VIETNAM DAILY NEWS

August 6th, 2021

Table of content

Table of content

Market Analysis

1. Market maintains rally with strong inflow of foreign investment

The market continued to rise on Thursday, boosted by gains in material stocks and interest from foreign investors as they net bought more than VND1 trillion on two main exchanges.

The VN-Index on the Ho Chi Minh Stock Exchange (HoSE) settled higher yesterday, up 10.81 points, or 0.81 per cent, to 1,345.55 points. The index struggled in the morning trade as strong selling pressure caused the index to fall in the early session, but surging demand helped halt losses and push the index to recover.

The market breadth was positive with 262 stocks increasing, while 116 fell. However, the liquidity was lower than the previous session as 635.5 million shares were traded on the southern market, worth over VND19.32 trillion (US$840.5 million).

The gain was mainly driven by large-cap stocks in material, real estate and banking sectors.

The 30 biggest stocks tracker VN30-Index posted a rise of 0.97 per cent to close yesterday at 1,486.46 points. Twenty of 30 biggest stocks in the VN30 basket climbed while eight stocks fell and two ended flat.

Hoa Phat Group (HPG) and Viet Nam Rubber Group JSC (GVR) were the two biggest influencers on the market’s trend yesterday, with gains of 2.74 per cent and 4.19 per cent, respectively.

Vinhomes JSC (VHM), Vietcombank (VCB) and VPBank (VPB) also support the benchmark, up in a range of 0.91 - 2.15 per cent.

Other stocks, mostly in the banking sector, also recorded good performance. There stocks were Techcombank (TCB), Mobile World Investment Corporation (MWG), Asia Commercial Joint Stock Bank (ACB) and MBBank (MBB).

On Ha Noi Stock Exchange (HNX), the HNX-Index settled higher yesterday, up 1.7 per cent to 325.46 points.

Investors poured nearly VND3.9 trillion into the northern bourse, equivalent to a trading volume of 154.2 million shares.

Meanwhile, foreign investors were net buyers on both exchanges with a total value of over VND1.14 trillion. Of which, they net bought a value of VND1.1 trillion on HoSE and a value of VND19.32 billion on HNX.

In its recent report, VNDirect Securities Corporation was more cautious on the complexity of the COVID-19 outbreak and said that the prevention measures might make it difficult to build another rally in the short-term.

"The VN-Index had plunged 13.7 per cent from the peak due to concerns about negative impacts on the macro-economy and business activities," the securities firm said.

"The average liquidity in July also decreased by 12.8 per cent compared to the previous month."

However, the inflows of foreign investment were a positive signal, VNDirect added. Last month, foreign investors net bought a value of nearly VND4.6 trillion on the market, boosted by inflows from exchange traded funds (ETFs), especially Fubon FTSE Vietnam ETF.

Macro & Policies

2. F&B groups hunker down during curbs

As more consumers comply with stay-at-home and social distancing orders, food and beverage (F&B) enterprises have launched home delivery and promotion programmes to attract customers and keep their business above water.

SABECO has launched a home delivery service as well as a promotion in which consumers can win a super-premium motorcycle, while other brands such as HABECO and Heineken are arranging free-of-charge delivery services.

With the pandemic changing customer habits, and with bars and restaurants closed, recent sales trends depict a massive shift in where consumers buy and ultimately where they consume their adult beverages of choice, according to NielsenIQ.

Le Anh Tuan, commercial director of Hanoi-Thanh Hoa Beer JSC, said that since last year his company has been affected by the double impact of COVID-19 and Decree No.100/2019/ND-CP from December 2019 on administrative sanctions for road traffic and rail transport violations, causing a decrease in both revenues and workers.

"Due to the application of anti-pandemic solutions, the company had to suspend production in many stages. The stagnation and decline in sales have greatly affected the jobs of employees working directly at the company," Tuan said at an online seminar on the current business climate in Vietnam. "Although it has begun to switch to online sales, this form is only suitable for urban areas, while the main market is in rural and mountainous areas."

