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FINANCE

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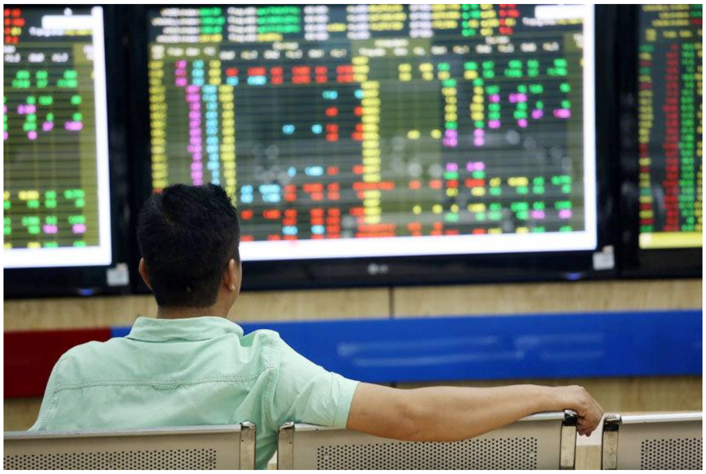


Vietnam's stock market continues to be an attractive investment channel from now on until late 2021, especially as factors that help attract capital to flow into the market would remain unchanged.

The Vietnam Financial Consultant Association (VFCA) made the assessment in its latest report on the local stock market.

According to the VFCA, in the face of the serious nature of the fourth Covid-19 outbreak and the rollout of the vaccination program, scheduled to complete by late 2022, more investors would join the stock market.

"Meanwhile, the fact that international organizations providing a positive outlook on the local economy with estimated GDP growth of 6.5-7.1% would further support market development," it added.

The VFCA also pointed out the current low-interest environment as a factor for people to look for investment channels, including the stock market, with higher profit returns.

"The State Bank of Vietnam (SBV) is expected to maintain its current interest rate policies to support people and businesses affected by the pandemic," stated the VFCA.

Another factor is that local enterprises have gradually adapted to a new normal, while major markets in the Europe and US are recovering.

In the first quarter, the pre-tax profit of listed non-financial firms surged by 157% year-on-year. Given the low base of the last second quarter, "their profits are expected to continue rising sharply in this second quarter," it added.

"A strong profit growth in the second quarter of Vietnamese enterprises would help improve the price to earnings (P/E) ratio of the benchmark Vn-Index and serves as motivation for the capital inflows to be channeled into the stock market," stated the VFCA.

At present, Vn-Index's P/E is in the range of 18.5-18.7x, considered not expensive compared to those of neighboring countries such as Thailand, Indonesia, and Malaysia at 29-30x.

"The ratio is forecast to moderate to 17x once business results of public firms in the second quarter are disclosed," asserted the VFCA.

Investors face risks in short-term

The Vn-Index rose by 7% in May to 1,328.05 and continued to go up to 1,374.05 on June 4. With market sentiment on the rise, liquidity saw a four-fold increase from VND7 trillion (US$301 million) in 2020 to VND28 trillion (US$1.2 billion) in the past few trading sessions.

“Individual investors dominated the market and were the decisive factor behind the market growth,” it said.

The huge capital inflows from local investors were enough to offset the negative impacts of a record net-sell amount of VND30 trillion (US$1.3 billion) since early 2021 from their foreign peers and take the Vn-Index to a new height.

“The mid-term outlook of the market remains bright, but in the short-term, investors may face certain risks,” stated the VFCA.

“As the market expands at a rapid rate of nearly 10% in the past month with a strong boost from stocks of steel, banks, and securities company have heightened the risk of correction,” it added.

However, the VFCA said a short correction phase to calm down the market is “a good thing” for Vietnam’s stock market in the long term.

With the majority of capital in the market coming from new investors, aka F0, the VFCA expects the market would be extremely vulnerable to negative information.

“Lack of financial knowledge and emotional investing could lead to many suffering losses while the market continues to rise,” the VFCA warned.

The association also noted that the foreign investors would keep pulling the money out of the stock market could also pose long-term risks.

