

Economics Update

Awaiting public investment expansion

- Service and industry saw contractions in Apr due to the three-week lockdown.
- Falling oil prices could help the government control inflation better.
- We cut our FY20F GDP growth forecast by 0.5% pt to 4.5%.

Social distancing measures weigh on 2Q20F GDP growth

Vietnam has applied aggressive social distancing measures from 1 Apr to 22 Apr to slow the spread of the coronavirus (Covid-19). These measures played an important role in fighting Covid-19 but they also left a negative impact on economic activities in the short term. Although the government relaxed restrictions from 23 Apr onwards, economic activities need more time to fully recover. As a result, we expect Vietnam's GDP to experience a 0.6% yoy slide in 2Q20F before rebounding in 2H20F.

Pandemic deals severe blow to service sector

The service sector slumped further in Apr due to the three-week nationwide lockdown, which affected retail, travel and other service activities. According to the General Statistical Office (GSO), the total value of retail sales and services in Apr 2020 fell 26% yoy, with that for retail sliding 15.3% yoy. Sales of food and catering services plummeted 64.7% yoy. Moreover, tourism revenue plunged 97.5% yoy as the government suspended the issue of new visas to foreign tourists since 18 Mar and has no intention of reversing the decision in the near future.

Shrinking industrial production

Vietnam's Apr IHS Markit Purchasing Managers' Index (PMI) slumped further to a record low of 32.7 due to slower demand for industrial products (in both domestic and foreign markets) as well as continued disruption in the global supply chain. Also, Vietnam's Apr Index of Industrial Production (IIP) dropped 10.5% yoy as most sectors saw contractions, especially in auto production (-44.2% yoy), textiles (-17.6% yoy) and electronics (-10.4% yoy). We expect industrial activities to gradually recover from May as the relaxation of social distancing rules could jumpstart domestic demand for industrial products.

Government boosts public investment to invigorate the economy

In the context of shrinking private investment and consumer consumption due to the pandemic's negative effects, Vietnam's government has stepped up public investment to promote growth. It plans to spend VND470tr on public investment in 2020F to support growth.

We revise down 2020F GDP growth to 4.5%

As we see more downside risks for both the industry and service sectors in the upcoming months amid the pandemic, we revise down our 2020F GDP growth forecast to 4.5% (from 5.0% previously). However, we keep a positive view on Vietnam's medium-term outlook on the back of external demand recovery and the accelerating relocation of manufacturing facilities from China to Vietnam.

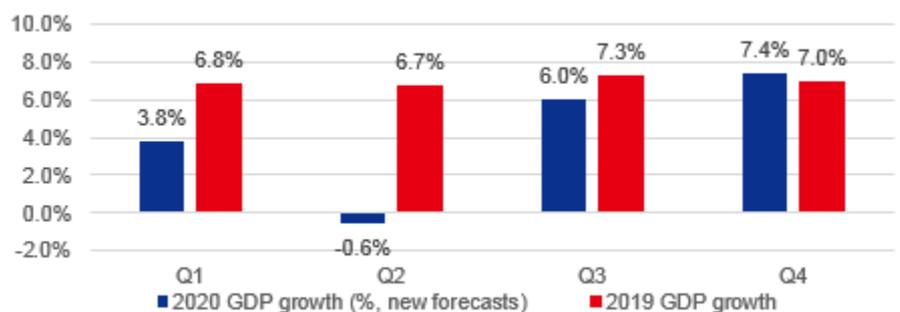
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Figure 1: 2020 GDP growth forecasts (quarterly)



