

Vietnam

# Economics Update

## Public investment in the spotlight

- Vietnam’s services and industrial sectors weakened mom in Aug 2020 as the second wave of Covid-19 spreads across the country.
- Vietnam’s headline inflation slowed to 0.1% mom in Aug 2020 (vs. 0.4% mom in Jul).
- The trade surplus further widened to US\$10.9bn in 8M20, more than double the surplus of US\$5.4bn in the same period last year.

### Service sector slows in Aug amid second wave of Covid-19

Starting from Da Nang city on 25 Jul, the second Covid-19 outbreak has spread to 15 localities, with 1,049 infected cases to-date. The government implemented 40-day social distance measures in Da Nang and Quang Nam provinces, halting all public transportation. According to General Statistics Office (GSO), the total value of retail sales and services was down 2.7% mom but still up +1.7% yoy in Aug 20. Retail sales rose 6.3% yoy, while hospitality and tourism revenue fell 15.6% and 74.2% yoy, respectively.

### Industrial production subdued in Aug

Vietnam’s Aug IHS Markit Purchasing Managers’ Index (PMI) slumped further to 45.7pts, from 47.6pts in the previous month, due to slower demand for industrial products (in both domestic and foreign markets), as well as the extended disruption in the global supply chain. PMI below 50 indicates a decline in the manufacturing sector.

### Public investment growth accelerates in Aug

In a bid to reverse the GDP growth downtrend, the government stepped up public investments to counter the slowdown in other growth engines. According to GSO, disbursed state capital rose 30.4% yoy to VND250.5tr in 8M20 (above the 27.2% rate seen in 7M20 and 5.4% in 8M19), equivalent to 50.7% of the revised full-year target.

### Trade surplus widens further as exports accelerate

According to General Department of Vietnam Customs, Aug exports rose an estimated 6.5% mom to US\$26.5bn (+2.5% yoy), establishing a new record for the monthly value. Vietnam’s 8M20 exports edged up 1.5% yoy to US\$174.1bn. As for imports, Aug spending climbed 8.6% mom to US\$24.0bn (+7.3% yoy), while 8M20 imports fell 1.7% yoy to US\$163.2bn due to the decline in domestic demand amid higher unemployment rates and lower workers’ incomes. As a result, the 8M20 trade surplus widened to US\$10.9bn, the highest monthly level on record.

### As uncertainty rises, we deliver two GDP growth scenarios

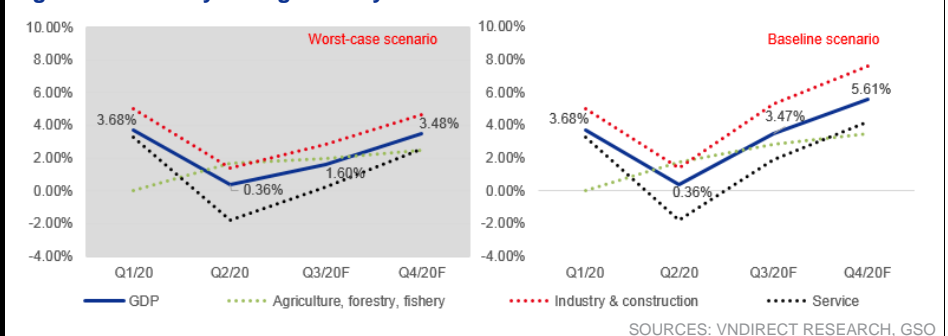
As the pandemic’s second outbreak has affected all aspects of Vietnam’s economy, and uncertainty surfaced, we delivered two scenarios for Vietnam’s FY20F GDP growth. In the baseline scenario, we expect Vietnam to totally contain the second wave of infections in Sep and forecast the economy to expand 3.5% yoy in 2020F. However, if the infections last longer, the pandemic’s negative impact on the services sector would prolong and be exacerbated; therefore, Vietnam’s 2020F GDP growth could slow to 2.3% yoy.