Dang Thanh Van, CEO of Thanh Branding and Management Company, added that the proportion of e-commerce in the beer and beverage industry is also very small compared to other industries. Therefore, businesses need to seriously apply and better exploit e-commerce to serve production and business.

Meanwhile, some home delivery campaigns are not easy to set up in the context that many cities and provinces are tightening restrictions in order to brush off the coronavirus. Small breweries without major supermarket shelf placements will be hit the hardest.

Last week, industry associations noted to the Ministry of Industry and Trade (MoIT) that the measures to restrict movement and restrict circulation of localities in the past have disrupted the supply chain, affecting the supply chain business activities of many enterprises.

For instance, during social distancing many items such as beer, soft drinks, and canned drinks are not classified as essential goods, so they are not circulated to sales agents, while beverages usually have a shelf life.

"The strict control between provinces and the heterogeneous regulations of the customs authorities make it even more difficult for businesses, especially for food - items that require strict storage conditions," said a representative of one F&B business.

On the same note, Taku Tanaka, CEO and founder of Kamereo, a platform with its own warehouse and last-mile delivery network, said that lockdowns heavily affect F&B businesses as they are not allowed to operate even a standard delivery service. "Some F&B businesses pivoted their business creatively, like selling vegetables instead. However, with such strong restrictions, most of the business activity has been either stopped or slowed down a lot," Tanaka said.

"If the government allows food delivery in the future, F&B business would be in a much better situation as many people order food online now. From our company's perspective, we have been supplying retail shops like mini marts, convenience stores, and supermarkets. Sales of this segment have increased a lot which offset lower sales of the F&B segment for our company under the current situation," he added.

According to research results of independent agencies, customers' consumption habits are changing rapidly during this period, and it is forecasted that they will still maintain those habits to a certain extent even after the pandemic. In particular, one of the typical trends is the strong development of e-commerce channels on many platforms.

Katsuhiko Usui, general director of beer maker Sapporo Vietnam Ltd. said, "We are already preparing for activities after the pandemic is controlled. For some points of sale still operating on the online delivery platform, we have some programmes to reach and promote sales through this channel."

For the modern trade channel, except for a few points of sale that face difficulties due to the limited number of customers, the rest in general are still seeing good growth, Usui explained. "Sapporo also is making efforts to promote promotion programmes for the online channel of supermarkets. The company has started a plan to penetrate other e-commerce channels such as Shopee, Tiki, and Lazada in the near future.

3. Vietnam to maintain tax incentives for domestic cars beyond 2022

The current tax incentives for domestically-produced cars, set to expired on December 31, 2022, are expected to be extended beyond that timeline to continue supporting the local automobile and supporting industries.

The Ministry of Finance (MoF) proposed this move as it plans to revise decree No.57/2020/ND-CP on amending import-export tariff schedules.

Under the proposal, the MoF noted a number of automobile manufacturers are considering plans to expand production activities in Vietnam or shift part of their production chains elsewhere to the country in case such tax incentives are extended.

Given the complicated procedures and large-scale investment required, car manufacturers are mapping out production plans for 2023 and onward, so policymakers should make decisions well in advance of the timeline.

According to the MoF, at a time when import tariffs for cars have been lifted under Vietnam's commitments to free trade agreements, a supporting program for domestic cars would be necessary.

"This is the important basis for enterprises to work on their plans in subsequent years," added the ministry.

Along with a request for extension of the tax incentives beyond 2022, the MoF is expected to keep requirements on minimum production capacity unchanged.

Under existing policies, production capacity is one of the main criteria for local automobile companies to take part in the tax incentive program, which allows them to enjoy a 0% import tariff for car parts and accessories for domestic production.

"This is necessary for local firms to continue investing in production and enhancing their capabilities," stated the MoF.

However, such requirements may be modified to better reflect the current difficult economic climate due to the pandemic.

The Vietnam Automobile Manufacturers' Association (VAMA) previously called for the removal of the requirement on minimum production capacity, due to a sharp decline in market demand.