The emergence of ETFs in Vietnam and the country’s capital market evolution

Dragon Capital was founded in 1994 by Dominic Scriven, at a time when the Vietnamese economy was opening during the process of ‘Doi Moi’, or renovation. This was not dissimilar to what had begun in China five years earlier, with a more open approach to private enterprise and global trade.

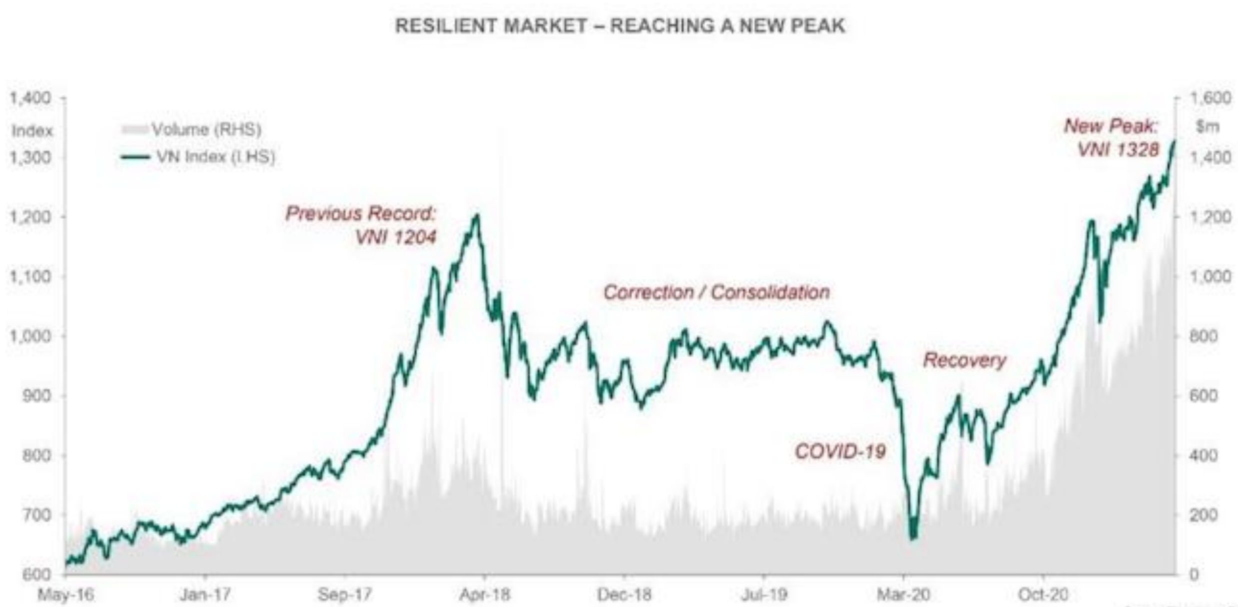
The stock market began trading in 2000 after the 1997 Asian financial crisis had largely dissipated and Southeast Asia was investable once more. Dragon Capital became one of the first foreign investors in the country with a true local presence. The company now manages USD5.5 billion of offshore money in Vietnamese assets, mostly public equities but also fixed income securities across several public and private funds. It counts among its investors household name family offices and sovereign wealth funds that have been with the company for many years.

The company has 130 staff, mostly in Ho Chi Minh City, is very well connected into the local business community, and is largely privately and internally owned. Earlier in 2021 Dragon merged with its domestic sister company VietFund Management, or VFM, which managed locally investable funds and which recently launched the country's first private pension plan. VFM was a pioneer in the locally listed ETF market, having launched their VN30 ETF in 2014 and is today the largest ETF manager in the country as well as in Southeast Asia.

An ETF has the advantage of being a simple structure with low trading costs and a high degree of transparency. These are not qualities commonly associated with investments in frontier-designated markets. They are often in the form of high cost open or closed-ended funds and sometimes hybrid private/public security holdings, possibly with uncertain underlying liquidity.

