VIETNAM DAILY NEWS

JSI
JAPAN SECURITIES INC.

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Market Analysis

1. VN-Index rally extends to eighth day

Shares finished higher on Wednesday, but the gains were smaller on rising selling pressure.

On the Ho Chi Minh Stock Exchange (HoSE), the benchmark VN-Index increased slightly, expanding the rally to eight straight sessions. Accordingly, the index rose 2.3 points, or 0.17 per cent, to 1,334.74 points.

The market's breadth was positive with 213 stocks climbing while 152 slid. But the liquidity was lower than Wednesday as 661.8 million shares were traded on the southern bourse, worth nearly VND21.3 trillion (US$933.1 million).

The index continued to receive support from some pillar stocks in real estate, utilities, banking and material sectors. The 30 biggest stocks tracker VN30-Index witnessed a small gain of 0.16 per cent, or 2.33 points, to 1,472.2 points.

Of the top five stocks influencing the market's trend, Novaland gained the most, up 1.9 per cent, followed by PetroVietnam Gas JSC (PVGas, GAS), up 1.08 per cent.

Sacombank (STB) and MBBank (MBB) were two big banking names in the top five list, up 2.85 per cent and 1.37 per cent, respectively. And the last was Petrolimex (PLX), up 2.15 per cent.

Other stocks like Saigon Beer - Alcohol - Beverage Corporation (SAB) and Hoa Phat Group (HPG) also contributed to the gains.

The limited gain was due to spreading selling forces in large-cap stocks.

Masan Group (MSN) posted the biggest losses Wednesday, down 1.31 per cent. The trio of Vin-family stocks, including Vingroup JSC (VIC), Vinhomes SJC (VHM) and Vincom Retail JSC (VRE), also plunged after big increases during Tuesday's trade.

On the Ha Noi Stock Exchange (HNX), the HNX-Index edged 0.28 per cent higher to close Wednesday's trade at 320.02 points.

During the trading session, investors poured over VND2.79 trillion into the northern market, equivalent to a trading volume of 120 million shares.

The market move was inline with expectations from Saigon - Hanoi Securities JSC (SHS). "The market is likely to struggle and fluctuate on the August 4 session," the securities firm said.

"The VN-Index's support and resistance zones are 1,300 points and 1,350 points, respectively."

Meanwhile, foreign investors were still flocking into the southern market, as they net bought a value of VND829.79 billion. However, they net sold a value of VND9.8 billion on HNX.

Macro & Policies

2. Agro-forestry-aquatic product exports up nearly 27 percent in seven months

Total export-import value of agro-forestry-aquatic products in the January-July period was over 53.2 billion USD, of which some 28.6 billion USD came from exports, up 26.7 percent year-on-year.

In July alone, these products earned 4.2 billion USD from exports, up 26.7 percent against the corresponding time last year, but down 9.5 percent from the previous month, according to the Ministry of Agriculture and Rural Development.

Rubber, fruits and vegetables, pepper, cashew nuts, cassava and cassava products, husbandry products, tra fish, shrimp and timber products were among the items with high export values in July.

However, coffee, rice and tea saw their export volumes and values dropping in the month.

For export markets, Asia made up 42 percent of the market share, followed by America (31 percent), Europe (11 percent) and Africa (nearly 2 percent).

The US was the biggest importer of Vietnamese agro-forestry-aquatic products with turnover amounting to 8.2 billion USD, accounting for nearly 29 percent of the market share. It was followed by China with revenue of some 5.5 billion USD, and Japan with over 1.9 billion USD.

To boost exports in the remaining months of this year, the ministry will continue opening the market and providing updates on trade agreements, policies and regulations of foreign markets for exporters, said Deputy Minister Phung Duc Tien.

The ministry has also closely coordinated with Vietnamese commercial counsellors abroad, and supported localities and businesses in shipping qualified products to the EU, the UK, China and Japan, while working to remove trade and technical barriers for Vietnamese agricultural exports.

Given the complex developments of COVID-19, it will instruct and assist localities and enterprises to maintain production and business in line with pandemic prevention and control regulations, he said.