SOURCES: VNDIRECT RESEARCH, GSO

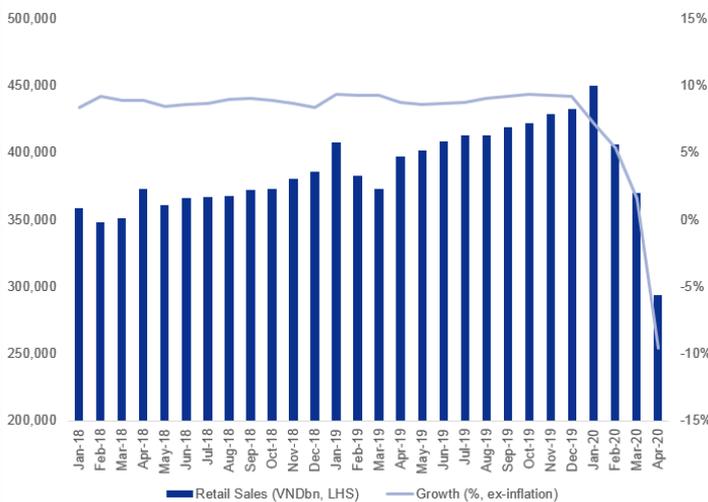
Awaiting public investment expansion

Public investment plays a vital role to boosting Vietnam's 2020 GDP growth

2Q20F GDP growth could slump further ➤

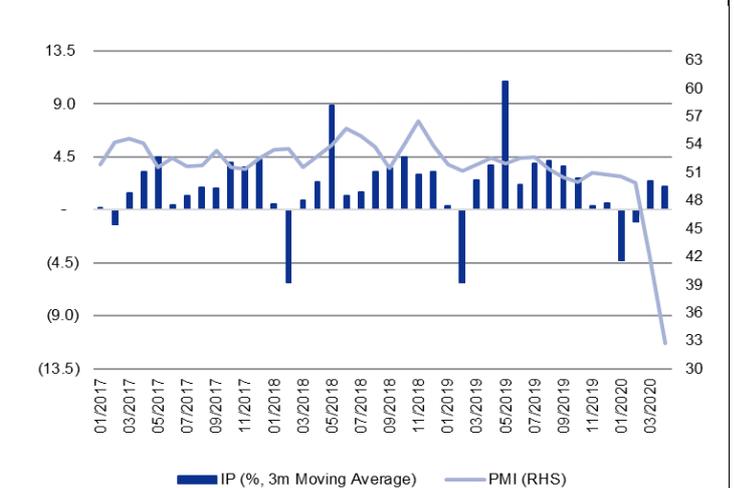
We saw a significant contraction in the service and industry sectors in Apr as the government imposed a three-week nationwide lockdown to prevent the spread of Covid-19. Specifically, foreign tourist arrivals plummeted 98.2% yoy in Apr after the government suspended the issuance of new visas to foreign tourists since 18 Mar. Given this, combined with the three-week lockdown, Apr tourism revenue plunged 97.5% yoy. Retail sales fell 15.3% yoy while that for food and catering dropped 64.7% yoy, based on GSO data.

Figure 2: Retail sales plummeted amid 3-week lockdown



SOURCES: VNDIRECT RESEARCH, GSO

Figure 3: PMI hit new record low due to stagnation in major economies and global supply and demand disruptions

