VIETNAM DAILY NEWS

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JSI
JAPAN SECURITIES INC.

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Market Analysis

1. Market bounces back as risk appetite returns

On the Hồ Chí Minh Stock Exchange (HoSE), the market benchmark VN-Index surged 1.09 per cent, or 14.01 points, to 1,293.92 points, claiming back most of the losses from the morning trade and Wednesday. In the morning session, the index fell 0.06 per cent after posting a drop of 1.34 per cent in Wednesday's trade.

The market's breadth was positive as 287 stocks rose while 82 declined. The liquidity, however, was lower than the day before with 439.9 million shares traded on the southern bourse, worth over VNĐ15.1 trillion (US$1.22 billion).

The index's recovery was mainly thanks to large-cap stocks, especially bank and material stocks, as investors' risk appetite returned to the market. The VN30-Index, which tracks 30 biggest stocks in market capitalisation on HoSE, climbed 1.42 per cent to 1,430.29 points.

Of the VN30 basket, 20 stocks surged while eight slid and two ended flat.

Material stocks led the market's rally trend yesterday, with Hòa Phát Group the biggest gainer, up 3.33 per cent. It was followed by VPBank,

Vietinbank and Vietnam Rubber Group (GVR). All these stocks surged more than 2 per cent.

Other stocks with big gains were Techcombank (TCB), Asia Commercial JSC (ACB) and SeABank (SSB).

However, the gain was capped by losses in some stocks, especially real estate stocks like Vingroup (VIC) and Investment And Industrial Development Corporation (BCM).

Analysts from Saigon - Hanoi Securities JSC (SHS) said that investors, who made the bottom purchases at the psychological level of 1,300 points on July 12, should continue to watch the market in coming sessions and may increase stock proportion in their portfolios if the benchmark falls back to the support level of 1,260 points.

On the Hà Nội Stock Exchange (HNX), the HNX-Index also jumped 3.19 per cent to 306.3 points on bullish sentiment.

During the session, more than 118.26 million shares were traded on the northern bourse, worth nearly VNĐ2.7 trillion.

Meanwhile, foreign investors were net buyers on both exchanges with a total value of VNĐ726.45 billion. Of which, they net bought a value of VNĐ728.11 billion, while net sold a value of VNĐ1.66 billion.

Macro & Policies

2. Food producers toil to meet stringent EU regulation.

The global health crisis has slowed down the plans of Vietnamese chicken producer Koyu & Unitek Co., Ltd. (K&U) to expand its export market to EU member countries. K&U is a joint venture between Unitek Enterprise Co., Ltd. and Koyushokucho Co., Ltd. – one of Japan's largest companies in industrial chicken farming – and operates a factory in the southern province of Dong Nai.

K&U exported the first batch of 300 tonnes of chicken breast to Japan in 2017. After successful negotiations with partners to export the meat to Singapore and Hong Kong, K&U was planning to conquer the EU market. However, this endeavour seems to be far more difficult than expected.

The strict conditions that local producers have to adapt to are tough for many. For example, Chapter 6 of the EU-Vietnam Free Trade Agreement (EVFTA) on sanitary and phytosanitary (SPS) measures provides a framework to protect human, animal, or plant life and health from introduction, establishment, and spread of pests, diseases, and additives, toxins, and contaminants in food and feed.

Nearly a year after the EVFTA came into effect, Dang Phuc Nguyen, general secretary of the Vietnam Fruit & Vegetable Association (VinaFruit) believed that the competitiveness of Vietnamese fruit in the EU market is increasing, thanks to the rise of agricultural production and tariff exemptions and reductions in the EVFTA.

According to VinaFruit, in the first six months of 2021, the total export value of fruit and vegetables reached over $2 billion, up 17.4 per cent over the same period in 2020. However, the EU was not among the top five export markets.

According to Nguyen, Europe has always been a market with very high standards for food quality, but the pandemic has now further pushed these standards to a higher level. Intra-regional consumers are more interested in the food they eat every day, even as Europe has been effectively bringing the pandemic under control via vaccination programmes.

Nguyen warned that non-tariff barriers are being erected as soon as tariff barriers are removed, while the requirements for chemical residues in food imported into the EU are becoming more stringent, such as within the SPS measures.

In Vietnam, there are not many businesses that can directly export food to the EU because most of them are of small scale, and their competitiveness in the export market is not high.