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**Figure 1: Quarterly GDP growth by sector in two scenarios**



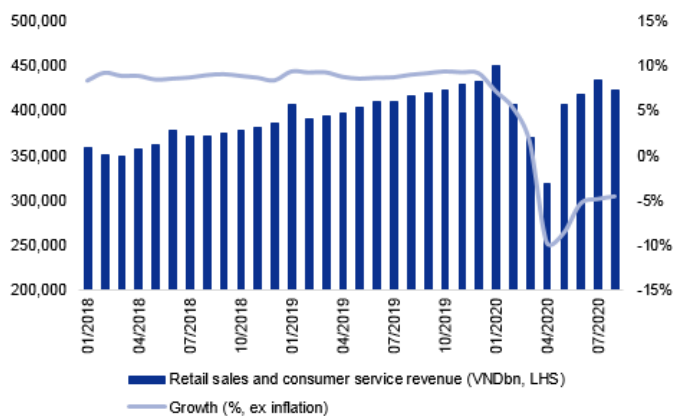
## Public investment in the spotlight

### Sluggish recovery amid second Covid-19 outbreak

#### Services sector witnessed slowdown in Aug >

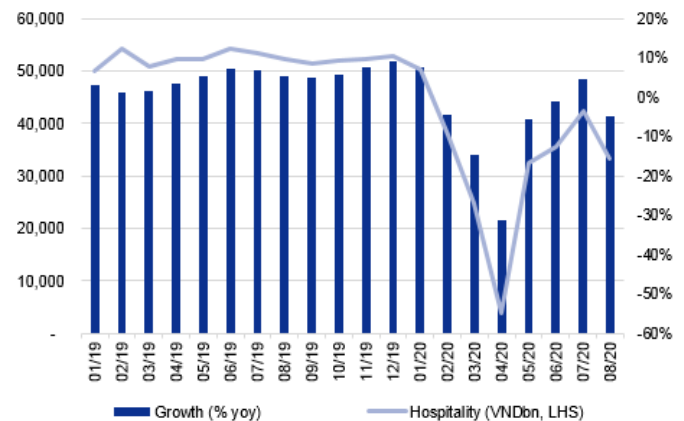
According to GSO, the total value of retail sales and services slid 2.7% mom, while inching up only 1.7% yoy in Aug 2020 (vs. +4.0% mom and +6.2% yoy in Jul 2020). To be specific, retail sales increased 6.3% yoy, while hospitality and tourism revenue declined by 15.6% and 74.2% yoy, respectively. Nevertheless, we expect the services sector to rebound from Sep with the government beginning to ease social distancing rules in Da Nang city and Quang Nam province after the outbreak was contained. In addition, the Ministry of Transport has submitted a proposal to the government for the reopening in Sep 2020 of selected international flights to and from countries and territories that are currently safe from a second wave of Covid-19, such as China, South Korea, Japan, Laos, and Cambodia.