Vietnam as a frontier market

While frontier markets are for most investors havens of illiquidity, there has been ETF access to some of them for many years, offering transparency and simplicity. Here we will address the situation as it has been, as it is now, and how it might be in Vietnam, our host nation. As part of the MSCI Global Frontier Index, Vietnam is off limits to many pools of capital even though trading velocity, depth, market cap to GDP, etc. give it the appearance of neighbouring Asian emerging markets and make it a poor comparable to many in the frontier category. Figures 1,2 and 3 offer some perspectives on the market and its activity. Without going into detail, investing in individual securities in Vietnam can be time consuming and frustrating for foreigners, with prepayment and the premiums associated with foreign ownership limits invisible to would-be buyers or sellers. The latter issue will be resolved in due course, possibly as it was in Thailand with NVDRs, but that is some time away. ETFs offer an alternative means of gaining exposure to the local market and is a segment dominated by foreign institutions. ETFs also allow investment in stocks at their foreign ownership limits (de facto favoured by foreign investors) without the customary premium, which was the principle behind the creation of the Diamond ETF, of which more later.



Humble beginnings

The first domestic ETF in Vietnam, the VN30 ETF, was launched in August 2014 and started trading on the Ho Chi Minh City Stock Exchange (HOSE) in October 2014 with very limited activity. Further north, the Hanoi Exchange (HNX) welcomed the country's second ETF – the HNX50 ETF – in December 2014, but this effort was likewise unable to generate interest among retail investors or in the institutional world.

At that point there were two ETFs tracking Vietnam – the FTSE Vietnam ETF that was launched in 2008 and VanEck's Vectors Vietnam ETF which was established a year later in 2009. The two ETFs' substantial combined AUM, in addition to their concurrent rebalancing rounds, used to be a central topic of discussion among the country's investment community, as additions and removals of stocks would effectively have an impact on stock prices. Retail investors were keen on keeping track of the two overseas ETFs' components and speculating on additions of new stocks with the view to speculation around the two big ETFs for short term trading returns on those occasions when volumes rose. Retail investors sought quick returns from daily trading rather than steady and sustainable returns, making an asset with market average insufficiently attractive.

The rise of local ETFs

Domestic ETF structures, however, come with a twist. Vietnam's capital market is still considered difficult to access, which is one of the main reasons the country is still not classified as an Emerging Market by MSCI. There is still a difference in the treatment of local and foreign companies in terms of operations – companies with more than 50 per cent foreign ownership are considered foreign in Vietnam, which would make day-to-day operations such as license acquisition, store renting, etc more time-consuming, cumbersome or even impossible. So even though companies are free to open up their Foreign Ownership Limit (FOL) to 100 per cent in an AGM or EGM, many companies still keep their limit for foreign ownership at 49 per cent and below in order to operate as a local company.

Unsurprisingly, operating as local entities, several foreign-restricted companies are better performing ones on the stock market, which in turn makes their shares more desirable by foreign investors. But in order for foreign investors to purchase shares in a FOL-restricted company, they need to find foreign shareholders in that company who are willing to sell their shares over the counter. And usually, these OTC transactions are executed at up to a 50 per cent premium on the stock's market price. This premium is visible to the seller, the buyer and the broker only and is considered, rightly or wrongly, to be the principal obstacle to Vietnam's accession to emerging market status. It is a major source of frustration to institutional investors in the market, many of whom have turned to local ETFs.

The idiosyncratic solution to this issue comes through locally listed ETFs. Domestic ETFs can invest across the stock market without restrictions on FOLs, while domestic ETFs can be owned by foreigners. So, in practice, foreign investors can use domestic ETFs as a tool to gain indirect access to FOL-restricted companies in Vietnam. And it didn't take too long for foreign investors to realise this. In 2016, Vietnam was a big topic in South Korea as chaebol (conglomerates) started to invest heavily in Vietnam through FDI. The strong FDI trend set by the country's chaebol was immediately followed by retail interest in Vietnam's capital market. Korea Investment Management (KIM) saw the opportunity and set up a synthetic VN30 ETF in South Korea in late 2016, using a swap structure to offer the VN30 Index's returns synthetically by using the HOSE VN30 ETF as collateral. The synthetic structure was immensely successful in South Korea and, subsequently, played a large role in the HOSE VN30 ETF's growth in AUM. The HOSE VN30 ETF's AUM grew 6.4 times within 12 months from VND429 billion in Dec 2016 to VND2,749 billion in Dec 2017.

