

Economics Update

Vietnam starting to feel the hit of Covid-19

- Economic activities on both the supply and demand sides have been significantly affected by the Covid-19 outbreak.
- We expect inflation to average higher in 2020F but remain under control at below 4.0%.
- Given the concerns over the coronavirus outbreak, we cut our 2020F growth forecast to 6.0% and expect a 25bp rate cut in 1H20F.

Slower growth in industrial activity

The industrial production index (IPI) rebounded to 6.2% yoy in Feb 20 (from -5.5% yoy in Jan 20), due to the seasonal effect of the Tet holiday on 25 Jan 20 (Tet was in Feb last year). However, the Feb 20 IPI growth was much lower than the 9.2% yoy in Feb 19, implying that the manufacturing sector has weakened due to the impact of the Covid-19 outbreak. As domestic companies are facing a shortage of materials imported from China, manufacturing activities are likely to deteriorate further in Mar 20, until the China-based production capacity returns to normal levels.

We expect exports to fall in Mar due to the global virus spread

Exports increased by 8.9% yoy in the first two months of 2020, due to a low base in the same period last year. The trade balance recorded a surplus of US\$2.0bn (vs. a deficit of US\$0.2bn in the same period last year). Due to Vietnam's trade openness and the global spread of the Covid-19, we view that the strong export growth in 2M20 is short-lived. We expect exports to fall in the upcoming months when the full impact of the coronavirus outbreak is reflected.

Contraction in retail sales expected to remain in Mar

As consumers have refrained from going to crowded places in the past month, Feb retail sales was down by 7.9% mom (VND414tr), mainly due to spending cuts in the services segment. In the first two months of 2020 (2M20), retail sales increased by 5.4% yoy (excluding inflation); however, the Mar figures would be less rosy due to the recent development of the outbreak in Vietnam.

Tourist arrivals in Vietnam hit

Tourist arrivals saw a sharp decline in Feb 20 (-21.8% yoy), with a nosedive in Chinese tourist arrivals (-62.4% against the same period last year). We think this will likely worsen as travel restrictions have broadened since Mar, as the outbreak reached pandemic levels. The General Statistics Office of Vietnam (GSO) is projecting tourist arrivals to drop by 50-60% in 1Q20.

Shrinking foreign investments

In the first two months of 2020, Vietnam attracted US\$6.47bn registered FDI (-23.6% yoy), while implemented FDI fell by 5.0% yoy to US\$2.45bn. Although China seems to have contained the Covid-19 outbreak on its domestic front, the virus is already starting to wreak havoc in Europe and the US. Therefore, we think business sentiments will be greatly risk averse and foreign investors are likely to postpone their investment decisions until late-2020. That means there could be a significant drop (~20-30%) in FDI flows in 2020F, in our view.

Economist(s)



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Stable exchange rate despite heightened external risks

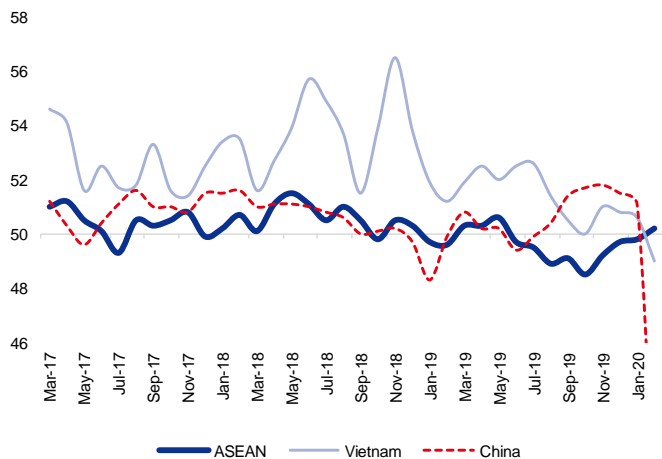
The Covid-19 outbreak has hammered most of Asia's currencies, especially the Thai baht, Korean won and Indonesia rupiah. Despite the burst of currency weakness across the region, the Vietnamese dong has weakened by just 0.1% YTD. We think the overseas remittances during the Tet holiday and the widened trade surplus are attributable to a stable dong, despite the heightened external risks and higher inflation in 2M20. We view that the dong is quite immune to the risk from the outbreak as the Fed is priced to cut rates even more aggressively and China has curbed the virus' spread domestically.