**Figure 2: Services sector weakened in Aug 2020 due to the second wave of Covid-19 infections**



SOURCES: VNDIRECT RESEARCH, GSO

**Figure 3: Hospitality dropped in Aug 2020 as some localities implemented social distancing protocols**

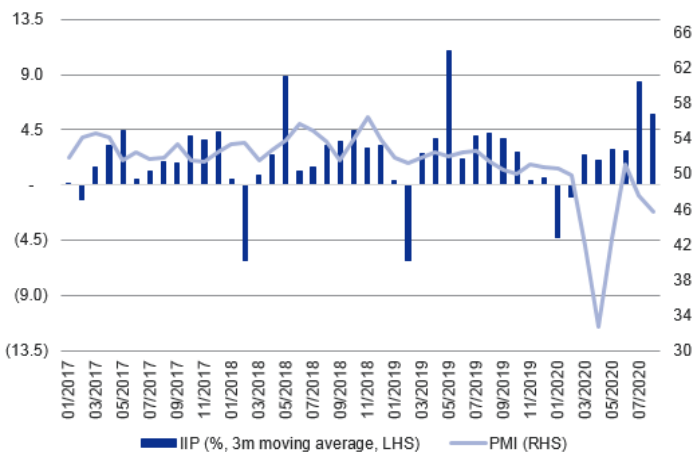


SOURCES: VNDIRECT RESEARCH, GSO

#### Industrial production subdued in Aug >

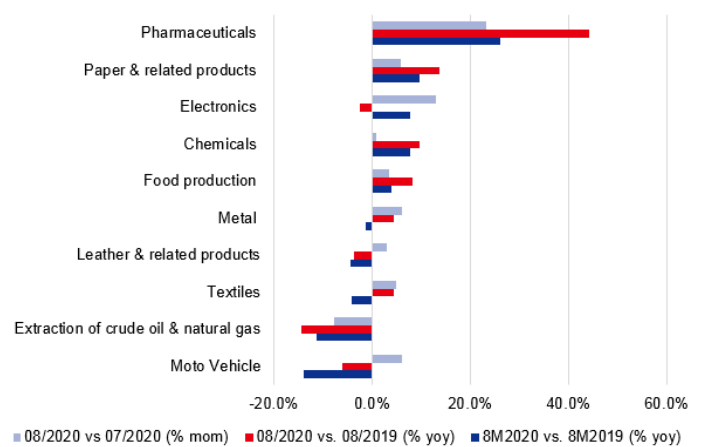
Vietnam's Aug IHS Markit Purchasing Managers' Index (PMI) slumped further to 45.7pts, from 47.6pts in the previous month, due to slower demand for industrial products (in both domestic and foreign markets), as well as the extended disruption of the global supply chain. PMI below 50 indicates a decline in the manufacturing sector. Also, Vietnam's Aug Index of Industrial Production (IIP) grew by only 0.6% yoy, which is slower than the 1.1% rate in Jul 2020 and 7.2% rate recorded in Jun 2020. Many sub-sectors saw contractions, especially in coke coal and refined production (-16.7% yoy), crude oil and natural gas extraction (-14.4% yoy), beverage (-8.2% yoy), auto production (-6.0% yoy) and leather and related products (-3.6% yoy). On the other hand, several sectors witnessed improvements in Aug, including pharmaceuticals (+44.2% yoy), paper and related products (13.8% yoy), chemicals (+9.7% yoy), tobacco (+9.8% yoy) and food production (+8.3% yoy). We expect industrial activities to gradually recover from Sep as more people return to work, and domestic demand for industrial products rebound after the latest outbreaks have been contained and the government relaxes social distancing rules in Da Nang city and Quang Nam province.

