

NOVEL CORONAVIRUS OUTBREAK AS A BLACK SWAN EVENT

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nCoV outbreak update: Vietnam steps up vigilance

Since the first human infections were reported in Wuhan city in China's Hubei province on 31 Dec 2019, the virus has now spread to another 24 countries, having infected nearly 31,500 people and killed 638 people, most of the victims in China, the World Health Organization (WHO) reported as at 7 Feb 2020.

Since Vietnam's first infections were confirmed on 23 Jan, two Chinese nationals, the country has taken drastic measures to limit its spread. Since 30 Jan, the government suspended granting visas for residents from nCoV-hit areas and also temporarily stop flights to and from China starting from 1 Feb. Entry and exit at all border gates for all forms of transportation - land, sea and air - have been strictly controlled. A mandatory 14-day quarantine period has been imposed on all visitors who have been to 31 localities in China that have recorded nCoV infections. Universities and schools across the country have extended the Lunar new year break to 9 Feb, and a potential 1-week close until 16 Feb is under consideration.

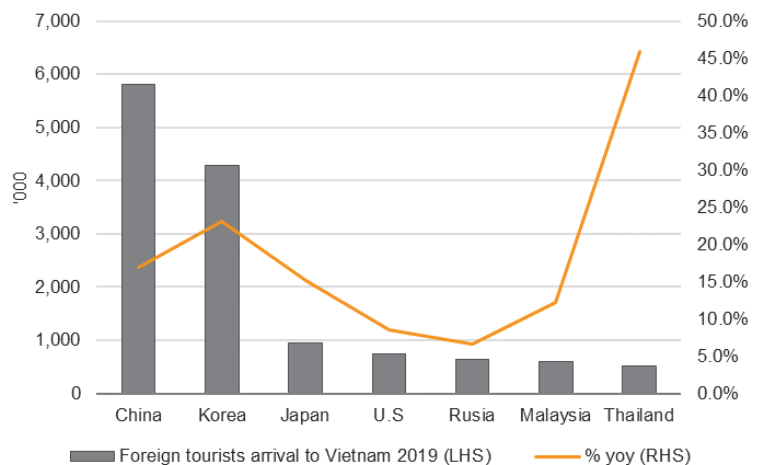
As at 7 Feb, Vietnam reported 12 novel coronavirus infections but 3 of them have recovered and were discharged from hospital. So far, the country continues to quarantine about 600 others who are at risk of transmission as the country makes efforts to curb the spread of the epidemic.

Potential impact on Vietnam's economy

Tourism and transports are directly hit

Vietnam's tourism and aviation industry have been devastating amid the imposition of travel restrictions and fears of infection. Since 1 Feb 2020, the Civil Aviation Authority of Vietnam (CAAV) has stopped licensing all China-related outbound and inbound flights; and tours from/to China have also been suspended. According to our estimate, about 32 international flight routes, equivalent to about 600 flights per week, have been cancelled.

Figure 1: Visitors to Vietnam by regions in 2019



Source: Vietnam National Administration of Tourism

As Chinese travellers accounts for over 30% of foreign arrivals to Vietnam, a sharp drop in tourist arrivals in 1Q2020F is visible.

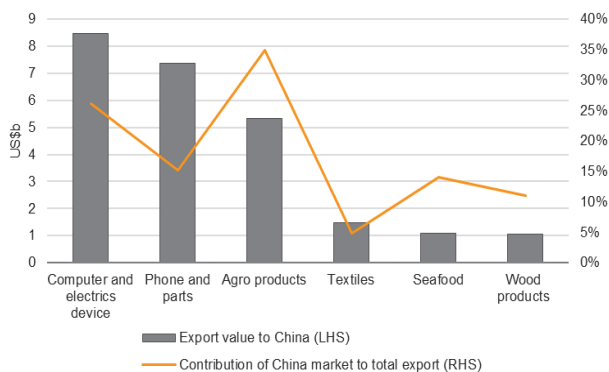
Furthermore, we see a steep slowdown of EU, US, and Australian travelers to Asian countries - which will likely be perceived as being at higher risk of spreading the virus compared to other destinations. Last but not least, domestic demand is also expected to decelerate as people refrain from travelling to crowded public places.

Trade may be hindered due to restrictions on border crossing and supply disruption from Hubei province

As the authorities step up measures to prevent the virus spread, border crossing to China, Vietnam’s largest trade partner, has been tightened. Exports by the two nations should encounter difficulties, with companies selling Vietnamese agricultural products, seafood and foodstuff across the land border to China expected to face significant hit in the short term.