Macro snapshot

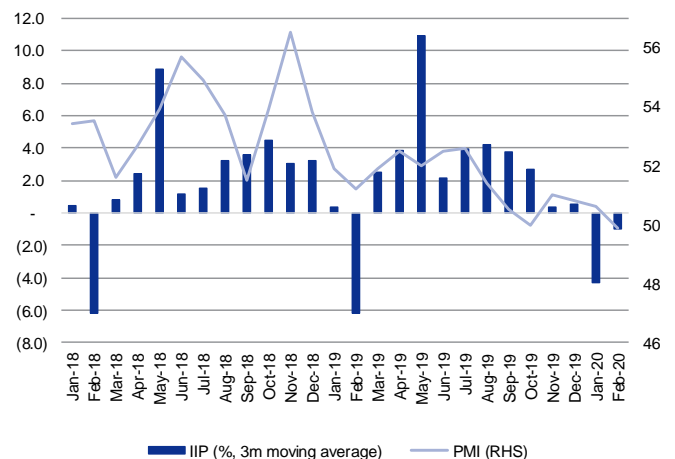
Figure 1: Industrial production performance

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
	%yoy				
IPI	9.5	9.3	9.1	-5.5	6.2
Manufacturing	10.8	10.6	10.4	-4.8	7.4
Electronics	7.5	6.9	6.6	-4.9	13.4
Textile	8.3	7.9	6.9	-13.3	0.2
Metal	34.3	31.7	28.6	1.1	6.0
Food	8.2	9.1	9.5	-3.6	6.6
	%mom				
IPI	2.7	-1.6	0.5	-11.8	8.4
Manufacturing	2.4	-1.1	0.3	-12.8	9.0

SOURCES: VNDIRECT RESEARCH, GSO

Figure 2: A modest uptick in the ASEAN manufacturing sector, mainly attributed to the Philippines and Indonesia


SOURCES: VNDIRECT RESEARCH, NIKKEI

Figure 3: Vietnam's industrial production growth and PMI experienced a slowdown in 2M2020


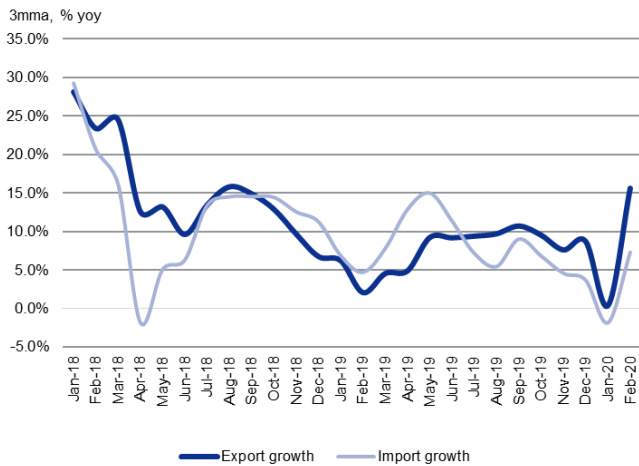
SOURCES: VNDIRECT RESEARCH, GSO

Figure 4: Highlights of Vietnam's trade performance in 2M20

	Feb-20	Dec-19	Jan-20	Feb-20	2M20	Dec-19	Jan-20	Feb-20
	US\$ bn		% share	% yoy			% mom	
Total trade	39.4	11.9	-14.8	38.0	6.2	1.7	-17.7	6.8
Exports	20.9	100.0	14.9	-17.0	50.0	8.9	-1.0	-18.8
Domestic	6.4	30.7	26.2	-9.6	69.4	17.4	9.8	-21.5
FDI	14.5	69.3	9.1	-20.6	42.7	5.1	-6.5	-17.2
Imports	18.6	100.0	9.1	-12.5	26.6	3.5	4.5	-16.6
Domestic	7.4	39.8	20.5	-13.1	28.0	2.9	10.3	-25.3
FDI	11.2	60.2	0.5	-12.1	25.7	3.9	-0.2	-8.7
Trade balance	2.3		NA	NA	NA	4125.5		