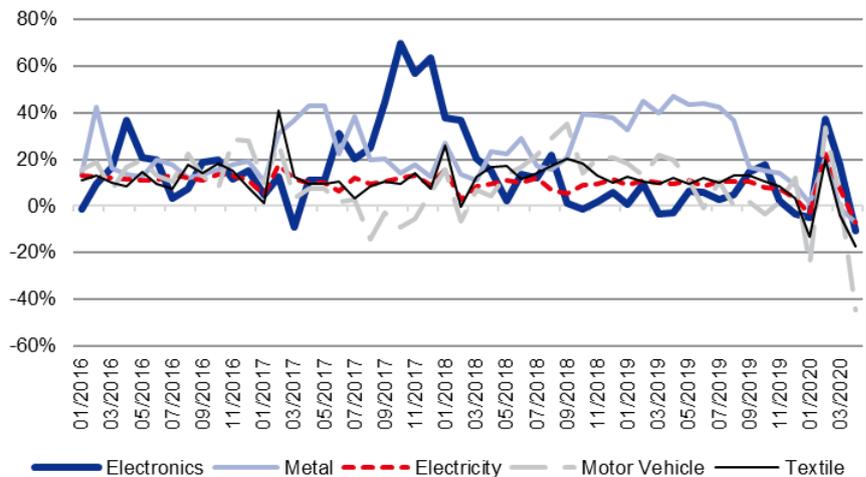


SOURCES: VNDIRECT RESEARCH, GSO, IHS Markit

Regarding the industry sector, Vietnam's April IHS Markit Purchasing Managers' Index (PMI) hit a record low of 32.7 due to slower demand for industrial products (in both domestic and foreign markets) as well as continued disruption in the global supply chain. Also, Vietnam's Apr Index of Industrial Production (IIP) dropped 10.5% yoy as most sectors saw contractions, especially in auto production (-44.2% yoy), textiles (-17.6% yoy) and electronics (-10.4% yoy), while only pharmaceuticals (+29.3% yoy) and oil refining (+4.6% yoy) recorded gains. Although the government eased social distancing rules from 23 Apr, economic activities need more time to fully recover, especially in the tourism, entertainment and manufacturing sectors.

As a result, we expect Vietnam's GDP to slide 0.6% yoy in 2Q20F and we revise down our 2020F GDP growth forecast to 4.5%. We forecast GDP growth to rebound strongly in 2H20F, with 3Q20F and 4Q20F GDP growth reaching 6.0% yoy and 7.4% yoy, respectively, as the service and industry sectors are expected to gradually recover, thanks to higher domestic demand after the relaxation of social distancing rules while the expansion of public investment could lift overall social investment, including that of the private sector, thus boosting the country's economic growth.

Figure 4: Industrial activity was hurt significantly in Apr due to global supply and demand disruptions amid the Covid-19 pandemic



SOURCES: VNDIRECT RESEARCH, GSO, Fiinpro

We see public investment as vital to driving 2020F growth ▶

To reverse the downtrend in GDP growth, Vietnam's government stepped up public investment amid the slowdown in other growth engines. According to GSO, disbursed state capital rose 12.9% yoy to VND83.7tr in 4M20 (above the 4.0% rate seen in 4M19), equivalent to 17.8% of the full-year target (slightly below the 18.0% rate seen in 4M19; note that 2020F's disbursement plan envisages a 14% rise from 2019's plan). Notably, the disbursement of public investment in Apr still edged up 0.8% yoy despite the nationwide lockdown and the government's deployment of resources to support health activities to prevent the spread of Covid-19.

Since social distancing rules were eased on 23 Apr, we expect the government to further accelerate public investment to spur economic growth. A decree guiding the implementation of the amended Law on Public Investment was issued on 6 Apr, providing regulations on capital management, settlements and specific direction for individuals and organisations to prevent delays in public investment disbursement. The Ministry of Transport has requested the localities where 11 sub-projects of the Eastern section of the North-South Expressway are to be situated to focus on speeding up and handing over the ground in 2Q20F. Currently, site clearance has been completed on 454km, or 69%, of the total 654km stretch. Meanwhile, the Dong Nai province has cleared 99% of the resettlement areas for the Long Thanh airport project. The prime minister has instructed the province to disburse VND17,000bn of public investment this year to get the project started in 2021.

On 7 Apr, the prime minister approved the proposal to change the financing format of eight sub-projects under the Eastern North-South Expressway project to public investment from public-private partnership (PPP) and assigned relevant ministries to quickly complete the adjustment procedures for submission to the National Assembly. Therefore, all 11 sub-projects of the North-South expressway, which require a total investment of VND118.7tr, are now public investment projects. Similarly, the My Thuan-Can Tho expressway will be converted into a public investment project and will apply the same mechanism as the North-South expressway project. With the conversion of financing format, the government intends to get these projects started right in 3Q20F, instead of 1Q21F as we had previously expected.

Figure 5: 11 sub-projects of the Eastern section of the North-South expressway are the major public investment projects for 2020

Expressway	Total investment (VNDbn)	Length of the route (km)	Starting time
Cao Bo - Mai Son	1,612	15	4Q19
Cam Lo - La Son	7,900	102	1Q20
My Thuan Bridge 2	5,125	7	1Q20
Mai Son - National Highway 45	14,703	63	3Q20
National Highway 45 - Nghi Son	7,769	43	3Q20
Phan Thiet - Dau Giay	19,571	98	3Q20
Nghi Son - Dien Chau	8,648	50	3Q20
Dien Chau - Bai Vot	13,596	50	3Q20
Nha Trang - Cam Lam	5,131	29	3Q20
Cam Lam - Vinh Hao	15,013	91	3Q20
Vinh Hao - Phan Thiet	19,648	106	3Q20
Total	118,716	654	