The ministry said in the seven months, Vietnam imported some 24.7 billion USD worth of agro-forestry-aquatic products, a year-on-year increase of 42.8 percent, resulting in a trade surplus of around 3.9 billion USD, a drop of 25.8 percent from the same period last year.

3. More than 30 per cent of textile, garment operations on hold due to COVID-19

"I think that a number of these factories will even have to close for a long time, especially small and medium enterprises," said Vu Duc Giang, chairman of Vitas at an online meeting on Monday.

Businesses, he said, do not have enough funds to pay for three-on-site working arrangements to support employees to return to work. This is a huge challenge to stabilising Vietnamese textile and garment enterprises.

In addition, the vaccination rate of Viet Nam's textile and garment industry was still very low, he went on.

The vaccination rate was particularly low in key production areas in the southwestern and southeastern provinces.

Vitas was one of four associations that sent an official dispatch to the Prime Minister, proposing speeding up vaccinations or supporting businesses to buy vaccines to give to workers of export industries.

The total export turnover of the provinces in the central region accounted for 62 per cent of the total export turnover of the industry.

Giang notes that this month would be a particularly difficult period, especially for southern businesses due to social distancing requirements.

Up to 90 per cent of supply chains in the sector are currently broken.

Vitas data showed that the export value of the textile and garment industry reached US$18.7 billion in the first six months of the year, while the target for the whole year is $39 billion.

"In the last five months of the year, businesses could only start exporting again if the pandemic situation is completely under control. In the most optimistic scenario, we can only achieve about $32-33 billion," he said.

Due to the inability to ensure the production situation as planned, the disruption of the supply chain had also put huge pressure on many textile and garment enterprises.

With the pressure of a seasonal manufacturing industry in which timeliness is imperative, failing to deliver on time would cause customers to cancel orders which would impact the industry in the medium term.

One concern is the number of workers leaving HCM City in a hurry to return to their hometowns. The Vitas representative said that their ability to return when the localities open again is also a huge challenge. This could foreshadow a very serious labour shortage in the immediate future.

4. Farm produce exports grow strongly despite COVID-19

Despite complicated developments of the COVID-19 pandemic, export revenues from agricultural products have increased strongly so far this year, greatly contributing to the country's economic growth.

According to the Ministry of Agriculture and Rural Development (MARD), with export revenues of 28.6 billion USD, up 26.7 percent year on year, and import turnover of 24.7 billion USD, the agriculture sector enjoyed a trade surplus of 3.9 billion USD in the first seven months of 2021.

Deputy Minister of Agriculture and Rural Development Phung Duc Tien said that export revenues of major agricultural products hit 12.2 billion USD, a year-on-year rise of 15.1 percent, while earnings from forestry products rose 54 percent to about 10.2 billion USD, seafood up 12 percent to 4.9 billion USD and livestock increased 16 percent to 245 million USD.

Particularly, strong growth was seen in exports of product groups with revenues of over 2 billion USD, including rubber, wooden furniture and aquatic products, he said.

In order to complete the target of about 44 billion USD in exports of farm produce in 2021 in the context of COVID-19, MARD has coordinated closely with ministries, sectors and localities to roll out comprehensive measures to adjust production plans and crop structure to ensure the highest productivity.

At the same time, the sector will strengthen processing of the products and expand export markets, while working to remove trade and technical barriers for Vietnamese farm produce in foreign markets.

The ministry will foster connectivity among businesses, localities and Vietnamese representative offices abroad to increase exports of agricultural products, especially lychee and longan to the EU, UK, China and Japan, while making risk assessments of cassava residue for exporting to China.

5. More drastic actions urged to aid economy

Although the macroeconomy remains stable and inflation is under control, the National Assembly last week had to recognise that GDP growth of 5.64 per cent in the first six months of 2021 has not met the set target.

The disbursement of public investment capital remained slow, and overseas investment attraction decreased. Generally, such activities are still facing many difficulties, with the number of enterprises withdrawing from the market increasing by 25.5

per cent in the first seven months of 2021. Meanwhile, the unemployment rate has increased and people's lives remain challenging amid widely implemented lockdowns across the nation.