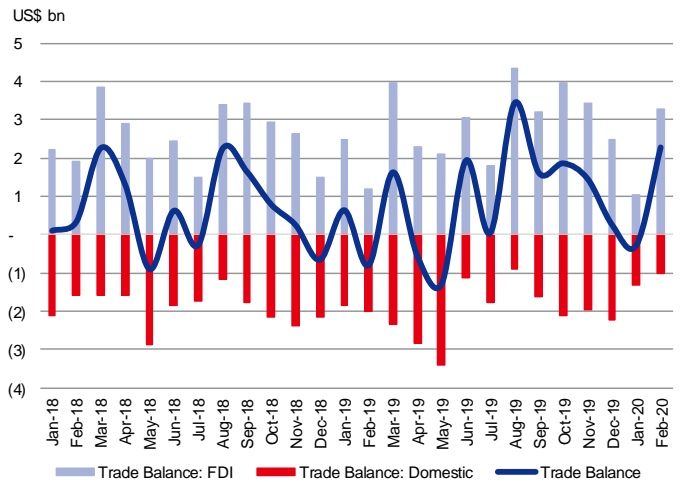
SOURCES: VNDIRECT RESEARCH, VIETNAM CUSTOMS

Figure 5: Vietnam export and import growth



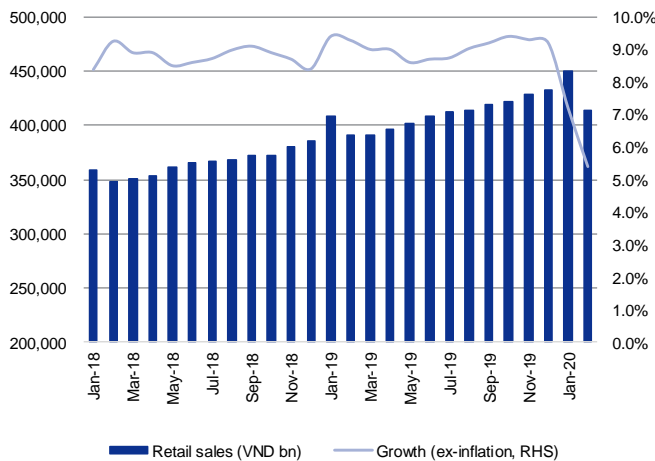
SOURCES: VNDIRECT RESEARCH, VIETNAM CUSTOMS

Figure 6: Trade surplus remained in 2M20



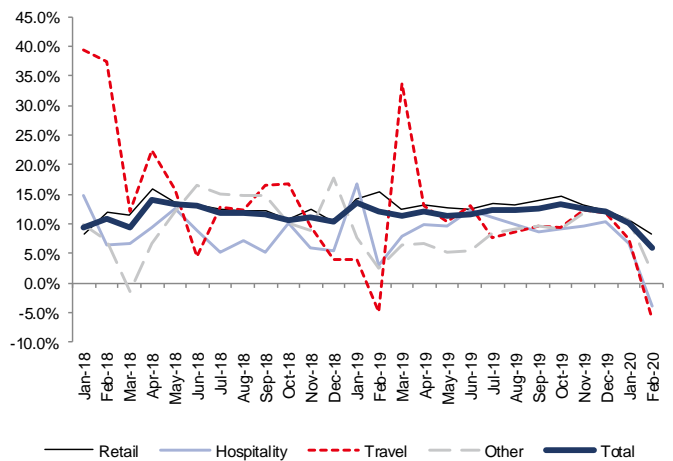
SOURCES: VNDIRECT RESEARCH, VIETNAM CUSTOMS

