the steel industry.

In fact, many businesses have decided to postpone construction until they can offsetthe cost of materials, which can slow down progress by 6-18 months.

In the first quarter, steel companies continued to sharply increase their output and profit thanks to large demand from both domestic and export markets. The net profit for the first three months of Hoa Sen Group, Nam Kim Steel JSC, and Hoa Phat Group increased by 216, 668, and 204 per cent, respectively.

This was followed by strong rises in stock prices since the beginning of 2021, reaching 76, 100, and 103 per cent, respectively. With the current HRC price base at over $700 a tonne, Mirae Asset believes that the net profit of the entire steel industry in 2021 will be positive.

4. Leading sectors remain in doldrums

In a report on business development in 2020 and the first five months of 2021 drafted by the Ministry of Planning and Investment (MPI), the eight most affected by the pandemic include tourism, catering, accommodation; textiles and garments; retail; mechanics, manufacturing, and automobiles; agro-forestry-fisheries; transport and logistics; aviation; and IT and telecommunications.

To restructure loans and support interest rates of these businesses, the MPI has asked the State Bank of Vietnam (SBV) to amend and supplement Circular No. 01/2020/TT-NHNN dated March 13, 2020 on debt rescheduling, exemption or reduction of interest and fees to allow debt restructuring and rescheduling for the ones arising in the 2020-2021 period, and not move debt groups until the end of 2021. The SBV should direct commercial banks to reduce the interest rate by 3-5 per cent, delay deadlines, and provide new loans for businesses.

The MPI also suggests the SBV to amend and supplement Resolution No.84/2020/NQ-CP dated May 2020 regarding tasks and solutions to remove difficulties in production and business and to expand subjects entitled to a 2-per-cent reduction in interest rate, applied to all enterprises directly hit by COVID-19.

The MPI's draft report also proposes the Ministry of Finance (MoF) to submit a 30-per-cent decrease of corporate income tax in 2021 for businesses and cooperatives that generated less than VND200 billion ($8.7 million) in 2020, as well as reduce 15 per cent of land rental for those who have stopped working for 15 days or more due to the pandemic.

The MoF should also cut down 50 per cent of VAT in 2021 for companies in aviation, catering, and accommodation sectors, and remove VAT for six months for transport businesses, as well as decrease 50 per cent of registration fees for newly registered cars for transport businesses.

The MPI proposes to cease social insurance payments for those hit by COVID-19 until end-2021, extend the payment of union fees and decrease of these by 50 per cent in 2021, as well as remove road maintenance fees for transport businesses until the end of the year.

Hit by COVID-19 since last year, the aviation market has dropped most seriously. The transport volume of aviation in 2020 was reduced by up to 65.9 per cent, and revenues declined by 61 per cent on-year.

During the Lunar New Year, revenues even decreased by 80 per cent on-year, and forecasts remain gloomy. “If the health crisis is managed, aviation could resume growth, perhaps, in 2024,” a representative of Vietnam Airlines said.

At present, overdue debts of Vietnam Airlines have expanded to VND6.24 trillion ($271.3 million), and the airline is close to bankruptcy. “Commercial banks have yet to see the disbursement of the bailout package for Vietnam Airlines, so they do not provide additional loans, extend, and re-grant credit limits,” the representative complained.

Meanwhile, Vietjet and Bamboo Airways have tried to optimise and maintain business. However, they are gradually running out of funds. Vietjet is estimated to require $435 million to maintain its operation.

In addition to aviation, tourism, catering, and accommodation are witnessing a halt of 90 per cent of companies, with the remainder operating in slow motion. Tour agencies and ticket agents mostly let all employees quit, while 60-90 per cent of employees of international travel businesses had to leave too, according to the Vietnam Tourism Association.

COVID-19 also hit the textile and garment industry seriously, which reported the first negative growth in 2020 (-10.5 per cent) over the last 25 years. Its export value last year was $35 billion only, a decrease of $4 billion on-year. More challenges are ahead, as old orders and reserves are running out.

5. Power consumption sets a new peak during hot days

The electricity capacity used in Vietnam hit 42,482 MW at Monday noon [June 21], a new peak set so far due to scorching weather.

The prolonged searing heat on the large scale in the north had resulted in high power consumption since June 16, according to the National Load Dispatch Center (NLDC) under the Vietnam Electricity (EVN).

On the day, the capacity used in the north reached a record high of 18,700 MW while power consumption reached 4,700 MW in Hanoi.

The heatwave has led to the risk of a power grid failure as many types of outdoor electrical equipment have been exposed to the scorching sun. It has also left some lines and substations overloaded sometimes.

To limit risk to the national power grid, EVN recommends its clients to use electricity safely and economically, including setting air conditioners at 26-27 degrees Celsius in combination with fans, mostly in peak hours from 11:30 am to 3:00 pm, and 8:00-11:00 pm.

According to Ngo Son Hai, deputy general director of EVN, the country's power consumption has so far this year increased 9.3% from the previous year.

Regarding renewable energy, Son said the installed capacity of renewables, including small hydropower plants, climbs to 22,250 MW (accounting for 31.2% of the total capacity), doubling that in 2020.