**Figure 4: Vietnam's PMI dropped further to 45.7pts in Aug 2020**



SOURCES: VNDIRECT RESEARCH, GSO

**Figure 5: Electronics production declined in Aug 2020**



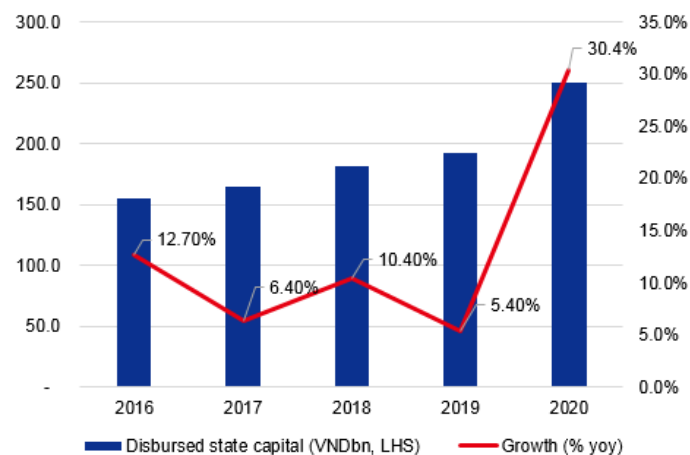
SOURCES: VNDIRECT RESEARCH, GSO

## We see public investment and exports as key growth engines going forward

### Public investment took off in Aug >

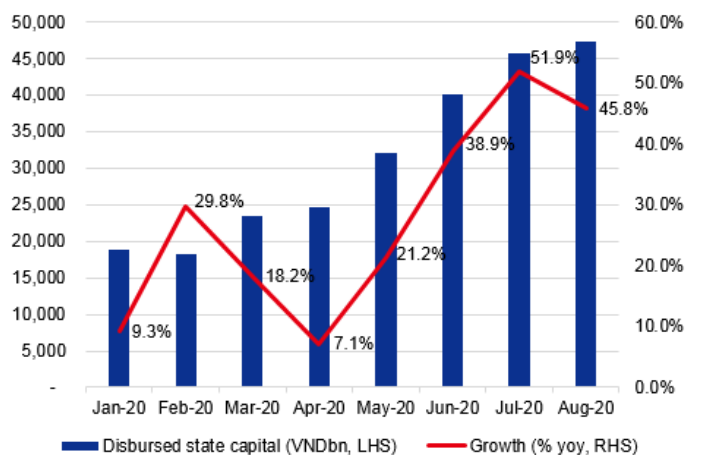
In a bid to reverse the downtrend in GDP growth, the government has been stepping up public investment to counter the slowdown in other growth engines. According to GSO, disbursed state capital rose 30.4% yoy to VND250.5tr in 8M20 (above the 27.2% rate seen in 7M20 and 5.4% in 8M19), equivalent to 50.7% of the revised full-year target. We expect public investment to accelerate in the coming months as the government plans to implement three sub-projects under the North-South Expressway Project in Sep 2020, including Mai Son - National Highway 45, Vinh Hao - Phan Thiet and Phan Thiet - Dau Giay expressways. These sub-projects, with investments totalling VND54,000bn (or 45% of the total investment value of the North-South Expressway), have been approved by the National Assembly for the change in financing format to public investment from public-private partnership (PPP).

**Figure 6: Disbursed public investment in the first eight months in FY16-20**



SOURCES: VNDIRECT RESEARCH, GSO

**Figure 7: Monthly disbursed public investment**



SOURCES: VNDIRECT RESEARCH, GSO

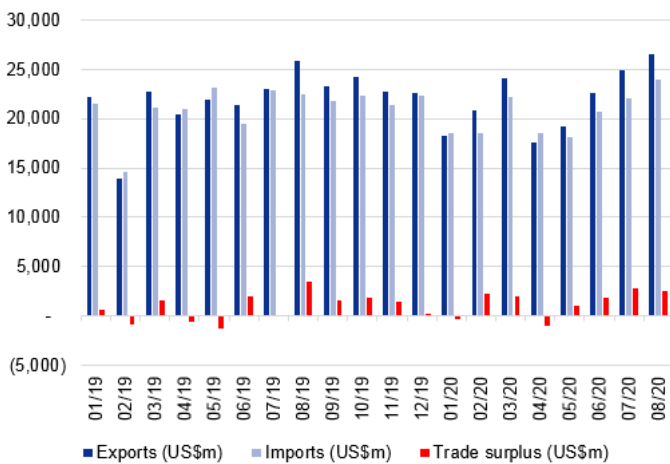
### Trade surplus widens further as exports accelerate >

According to General Department of Vietnam Customs, Aug exports rose an estimated 6.5% mom to US\$26.5bn (+2.5% yoy), establishing a new record for the monthly value. Vietnam's 8M20 exports edged up 1.5% yoy to US\$174.1bn. The growth was spurred by domestic enterprises, with total export value estimated

at US\$60.8bn (+15.3% yoy), while that of FDI companies dropped 4.5% yoy to US\$113.3bn. Regarding export products, the items that recorded the highest export growth in Aug include wooden furniture (+62.1% yoy), steel (+47.7% yoy), machinery (+43.6% yoy), gemstone (+37% yoy), paper and related products (+21.9% yoy), cement and clinker (+15.8% yoy) and computers and electronic products (+15.0% yoy).