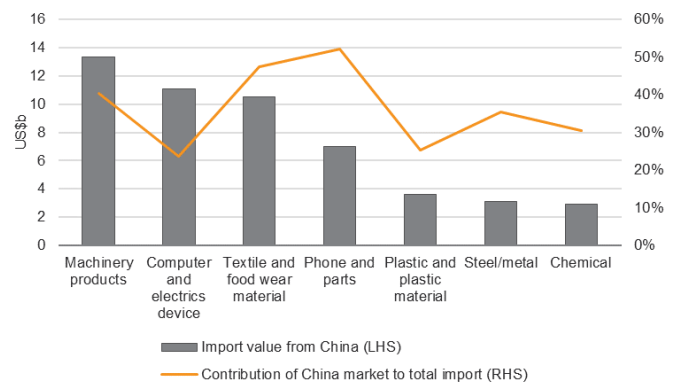
Some industries in Hubei province may face stagnancy, leading to supply disruptions and thus affecting the businesses which rely on raw material import from China. They include textiles and garments (importing yarn and fabric), electronics, consumers’ goods (buying components and accessories) and flat steel (importing hot-rolled coils). The disruption, however, can just be short-lived because China’s manufacturing activities are expected to quickly recover once the disease is brought under control.

Figure 2: Vietnam’s key products exported to China in 11M19



Source: General Department of Vietnam Customs

Figure 3: Vietnam’s key products imported from China in 11M19



Source: General Department of Vietnam Customs

Demand for durables and luxury goods may drop

Historical data from past epidemics show retail of durables and luxury goods faced negative impact as demand weakened. Retailers and distributors of durable consumer goods, jewelry as well as retail real estate may encounter difficulties as long as the epidemic has not been contained.

Risk of slowing economic growth globally, especially in China

Decreasing economic activities in China may lead to the risk of slowing imports and exports across Asia and the rest of the world. As such, trade-linked industries likely to get the direct hit include sea port industry, airports, logistics and transportation. The impact has already been reflected in oil prices that fell over 10% in Jan 2020 amid concerns over global economy slowdown. Falling oil prices may leave a negative psychological impact on Vietnam’s domestic oil and gas industry.

A few sectors that could benefit from the outbreak

Vietnam’s industries which may benefit in short term from the interruption of the goods flow from Hubei to Vietnam are those in the downstream segment, currently facing huge competition from

Chinese products in the domestic market such as: textiles, steel and tires.

Pharmaceutical, medical supplies and retail pharmaceuticals may also become beneficiaries, but most stocks in this segment have small market cap and low liquidity. Specifically, drug importing businesses (special medicines in particular) and medical supplies businesses are the primary gainers. The majority of domestic pharmaceutical enterprises making antibiotics, simple medicines and functional foods will not directly gain from the virus outbreak.

In contrast to traditional retail, e-commerce activities may be preferred as demand for physical shopping wanes, giving space for online shopping and delivery service.

Figure 4: Summary of nCoV impacts on Vietnam's industries

Industries facing negative impact	Level impact	Industries getting benefit.	Level impact
Tourist accomodation	High	Medical Suppliers, pharmaceuticals	Medium, short-term
Aviation/Airports	High	Textiles	Low, hard to quantify
Agriculture	High	Steel	Low, hard to quantify
Retail, Retail Developer	Medium	Tire	Low, hard to quantify
Sea ports	Low	Footwear	Medium hard to quantify
Oil & Gas	Low		

Source: VNDIRECT RESEARCH

We think nCov pneumonia is a Black Swan event for the stock market

Looking back at the past, when the economy and the stock market faced negative impact from global epidemics for a short term, the entire market and most of the unaffected industries soon recovered. We think, while nCoV outbreaks can be dubbed as a Black Swan event causing a short-term impact, it is unlikely to change the whole economic cycle.

As mentioned above, the scale of the disease and strong actions taken by governments are unprecedented, making the actual impact of the virus on the global economy multi-dimensional. Hence it is difficult to accurately quantify the consequences. Hesitation on the stock market may linger until clear progress is made in the prevention and control of the disease.

The epidemic may not be over right away, but every challenge eventually has an end. Investors should weigh on keeping a safe position in the short term (by lowering their holding) or maintaining a long-term status for companies with sustainable growth and less affected by the disease. For targeted stocks, thorough research is needed on the impact of the disease on business activities, taking into account supply disruption, challenges in sales, or the impact on the demand even after the disease has come under control.

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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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