In a report, the government acknowledged that the COVID-19 vaccine scheme remains burdensome, with the proportion of vaccinated people still too low. Despite the radical vaccination strategy, long-term success may only be effective when over 70 per cent of the people are vaccinated, the vast majority of experts point out.

Disease control and economic recovery are both huge challenges for the newly-consolidated government and prime minister. The policies and actions of both issued in the last 100 days, such as the disbursement of a $1.13 billion support package for businesses and workers, are not yet enough to help all businesses and people and develop the economy.

Vietnam's economy continues to be largely stunned amid pandemic prevention measures. However, inconsistent solutions in localities are also seriously affecting production and business activities.

Vu Duc Giang, chairman of the Vietnam Textile and Apparel Association, last week confirmed that 97 per cent of enterprises in the southern textile and garment industry had to stop operating as they failed to meet the requirements for continuing production with their workers present on-site. If factories follow this model, they are allowed to continue production, but must follow strict rules to ensure the safety of their workers and the community.

The complicated developments of the pandemic threw many stones in way of Vietnam's supply chains, especially when exporting. According to Giang, global partners of domestic enterprises are concerned that their goods may not be delivered on time if Vietnamese manufacturers cannot manage to return to normal production levels. Some of these partners are now diverting to countries with better disease control, indicating an even more difficult situation for Vietnam.

Assoc. Prof. Dr. Bui Quang Tuan, director of the Vietnam Institute of Economics, urged the government to take more drastic and decisive actions based on the learnings from some localities that are currently involved in fighting the pandemic.

"The government should soon find solutions to quickly deal with the hot issues of the economy, while continuing to perfect the economic institutions in the direction of creating an investment and business environment with favourable conditions for medium- and long-term development," Tuan said.

He believed that special regulations could solve problems related to registration procedures for research and production of vaccines, as well as the disbursement of public investment.

From now until the year's end, Vietnam's economy could continue to suffer from the impacts of the pandemic. According to Tuan, the government needs to establish strong policies to protect businesses and economic hubs of the country, while continuing to pursue the dual goal of pandemic curb and economic development. "The endurance of enterprises has almost reached its limit after almost 1.5 years of the pandemic," he said.

According to the General Statistics Office, in the first seven months of this year, about 79,700 enterprises suspended their operations and are now waiting for the completion of their dissolution. Most of the surviving businesses are those of a certain size and with experience – if these also went bankrupt, the economy would seriously suffer.

The two economic powerhouses, Hanoi and Ho Chi Minh City, account for nearly 40 per cent of the country's GDP, but both are now forced to implement social distancing to cope with the health crisis. It will be difficult for the economy to recover if these two metropolises continue to suffer from such a woe.

Nevertheless, Prime Minister Pham Minh Chinh – who was re-elected by the National Assembly on July 26 – could be a great advantage. Urgent issues of the economy are still waiting for strong decisions from the prime minister and other members of the government.

6. Tying high-tech criteria to Industry 4.0

To do this, Vietnam has kept its high-tech incentives unchanged but has adjusted the conditions to qualify in a way that favours larger, better-capitalised operators or smaller operators which devote a larger part of their resources to R&D.

Companies that meet certain requirements are considered “high-tech” and entitled to various attractive investment incentives. Income tax incentives for high-tech firms include four years of tax exemption, then nine years of a 50 per cent tax reduction, followed by 15 years at a 10 per cent tax rate. This remains unchanged. But in March, the prime minister issued Decision No.10/2021/QD-TTg which tweaks the criteria to be classified as a high-tech enterprise. Decision 10 replaces Decision No.19/2015/QD-TTg from 2015. Decision 10, and the previous Decision 19, apply to all high-tech enterprises in the country.

The new emphasis is on R&D – specifically, the number of resources a company dedicates to R&D, relative to the size of the investment. Generally, the smaller the investment, the larger the percentage of resources that must be dedicated to R&D.

Thus, a smaller investment must make a higher commitment to R&D in order to enjoy the same incentives as a much larger investment with a smaller per cent of its resources dedicated to R&D. Vietnam has created three tiers within which to assess eligibility under its high-tech incentives regime (see box).

