

MANUFACTURING: UNDER THE IMPACT OF COVID-19 MEASURES

16 April 2020

To curb the virus spread, Vietnam government issued a range of stringent social distancing measures for 15 days, starting from 01 April 2020, and possibly extending until 30 Apr:

- People are required to stay at home and should only go out in case of extreme necessity, such as buying food, foodstuff and medicine or going to work in certain industries.
- In case of going outside, all citizen must wear facemasks, keep distance with other people and avoid groups of more than two people outside the workplace, schools and hospitals.
- Restaurants, non-essential stores, non-essential services are required to closed. Factories are allowed to open but with implementation of preventive measures.
- Inter city bus, airplane and train operation is largely halted.

Slowdown but not shutdown

Manufacturing dropped to record low in March

Industry and construction sector grew only 5.15% yoy in 1Q20, lower than the growth of 9.00% yoy in 1Q19. The manufacturing sub-sector, one of the main GDP growth pillars, rose just 7.12% yoy, the lowest rate seen in the 2016-20 period. Manufacturing PMI fell sharply to 41.9 in Mar from 49.0 in Feb as domestic manufacturers face both input material shortage due to supply chain disruption and a severe drop in new orders given subdued global demand.

Automobile manufacturers halted production since late-Mar

Ford announced suspension of its production in India, Thailand and Vietnam since 26 Mar. Other car makers, including Nissan, Toyota, Vinfast, TC Motor and Honda, halted production and closed sale agents from 30 Mar amid a sluggish domestic car market and the onset of social distancing measures. According to the Vietnam Automobile Manufacturers' Association (VAMA), domestic car sales of its members dropped 33% yoy in 1Q20, while inventory of car makers surged 122% yoy as at end-Mar. We observe that automobile is the only industry to announce its factory closure so far.

Samsung Vietnam: 1 infected case confirmed, some facilities closed

On 13 Apr, Samsung Display Vietnam closed some facilities of its factory in Bac Ninh province when one local worker tested positive for Covid-19. Other factories are running at normal operation. Samsung Vietnam estimated a 12% yoy decrease in FY20F export value to about VND45.5bn, due to slow global demand.

Other key export sectors to face strong headwinds from 2Q20

1Q20 export value grew 7.5% yoy (vs. 5.2% yoy in 1Q19), while several export companies experienced a sharp drop in new orders. According to the Ministry of Industry and Trade (MoIT), production of Vietnam's key export sectors (including electronics equipment, garment, footwear, wood and furniture) will plunge a further 70% qoq in 2Q20 due to order cuts as major export markets, such as the EU and the U.S, are on lockdowns.

But there are still some shining lights

Pharmaceutical and botanical products outperformed the manufacturing sector, with a 27.3% yoy growth in sales volume in 1Q20, followed by coke and refinery petroleum products which jumped 24.7% yoy in terms of volume. Medicine, hand sanitiser and protective gear are enjoying higher demand amid the outbreak. In contrast with garment makers, fabric companies have a better stand in 1Q20 with 13.0% yoy increase in sales volume. As 60% of the fabric used for Vietnam's domestic manufacturing is imported from China, domestic fabric demand jumped sharply due to China's production disruptions in 1Q20. In addition, an increase in production of face masks during the pandemic also resulted in higher fabric demand.

Figure 1: PMI showed a sharp drop in 1Q20 while unemployment rate picked up



Analyst(s):



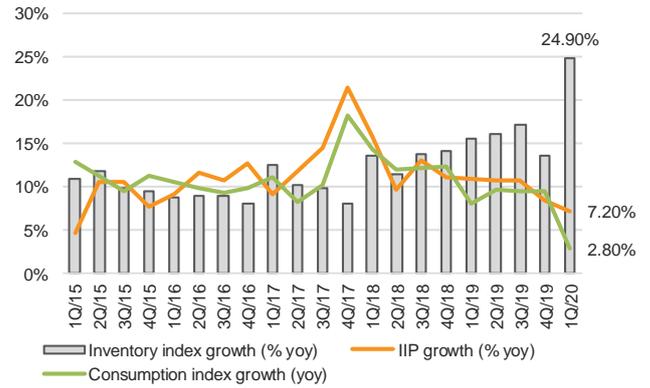
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Source: GSO, Markit