Figure 7: Retail sales performance



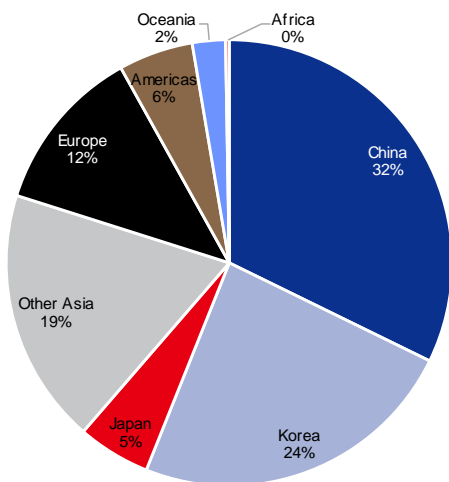
Source: VNDIRECT RESEARCH, GSO

Figure 8: Retail sales growth by segment (% yoy)



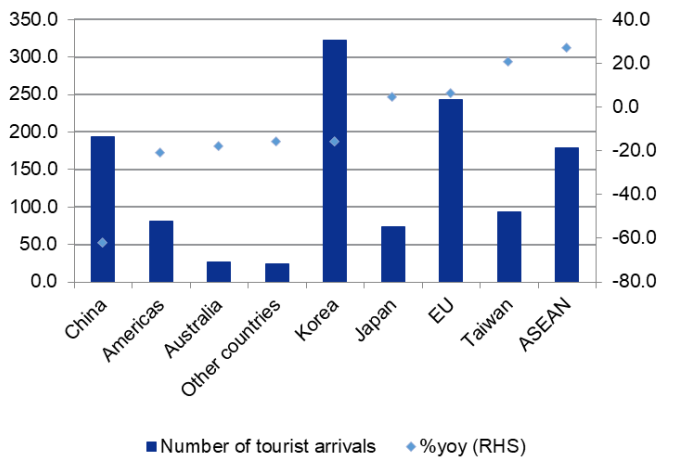
SOURCES: VNDIRECT RESEARCH, GSO

Figure 9: Vietnam's key visitor source by country/region (2019)



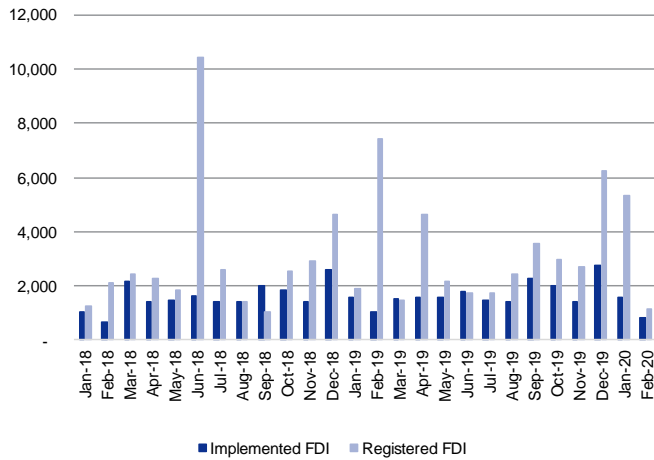
SOURCES: VNDIRECT RESEARCH, GSO

Figure 10: Tourist arrivals declined sharply under the threat of the virus outbreak in Feb 20



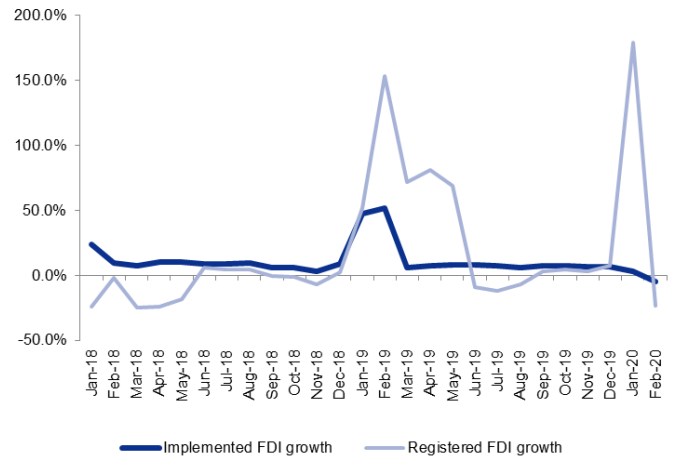
SOURCES: VNDIRECT RESEARCH, GSO

Figure 11: Registered and implemented FDI (US\$ m)