Fruit and vegetable producer Nafoods JSC used to face many difficulties in ensuring production because the commitment of farmers to the business was loose. After the first outbreaks of COVID-19 in the EU, Ho Thi Loan, sales manager of Nafoods realised that this market is changing markedly, with more consumers preferring organic products with high nutritional value.

Because of this, Nafoods was one of the few Vietnamese enterprises that have been directly exporting passion fruit and some concentrated tropical fruits to the EU market, with a turnover of about $15 million per year.

In response to this trend, Nafoods established 1,500 hectares of plantation for passion fruit and cooperates with the Hanoian Institute of Crops Research and Development and a pesticide supplier to find products suitable for biological plant protection. These efforts have not only helped the company raise product quality, but also enabled a cleaner production environment for farmers as well as ensured a sustainable production to supply the EU market.

Despite the difficulties in accessing the market, the EU has remained attractive for domestic companies and motivated many to upgrade their products and processes to increase exports.

Nguyen Dinh Tung, general director of Vina T&T, said that the advantages from the EVFTA have motivated his company to focus on exploiting this market more strongly. However, he realised that the EU is a market with high technical standards for imported goods, especially food. “In addition to food safety certifications recognised by third parties, this market also requires suppliers to implement social responsibility and ensure sustainability factors," explained Tung.

Vina T&T – one of the first enterprises to export fruit to the EU with the preferential tariffs under the EVFTA – has accelerated the construction of a HACCP-certified preliminary processing factory and, at the same time, built plantations for mangoes, longan, and other fruits on an area of 500ha in the Mekong Delta provinces of Vinh Long and Dong Thap to further support its export operations. Moreover, the company also upgraded its production and processing conditions to meet the environmental and social certifications required in the EU.

The EVFTA is expected to help Vietnam go further and comprehensively improve issues in building a clean food chain. However, one of the biggest challenges for the country is that the government must quickly improve production and quality control processes in a wide range of industries to meet the stringent requirements of the trading partner, as well as improve the conditions for businesses to enjoy the preferential tariffs of the EVFTA.

3. Export of agricultural, forestry and fishery products brightening in the first half

According to the Ministry of Agricultural and Rural Development (MARD), despite being hit by the COVID-19 pandemic, the total export turnover of agri-forestry-fishery products in the first half of the year soared and surpassed the target. Of this, the export value of agricultural products (rubber, tea, pepper, fruit, wood products) was $10.4 billion, up 13.3 per cent.

Dang Phuc Nguyen, general secretary of the Vietnam Fruit and Vegetables Association, confirmed that the export value of fruits in the first half increased by 17.4 per cent on-year to $2.36 billion with numerous fruits having cracked open "difficult" markets in addition to China.

"The export turnover of fruit in the first half has surpassed 2020. Despite the pandemic, lychee still entered Singapore, the EU, Malaysia, Germany, Thailand, Cambodia, France, and the Czech Republic, in addition to China," Nguyen said, adding that the domestic consumption of fruit also rose significantly, thanks to the cooperation of a variety of businesses in the supply chain.

Bac Giang Department of Industry and Trade reported that the consumption of lychee reached impressive levels this year. Year-to-date by July 1, 213,765 tonnes of lychee were sold in the province, a rise of 130 per cent on-year.

Besides lychee, the consumption of plum, longan, and dragon fruit reported good results both in quantity and price in the first half.

Additionally, seafood exports recovered well, especially shrimp and catfish, according to the Vietnam Association of Seafood Exporters and Producers (VASEP). The MARD reported that seafood exports reached $4.05 billion in the first half, an increase of 12.5 per cent on-year.

While the export volume of rice did not increase by much, prices were getting higher. This has been beneficial for Vietnamese producers as the demand for rice and foodstuff has been increasing, especially in China and South Korea. Some businesses have been receiving export contracts even for the next quarters.

There are four major markets – China, the United States, Japan, and South Korea – importing agricultural, forestry, and fishery products of Vietnam, and most of them have maintained positive growth.

Specifically, the export turnover to the US, the largest market in the first half, was $6.7 billion, a rise of 59.8 per cent on-year, and making up 27.9 per cent of the total export turnover. The export value to China, the second-largest export market, was $4.75 billion, a rise of 32.1 per cent on-year and 19.6 per cent of the total.

4. Vietnam among top 20 FDI destinations in the world

In 2020, Vietnam ranked 19th globally as a FDI host country with $16 billion investment capital, up five places compared with 2019. FDI fell by 2 per cent in Vietnam because of significant investment contractions in manufacturing and real estate activities (the two largest recipients last year), but was cushioned by a rise in investment in electricity projects.