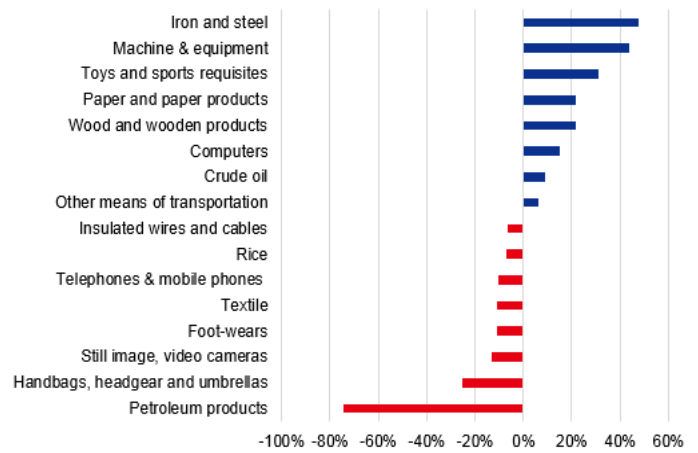
As for imports, Vietnam's Aug imports value rose 8.6% mom to US\$24.0bn (+7.3% yoy). Its 8M20 imports fell 1.7% yoy to US\$163.2bn due to the decline in domestic demand amid higher unemployment rates and lower workers' incomes. As a result, the 8M20 trade surplus widened to US\$10.9bn, from a surplus of US\$5.4bn in the same period last year and US\$8.4bn in 7M20. We forecast 2020F exports to increase 1.7% yoy to US\$268.6bn, and imports to drop 0.4% yoy to US\$252.2bn. We thus expect the trade surplus to jump 44% yoy to US\$16.4bn in FY20F. We view the widening in trade surplus as supportive of the country's GDP growth, as well as the strength of the Vietnamese dong relative to other currencies.