He said in the coming time, the sole power distributor will continue ensuring electricity supply in the hot season with special attention paid to centralized quarantine facilities and medical stations treating Covid-19 patients.

As of end-2020, the country's total installed power capacity hit 69,300 MW, increasing 14,000 MW from the previous year..

6. Vietnam records 1.35 billion USD trade deficit in first half of June

Vietnam reported a trade deficit of 1.35 billion USD in the first half of June as exports reached only 12.3 billion USD – down nearly 2 billion USD compared to the latter half of May, the General Department of Customs has announced.

Among items posting the strongest turnover decline included computers, electronics and parts with 1.06 billion USD, down 800 million USD; machinery and equipment with 1.1 billion USD, down 260 million USD; and telephones and components with 1.96 billion USD, down 50 million USD.

Since the beginning of this year to mid-June, the nation's trade value surpassed 288.6 billion USD. Of the sum, over 143.3 billion USD came from exports, up 30 percent year-on-year while the remainder of 145.3 billion USD was from imports, up 36 percent. That resulted in a trade deficit of 1.96 billion USD, the department said.

According to trade experts, the above-mentioned trade deficit was not a worrisome figure as enterprises ramped up their imports of input materials to meet their production demands.

Tran Thanh Hai, Deputy Director of the Import-Export Department under the Ministry of Industry and Trade (MoIT), said at the MoIT's regular press meeting for the second quarter last week that the import of production materials currently accounted for a high proportion, especially in garment and footwear sectors, thus pushing up the import value, affecting the trade balance.

The COVID-19 resurgence in late April had certain impacts on many production industries which had started to recover such as electronics and mobile phones. However, exporting enterprises which already had orders still had to import raw materials and accessories for production. Thus, an import increase should be considered a good sign rather than a cause for concern, Hai said.

According to the MoIT, exports are set to increase by about 21.7 percent by year-end compared to the year's respective targets of 4-5 percent.

To this end, the ministry would continue to give priority to promoting trade connections between Vietnamese enterprises and foreign partners, and the introduction of made-in-Vietnam goods to domestic and international consumers.

Particularly, it would continue working to promote overseas shipments, diversify both export and import markets, optimise opportunities generated by free trade agreements, and remove barriers to enter new markets.

Last year, the country's trade surplus hit a record high of 9.9 billion USD, the highest level seen in the past four years.

7. Legal framework needed to better manage cryptocurrency market

Recently, investment in cryptocurrencies such as Bitcoin, Pi Network, Ripple, Bitcoin Cash and Litecoin has increased in Việt Nam. It is estimated 1 million Vietnamese are already trading cryptocurrencies and the number is expected to increase 30 times by 2030.

At present, Vietnamese law does not mention cryptocurrencies as a legal means of payment, and neither does it recognise them as an asset or a foreign currency. Possessing, trading, and investing in cryptocurrencies therefore is not legal in Việt Nam.

Finance expert Nguyễn Trí Hiếu told Việt Nam News there are currently no regulations about the issuance, trading and exchange of virtual assets and cryptocurrencies nor regulations on an agency to manage virtual assets. Thus, the trading and exchange of cryptocurrencies via international platforms such as Binance, Coinbase Okex, Houbi, Bittrex, Remitano, Santienao and Kenniex or through direct agreements carry a lot of risks.

It was very easy for those who buy and sell virtual currencies online to become victims of scammers, Hiếu said, warning that the investors would not be protected by law.

Management agencies and experts have repeatedly warned investors over cryptocurrencies. Deputy Governor of the State Bank of Việt Nam (SBV) Đào Minh Tú said under current regulations, Bitcoin and other similar virtual currencies were not legal means of payment in Việt Nam.

The Ministry of Finance (MoF) said the trading and exchange of cryptocurrencies via platforms such as Binance and Coinbase or through direct agreements carry a lot of risks.

The State Securities Commission last month advised people to be cautious when investing in virtual assets and currencies while asking public companies, securities companies, fund management companies and investment funds not to conduct the illegal issuance, trading or brokerage of virtual currencies.

Despite the warnings, investors still flock to cryptocurrency due to the offers of high profits. Therefore, experts have urged the Government to rapidly fill the legal gap in cryptocurrency management to minimise the drawbacks arising from the investment channel.

According to lawyer Nguyễn Thanh Hà, Chairman of SBLAWS Law Firm, there is a huge legal gap in cryptocurrency management. Currently, the SBV is the only management agency to have issued a written document confirming digital currency is not an accepted payment instrument in Việt Nam while some other agencies such as the MoF and the Ministry of Public Security have just warned of the risks when investing in cryptocurrencies.

It was very difficult to handle issues that might arise when investors trade cryptocurrency as there are no official legal prohibitions or guidelines related to this type of asset, Hà said.

Expert Cấn Văn Lực said management agencies should research and create a legal framework for official digital currencies and business models in the new electronic financial environment such as e-wallets and fintech.

At the same time, it was necessary to complete the national identity database with a focus on upgrading information technology infrastructure and network security to protect the interests of consumers and financial institutions, Lực said.