KEY CHARTS

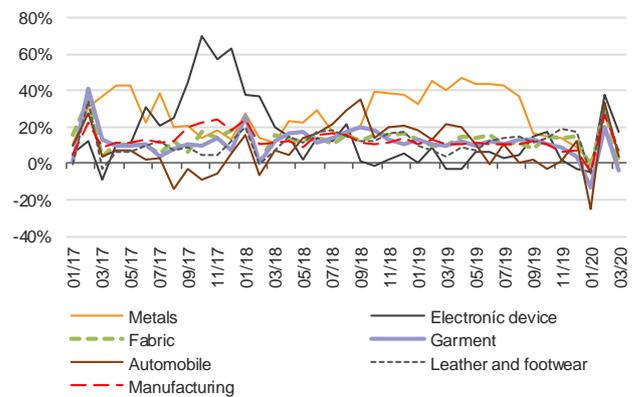
Manufacturing sector showed a significant slowdown in both consumption and production while inventory surged in 1Q20



Source: MOIT, GSO, VNDIRECT RESEARCH

Monthly Index of Industrial Production (IIP) of major manufacturing industries dropped in Mar 2020

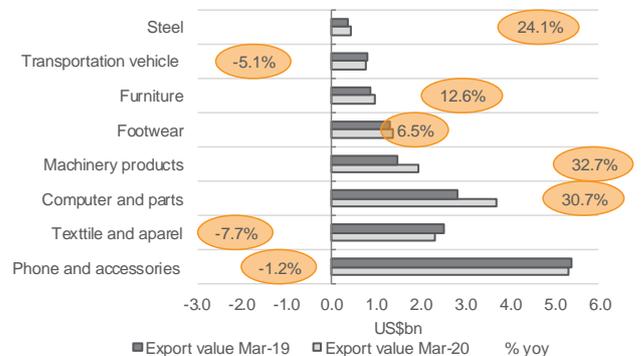
Key manufacturing sectors showed decelerated IIP growth versus 1Q19, excluding electronic device. Per our observation, the recent emergence of Vsmart, Vingroup's smartphone brand, is the reason for positive growth of the electronics segment in Mar 2020 (+17.3% yoy). According to GFK, Vsmart's domestic market share jumped to 16% in Mar 2020 from just 6% in Dec 2019.



Source: MOIT, GSO, VNDIRECT RESEARCH

Key export sectors showed mixed performances in Mar 2020

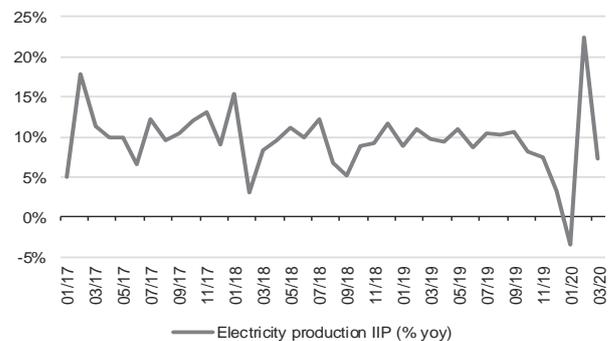
Vietnam's export value grew 7.2% yoy for the whole 1Q20, the value in Mar alone increased 6.2% yoy. Of which, phone and accessories' export value slightly decreased 1.2% despite a 17.3% rise in IIP in Mar 2020. Note that the growth in export value of phones and accessories is attributed mostly to Samsung Vietnam, while Vsmart has currently been focusing in domestic market.



Source: Vietnam Custom, VNDIRECT RESEARCH

Industrial disruption has yet to happen in Mar 2020, indicated by electricity production

We observe that China's power production fell 7.8% yoy in 2M20 during the country's lockdown. Meanwhile Vietnam's electricity output still grew steadily 7.8% yoy in 1Q20 (but with a lower growth of 5.9% yoy in Mar 2020) which signalled a manufacturing slowdown but not yet a large countrywide factory shutdown.



Source: MOIT, GSO, VNDIRECT RESEARCH

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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.

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