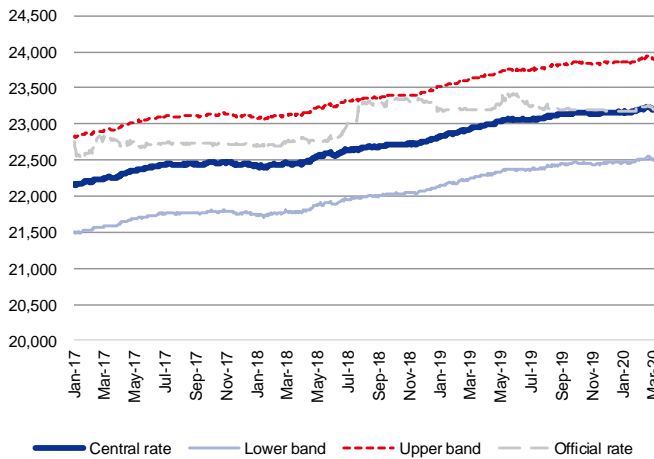
NGUỒN: VNDIRECT RESEARCH, FII

Figure 12: FDI flow performance (% yoy)



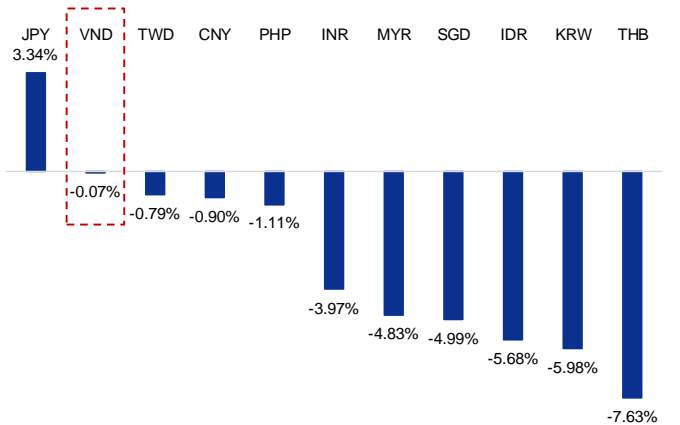
SOURCES: VNDIRECT RESEARCH, FII

Figure 13: Exchange rates (VND/USD)



SOURCES: VNDIRECT RESEARCH, BLOOMBERG

Figure 14: Most of Asia's currencies tumbled on the weight of the Covid-19 outbreak (% YTD change)



SOURCES: VNDIRECT RESEARCH, BLOOMBERG

Vietnam’s economic growth outlook likely to deteriorate

Supportive measures were triggered to ease the negative impact of the Covid-19 outbreak