Inflows from major Asian economies (e.g. China, Hong Kong, Japan, Republic of Korea), traditionally the largest sources of FDI to Vietnam, declined.

The decline is much lower than other countries. FDI in Southeast Asia – normally an engine of growth for global FDI – contracted by 25 per cent to $136 billion, with declines in investment in all the largest recipients, including Singapore (-21 per cent), Indonesia (-22 per cent), and Vietnam (-2 per cent).

The newly-signed Regional Comprehensive Economic Partnership (RCEP) became one of the largest FDI recipient groups.

The report says that the COVID-19 crisis caused a dramatic fall in FDI in 2020. Global FDI flows dropped by 35 per cent to $1 trillion, from $1.5 trillion in 2019. This is almost 20 per cent below the 2009 trough after the global financial crisis.

The decline was heavily skewed towards developed economies, where FDI fell by 58 per cent, in part due to oscillations caused by corporate transactions and intrafirm financial flows. FDI in developing economies decreased by a more moderate 8 per cent, mainly because of resilient flows in Asia. As a result, developing economies accounted for two-thirds of global FDI, up from just under half in 2019.

All components of FDI were down last year. The overall contraction in new project activity, combined with a slowdown in cross-border mergers and acquisitions (M&A), led to a decline in equity investment flows by more than 50 per cent. With profits of multinational enterprises (MNEs) down 36 per cent on average, reinvested earnings of foreign affiliates – an important part of FDI in normal years – were also down.

The impact of the pandemic on global FDI was concentrated in the first half of 2020. In the second half, cross-border M&A and international project finance deals largely recovered. But greenfield investment – more important for developing countries – continued its negative trend throughout 2020 and into the first quarter of 2021.

According to the report, increasing investment to support a sustainable and inclusive recovery from the pandemic is now a global policy priority. This entails promoting investment in infrastructure and the energy transition, in resilience and in healthcare.

5. HSBC points out three challenges for Vietnam's economy in H2

HBSC has recently lowered its economic growth forecast for Vietnam this year from 6.6% to 6.1% following the fourth wave of Covid-19, which is the worst outbreak since the start of the pandemic.

Regarding the macro economy, the latest outbreak has caused disruptions in supply chains and would affect the sustainable recovery of the Vietnamese economy in the long term.

"With the closure of industrial parks and a long period of social distancing, Vietnam's economic growth will definitely face many challenges in the third quarter and the second half of 2021 as a whole," he said.

Social distancing measures to curb the spread of the coronavirus have also affected the consumption outlook and the recovery of the services and tourism industries.

Besides, the new variants of Covid-19 and the slow vaccination progress would delay the reopening of borders to foreign investors and tourists.

"Timely fiscal and monetary policies are needed to help businesses and citizens overcome difficulties," he suggested.

In terms of the exchange rate, it would be hard to maintain a stable Vietnam dong-U.S. dollar exchange rate in the second half given Vietnam's trade deficit, inflation worries and the possible rise in U.S. interest rates. Khoa predicted the dong-dollar exchange rate to be VND23,100 per dollar by the end of this year.

According to Khoa, unlike Western countries, Vietnam and other Asian countries have yet to see inflationary pressure. However, if prices continue to increase, the State Bank of Vietnam might have to raise interest rates.

He suggested that Vietnam should not increase interest rates too early or too quickly as the economy is severely affected by the pandemic.

Despite many challenges, HSBC still forecast a positive outlook for the Vietnamese economy in 2022 thanks to its strong motivation for economic growth.

The bank has revised upward its forecast for Vietnam's economic growth next year to 6.8% from the previous 6.5%.

"Once the pandemic is brought under control, Vietnam will benefit from strong recovery driven by technology development and foreign direct investment, becoming one of the most potential countries in the region," Khoa concluded.

6. Vietnam's PPP law is up and running

The spending required to close the infrastructure gap is significant. Latest by 2030, Vietnam will need an estimated $237 billion for infrastructure investments to achieve the Sustainable Development Goals. To fund this investment, the Global Infrastructure Hub estimates that Vietnam will need to mobilise an estimated $49 billion above what it has historically spent.

The government already shoulders 90 per cent of infrastructure spending, and public investment as a proportion of GDP at 8 per cent is relatively high. Therefore, Vietnam cannot afford a large increase in its infrastructure budget, given the fiscal pressures the pandemic introduced.

