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Market Analysis

1. Shares to move sideways with low liquidity

The market will continue to move sideways this week with low liquidity to gradually form a strong enough accumulation base before returning to the uptrend, analysts said.

The VN-Index was maintaining the recovery span from the support area of 1,286-1,261 points with low liquidity, which was a typical sign for an accumulation period, said analysts from SSI Securities Joint Stock Company (SSI).

"The current bottom-fishing demand is still weak, so it was likely that the VN-Index will continue to move sideways with low liquidity," they said.

"The VN-Index may return to the uptrend if the index surpasses the resistance area of 1,340 points with the volume rising to the 50-day average," they said.

The benchmark VN-Index on the Ho Chi Minh Stock Exchange (HoSE) inched 0.42 per cent higher to close last Friday at 1,299.31 points.

The southern market index had lost 3.6 per cent last week. An average of 599.9 million shares were traded on the southern market during each session last week, worth VND19.5 trillion (US$847.8 million)

BOS Securities Joint Stock Company (BOS) said that technical indicators had shown mixed signals, forecasting that the VN-Index will fluctuate around 1,290-1310 points in the first session of this week.

"Investors should carefully observe the market and consider increasing the proportion of cash in the portfolio," BOS said.

Saigon-Hanoi Securities Joint Stock Company (SHS) said that the market was likely to continue to adjust to lower price ranges this week to seek a return of demand.

The oil and gas industry last week became a bright spot with many stocks gaining, such as Vietnam National Petroleum Group (PLX), increasing by 0.6 per cent, PV Oil (OIL) gaining by 0.8 per cent, PetroVietnam Drilling Services (PVD) and Binh Son Refinery (BSR) both rising by 3.5 per cent, PetroVietnam Technical Services Corporation (PVS) up by 6 per cent.

Most of the remaining groups of stocks were in the downtrend. Banking stocks were in downtrend last week with Asia Commercial Bank (ACB) down 4.5 per cent, Bank for Investment and Development of Vietnam (BID) losing 5.3 per cent, VPBank (VPB) dropping 6.3 per cent, Vietcombank (VCB) losing 6.6 per cent, Vietinbank (CTG) falling 7.8 per cent and Techcombank (TCB) down 8.8 per cent.

"It is now not really safe for a short-term buying strategy," said Vu Minh Duc, Senior Manager, Research and Analysis Department at Viet Capital Securities (VCSC).

"If selling pressure increases again causing the VN-Index to close below 1,270 points next week, the index is likely to continue dropping to lower support levels, around 1,200 points," he said.

"The impact of the 4th wave of COVID-19 on Viet Nam's economic growth in the second half of 2021 was significant. VCSC's macro department in the latest report has lowered its GDP growth forecast for 2021 from 6.7 per cent to 5.5 per cent. However, we think these are only temporal effects and GDP is expected to grow above 6.5 per cent in the next two years.

"However, the factor affecting the cash flow into the market is not the pandemic but rather the investors' confidence in the market's growth trend," he said.

Last week, on the Ha Noi Stock Exchange (HNX), the HNX-Index also closed higher on the last trading session of the week, up 0.48 per cent to 307.76 points.

It had risen 0.34 per cent last week.

An average of 126.8 million shares were traded on the northern market during each session last week, worth VND2.7 trillion.

Macro & Policies

2. Three mobile network providers seek permission to launch mobile money services

Three mobile network operators - Viettel, VNPT and MobiFone - have applied for the implementation of their own Mobile Money pilot projects.

These projects will allow the use of mobile phone credit to pay for small-value goods and services.

The Ministry of Information and Communications (MIC), the Ministry of Public Security (MPS) and the State Bank of Vietnam (SBV) had worked together to assess the projects, Deputy Governor of the SBV Nguyen Kim Anh told Tuoi tre (Youth) newspaper.

The application dossiers for licences have been sent back to the firms for improvement, in accordance with the Prime Minister's Decision regarding the pilot run of the services, he added.

The Decision states that firms operating the services must apply artificial intelligence (AI) and big data at points of sale to verify users, as well as devise mechanisms to keep watch on the cash transactions and ensure the accurate amounts.

According to the SBV, upon the completion of procedures, the providers will be allowed to pilot the services for two years.