Currently, ministries and agencies including the SBV, the MoF and the Ministry of Justice are working to implement the Prime Minister's Decision No1255/QĐ-TTg on the project of completing the legal framework to manage virtual assets, digital currencies and cryptocurrencies.

The MoF has set up a research group, which began an in-depth study of cryptocurrencies, aiming towards legislative reform for the industry in the near term. The group is studying laws already enacted by the US, the EU and Japan related to the issue.

Before the issuance of asset-related legal regulations, the ministry will continue to raise people's awareness about virtual assets and cryptocurrencies as well as warn about their risks.

The central bank also directs credit institutions and payment intermediaries to regularly warn users about the trading and use of such assets.

According to experts, the issue of legal regulations on managing virtual assets and cryptocurrencies might have long-term public, social and economic benefits as the trading of the assets without legal regulations as done currently can cause losses of State budget revenue, foreign currency shortage, or cross-border money laundering.

According to experts, cryptocurrency management will provide an opportunity for Việt Nam to make additional revenue by taxing cryptocurrency trading. By defining them as exchanges of foreign currencies or financial assets, such exchanges, previously tax-free, may fall within the scope of corporate or personal income tax.

In addition, regulating cryptocurrencies in the country should effectively fight fraud and abuses related to virtual currencies, such as money laundering, hacking, or the anonymous financing of illegal activities.

Corporate News

8. PLX: Japan-based ENEOS forks out US$60 million to raise shareholding at Petrolimex

↓ **-1.57%**

Japan-based ENEOS Corporation, a subsidiary of Nippon Oil & Energy Vietnam, has completed the purchase of 25 million shares, or a 1.93% stake of Vietnam's largest petroleum distributor Petrolimex, according to a filing to Ho Chi Minh Stock Exchange (HoSE).

The transaction period took place from May 24 – June 15 through the order matching on-exchange method.

With this deal, the Japanese firm has become the third-largest shareholder at Petrolimex with a total share amount of 63 million, or 4.87% stake, behind Vietnam's Committee for State Capital Management (CSCM) with 981.68 million shares, or 75.87% stake, and Nippon Oil & Energy Vietnam with 103.5 million shares, or 8%.

This resulted in total shares owned by Nippon Oil & Energy Vietnam and its subsidiary firm at Petrolimex at around 12.87%.

With Petrolimex's share price of VND54,800 (US$2,35) apiece at the close on June 15, ENEOS was expected to fork out around VND1.37 trillion (US$59.6 million) to complete the deal.

Petrolimex currently holds a 50% market share in Vietnam's fuel retail sector with a retail network of more than 2,400 petrol stations and nearly 3,000 retail outlets across the country.

In the first quarter of this year, Petrolimex posted revenue of VND38.24 trillion (US$1.66 billion), slightly down 0.6% year-on-year, resulting in a net profit of VND736.2 billion (US$32 million). The figure remained in stark contrast with a net loss of VND1.81 trillion (US$78.7 million) recorded in the same period last year, for which the state firm pointed to a 20% rise in oil price from US$47.62 per barrel to US$59.16 during the period as the main reason.

For this year, Petrolimex targets a 9.1% growth in revenue to VND135.2 trillion (US$5.88 billion) and a 140.2% surge in profit to VND3.36 trillion (US$146.2 million).

In 2020, The Ministry of Industry and Trade (MoIT) proposed the Government allow foreign investors to join the local fuel distribution market. Under the proposal, local oil and petrol traders could be allowed to transfer their stakes to foreign investors but foreign ownership should not exceed 35%.

9. KDC: Confectionary maker KIDO delays new product launches over Covid-19

↑ **0.33%**

If the pandemic had not broken out, coffee, fruit juices, dairy products, cupcakes and potato cakes, products of Vibev, a newly established beverage joint venture between KIDO and milk producer Vinamilk, would have been introduced to the local market in May and June, Tran Le Nguyen, KIDO general director, told shareholders Tuesday.

If the pandemic is controlled soon, the products will be launched in the third quarter at the latest, in July at the soonest, he said.

KIDO will also launch new snacks in cooperation with foreign partners, he added.

In addition to confectioneries and beverages, KIDO will introduce new edible oil products, gradually becoming a leading oil producer, and expanding operations to other segments of essential foods and foodstuffs.

KIDO will also launch new ice-creams to meet increasingly higher demand of customers, especially youths. It currently holds a lion share of 43.5 percent for the local ice-cream market.

In mid-June, KIDO announced the opening of its Chuk Chuk retail chain specialized in ice-creams, coffee, tea-based drinks and cakes, among other products. It hopes to open some 1,000 Chuk Chuk stores by 2025 and earn total revenues of VND7.8 trillion ($339.1 million).

KIDO, which approved the merger of KIDO Frozen Foods Joint Stock Company into the group last year, also plans to merge the Tuong An Vegetable Oil Joint Stock Company into it this year.

KIDO has planned to earn revenues of VND11.5 trillion this year, up 38.2 percent over last year, and pre-tax profits of VND800 billion, up 92 percent. It also plans to pay a dividend of 16 percent: 6 percent in cash and 10 percent in bonus shares.

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