This was a transformational moment in the evolution of the Vietnam ETF. Operators in many countries sought to create 100 per cent feeders into the HOSE VN30 ETF to offer local access. Thailand was the second country to establish such a structure. Thai conglomerates had for years been investing heavily in Vietnam but in another manner – through M&A of large corporations to get exposure to the country's expanding consumer space. Thai corporations' acquisition of Vietnamese supermarkets and F&B companies made headlines month after month in 2018, stirring retail interest in Vietnam just the same way chaebols did in 2016. Bualuang Securities (BLS), a subsidiary of Bangkok Bank, is a leading securities company in Thailand and was determined to make a VN30 ETF happen. BLS played a big role in launching the first ETF Depositary Receipt (DR) ever in the country that directly feeds 100 per cent into the HOSE VN30 DR. As of May 2021, the VN30 DR in Thailand has passed AUM of THB5 billion (USD160 million) and will continue to be a case study for innovative product development for years to come.

The domino effect

Vietnam-focused ETFs are listed in New York and across many developed markets in Europe and Asia, with the latest and successful offering being listed in Taiwan under the sponsorship of a Taiwanese financial firm. In addition, Vietnam ETFs are offered in Korea and Thailand via swap and depositary receipts respectively. Liquidity varies considerably between the locations where the various Vietnam ETFs are available, as does their correlation with the local market.

The formation of more new ETFs on the international markets, as well as in Vietnam, highlights the popularity of investing in a product with a simple structure, low management fees, high transparency, and with diversification or concentration depending on the product. The trading of ETFs helps increase market liquidity through daily ETF transactions and during portfolio restructurings.

Existing stocks in ETF portfolios, and stocks that are predicted to be added to index baskets of ETFs, always attract the attention of investors, especially domestic retail investors who account for about 80 per cent of trading on the three main Vietnamese exchanges, the Ho Chi Minh City Stock Exchange or HOSE, the Hanoi exchange or HNX, and the UPCoM or unlisted public companies market. Between them the daily turnover has been close to USD1 billion or more in the past six months vs USD200 million four or five years ago, with record numbers of new account openings thanks to lower deposit rates being offered by banks.

Foreign investors have been moving out of individual stocks and into the local ETFs (which are registered as local ownership) for liquidity and the capacity to invest in companies already at their foreign ownership limits. What seems to be disinvestment in the country is more of a change in medium than a change in sentiment as will be seen later. In Vietnam there are very few local institutional investors and there is limited current appeal in an ETF for the retail trader who may prefer to trade index futures at a lower cost, though we feel this may change as financial literacy improves. A broadening in the range of local ETFs has encouraged this transition into passive vehicles and especially into the Diamond ETF.

The first Vietnam ETF issued by DWS was a synthetic offering, as was the one which followed from Van Eck, using physical replication as a solution. At the time of issue, they provided an opportunity to express interest in a somewhat inaccessible market as it was enjoying a period of strong performance. The ones that have followed are mostly 100 per cent local.

Figure 5 illustrates the listed Vietnam ETF opportunities, their history and current size with the exception of the Thai DR and Korean swap mentioned earlier, and which feed into one or more of the locally listed funds. ETF development in Vietnam can be broken down into three waves: (i) The foreign pioneers in 2008 and 2009; (ii) The local breakthrough in 2014; and (iii) The domino effect, which can be observed clearly in 2020 with five new local ETFs launched and one foreign launch in 2021 by Fubon.