Approval of the project aims to bolster cashless payments via mobile devices as well as access to and use of financial services, particularly in rural and remote areas, to capitalise on the country's telecommunications infrastructure and network.

The credit limit will be no more than 10 million VND (435 USD) per month for all transactions on each account.

Vietnam has around 129.5 million mobile subscriptions, around half of which use 3G and 4G, and 43.7 million, or 45 percent of the population, using smartphones.

According to the Global System for Mobile Communications Association (GSMA), Mobile Money currently covers 290 different types of transactions in 95 countries worldwide with 1.04 billion registered accounts. Mobile Money transfer agents worldwide are seven times more common than ATMs and 20 times more than bank branches.

3. Different viewpoints about building second airport for Hanoi

Early this month, Hanoi People's Committee sent Dispatch No.2146/UBND-DT to the Ministry of Transport (MoT) commenting on the planning of Noi Bai International Airport in the 2021-2030 period, with a vision towards 2050.

This is the second time in the past month the leadership of Hanoi has raised opinions to the planning of a transport system having huge impacts on the socio-economic development of not only Hanoi, but also the whole northern region.

In Dispatch 2146, Hanoi People's Committee stressed the desire that Hanoi's key international airport should be positioned right in the city space, with deserving role and status.

The dispatch, signed by Duong Duc Tuan, Deputy Chairman of Hanoi People's Committee, proposed that the airport should be able to handle 130-150 million passengers a year by 2050 to match forecast development needs and orientations, instead of just 100 million passengers as mentioned in the national airport system development master planning in 2021-2030, with a vision toward 2050 outlined in Decision No.590/QD-TTg dated May 20, 2008 of the prime minister.

According to the MoT, the consulting units have presented three scenarios on developing Noi Bai airport, corresponding to three planning schemes of Hanoi's second airport in terms of scale, location and time of research.

In Dispatch 2146, Hanoi People's Committee proposed the MoT to consider two planning options for Noi Bai International Airport and the second airport for Hanoi.

Accordingly, the city's management authority wants Noi Bai International Airport to have a scale of about 65 million passengers per year with an area of 1,493ha area, matching the airport's capacity forecast for 2030.

Hanoi's leadership also wants the city's second proposed international airport to be placed in Hanoi's southern part with a capacity of 65 million passengers per year so that Hanoi's airport system can reach a total passenger annual capacity of 130 million passengers.

In case the MoT decides to raise the capacity of Noi Bai International Airport to 100 million passengers per year, Hanoi People's Committee would still want the second airport to be able to accommodate 50 million passengers per year by 2050.

Hanoi says its proposal would allow it to prepare sufficient land area for the airport and update the relevant planning schemes.

Besides, Hanoi People's Committee has proposed the second international airport to be placed in Ung Hoa district which has favourable transport connectivity as it is about 54km from Noi Bai International Airport and 20km northwest to Mieu Mon airport. It can easily connect with different highways such as Phap Van-Cau Gie, national highways 5 and 7A, and the North-South railway, among others.

It is also convenient for land clearance as the 1,300ha proposed space is mostly agricultural land with a low area for site clearance.

Meanwhile, in Dispatch No.6594/BGTVT-KHDT the MoT sent Hanoi People's Committee on July 9, the ministry proposed a scale of 100 million passengers a year for Noi Bai airport while the planning of the second airport would be considered after 2030.

According to the MoT, consulting units proposed Noi Bai International Airport to have a capacity of 60-65 million passengers per year by 2030, which would be increased to 100 million passengers per year by 2050.

The MoT argued that this scheme would help optimise the airport's financial efficiency and position advantages. It also added that Ung Hoa would be an unfeasible location for the second airport.

"Some other locations such as Thanh Mien in Hai Duong and Tien Lang in Haiphong were deemed more feasible," said Le Anh Tuan, Deputy Minister of Transport.

According to the MoT, the consulting units have proposed postponing the study of Hanoi's second airport to after 2040.

After receiving Hanoi People's Committee proposal, the MoT said they would base their decision on the actual socio-economic development situation and the pace of the rebound of the local aviation market post-pandemic.