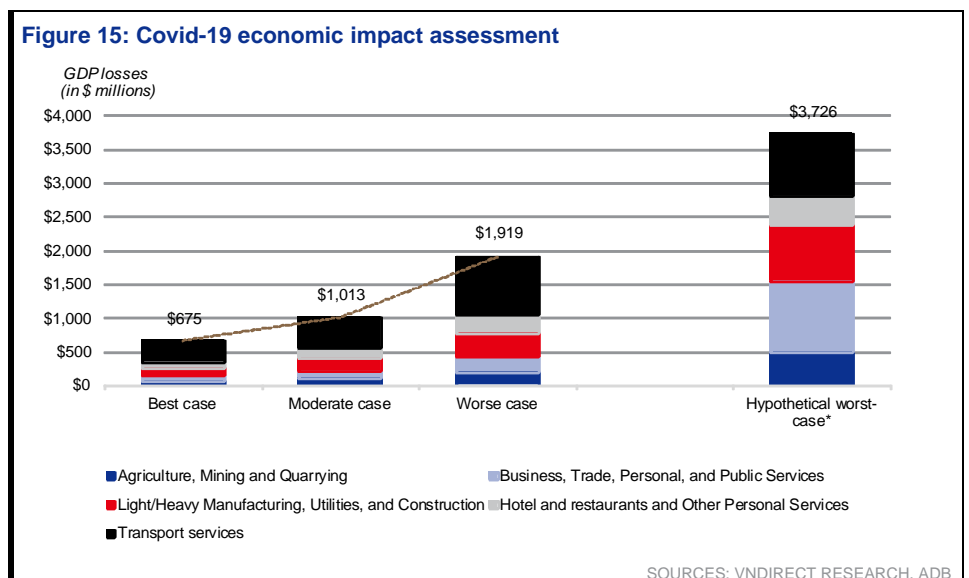
Directive No. 11 issued by the Prime Minister in early-Mar showed that credit institutions are collaborating with the government to ease the negative impact of the Covid-19 outbreak. To be specific, 10 commercial banks have committed to roll out a credit package worth VND250,000bn, with favourable conditions for domestic businesses affected by the outbreak. For example, a reduction of lending rates from 0.5-1.5% pts will be offered to affected clients. Some banks will also waive penalties on overdue loans or fees on international payments.

The Ministry of Finance has also proposed some measures for those affected, such as fee/tax exemptions and deadline extensions for tax payments and land rents, amounting to VND30,000bn (0.5% of GDP). In our view, a key focus of these measures is to alleviate cashflow constraints, therefore, these will only help to partly ease the negative impact on affected businesses, assuming the outbreak is not prolonged.

Growth outlook downgraded

The Ministry of Planning and Investment (MPI) has guided for losses of up to US\$2.3bn-5.0bn in tourist revenue, US\$10.2bn from exports, and US\$2.5bn from foreign investments in 1H20, with most of the adverse impact expected to happen in 1Q20. The MPI guided that 1H20F GDP growth could be lower at 4.8-5.4% yoy, before recovering to 6.7-6.9% in 2H20F. Hence, the MPI downgraded its GDP growth projection for 2020F from its initial target of 6.8% to 5.96-6.25% (vs. 7.1% in 2019). Besides the impact of the Covid-19 outbreak, the dry season and lower oil prices could further dampen the growth outlook in 2020.

According to Asian Development Bank’s (ADB) assessment, the magnitude of economic losses will depend on how the outbreak evolves, with Vietnam potentially losing US\$675m-3,725m (or 0.3-1.4% of GDP). We think that Vietnam is somewhere between the moderate scenario and the hypothetical worst-case scenario — that is, assuming tourism falls for three to six months, investment declines due to worsening business sentiments, and domestic consumption drops. Growth recovery will heavily depend on the timeline of the pandemic containment. We downgrade our 2020 GDP growth projection from 6.8% to 6.0%.



Inflation spiked in 2M20 due to higher pork prices

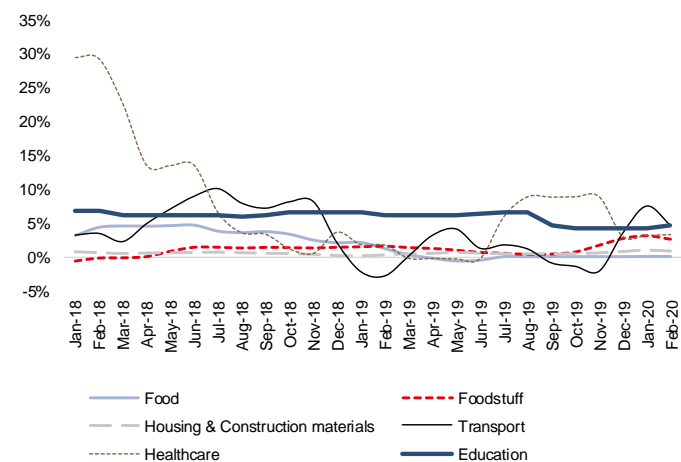
Headline inflation moderated to 5.91% yoy in Feb 20 (vs. 6.43% yoy in Jan 20), due to a decline in six out of 11 groups of commodities in the CPI basket. However, inflation was still high compared with the same period last year due to higher pork prices. The transportation price index recorded the highest decrease of 2.5% mom (given the declining oil prices), outweighing an increase of 0.26% mom in food inflation. Core inflation also moderated slightly, from 3.25% yoy in Jan 20 to 3.10% yoy in Feb 20. We expect inflation to average higher in 2020F but remain under control (at 4.0%) on the back of falling commodity prices and weakening demand caused by the Covid-19 outbreak.