TC Motor suggested those with a minimum investment capital of VND3 trillion ($130.5 million) are still qualified for the program without having to meet the production capacity requirement.

4. COVID-19 forces banks to accelerate digital transformation

The COVID-19 pandemic not only creates challenges for banks, but also pushes them to foster digital transformation to survive, experts have said.

A recent survey by the State Bank of Vietnam found that 95 percent of credit institutions in Vietnam have either implemented digital transformation strategies or are in the process of formulating them.

It is expected that in the next three to five years digital-only banks will have revenue growth of at least 10 percent, while regular lenders will have more than 60 percent of customers using digital transaction channels.

State-owned banks seek to digitise their entire system, while smaller banks have identified certain areas to improve service quality and the customer experience.

Commenting on digital banking development in Vietnam at an online talkshow IDG TekTalk on August 3, Phan Viet Hai, director of information technology and also the digital banking centre at Viet Capital Bank, said digital banks must create a superior customer experience by changing the way services are provided using technology.

Nguyen Quang Minh, deputy CEO, partnerships, Timo Digital Bank, said, "In addition to offering perfect and up-to-date financial products and services, we also have to really understand the market, customers' needs and expectations and more importantly, identify the problems and difficulties they are facing every day in each transaction."

Pham Quang Minh, general director of Mambu Vietnam, said banking services have changed greatly in the past few years. In Asia, including Vietnam, rising customer expectations for online and mobile banking services are the driving force behind the digital transformation of financial service providers.

Nguyen Van Tuan, deputy general director of VCCorp & founder of Bizfly Digital Transformation, said currently banks are not only competing with each other but also with rapidly growing fintech companies, which have created "amazing" services and experiences through digital technology and transformation.

For succeeding at the digital transformation, the determination shown by a bank's bosses plays an important role, he said.

"Technology contributes only around 30 percent to the success with the remaining 70 percent being owed to other factors like the mindset of businesses' leaders and digital transformation," he added.

According to experts, banks still face challenges in digital transformation related to regulations on electronic transactions, data sharing, network security, and an inadequate legal framework among others.

They said completing a comprehensive legal framework would provide a fillip to digital transformation.

The standardisation of technical infrastructure is also very important to facilitate interconnection and seamless integration between the banking industry and others to form a digital eco-system, they added.

Yeo Siang Tiong, cybersecurity company Kaspersky's general manager for Southeast Asia, said: "Digital transformation, in any sector, always presents new challenges, but especially for banks and for financial services. To put it simply, revolutionising banks' way of doing transactions means overhauling their legacy systems including people, processes and technologies."

Humans remain the weakest link, especially those who lack proper awareness of the simplest risks like phishing and spam, while employees require new training and third-party services should be assessed comprehensively, he said.

"When it comes to security, the endpoint should be the foundation and banks should have known this by now. Financial services should be looking at an adaptive approach in security, which should be proactive rather than reactive – ready before an attack happens."

Online transaction increases

Due to social distancing restrictions amid the pandemic, online payment has become more convenient than cash, and, with just a smartphone and banking application, users can save, borrow money, pay for electricity, water, television, and internet bills, buy movie and airplane tickets, make hotel reservations, or even buy vegetables or meat online.

Statistics from the National Payment Corporation of Vietnam, show that in the first five months its automatic clearing house processed over 800 million transactions worth over 8 quadrillion VND (347.7 billion USD), an increase of 113 percent and 169 percent.

A recent survey by Visa also revealed strong increases in the use of e-wallets, contactless payment via cards and smartphones and QR Code. The year-on-year growth rate of the total e-commerce transaction value in the first quarter of 2021 rose by 5.5 times compared to the fourth quarter of 2020.

5. Vietnam's manufacturing sees decline in output amid COVID-19 outbreak

The latest survey from Nikkei and IHS Markit revealed on Monday that the current wave of the COVID-19 pandemic in Viet Nam has led to disruptions across the manufacturing sector during July. Rates of decline in output and new orders increased from the previous month and employment was down sharply amid reports of temporary company closures and social distancing restrictions.