SOURCES: VNDIRECT RESEARCH, GSO, Fiiipro

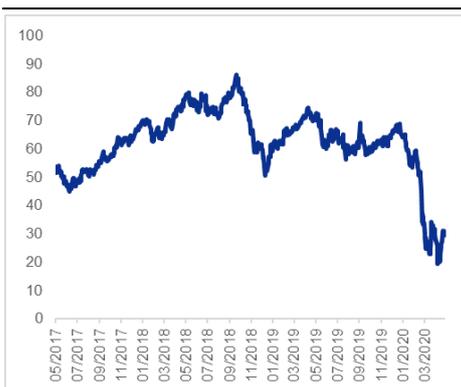
Inflation control efforts supported by low oil prices

Oil price plummeted in Apr as lockdowns across the world undermined demand ➤

Domestic petrol prices fell about 29% mom during Vietnam's Apr Consumer Price Index (CPI) calculation period (from 21 Mar to 20 Apr), which contributed to declines of 13.9% mom and 19.6% yoy in the transportation price index. The decline has in turn shaved 2.0% pts off headline CPI to bring the Apr number to 2.9% yoy (vs. 4.9% yoy in Mar). We expect petrol prices to remain low in 3Q20F as many countries are maintaining social distancing measures to prevent the spread of Covid-19, thus reducing the demand for refinery products.

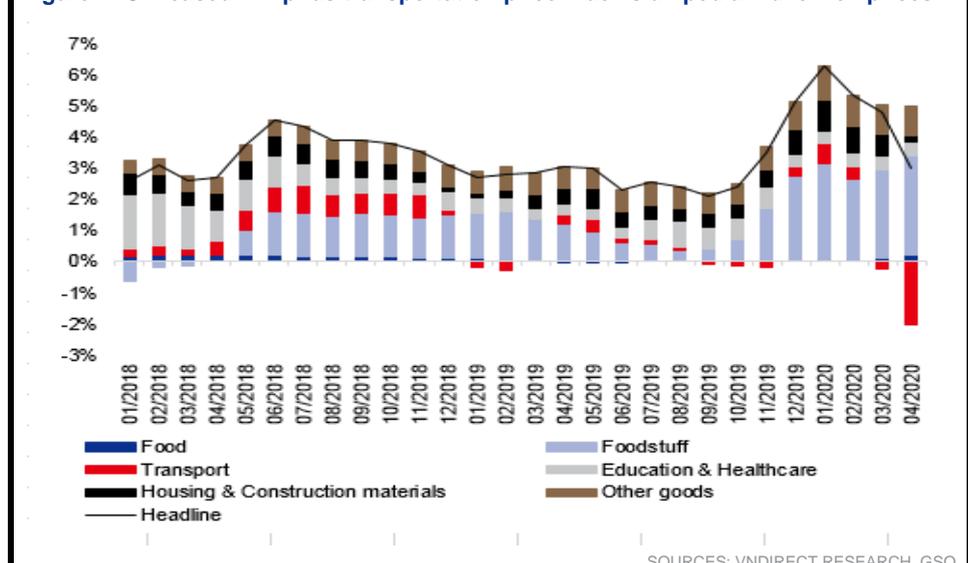
Vietnam's government is taking aggressive actions on price control, ordering major domestic pork suppliers to lower the price of live hogs, the country's key meat, to VND60,000/kg. It also increased the pork import quota to raise supply in the domestic market. We expect domestic live hog prices to decline to VND65,000/kg at end-2020F from about VND85,000/kg now, thanks to these coordinated actions, which should help stabilise inflation. In addition, the government has announced electric price cuts of 10% during the May-Jul period to tame inflation in 2Q20F. As a result, **we expect inflation to be manageable and we retain our 2020F average CPI forecast at 3.2%.**