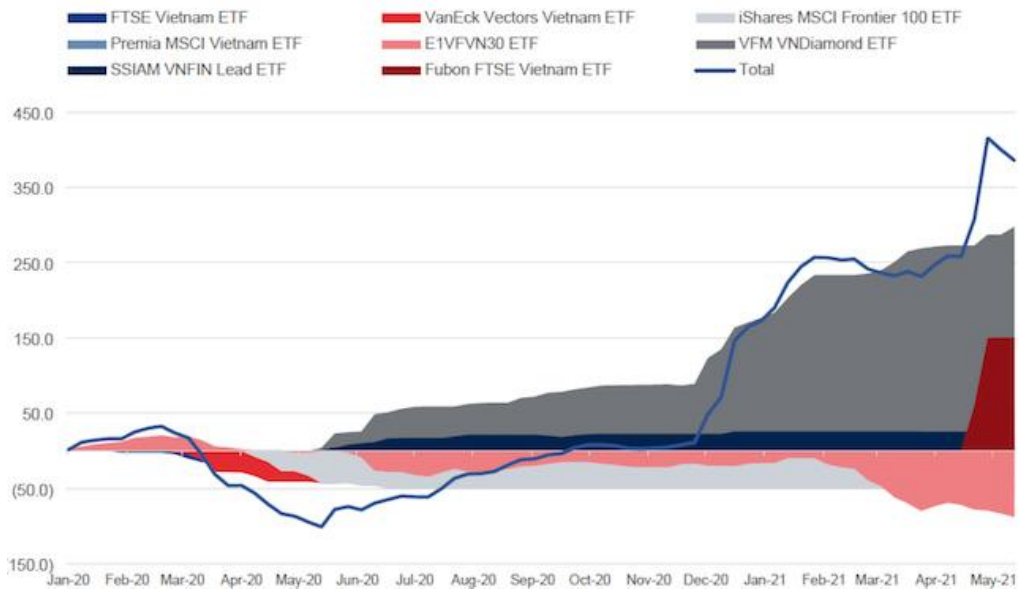
No.	Fund name	Type of ETF	Year of operation	Fund management	Initial AUM (USDmn) (*)	Current total AUM (USDmn)	Growth (%)	Total AUM end of 2020 (USDmn)	YTD Growth (%)
1	Fubon FTSE Vietnam ETF	Foreign	2021	Fubon Financial Holdings	189	353.9	87%	NA	NA
2	VanEck Vectors Vietnam ETF	Foreign	2009	VanEck Global	14	514.0	3571%	455.3	13%
3	FTSE Vietnam ETF	Foreign	2008	Deutsche Bank	5.1	426.1	8255%	364.5	17%
4	iShares MSCI Frontier and Select EM ETF	Foreign	2012	MSCI	11.4	456.3	3902%	422.4	8%
5	Premia MSCI Vietnam ETF	Foreign	2019	Premia Partner	21	28.4	35%	25.5	11%
6	E1VFVN30 ETF	Domestic	2014	Dragon Capital	9	372.9	4043%	325.2	15%
7	SSIAM VN30 ETF	Domestic	2020	SSIAM	2.4	3.4	41%	2.8	22%
8	Mirae Asset VN30 ETF	Domestic	2020	Mirae Asset	5.8	22.3	284%	9.1	146%
9	VFMVN Diamond ETF	Domestic	2020	Dragon Capital	5.2	522.6	9944%	228.6	129%
10	SSIAM VNFIN Lead ETF	Domestic	2020	SSIAM	9.4	87.5	831%	47.0	86%
11	SSIAM VNX50 ETF	Domestic	2017	SSIAM	3.6	11.9	232%	9.0	32%
12	Vina Capital VN100 ETF	Domestic	2020	Vina Capital	2.5	3.7	49%	3.5	6%
				Total	**89.4**	**2,449.0**		**1,892.9**	**29%**
				Foreign ETF	*51.5*	*1,424.8*		*1,267.7*	*12%*
				Domestic ETF	*37.9*	*1,024.2*		*625.2*	*64%*

Source: Ho Chi Minh Securities, Bloomberg & Fund's website

Most of the Vietnam ETFs outside Vietnam have managed to raise AUM rapidly, but local participation has remained small. Local retail investors have been alerted to ETFs as an investment product, as they see foreign money flowing into the local structures but still hesitate to use passive vehicles as stock picking is still the dominant practice. Leverage is available through margin financing offered by brokers and most investors still have a short-term trading mentality. Notwithstanding local ambivalence, the Diamond ETF, launched in the middle of the global pandemic in May 2020, grew 100-fold in 12 months, all thanks to the product's one simple feature: a dedicated indirect access to foreign-restricted companies.

Figure 6 shows ETF fund flow into Vietnam from Jan 2020 to May 2021. 2020 saw several Vietnam ETF launches, but the country mostly experienced outflow from ETFs in 2020 and only in Dec 2020 did the trend reverse. As the VN Index started to gain momentum, the Diamond ETF grew exponentially.