4. Pharma rules unable to stand test of time

Decree No.54/2017/ND-CP which entered into force in July 2017 to guide the implementation of the Law on Pharmacy was expected to be a breath of fresh air in the pharmaceuticals market. However, troubles still linger in regards to lengthy procedures and drug registration, with the long-awaited distribution rights remaining far from the grasp of Adamed Pharma and other foreign-invested enterprises (FIEs).

According to Magdalena Krakowiak, head of Public Affairs and CSR in Vietnam at Adamed Pharma, the changes in 2017 were supposed to be a step towards granting FIEs the right to directly import pharmaceutical products and sell them to Vietnam-based wholesalers. However, FIEs are still not allowed to distribute pharmaceutical products.

"The changes from Decree 54 were not that meaningful from the perspective of Adamed. From the beginning, the company has been eyeing up the incentives from the country's plan to prioritise domestically manufactured pharmaceuticals," she told VIR.

When in 2017 Adamed acquired a controlling stake in Davipharm, one of the fastest-growing pharmaceutical companies in Vietnam, we were quite clear that we wanted to expand our local production.

With over $10 million invested by Adamed by the end of 2020 in Davipharm's production plant in Binh Duong province, Vietnam's first high-potency zone for production of oncological drugs in solid forms and with EU-GMP certification, we continue to execute our strategy focused on raising standards of drug production in Vietnam.

The company's ambition is to offer domestically produced and high-quality medicines at affordable prices to Vietnamese patients. By establishing the local production of these affordable drugs, the company plans to expand to other markets, with Vietnam as a production hub.

Davipharm's portfolio has 28 high potency drugs, including oncology drugs for the treatment of various cancers and leukaemia. In general, Davipharm provides medicines for 12 different therapeutic areas including the cardiovascular and respiratory systems.

Through its local company Davipharm, Adamed aims to increase the capacity of domestic drug manufacturers, improve patient safety, and provide medicines to treat some of the most common diseases in Vietnam.

Krakowiak added that the additional administrative burdens resulting from the Ministry of Health's (MoH) Circular No.32/2018/TT-BYT dated November 12, 2018 on marketing authorisation of drugs and medicinal ingredients such as drug registration requirements, which are not in line with international standards and created lengthy procedures, forced new barriers for importers.

Like Adamed, other FIEs have been facing similar challenges.

"In the four years since the issuance of Decree 54, we our members have been finding it hard to expand our business activities in Vietnam because of the ban on the distribution of pharmaceuticals among FIEs," confirmed a representative of an international pharma firm, who denied to be named.

Specifically, FIEs claim processing applications to renew marketing authorisation runs far beyond the set timeline, and new submissions are not processed. To boot, the provisions of Circular No.29/2020/TT-BYT issued at the end of 2020 will soon elapse, bringing the situation back to the regulations of Circular 32.

Over the past years, to adapt to the new rules and to benefit from the right to directly import pharmaceutical products, multinational corporations have been changing their business strategies. France's Sanofi-Aventis Vietnam Ltd. has turned it into the first lawful multinational importer in drug production in the country since 2019.

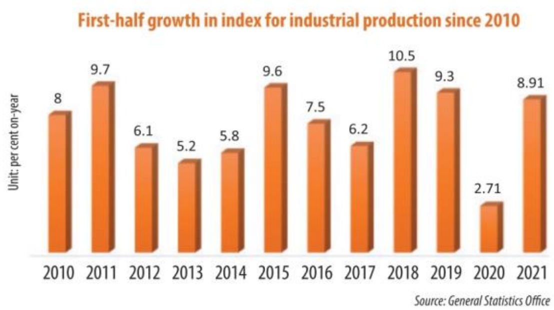
A representative of Sanofi Vietnam said, "Sanofi Vietnam always desires to bring more and more innovative healthcare solutions to Vietnam which can help people enjoy a healthier and fuller life. We always respect the regulations and instructions of local authorities, and we also work closely with the MoH, its Drug Administration of Vietnam, and other health authorities as well as follow their instructions."

Switzerland-based Novartis has also inaugurated a new legal entity in Vietnam since early 2020, when it became one of the first MNC in the country to successfully transform from a representative office to a foreign importer. Elsewhere, AstraZeneca transformed its Vietnamese arm into an FIE by launching AstraZeneca Vietnam last year. With the transition, MNCs are now increasing their role in Vietnam's pharmaceutical market, where 50 per cent of pharmaceuticals are imported.