Figure 16: Headline inflation to moderate in Feb 20, from a high level in Jan 20

	Dec-19	Jan-20	Feb-20	2M20	Dec-19	Jan-20	Feb-20
	%yoy				%mom		
Headline inflation	5.2	6.4	5.4	5.9	1.4	1.2	-0.2
Core	2.8	3.3	2.9	3.1	0.7	0.8	0.2
Food	9.2	10.9	9.3	10.1	3.4	2.3	0.3
Housing & construction materials	5.1	6.3	5.5	5.9	0.4	1.5	0.0
Healthcare	3.0	3.1	3.3	3.2	0.0	0.2	0.1
Transport	3.5	7.5	4.6	6.1	0.6	0.7	-2.5
Education	4.2	4.1	4.6	4.4	0.0	0.0	0.0

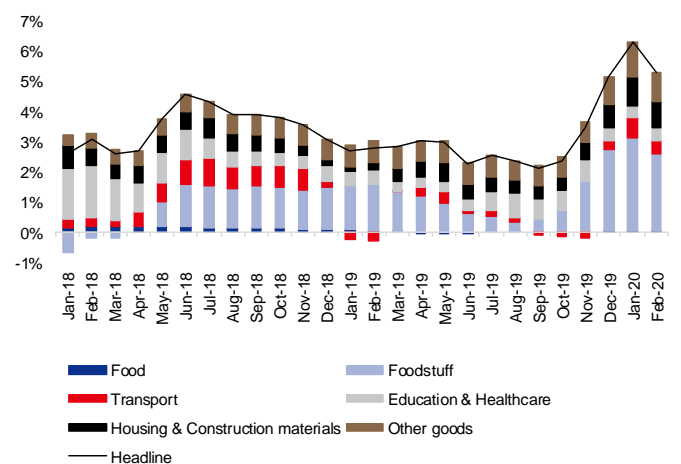
SOURCES: VNDIRECT RESEARCH, GSO

Figure 17: Inflation rate of key items in the CPI basket (yoy chg)



SOURCES: VNDIRECT RESEARCH, GSO

Figure 18: Inflation breakdown by component (yoy chg)



SOURCES: VNDIRECT RESEARCH, GSO

Pressure for monetary easing

Until now, most of the central banks in the region have resorted to monetary policy loosening to fend off growth risk. In early-Mar 20, the Fed also announced a surprise rate cut of 50bp to counter the Covid-19 outbreak impact. We view that the State Bank of Vietnam (SBV) will shift to a dovish stance in case the virus disruption lasts longer than expected. That said, we think a rate cut will be highly data-dependent, i.e. reducing inflation outlook provides the policy space for monetary policy easing to mitigate the downside risk on GDP growth due to the Covid-19 outbreak. Given the slower growth trajectory of 6.0% in 2020F, we reiterate our expectation that the SBV will deliver a 25bp rate cut in 1H20F.

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THAI, THANI, THG, TISCO, TKN, TMB, TOA, TOP, TPIPP, TQM, TRUE, TTW, TU, VGI, WHA, BEAUTY, JMART, LPN, SISB, WORK.

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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798 companies under coverage for quarter ended on 31 December 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.4%	0.0%
Hold	25.2%	0.0%
Reduce	13.4%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

RECOMMENDATION FRAMEWORK

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Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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