Fubon's FTSE Vietnam ETF was launched in 2Q21, offering Taiwan investors more access after China Trust launched a successful fund offering in late 2020.



What's next?

The Vietnam ETF market is now a billion-dollar enterprise. Relative to the country's early stage of capital market development, this is sizeable. The contradiction is that most of the capital in local ETFs is still foreign trying to get access, while retail investors don't seem to be attracted by this form of market access. The ETF market in Taiwan did not pick up until Yuanta launched an inverse ETF, which changed the whole market's perspective on ETFs overnight. Asian retail investors are punters who chase rushes of adrenaline from making a quick profit and who lack the patience to wait for three to five years to tell if their call is right or not. A reverse ETF gives investors that sense of control, of going against the other players and ultimately the feeling of be able to outsmart the market's trends.

Of course, an inverse ETF would be a useful tool to hedge one's portfolio in a more sophisticated approach to investment management, which would no doubt contribute significantly to AUM growth. A leveraged ETF might excite investors with the possibility of doubling or tripling ROI. This is only likely to be when the local ETFs receive more interest from the retail segment and the issuers invest in investor education. It is conceivable that local interest may increase when more exciting products are available.

With respect to capital market reform, structures like the Diamond ETF can be seen as an interim solution to the foreign access issue. An Emerging Market upgrade and the access to a broader pool of global capital is unlikely without improved ease of access for foreign investors, either through the establishment of NVDRs, similar to Thailand, or some other solution. The most recent update to Vietnam's Securities Law took effect on 1 Jan 2021, giving the Prime Minister authority to provide direction on the foreign ownership issue. - ETFEXPRESS

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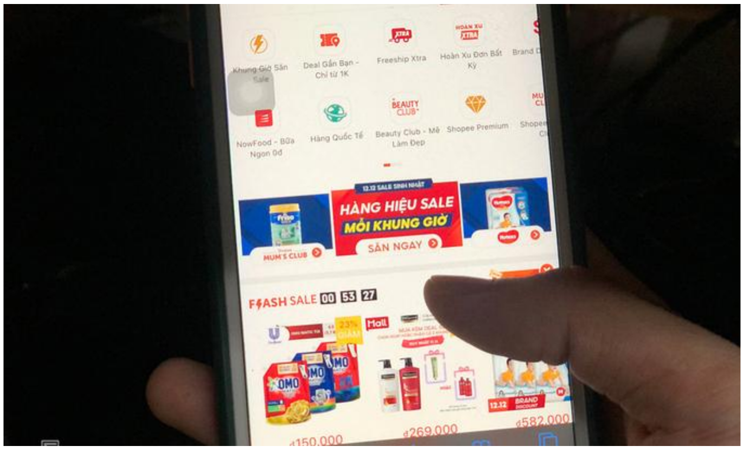
E-COMMERCE

E-commerce platforms unwilling to pay taxes on sellers' behalf

E-commerce platforms like Tiki, Shopee, Lazada and Sendo will have to pay taxes on behalf of their sellers, but they are proposing this regulation is scrapped.

Experts said e-commerce platforms are afraid that making tax statements and paying taxes on behalf of business individuals will create excessive costs and personnel burdens.



App interface of an e-commerce platform

On average, 3.5 million transactions are made on e-commerce platforms each day in Vietnam, and the transaction value has been increasing steadily.

Many sellers on e-commerce platforms have been dodging taxes, e-commerce platforms will have to pay taxes on the sellers' behalf, under a new regulation taking effect August 1. Individual sellers that have an annual income of at least VND100 million ($4,348) should pay VAT and personal income tax, and e-commerce platforms should do so on the sellers' behalf.

The Vietnam E-commerce Association (VECOM) has recently said that the regulation is not feasible and would heavily affect e-commerce platforms as well as hundreds of thousands of business individuals.

According to VECOM, e-commerce platforms are not subject to make income tax declarations and deductions for sellers in line with the Law on Personal Income Tax. They just provide technology infrastructure to connect buyers and sellers.