Statistics from Vietnam Customs show that Vietnam spent nearly $1.2 billion on pharmaceutical imports in the first five months of 2021, down 5.8 per cent on-year. The main markets are France, Germany, the United States, India, Italy, the United Kingdom, and Belgium.

5. Industrial production shores up post-pandemic prospects

Having been operating in Hanoi for 13 years, Japanese-backed Walcom Industry in Hanoi last December had to halt imports of components and materials from Japan and a number of other overseas markets where production and supply chains were disrupted by COVID-19.



However, since this March, imports have been resumed as the foreign partners recovered and boosted exports. Walcom Industry, manufacturing vehicle components, is also increasing exports to Japan, China, and elsewhere in Southeast Asia.

"The company's import volume has risen 10 per cent since March, and we are planning to open a new workshop to expand production," said a Walcom Industry Vietnam representative. "The company's six-month revenue is estimated to increase by 5 per cent on-year, and the rate may be the same for the whole year."

Also based in Hanoi, Japanese-invested FCC Vietnam Co., Ltd. is expected to import six new lathes valued at over $1 million for one of its workshops by late September this year, meaning another about 25 new workers will be needed.

"The company has recently imported two lathes as it is expanding production. Over recent months, workers like me have become much busier as FCC Vietnam has landed many new orders from American partners who want to buy new products from the company," worker Do Hong Minh told VIR. "More work means more money and I'm able to save for my upcoming wedding. My average monthly income has climbed by another VND1 million ($44), in comparison to that made in December."

FCC Vietnam boasts 1,200 workers for three big workshops manufacturing vehicle clutches, and other spare parts of the automotive sector to supply for Yamaha, Suzuki, and Honda. The products are also exported to the US.

Previously, the health crisis forced FCC Vietnam to shrink production costs, with over 200 workers facing a layoff with 70 per cent of monthly salary. At present, all workers are working at full speed, with an increase in income.

These two firms are among many increasing imports for their manufacturing production in Vietnam over the past months. Under a recent survey by Japan's Pasona Group Inc, about 57 per cent of Japanese businesses in Vietnam are planning to increase performance in the nation, with 43 per cent saying they had or will have a plan to expand their offices in the country.

According to the General Statistics Office (GSO), Japanese firms have greatly contributed to domestic industrial production, which is gradually improving because more and more materials and components are imported into Vietnam for production, and not for direct consumption.

The GSO reported that Vietnam's import turnover, mostly for domestic production, hit $159.1 billion in the first half of this year, up 36.1 per cent on-year. In which, the figure was $75.31 billion in the first quarter, up 26.3 per cent, and $83.5 billion in the second quarter, up 45.7 per cent.

Meanwhile, the country's six-month export turnover reached $157.63 billion, up 28.4 per cent on-year. In which, the figure was $77.34 billion in the first three months, up 22 per cent, and $79.23 billion in the second quarter, up 33.5 per cent.

"Amid the ongoing pandemic, business and production activities of enterprises in general and of manufacturing and processing firms in particular in the second quarter have shown positive signals," said GSO general director Nguyen Thi Huong.

The GSO reported that after growing 6.29 per cent on-year in the first quarter, industrial production in the second quarter of 2021 saw positive growth of 11.45 per cent as compared to that of only 1.1 per cent in the same period last year.

In the first half of this year, the rate was 8.91 per cent on-year, in which the growth rate of the manufacturing and processing sector – which creates 80 per cent of industrial growth – climbed 11.42 per cent as compared to that of 5.06 per cent in the corresponding period of 2020.

Under a recent GSO survey of nearly 5,700 manufacturing and processing enterprises nationwide, 68 per cent of respondents said their second-quarter performance has been better than that in the first quarter. The businesses' confidence in the government's direction of the economy has risen significantly, with 78 per cent of respondents forecasting that their performance will be better in the third quarter than in the second quarter. Only 22 per cent predicting that they will be more difficult in the third quarter.