Public-private partnerships (PPPs) could help to address the shortfall. In June 2020, Vietnam passed its first Law on Public-Private Partnership Investment. In March, the government issued Decree No.35/2021/ND-CP on the implementation of the PPP law and Decree No.28/2021/ND-CP on the financial management of PPPs. Vietnam's legal framework for PPPs is largely in place. So what is next?

Successful PPPs begin with solid preparation. Given the volume of potential partnerships, effective project screening is essential to identify the most promising projects.

These projects then need to be prepared to a high standard. This includes not only proper financial structuring that allocates risks to the parties that can best manage those risks, but also application of the G20 Principles for Quality Infrastructure Investment. The latter takes a holistic approach to project preparation, emphasising lifecycle costs, the environment, natural disaster resilience, social impacts, and governance.

Such high-quality preparation is expensive. There is an understandable tendency to minimise costs at this stage, but a well-prepared project can pay for itself many times over, whereas a poorly prepared one can become a financial liability.

In the short term, Vietnam can tap donor support to fund some of these project preparation costs. In the medium term, it should develop a mechanism that recovers project preparation costs and recycles them toward future projects. Farsightedly, the PPP law anticipates such a mechanism.

The next priority is to achieve early successes that can become benchmarks. The Dien Chau-Bai Vot section of the North-South Expressway completed investor selection in December 2020, and construction commenced in May. Two other sections of the expressway have also been bid out and will start construction this year. As the first projects under the new PPP law, it is critical that they meet the expectation of all stakeholders to build momentum.

These projects, however, were tendered under national competitive bidding and were unlikely to attract significant interest from international investors for reasons both within and outside the government's control. The next round of PPPs must be able to attract international investors.

International competition in large infrastructure projects can deliver better technology, expertise, and overall value for the government and users. It can also mobilise international capital, which is essential because the domestic capital markets are too small to meet all Vietnam's capital needs.

Most expertise for PPPs and infrastructure planning is at the central level. The more this knowledge is diffused to municipalities and provinces, the more local projects will be able to leverage the efficiency of PPPs.

With support from the Canadian government, the Asian Development Bank (ADB) has recently approved technical assistance to develop such capacity at the subnational level. Moreover, whereas the Ministry of Planning and Investment and the Ministry of Transport have developed substantial expertise, efforts are needed to build capacity in ministries that historically have had less exposure to PPPs. Strong project preparation, successful pilots, and capacity building are the immediate priorities, but there are other milestones ahead.

First is sector diversification. The road sector, particularly given the government's target to construct 5,000km of expressway by 2030, will remain a priority, but this should not be to the detriment of other sectors.

The PPP law can be applied to water, health, education, and IT projects. The e-government procurement project that was prepared with ADB support and commenced implementation in 2020 demonstrates that Vietnam can successfully use PPPs to develop soft infrastructure.

The PPP law arguably favours these projects. Its provisions for build-lease-transfer and build-transfer-lease projects are more robust than for projects that rely on the law's revenue risk sharing mechanism. Soft infrastructure projects are more likely to be structured with one of the build-lease models.

Second is tapping the domestic bond market. Vietnam has relied heavily on its banks for domestic infrastructure. This creates a mismatch between bank's short-term deposits and infrastructure's long-project life. Concurrently, Vietnam's institutional investors have few options for long-term investments. Strong performing infrastructure projects can be refinanced through project bonds placed with institutional investors. The new law introduces the legal framework to facilitate such marriages.

Third is rethinking the use of government guarantees. In comparison to countries at a similar level of socioeconomic development, the PPP law treats guarantees for project termination, revenue shortfalls, and foreign currency convertibility very conservatively.

On one hand, it protects Vietnam from building up contingent liabilities that might not be well understood. On the other hand, it puts Vietnam at a disadvantage in the international competition for capital. It also leaves money on the table. A greater use of targeted guarantees could raise private investment for infrastructure that would otherwise be financed by the state or not built at all. The passage of the new law was a crucial milestone. The work of its implementation is now beginning in earnest, and the ADB stands with Vietnam and its other development partners.

7. Ministry proposes allowing international tourists to visit Phu Quoc from October

The proposal is being discussed with the Ministries of Health, Public Security, Foreign Affairs, National Defense, Transport and Information-Communications, the local media reported.

In the first three months, Phu Quoc would allow in 2,000-3,000 tourists per month through charter flights and confine them to designated areas.

In the three following months, it would welcome 5,000-10,000 guests per month. Tourists can fly commercial flights to the island and visit more destinations there.

The plan is aimed at gradually helping the Vietnamese tourism market recover and promoting Vietnam as a safe and attractive destination.