Figure 6: Brent crude oil price plummeted in Apr



Source: Bloomberg

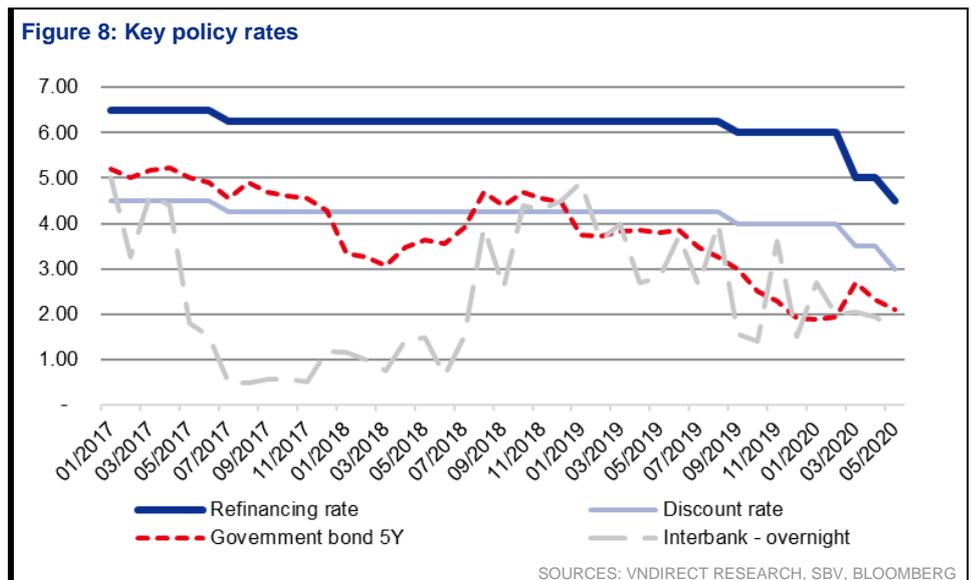
Figure 7: CPI eased in Apr as transportation price index slumped amid low oil prices



SOURCES: VNDIRECT RESEARCH, GSO

SBV continues to cut key policy rates

Following the previous rate cut in Mar 2020, the State Bank of Vietnam (SBV) announced it would further lower several key interest rates to support growth. Specifically, the refinancing rate was cut to 4.5% from 5.0% and the discount rate lowered to 3.0% from 3.5%. These actions came on the heels of a wave of easing monetary policy across the world taken to negate the impact of the Covid-19 pandemic. We believe the growth outlook is cloudier in 2Q20F while headline inflation is likely to be better controlled, thanks to oil price declines. As inflation risk is fading, we expect SBV to further reduce key policy rates by 0.25-0.5% pts in 2020 to support economic growth.



Vietnam is preparing to welcome new wave of foreign direct investment

Last year, the US-China trade war triggered a shift in production activities from China to other markets and the Covid-19 outbreak has reaffirmed and escalated the trend. More and more governments and multinational companies have realised the danger of supply chain disruptions when the world's economy depends too much on one major market. As China gradually loses power in the global supply chain, Vietnam has emerged as an ideal destination for manufacturing reallocation, thanks to its geographical advantage of being close to the supply chain in southern China. Moreover, after nearly four months fighting the pandemic, Vietnam has demonstrated to the world the extraordinary ability of ensuring the health of everyone while keeping manufacturing activities running and economic growth momentum intact. It has propelled Vietnam to the top of the list of ideal destinations for establishing manufacturing facilities after the virus is contained. Several multinational enterprises have announced plans to expand manufacturing activities and investment in Vietnam, including Google (GOOGL US, Not Rated), Microsoft (MSFT US, Not Rated), HP (HPQ US, Not Rated) and Dell (DELL US, Not Rated). Specifically, Microsoft aims to launch its latest Surface models in Vietnam while HP and Dell plan to move up to 30% of their notebook production to the Southeast Asian country. The Vietnamese government has asked sectors and businesses to prepare the best conditions to welcome the new foreign investment influx after the virus is contained. On its part, the government has pledged to further improve the investment environment, reform administrative procedures and introduce more preferential investment policies.

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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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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2020		
811 companies under coverage for quarter ended on 31 March 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.8%	0.1%
Hold	27.6%	0.0%
Reduce	11.6%	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

Stock Ratings

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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