Moreover, up to 70 per cent of enterprises said their orders increased in the second quarter as compared to those in the first quarter. Some 79 per cent of surveyed firms expected that their orders will be increased and maintained in the third quarter. About 83 per cent predicted their new orders in the second half of 2021 will be increased and maintained.

Meanwhile, Minh from FCC Vietnam also told VIR that he felt optimistic over his work, and believed in the economy's prospects.

"Our company is expanding its workshops, meaning we will have more work to do," Minh said. "My sister is also working for a foreign company in Hanoi producing garments. She is working at full speed, with an income in the first half of 2021 at VND1.5 million ($65) higher than that in the same period last year."

According to the GSO's survey, the respondents in the garment sector said their company's orders increased 36.1 per cent in the second quarter of 2021 as compared to the first three months.

In a specific case, Nguyen Viet Thang, director of No.26 JSC, said that the company is expanding operations, and in need of new workers. "We currently have over 1,000 workers and is recruiting more," Thang explained. "All products are locally consumed and exported."

The GSO reported that in the first half of 2021, Vietnam's total garment and textile export turnover hit $15.2 billion, up 14.9 per cent on-year.

Figures from the GSO also showed that in the first half of 2021, the economy witnessed 67,100 businesses newly established, registered at VND942.6 trillion ($41 billion) and employing 484.3 new labourers, up 8.1 per cent in the number of businesses, and 34.3 per cent in registered capital.

However, also in this period, 60,300 businesses halted operations and awaited disbandment, up 24.9 per cent on-year.

The government has enacted Resolution No.63/NQ-CP on boosting economic growth, disbursement of public investment, and sustainable exports in the remaining months of 2021 and into 2022.

The resolution focused on many varying solutions such as combating the pandemic and facilitating socioeconomic development; maintaining macroeconomic stability and ensuring major balances of the economy; fostering administrative reform and digital transformation; removing institutional barriers; speeding up public investment disbursement; boosting import and export towards a harmonious and sustainable trade balance; and also supporting both individuals and businesses, among many others.

6. Textile and garment makers seek multitude of options

Production activities at Pou Yuen Vietnam have been upset by the detection of an F1 case at the company's factory, leading to mandatory quarantine for over 140 more workers who work at the same production line. Pou Yuen Vietnam, which belongs to Taiwanese Pou Chen Group, has been investing into Vietnam since 1996 and specialises in garments and sport shoes, with its factory in Ho Chi Minh City providing employment for around 56,000 people.

COVID-19 continues to negatively impact Pou Chen, the world's largest sports shoe manufacturer, which has a total of eight factories in five cities and provinces of Vietnam. The current outbreak is showing no signal of stop, causing tremendous difficulties for Vietnam's manufacturing industry, including textiles and footwear – the two most labour-intensive industries.

"We have had many orders but still make losses. The more this situation progresses, the more difficult it will become to keep the jobs for our workers," said Phan Thi Thanh Xuan, general secretary of the Vietnam Leather, Footwear and Handbag Association (Lefaso).

Up to this point, many leather and footwear businesses have had orders until the end of Q3 of 2021, or even the end of the year. However, according to Xuan, the processing price of leather and footwear products is overall decreasing while input costs are increasing, by around 5-10 per cent.

Materials imported from China are still the cheapest, but prices there are also beginning to increase. Moreover, producers and wholesalers struggle with a lack of containers for shipping and consecutive price hikes for renting them. Among the most affected countries are primarily small and medium enterprises.

Pandemic struggles

The latest outbreak of the pandemic exacerbated the difficulties of businesses when they had to bear additional costs of disease prevention and control. Xuan estimated, "A 900-employee enterprise, implementing pandemic prevention and control activities for two months, has to spend about $1 million buying tests and protective equipment and cover other costs."

The problems that Xuan described affect most of the businesses in the leather, footwear, and textile industry. The situation forced the Vietnam Textile and Apparel Association (VITAS) to urgently send a dispatch requesting the government to support businesses to remove difficulties, such as reducing land rent and extending VAT payments until the end of 2021, said Vu Duc Giang, chairman of VITAS.

According to Giang, related Vietnamese enterprises have to face a downward trend in prices, especially those dealing in the textile segment. Yarn prices have increased by about 25 per cent since last December while the prices of sold fabric have not been adjusted yet, pushing many textile enterprises into the doldrums.