Decision 19 (June 2015)	Decision 10 (March 2021)
1. Revenues from high-tech products: must account for at least 70 per cent of total annual revenues. (unchanged)	1. Revenues from high-tech products: must account for at least 70 per cent of total annual revenues. (unchanged)
2. Percentage of annual net revenues spent on R&D: *Tier 1:* Enterprises with total capital of at least VND100 billion ($4.34 million) and more than 300 employees must spend at least 0.5 per cent on R&D. *Tier 2:* Enterprises with total capital under VND100 billion ($4.34 million) must spend at least 1 per cent on R&D.	2. Percentage of annual net revenues spent on R&D: *Tier 1:* Enterprises with total funding sources of VND6 trillion ($260.87 million) and 3,000 employees or more must spend at least 0.5 per cent on R&D. *Tier 2:* Enterprises not falling under Tier 1, with total funding sources of VND100 billion ($4.34 million) or more and 200 employees or more, must spend at least 1 per cent on R&D. *Tier 3:* other enterprises (meaning enterprises that do not fall under Tier 1 or Tier 2) must spend at least 2 per cent on R&D.
3. Percentage of all employees who participate in R&D (holding a university or higher degree): *Tier 1:* at least 2.5 per cent of its employees (not less than 15 employees). *Tier 2:* at least 5 per cent of its employees.	3. Percentage of all employees who participate in R&D (having at least college-level education of enterprises): *Tier 1:* at least 1 per cent of its employees. *Tier 2:* at least 2.5 per cent of its employees. *Tier 3:* at least 5 per cent of its employees.

High-tech enterprises have always been mandated to spend a certain per cent of annual net revenue on R&D; this has not changed. Now, under Decision 10, the amount which must be spent on R&D depends on the enterprise's scale in terms of total funding sources, and the number of employees. That is, while the requirement to dedicate a certain per cent of an investment's resources to R&D previously existed, now the percentages have changed. As shown in the chart, Decision 10 distinguishes among large, medium, and small-scale enterprises, which for convenience we call tiers (Decision 19 had only two tiers). The outcome is that the smaller an enterprise, the higher the percentage of its resources must be allocated to R&D - including a higher commitment of its manpower.

The lowest share of funding, employees, that must be allocated to R&D to qualify for incentives under Decision 10 is reserved for Tier 1 enterprises. But, of course, while the share may be less, the absolute expenditures are significant.

An important new feature added under Decision 10 is that expenditures for R&D will include vocational training, depreciation of fixed assets and infrastructure, recurrent expenditures and royalties, usage of intellectual property rights, and more. This is a major development as it makes it easier to reach the mandated expenditures on R&D that allow an enterprise to fit into a particular tier. This was not the case under Decision 19.

Importantly, Vietnam continues to give generous incentives to high-tech investments. However, now, Decision 10 requires a higher commitment to earn those incentives. It is a clear sign that Vietnam wants to reach greater high-tech sophistication by requiring larger expenditures on R&D. Investors and advisors in the space will continue to watch closely as further developments and guidance emerge. The government has signalled its intention to move away from low value and simple assembly work to more sophisticated work backed by meaningful R&D. The change in criteria falls cleanly in line with the ethos of Vietnam's Fourth Industrial Revolution.

We believe the government will continue the trend to attract and to give priority to higher quality high-tech investment.

7. Airline industry at breaking point as virus strikes again

General Secretary of the Vietnam Banks Association Nguyễn Quốc Hùng said the industry's rapid growth in recent years had made air travel domestically and internationally a lot more accessible and affordable to the general public. Aside from the national flag carrier, Vietnam Airlines, other companies including Vietjet Air and Bamboo Airways had also made great contributions to the industry's development.

The industry, however, was among the hardest-hit by the pandemic as many cities and provinces across the country had started implementing social distancing measures and had placed restrictions on travel, said Hùng.

After two years of struggling to cope, most if not all, companies in the industry were experiencing great difficulty to maintain a healthy cash flow, to a point that it would be extremely difficult for companies to cover their expenses and they might be forced to shut down, he said.

Despite support from the Government, the fourth outbreak of the virus might well be the straw that breaks the camel's back. In addition, government support had not fully reached private companies in the industry.