**Figure 8: Exports accelerated further in Aug 2020 (US\$ m)**



SOURCES: VNDIRECT RESEARCH, GSO, General Department of Vietnam Customs

**Figure 9: List of export products with the largest changes in Aug 2020 (% yoy)**

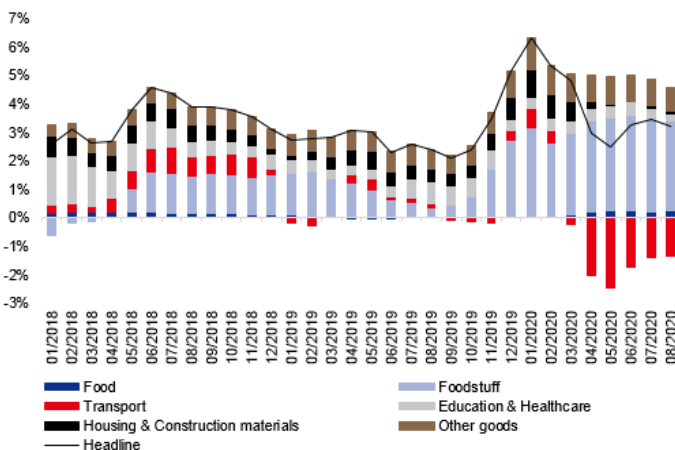


SOURCES: VNDIRECT RESEARCH, GSO

**Inflation could ease further towards year-end >**

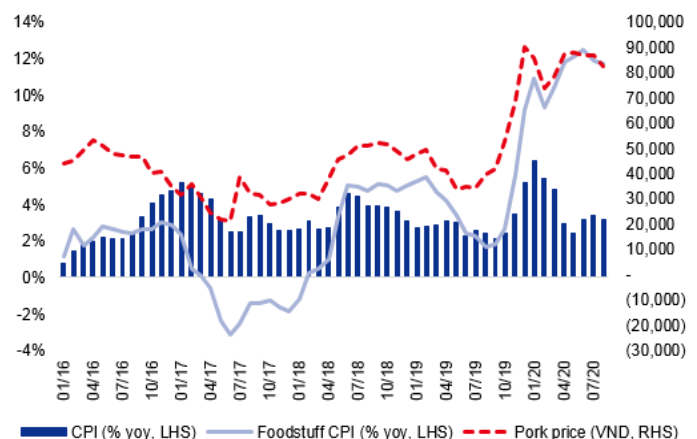
Vietnam's Aug headline inflation slowed to 3.2% yoy (vs. 3.4% yoy in Jul). On a month-on-month basis, the headline CPI inched up only 0.1%, slowing from 0.4% in Jul 2020, as increases in education items price index (+0.2% mom) and food and foodstuff price index (+0.1% mom) were partly offset by price declines in cultural and recreation items price index (-0.2% mom) and postal services and telecommunication price index (-0.1% mom).

**Figure 10: Inflationary pressure eased in Aug**



SOURCES: VNDIRECT RESEARCH, GSO

**Figure 11: Pork prices declined in Aug**



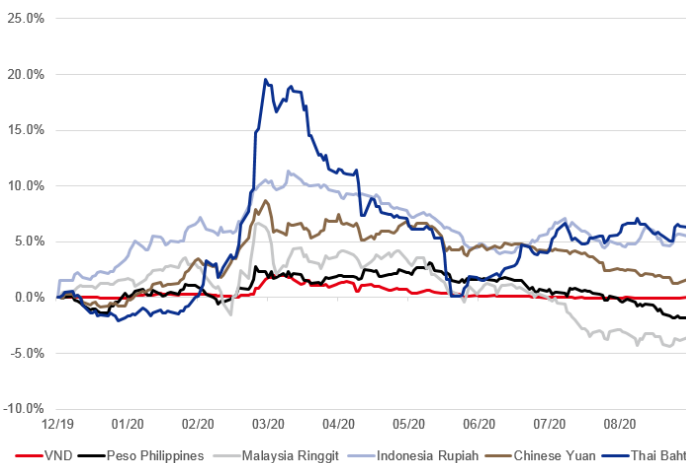
SOURCES: VNDIRECT RESEARCH, AGROMONITOR

We expect inflationary pressure to ease further towards year-end as the gap between live pork prices in 4Q20F and 4Q19 would narrow when compared with previous quarters. To be specific, we forecast 4Q20F average live pork price at VND82,000/kg, or 11.6% higher than the price in 4Q19, while we estimate 9M20F average live pork price to climb to VND84,000, double the figure in 9M19. Therefore, the food and foodstuff CPI Index is estimated to be much lower than the Jan-Aug period average level of about 11.3% yoy (noting that pork accounts for 11.6% of the monthly food and foodstuff CPI calculation basket and 4.2% in the monthly headline CPI calculation basket). We keep unchanged our forecast for the 2020F average headline CPI of increasing 3.2% yoy, based on the following key assumptions: 1) we expect Brent crude oil price at around US\$43-45/barrel in 2H20F, and 2) the government is not expected to raise electricity prices in 2H20F.