In the first half of 2021, the industry was not as frozen as in 2020, but businesses suffered great damage from the pandemic, especially those with infected people. Many enterprises have stopped production and had no income, with some of them not entitled for support, debt relief, and tax reduction, but still having to pay part of the basic salary for employees, while it remains possible that contract penalties from foreign buyers could be incurred.

In addition, the collection of infrastructure fees at seaports "is also putting great pressure on textile and garment exporters," said Giang.

VITAS has also proposed to the government and related agencies to reduce road tolls and other fees. At the same time, it was suggested that the northern city of Haiphong continues reducing port fees and that Ho Chi Minh City will refrain from doing so, despite unadjusted plans to follow through with such fees.

The Ministry of Industry and Trade has acknowledged that the pandemic developments continued to severely affect production and export activities of enterprises. Nevertheless, industrial production in the first six months of 2021 increased by 8.91 per cent on-year, higher than the growth rate of 2.91 per cent in the first six months of 2020, but still lower than the growth rate of 9.13 per cent the same period 2019.

Through the first half of 2021, production of Vietnam's industrial enterprises, particularly in the textile and footwear industry, was in the worst condition since February 2020, when the pandemic came to Vietnam. The inventory index of the entire industry increased by 24.3 per cent compared to the same period in 2020, an increase of 26.7 per cent as of June 30.

The global health crisis negatively impacted the growth target of the textile industry. In 2020, the value only reached $35 billion, down 9.82 per cent compared to 2019's $38.9 billion and 2018's $36.25 billion.

The total export turnover of the textile and garment industry in the first six months of this year reached $15.2 billion, up 14.9 per cent on-year, while footwear reached $10.4 billion, up 27.8 per cent on-year.

As input prices remain expensive, many businesses do not want to produce a lot of goods. At the same time, the country is struggling with securing vaccines to vaccinate 70 per cent of the population by the end of 2021.

Sustainable solutions

Effective government measures have had a great impact in protecting the economy from the pandemic. The prime minister signed and promulgated Resolution No.09/NQ-CP dated May 18 on the purchase of vaccines against COVID-19. However, purchases have been forcing the government to use short-term solutions in pandemic prevention.

Xuan of Lefaso found that the supply chain of vaccines has many gaps at the moment. "Letting businesses take the initiative in funding as well as finding sources to import vaccines will bring greater efficiency and reduce the burden on the state," suggested Xuan.

Many textile enterprises have already begun buying and injecting vaccines for workers. However according to Le Tien Truong, general director of Vietnam National Textile and Garment Group (Vinatex), about 300,000 doses of vaccine are needed for all those working at Vinatex and its member companies.

"Vinatex proposes that the government pays attention to prioritising vaccine sources for textile workers, and businesses like us are willing to bear all costs to vaccinate their workers," said Truong.

According to him, global herd immunity would be required to help Vietnam's textile and garment industry achieve a 10-per-cent growth in 2021. Despite this, Truong believed that the market will be more optimistic in the last six months of the year, when consumption of high-value items usually increases.

But businesses also have other options. VitaJean Co., Ltd. in Ho Chi Minh City is one of the country's largest garment manufacturers. The company decided to expand its factory area to meet the social distancing requirements and continue its production largely unaffected. In addition, VietJean has had more than 1,000 workers already vaccinated.

Pham Van Viet, general director of VitaJean, said that the production gap and around 20 per cent of missing workers are the main reasons for the reduction in the company's output. Because of this, VitaJean could not meet its target of producing 20,000 items per day, which are usually delivered to Japanese, American, and European buyers.

Nevertheless, Viet sees the fact that the United States and European countries are gradually or completely lifting order blockades as an important driving force to increase export value in the coming months.

According to Lefaso, businesses in the garment and textile industry like Pou Yuen Vietnam are now in critical need from the state for them to stay afloat. Slow-paced vaccinations can cause further disruptions in the production and supply chains and Vietnam's textile and garment exports from now until the end of the year.