Meanwhile, disruption was also felt in supply chains, with delivery times lengthening to the greatest extent in more than ten years of data collection. The rate of input cost inflation accelerated sharply, but efforts to secure orders meant that firms raised their selling prices at a relatively modest pace.

"Anecdotal evidence from manufacturers highlighted the impact that the latest COVID-19 outbreak has had on operations. Some firms have been forced to close temporarily, while others are having to operate with reduced capacity due to social distancing measures," the survey stated.

These effects, alongside a marked drop in new orders, resulted in a further sharp reduction in manufacturing production at the start of the third quarter. The decline in output was softer only than those seen following the initial outbreak of the COVID-19 pandemic in March and April last year.

According to the survey, alongside lower total new orders, new business from abroad was also down. That said, the reduction in exports was softer than that seen for total new business amid some reports of improving demand in international markets.

Reduced workloads, temporary closures and limits on staff numbers due to social distancing requirements meant that employment decreased markedly for the second month running. While disruption to operations led to backlogs of work to build up at some firms, this was outweighed by a sharp drop in new orders. Overall, outstanding business decreased moderately.

Severe disruption to supply chains was noted in July, with the extent of delivery delays the most marked since the survey began more than a decade ago. Panellists linked longer lead times to difficulties with transportation both domestically and internationally due to the pandemic, as well as raw material shortages.

Manufacturers were also faced with surging input costs. The rate of input price inflation accelerated the fastest since April 2011. Higher costs for raw materials such as iron and steel, products imported from China and freight charges were all reported by respondents.

While some firms passed on these higher cost burdens to clients, others were reluctant to do so given a weak demand environment. As a result, the rate of output price inflation was much softer than that seen for input costs, suggesting pressure on profit margins.

Concerns around the ongoing impact of the pandemic meant that business confidence remained below the series average in July, although firms remained optimistic overall of output growth over the coming year.

Commenting on the latest survey results, Andrew Harker, Economics Director at IHS Markit, said: "The current wave of the COVID-19 pandemic is having a severe impact on Vietnamese manufacturers, according to the latest PMI data, with company closures and social distancing contributing to a steep drop in production. Rules are also limiting how many staff members can be on site at any time, further disrupting production lines.

"Added to issues with new orders and production, firms are also facing severe supply-chain disruption. Supplier lead times lengthened to an even greater extent than after the initial outbreak of the pandemic last year when price pressures surged."

"The sector is likely to remain under pressure and struggle to generate growth until the outbreak can be brought under control, so it will be important to keep watching the COVID-19 case numbers for signs of improvement," Andrew said.

IIP up nearly 8%

The General Statistics Office (GSO) reported Viet Nam's index of industrial production (IIP) rose by 7.9 per cent year-on-year in July.

The rise was much higher than the 2.6 per cent growth rate of the same period in 2020, but lower than the 9.4 per cent rate of the same period in 2019.

Manufacturing recorded the largest gain in the first seven months of this year at 9.9 per cent, against the 4.2 per cent increase of the same period in 2020. The rise contributed 8.1 percentage points to the whole industry's growth.

It was followed by an increase of 8.2 per cent in power generation and distribution.

Water supply and waste treatment climbed 5.6 per cent while mining and quarrying declined by 6.3 per cent.

6. Factors for Vietnamese agricultural produce to successfully break into UK market

The first batch of longan of the 2021 season from the northern Highlands province of Son La has just arrived to the UK and the EU, paving the way for further batches of fresh fruits to enter these demanding markets from the province.

Earlier, local firms exported several shipments of rice and coffee to the UK to take advantage of the UK-Vietnam Free Trade Aagreement (UVFTA) which came into force at the beginning of this year.

So far, despite zero tariffs on fruit and fragrant rice, shipments to the UK have been of a small value and reached the UK with support from new importers.

For instance, Vietnam National Seed Group (Vinaseed) shipped 60 tonnes of fragrant rice to the UK through privately-held Long Dan, which is owned by Vietnamese people and is based in the UK.