### Vietnamese dong could be stable towards year-end ➤

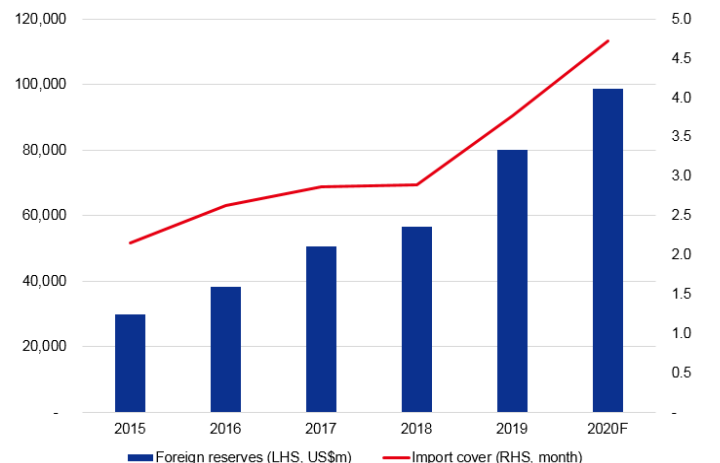
The dollar index has weakened during 8M20, down 4.2% YTD, as the Federal Reserve (FED) loosened its monetary policy to maintain favourable financial conditions and strengthen financial markets to support the U.S. economy to fight the pandemic. In that context, the Vietnamese dong has remained stable against the US dollar, backed by higher trade surplus and foreign reserves. As per data on Sep 4, the central bank-set exchange rate for USD/VND stood at VND23,206 per dollar, widening only 0.2% YTD, while the exchange rate on the free market is similar to the rate seen at the beginning of 2020. We expect the greenback to remain weak towards the year-end as we expect the Fed to maintain an accommodative monetary policy to support growth. We expect the VND to move within a relatively narrow range of VND23,200-23,400 per dollar towards the end of 2020F.

**Figure 12: Vietnam's currency is more stable than most of its regional peers**



SOURCES: VNDIRECT RESEARCH, BLOOMBERG

**Figure 13: Vietnam's forex reserves and import cover (2015-20F)**



SOURCES: VNDIRECT RESEARERCH, SBV, General Department of Vietnam Customs

### Interest rates could fall further towards year-end ➤

Given the lower inflationary pressure in 2H20F, we expect the State Bank of Vietnam to further loosen monetary policy to support economic growth and reduce its key policy rates by 0.25-0.5% pts in 2H20F.

According to our calculation, the 3-month term and 12-month term deposit interest rate at commercial banks as at 12 Aug on average decreased about 0.3% pts and 0.5% pts respectively, compared to end-2Q20. We expect both the deposit and the lending rates offered by commercial banks to decline further by 0.25-0.5% pts towards the end of 2020F.

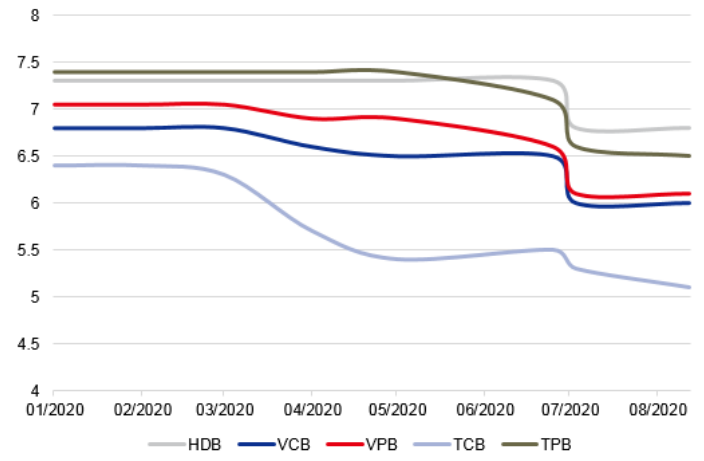
We expect credit demand to remain low in 2H20F as many companies delay business expansion plans due to the pandemic. We forecast credit to increase 8.0-9.0% yoy in FY20F, while M2 would expand at a faster clip of 9.0-10.0% yoy.

**Figure 14: Overnight rate stayed low during Aug 2020**



SOURCES: VNDIRECT RESEARCH, BLOOMBERG, SBV

**Figure 15: One-year term deposit rate at some commercial banks (%)**



SOURCES: VNDIRECT RESEARCH, Commercial banks



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	Rating Distribution (%)	Investment Banking clients (%)
Add	60.1%	0.4%
Hold	25.9%	0.1%
Reduce	14.0%	0.3%



## 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, **BCPG** – 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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