Meanwhile, the lack of viable business and operation plans during the pandemic had made it near impossible for airline companies to secure desperately needed cash from banks.

Hùng said as airline companies scaled back on their operations given the extremely low demand for air travel, most banks would have to say no to their loan requests.

"What we need right now is a legal imperative to rescue the industry. For example, a National Assembly resolution on the matter. Meanwhile, the Government must step up its efforts to roll out support measures, especially for privately-held companies," said Hùng.

"The banking sector has the money to help. The issue here is the lack of guidance to bring airline companies and banks together," he said.

Nguyễn Khắc Quốc Bảo, head of HCM City University of Economics - Faculty of Finance said as there was no end in sight for the pandemic companies must brace for further hardship down the road.

"Without ample support, companies will face liquidity risk and even financial ruin. Should we leave it unaddressed, the heavy cost to restructure the industry in the near future is expected," Bảo said.

Cấn Văn Lực, chief economist of the Bank for Investment and Development of Vietnam (BIDV) said support measures must be deployed among airline companies in a flexible and fair-to-all manner.

"The Government should consider giving out loans to privately-held companies at an interest rate of 3-4 per cent lower than commercial loans for up to two years. Further cutbacks on fees and taxes on top of those included in the Government's current support scheme for the industry should also be considered," Lực said.

Bùi Doãn Nề, Vice Chairman and General Secretary of Vietnam Aviation Business Association said the association had made a number of proposals to the Government on how to ease international travel restrictions including a system of vaccine passports and shorter quarantine periods for those who have received two doses of COVID-19 vaccine.

"We have pleaded with the government to reduce the environment tax up to 70 per cent by the end of June next year on top of cutbacks on service fees to use airports and income tax for airline companies," he said.

The association has also made a request to the Ministry of Planning and Investment and the National Assembly to consider a capital injection of up to VNĐ6 trillion (US$260 million) for 12 months with extensions.

Corporate News

8. MSB: Maritime Bank issues more than 350 million shares to raise charter capital

↑ 1.54%

Maritime Bank (MSB) plans to issue 352.5 million new shares to pay dividends to existing shareholders in the third quarter. At the closing date of the list of shareholders to exercise their rights, shareholders with 100 shares will receive 30 additional shares.

To increase its charter capital, MSB uses its profit to pay dividends in 2020, after setting aside sufficient amounts and funds as prescribed by law and the remaining undivided profits of the previous year.

By the end of 2020, this bank's accumulated undistributed after-tax profit was more than VND4,78 trillion ($208 million).

After the issuance, the number of outstanding shares of MSB is expected to increase from 1.16 billion to 1.53 trillion, with the charter capital will also increasing from VND11.75 trillion ($511.5 million) to VND15.28 trillion ($665 million).

At the end of the first six months of the year, MSB recorded a net interest income of VND2.9 trillion ($126.2 million), up 46 per cent over the same period in 2020. Net income from service activities increased 6.7 times to VND2.2 trillion ($96.77 million).

Net profit from foreign exchange business increased 98 per cent over the same period in 2020 to nearly VND200 billion ($8.7 million).

In contrast, activities from trading securities and investment securities decreased by VND204 million ($8,880) and 8.4 billion ($365,655), respectively, while in the same period, trading securities went down by VND81 million ($3,526), and investment securities gained VND347.7 billion ($15.1 million).

Profit before tax was VND3.1 trillion ($135 million), three times higher than the performance in the same period in 2020. Profit after tax was VND2.48 trillion ($108 million), three times higher than the performance in the same period in 2020 as well.

9. GMD: Notice of the record date for the 2020 dividend payment

↓ -1.36%

Gemadept Corporation announces the record date for the 2020 dividend payment:

Record date: August 16, 2021

Purpose: for the payment for the 2020 dividend in cash

Dividend pay-out ratio: 12%/ par value (VND1,200/ share)

Payment date: September 16, 2021.

Place & procedure of payment:

-Shareholders whose shares have been deposited: at the securities firms where the shares have been deposited.

-Shareholders whose shares have not been deposited: Gemadept Corporation as from September 16, 2021.

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