Local agricultural products could only make successful forays into UK market once local producers exercise production following Global GAP or EURO GAP standards and apply globally recognised management systems like ISO, or SA.

Before the UVFTA, the UK applied 17.4 per cent import tariff on Vietnamese fragrant rice (Jasmin), which has been abolished as of the beginning of this year, helping to bolster the competitiveness of Vietnamese rice

According to the Ministry of Industry and Trade's Agency of Foreign Trade, Vietnam posted $2.85 billion of export turnover to the UK in the first six months of 2021, a nearly 28 per cent jump against the year prior. The growth was deemed quite positive thanks to the UVFTA.

The UK imports more than $700 billion of goods each year, of which Vietnam accounts for less than 1 per cent, which means there is definitely room for growth.

Last year, the UK imported more than 5.7 million tonnes of vegetables and fruits alone, valued at approximately $9 billion. The export value of such products from Vietnam to the UK only reached $11.6 million, 0.18 per cent of this.

As for rice products, last year the UK imported around 762,526 tonnes. Vietnamese exports made up 3,396 tonnes with a value of nearly $1.3 million, only 0.45 per cent of the total.

The finest agricultural export item to the UK is cashew nuts. According to figures from Vietnam's trade office in the UK, last year the country imported 23,000 tonnes of cashew nuts, with more than 16,000 tonnes coming from Vietnam, accounting for 71 per cent.

Pepper exports are also upbeat. Last year, Vietnam shipped 5,621 tonnes of pepper to the UK, raking in $48 million of the total 14,000 tonnes and $121 million that the UK imported.

According to Nguyen Canh Cuong, trade counsellor at the Vietnamese Embassy to the UK, Vietnamese agricultural produce is gaining a foothold in the UK, with coffee, cashew nuts, and pepper selling well in big supermarkets while rice and fruits (longan, litchee, and dragon fruit) are mostly sold in minimarts.

Cuong noted that Vietnamese agricultural items have an edge in the UK over similar products from countries which have not yet signed an FTA with the UK. Local firms, however, can only avail of these competitive advantages if they can reach UK quality standards and match customer taste.

Industry experts noted that although the UK is a big market and the UVFTA has come into force, local firms need to take quicker actions to capitalise on this agreement, as the UK is also actively pursuing FTAs with other big trading partners. The country might also join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in the not so distant future.

Competition would therefore mount up, even as Vietnamese producers are working to reach stringent quality requirements such as Global GAP or EURO GAP standards and apply globally recognised management systems like ISO or SA.

In addition, the firms must ensure stability in both quality and quantity to develop sustainable relations with UK partners while simultaneously having suitable market access strategies.

7. High cost, lack of infrastructure barriers to electric car market

The Ministry of Industry and Trade has just released a list of factors that are undermining the development of the electric car industry in Vietnam.

Citing data from the Vietnam Register, the Ministry of Industry and Trade (MoIT) said that the number of electric cars in Vietnam is currently quite small with only 140 cars in 2019, 900 last year and 600 by the end of the first quarter of this year.

Currently in Vietnam, there is no enterprise other than Vinfast Trading and Production Limited Liability Company engaged in the production and assembly of electric cars.

First is the low average income. GDP per capita in Vietnam in 2020 is estimated at 2,750 USD, still too low for consumers to own a regular four-wheeled personal car, without considering the higher cost of electric cars over their fossil-fuel burning rivals.

There is also a lack of charging station infrastructure. Currently almost no charging stations are available for electric cars in the country. There is also a lack of road traffic infrastructure, stationary parking spots, and land set aside to build charging stations for electric cars.

At the same time, the range of electric cars is still limited. Although recent electric car models have significantly improved their range they still cannot meet the travel needs of customers compared to fuel cars.

Moreover, a policy to encourage the development of electric cars in Vietnam is almost nonexistent. Electric cars have so far only received special consumption tax incentives, which are lower than petrol cars.

Power production is also an issue. For developing countries, hydroelectricity and thermal power account for a large proportion of the power generation infrastructure. However, thermal power is one of the least clean types of power generation.