7. Solving the puzzle of foreign interest in SOE equitisation

Recently, slow progress in equitisation and divestment of state-owned enterprises (SOEs) has been attributable to the current pandemic, but this is only a recent cause. More fundamental causes are overpricing of shares, the reluctance of local management to act, and bureaucratic inertia. Schedules have been set and deadlines missed. Most recently, many SOEs missed 2020 deadlines contained in Decision No.26/2019/QD-TTg and they have been reset for 2021.

According to the report of the Ministry of Finance's Department of Corporate Finance, up to May 2021, the accumulated value of divested state capital is VND286.6 billion ($12.46 million). From that, the state budget is said to have realised over VND2.16

trillion ($93.9 million). Remarkable divestment could occur in Vietnam Rubber Group, Viettel, Vietnam Education Publishing House, and Vietnam Posts and Telecommunications Group, some of which are government icons.

In the first five months of 2021, amounts collected from equitisation and divestment was VND228 billion ($9.9 million). But expected revenues to the state budget in 2021 is VND40 trillion ($1.74 billion), according to projections in Decision No.1950/QD-TTg from last November. To reach this goal, Vietnam must attract significant foreign investment to equitise SOEs.

Necessary measures

The expectation is that SOEs can develop more efficiently if they take advantage of the experience, management, technology, and financial capacity of financiers from abroad. Their participation in SOEs is expected to help improve business efficiency and modernise corporate governance methods, so that the SOEs will gradually approach international governance standards.

Such enterprises have opportunities to improve their reputation and expand operations scale. According to the State Capital Investment Corporation, with the current participation of foreign investors in existing SOEs, the affected enterprises have gained certain success. Frequently cited examples are Vinamilk and Binh Minh Plastic JSC. Even so, attracting such investors in the equitisation plan in recent years has not been totally successful. Only a small number of SOEs have sold shares to strategic foreign investors through the formal process of equitisation.

There are a number of reasons why many overseas investors view the equitisation of SOEs as unattractive.

As a general advice provider for the prime minister in re-ordering and renewing these enterprises, the Ministry of Planning and Investment has strictly followed strategies in Resolution No.12-NQ/TW to compose Decision No.22/2021/QD-TTg on classification criteria for SOEs, especially those undergoing restructuring from now until 2025.

Restructuring SOEs in this timeframe will follow the targets of providing the overall classification criteria (industry, field, or area) in line with specific characteristics of each industry and locality; as well as generating revenues for the state to invest in socioeconomic development heading towards 2025.

The issuance of Decision 22 reflects the commitment of the government to restructure SOEs. This is considered an important step to enhance efficiency of the state on investing, managing, and using state-owned capital in SOEs.

First, a crucial reason for the marginal success to date is a lack of public and transparent information as it relates to the SOEs which are the target. Management of targeted SOEs does not always fully support equitisation. Although regulations on disclosure and transparency of those which intend to equitise are relatively adequate, the reality is that lack of transparency remains a major hurdle.

Many SOEs' fail to comply with legal requirements and so transparency and information disclosure is thought to be limited. On the other hand, foreign investors will consider investing in SOEs that disclose both financial and non-financial information in a transparent manner.

A second reason is valuation, which can create obstacles to strategic foreign investors. The equitisation process normally takes a long time as authorities must deal with financial information, land use rights, and labour issues. Most of the delay comes from problems with the valuation of the SOE's assets, especially the value of land use rights and intangible assets.

Assets including land are frequently evaluated quite differently from a government standpoint and from a commercial standpoint. To attempt to settle obstacles involving land, in May the Ministry of Natural Resource and Environment issued Circular No.03/2021/TT-BTNMT which deals with the special issues which concern land use rights and the like when equitisation is involved.

Next, limits on the ownership ratio of foreign investors as well as the ownership ratio of the state in the SOE post-equitisation is a main area of disagreement. Even after equitisation, the state's ownership ratio remains high. As a result, the equitisation may not have created diverse ownership. It is unattractive for foreign investors to hold a minority stake in a company and feel they are unable to exert necessary control or even have an impact. They prefer to own a majority share in their investments and to be able to exert larger control.

Lastly, many SOE candidates before equitisation are enterprises already coping with difficulties, such as losses, ineffective management, and weak market position. This is not normally attractive to strategic foreign investors. They expect to enter into Vietnam's market by way of funding enterprises that have a stable business. Even to the extent that investors are willing to invest in an SOE in difficulty, they expect to be able to have the necessary control to be able to make major decisions.