The representatives of some e-commerce platforms including Chotot and Batdongsan said they cannot control and have no information about sellers' revenues, bank accounts, identity cards, tax codes and addresses. They said such a regulation is unprecedented in the Southeast Asian region, including Vietnam.

Ta Thi Phuong Lan, deputy head of the Tax Administration Department on Small and Medium Enterprises, Business Households and Individuals under the ministry's General Department of Taxation, said there can be a roadmap for e-commerce platforms to comply with the regulations instead of starting right from August 1. It can be first applied to platforms which are capable of managing sellers' revenues, she noted.

Tax authorities will work with e-commerce platforms and relevant watchdogs such as the Ministry of Industry and Trade and the Ministry of Information and Communications to create a most suitable roadmap, she told *VnExpress*.

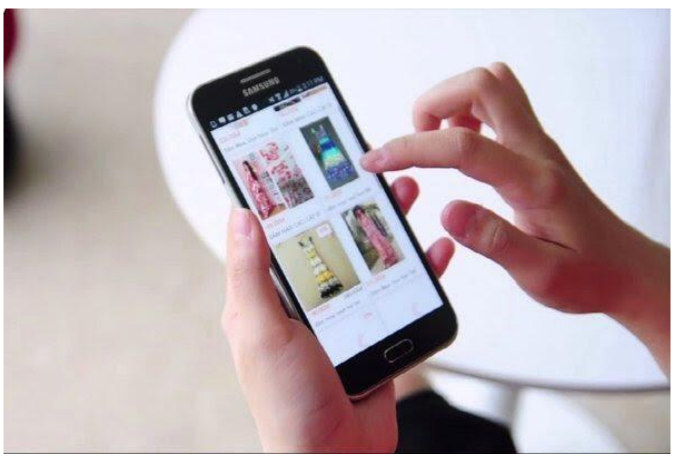
According to a report by the Department of E-commerce and Digital Economy under the Ministry of Industry and Trade, in 2020, some 53 percent of the Vietnamese population joined the online retail market, boosting the growth of the local e-commerce sector by 18 percent on-year to $11.8 billion, representing 5.5 percent of the total retail sales. The Covid-19 pandemic has prompted many enterprises to do business online while luring many first-time online shoppers.

E-commerce clears the way for Vietnamese goods to reach global market

E-commerce has not only become an effective tool to help enterprises overcome obstacles posed by the pandemic but is also expected to act as a key to clearing the way for Vietnamese goods to make further inroads into the global market.

E-commerce in Vietnam is being expanded with many models and players, and supply chains are gradually being modernised with the assistance of digitisation and information technology.

With a young population and high smartphone ownership, Vietnam has seen rapid growth in e-commerce with 35 million users, creating revenue of US$11.8 billion in 2020, accounting for 5.5% of total retail sales and consumer services, compared to 4.9% a year earlier.



A report by Google, Temasek and Brain & Company on e-commerce in Southeast Asia has projected growth of 29% for Vietnam's e-commerce market during the 2015-2025 period. The size of e-commerce in Vietnam is forecast to reach US$43 billion in 2025, ranking third in ASEAN.

Amid the impacts of Covid-19, the e-commerce market is becoming more dynamic, and the creation of new distribution channels on digital platforms is helping Vietnamese enterprises overcome difficulties and change consumers' shopping habits - from physical to online stores.

Cross-border e-commerce is also an effective means for Vietnamese enterprises to participate in the global supply chain, helping reduce risk when traditional supply chains are disrupted.

According to Director of the Vietnam E-Commerce and Digital Economy Agency (IDEA) Dang Hoang Hai, despite recognising the benefits of expanding further into the global market through e-commerce, many Vietnamese sellers remain hesitant as they have yet to acquaint themselves with the procedures related to export through e-commerce and display a lack of knowledge in the area.

IDEA has rolled out various programmes to help Vietnamese enterprises adopt this method. Most recently, IDEA collaborated with Amazon Global Selling to provide knowledge on cross-border e-commerce for Vietnamese sellers, support the setup and operation of stores on Amazon and improve competitiveness so as to expand their scope of business to more countries.