International tourists who want to come to Phu Quoc must show proof that they have got two Covid-19 vaccine shots, with the second shot administered at least 14 days prior to arrival but no more than 12 months before their arrival.

Tourists who recovered from Covid-19 and were discharged from hospital no more than 12 months might also be allowed to enter Phu Quoc. In addition, all tourists must show proof of negative real-time PCR test.

The Ministry of Culture, Sports and Tourism and Kien Giang Province would name service suppliers to serve international tourists.

Vietnam has a bubble tourism plan to welcome tourists from safe markets in Northeast Asia, Europe, the United States and the Middle East. All of them must come to Phu Quoc by air.

To ensure safety during the pilot period, the Ministry of Culture, Sports and Tourism proposed vaccinating at least 70% of the residents and laborers in Phu Quoc against Covid-19 by September. The Ministry of Health should provide Covid-19 vaccines, requirements for international tourists' vaccination certificates, details over the tourist testing process and instructions on quarantine and anti-virus measures.

Late last month, the prime minister asked the Ministry of Culture, Sports and Tourism and Kien Giang Province to come up with a plan to welcome international tourists to Phu Quoc and report the results this month. The Ministry of Health was assigned to coordinate with the relevant agencies to pilot the use of Covid-19 vaccine passports in some tourism hubs.

Corporate News

8. HVN: Vietnam Airlines to raise 349 million USD through share issuance

↑ 0.97%

At the general meeting of shareholders held on July 14, Vietnam Airlines Corporation (HVN) approved a plan of raising its capital by 8 trillion VND (around 349 million USD) through share issuance, with an issuance rate of 56.4 percent.

These shares are common stocks and shareholders can transfer them freely. Accordingly, existing shareholders can transfer their stock purchase rights to local individual or institutional investors. The right can only be transferred once during the given period. And subsidiaries are forbidden to buy shares or invest in the holding company.

Issuance procedures are expected to be completed in the second half of 2021, said Tran Thanh Hien, Chief Accountant of Vietnam Airlines.

With the current progress, funds raised from the issuance will arrive in the third quarter to maintain business activities.

The national flag carrier also prioritises disbursing the refinancing loans worth 4 trillion VND to pay for part of its outstanding debts, due debts, as well as current liabilities and long-term liabilities.

In 2021, due to the complexity of COVID-19, Vietnam Airlines set a target of nearly 37.36 trillion VND in consolidated revenue, equivalent to 88.4 percent of that of last year.

Le Hong Ha, General Director of Vietnam Airlines, said that to achieve this target, the air carrier will focus on operating flights safely, as well as preventing the pandemic. At the same time, it will carry out inclusive restructuring and digital transformation.

The company also seeks support from its counterparts to reduce prices, delay payment, and cut costs to minimise losses in business results. It expects to save more than 6.8 trillion VND in 2021 through these strategies.

At the meeting, the representative from Vietnam Airlines said that the carrier is reviewing its external investments, including divestment in some portfolios to have more capital for its own businesses.

This year, the carrier plans to sell six old ATR-72 aircraft and replace them with jet planes to strengthen competitiveness in niche markets.

Last year, it recorded consolidated revenue of nearly 42.3 trillion VND, surpassing its expectations. The consolidated losses were also lower than its origin plan.

On the stock market, HVN shares has kept falling since the beginning of April. The shares closed July 14 at 25,000 VND per share, up 0.59 percent, but they had lost nearly 24 percent since April and 10 percent compared to earlier this year.

9. VCB: Vietcombank H1 profit surges 35 pct

↓ -0.44%

A senior Vietcombank official who did not want to be named told VnExpress Monday that the rise in profit can be attributed to a 60 percent year-on-year increase in non-interest income, mainly from services.

In the first half of the year, the bank made bancassurance revenues of some VND500 billion.

In its first-half review meeting held late last week, Vietcombank said that as of late June, its outstanding loans rose over 9.8 percent against late 2020 to VND920 trillion.

The credit growth of more than 9.8 percent approaches the ceiling rate of 10.5 percent set by the State Bank of Vietnam for the whole year, so Vietcombank has proposed that the central bank increases it to 14 percent.

Its bad debt ratio increased from 0.6 percent early this year to 0.91 percent by the end of the second quarter, due to the Covid-19 outbreak.

The Vietcombank official said profit growth in 2021 is projected to be lower than the first half surge as credit growth has approached the ceiling rate, and the bank plans to continue to lower lending interest rates in the second half. Its bad debts are likely to increase further because of the pandemic.

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