Robust solutions

Nevertheless, there are several measures out there that can help attract interested parties from other countries to equitise SOEs.

Improving transparency and disclosure by SOEs and agreement on an acceptable form of valuation is of critical importance for SOEs to achieve equitisation. Toward this end, SOEs should be subject to the same high-quality accounting and auditing standards as are listed companies. Large SOEs should use internationally recognised standards and their accounts should be audited by independent external auditors.

Furthermore, the government continues to improve the legal and regulatory framework for SOE equitisation, divestment, and restructuring. Although the government has promulgated regulations for equitisation, the inadequacy of some provisions remains. It is necessary to have guidelines in order to settle obstacles that arise during negotiations. Using methodology used to settle on a price for an initial public offering of SOEs is one avenue. Often this is pure market judgement and not the result of an application of fixed rules. Sometimes rules based on an auction mechanism will work well. The government must also hasten to encourage foreign investors to participate in equitisation of SOEs, and so preferential but selective policies for them could work. Increasing the limits on foreign ownership or application of tax preferences are some options.

In a sign of positive movement, the Committee for Management of State Capital at Enterprises has been assigned the task to create a scheme to encourage foreign investment in the purchase of shares in SOEs. This was done under Resolution No.58-NQ-CP dated April last year promulgating the government's action programme to implement Resolution No.50-NQ/TW in 2019 on improving institutions and policies to raise the quality and effectiveness of foreign investment cooperation through to 2030.

Before equitisation, the government should work with SOEs to handle special or unusual difficulties, remedy methods to reduce losses, improve management capacity, and provide a mechanism where even a minority owner has realistic levels of input. In those enterprises where there is no point for the state to hold capital, the government can accelerate the process to divest completely from such businesses or to close the business. Of course, this is not a new idea, and the government has followed such a course in many instances.

Finally, the government can hold meetings, conducts workshops, and enter talks with SOEs and investors to find ways to support them to overcome obstacles from the equitisation process. This is an opportunity for the government to receive feedback and understand the approach of foreign investors. This gives the government a basis to make appropriate changes and amendments to policies designed to accelerate equitisation.

SOE equitisation has brought positive changes. But there are limitations, especially when the target investor is a foreign company. But SOE equitisation is a prolonged process with many obstacles. The government will need to continue to examine its approach, take more market-friendly measures to ensure that the SOE equitisation objective can be achieved, and then find ways to interest foreign investors to participate in SOE equitisation.

Corporate News

8. GAS: PVGAS Trading transports first LPG lot to floating warehouse

↓ -0.55%

PetroVietnam Gas Trading Company (PVGAS Trading), a subsidy of the Petrovietnam Gas Joint Stock Corporation (PV GAS), has successfully transported the first lot of liquefied petroleum gases (LPG) to the floating warehouse at the anchor area in Hai Ha port in the northern province of Thai Binh.

This is an important milestone marking PV GAS and PVGAS Trading's success in ensuring LPG supply to the northern market, ensuring national power security.

It also affirms PV GAS's commitment to providing green energy to serve national development.

Over the years, LPG supply for the northern market mostly depends on imported sources, causing a risk of interruption.

On July 14, the first batch of LPG weighing 1,700 tonnes from the warehouse was provided to PV GAS Trading in neighbouring Hai Phong city.

9. LPB: The record date for stock dividend payment for 2020

↓ -0.90%

On July 14, 2021, HOSE issued Announcement No.1323/TB-SGDHCM regarding the record date of Lien Viet Post Joint Stock Commercial Bank (LPB) as follows:

1) Listed firm: Lien Viet Post Joint Stock Commercial Bank

2) Stock code: LPB

3) Par value: VND10,000

4) Ex-right date: July 21, 2021

5) Record date: July 22, 2021

6) Purpose: to make the stock dividend payment for 2020.

7) Detailed information:

- Estimated issue volume: 128,956,669 shares

- Exercise ratio: 100:12

- Plan to deal with fractional shares: The distributed shares will be rounded down. The fractional shares will be cancelled.

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