In this context, experts suggest that the first step to take is to deploy clean energy production and prepare the necessary infrastructure when considering the large-scale deployment of electric cars.

At the same time, electric cars also have an environmental impact at the point of production. Because the battery pack is heavy, manufacturers have to lighten the rest of the cars, resulting in electric cars components often using a lot of lightweight materials that require a lot of energy to manufacture and handle.

The materials used in the battery can also be harmful to the environment and recycling of lithium-ion batteries is rarely done even in developed countries.

The MoIT said that the strategy for the development of Vietnam's automobile industry by 2025, with a vision to 2035, is determined to encourage the production of environmentally friendly cars, meeting the requirements of emission standards according to a roadmap approved by the Prime Minister.

To develop effective mechanisms and policies to encourage the production and use of electric cars in Vietnam, the Ministry of Industry and Trade stated that the electric cars industry needed to integrate and take advantage of the existing capacity of traditional automobile manufacturers.

At the same time, the development of the electric car industry must be consistent with the development of transport infrastructure and electric charging station systems.

The MoIT has proposed developing electric car technology in Vietnam through the application of special consumption tax rates for electric cars on the basis of their carbon dioxide (CO_2) emissions into the environment.

In addition, the MoIT is also coordinating with the Ministry of Finance to study and propose amendments to the Law on the Special Consumption Tax in the direction of preferential excise tax rates applied within a certain period of time (five years) to encourage the development of electric cars in Vietnam.

Corporate News

8. BID: BIDV awarded Best Custodian Bank in Viet Nam

↓ -0.12%

The award was independently evaluated over three months by specialists and researchers from more than 250 financial institutions in the Asia Pacific region. The evaluation criteria includes operational effectiveness, technological foundations, services and risk management methods in depository and customer asset supervision as well as solutions in responding to the COVID-19 pandemic.

The award recognises BIDV's efforts and achievements in catching up with market trends, providing comprehensive services and autonomy in technology systems. The prize reaffirms BIDV's leading position among banks providing depository and domestic supervision services.

Being the first bank given the licence for depository activities in 2003, BIDV has nearly 20 years of experience in the industry. The bank has the largest depository asset scale in the country with over VND300 trillion (US$13 billion) and an annual average growth rate of 50 per cent.

BIDV is the only bank in the market that provides comprehensive, all-inclusive services for investors, investment trust portfolios as well as for all types of securities investment funds such as member funds, mutual funds, close funds, open funds, exchange-traded funds (ETFs), real estate mutual funds, and, soon, voluntary supplemental retirement funds.

BIDV is the first Vietnamese bank to be autonomous in terms of technology and software systems, thereby providing a better experience and increasing customer satisfaction. Income from custodial banking services in the first half of the year increased 24 per cent over the same period in 2020. In April 2021, BIDV's Depository Banking and Securities Supervision Programme (BIDV eTrust) was honoured in the Top 10 Sao Khue Awards and recognised for providing excellent solutions to Viet Nam's software and information technology industry in 2021.

9. HSG: BoD approves to issue shares for the ESOP

↑ 2.93%

On August 04, 2021, the Board of Directors of Hoa Sen Group approved a plan for issuing shares to the Employee Stock Ownership Plan (ESOP):

1) Stock name: Stock ofHoa Sen Group

2) Stock type: common share

3) Par value: VND10,000/share

4) Outstanding volume: 489,081,896 shares

5) Expected issue volume: 4,400,000 shares

6) Issue ratio (Expected issue volume/Total volume): 0.9%

7) Implement time: in August 2021

8) Regulation on transfer: after 01 year.

Research Team: **Tsugami Shoji** *Researcher* jsi@japan-sec.vn

Disclaimer:

Japan Securities Incorporated – JSI

Address: 14F, TNR Tower, 54A Nguyen Chi Thanh, Lang Thuong, Dong Da, Hanoi

Tel: (024) 3791 1818 *Fax: (024) 3791 5805*

Email: info@japan-sec.vn

Website: www.japan-sec.vn