Director of Amazon Global Selling in Vietnam Gijae Seong said Vietnam is one of the most dynamic emerging economies in the world and has demonstrated its firm position amid the Covid-19 pandemic. Amazon wishes to make more contributions to the development of cross-border e-commerce in Vietnam and promote Vietnamese enterprises to reach further into the global market, said Seong.

The Amazon official added that the retailer is actively realising that by expanding cooperation with organisations in Vietnam, training small and medium-sized enterprises in cross-border e-commerce skills, fostering changes to the future of Vietnam's export and digital economy.

The breakneck growth of e-commerce recently has made Vietnam one of the markets with the greatest potential in ASEAN. But besides benefits such as helping enterprises widen their markets, cut costs, increase profits and fast payment, there are several drawbacks of trading online.

Fake and smuggled goods and goods in violation of intellectual property rights are quite commonplace on many digital shopping sites. Social media networks are also emerging as popular e-commerce platforms, but are not properly regulated.

IDEA is proposing a new decree to regulate e-commerce activities, including mandatory requirements on publicising product information in order to make it transparent to consumers, aiding in the prevention of trade fraud. The new decree will also change the regulations on the presence of sellers and foreign organisations engaged in e-commerce in Vietnam.

IDEA is also building an e-commerce credit platform as a tool to evaluate those doing business in the online space and credit ratings will be widely announced to consumers.

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ENERGY

Mitsubishi to build onshore wind farm in Laos to sell electricity to Vietnam

Mitsubishi Corporation will build an onshore wind farm based in Laos, which could then sell electricity to Vietnam.

Mitsubishi Corporation will develop a wind farm with power generation capacity of 600MW. Accordingly, this could be one of the largest onshore wind farms in Southeast Asia, according to *Nikkei Asia*.

Although the Japanese giant did not disclose the detailed figure, experts anticipate that the investment could be roughly hundreds of millions of dollars.

In 2016, Vietnam entered an agreement to share electricity with Laos. Mitsubishi expects that cross-border power sharing will gain steam in Southeast Asia's renewable energy industry, following the footsteps of other European countries.

One of Mitsubishi's subsidiaries will hold a 20 per cent stake in the joint venture to be formed with two Thai renewable-energy developers. Construction by the new company is predicted to start by the end of this year with operations to begin in 2024, *Nikkei Asia* reported. Moreover, a grid network will be built to send power to Vietnam under a 25-year contract.

According to the International Finance Corporation under the World Bank, despite Vietnam’s huge potential, by the end of 2020, wind power accounted for less than 1 per cent (or 670MW) of the nation’s total installed capacity. The Vietnamese government aims to increase renewable energy capacity – mainly wind but also solar power, including rooftop solar – by 19GW to more than 36GW by 2030.

Meanwhile, coal and hydropower each make up for around 40 per cent of Vietnam's energy sources. However, during Vietnam's dry seasons, usage at hydroelectric plants declines, leading to severe power shortages.

Wind power fuels green growth in Vietnam: IFC

Despite Vietnam’s huge potential, by the end of 2020, wind power accounted for less than 1% (or 670MW) of the nation’s total installed capacity.

With its 3,000km coastline and the flat river deltas of the Red River in the north and the Mekong in the deep south, Vietnam is especially vulnerable to erratic storms, typhoons, flash floods, rising sea levels and coastal erosion - but boasts great potential for wind power energy.

Over the past three decades, an increasing number of natural disasters and extreme weather events in this Southeast Asian nation have caused on average 500 deaths annually while accounting for yearly economic losses of about 1.5% of the nation’s GDP. Such impacts are expected to increase in frequency and strength as the effects of climate change accelerate.

On the bright side, Vietnam has a natural climate advantage. The country's climate and diverse topography bring large-scale potential for renewable energy, especially wind power. Onshore wind is one of the quickest alternative sources of energy to develop and a new strategic source of clean energy in a power-hungry nation that has been heavily reliant on coal-fired power as well as hydropower for the past two decades.

Offshore wind has even more potential for the country, with a joint World Bank-International Finance Corporation (IFC) study identifying a technical potential of 160GW within 5 and 100km from shore. That is about two and a half times the total currently installed power capacity in Vietnam.

The country's strong economic growth over the last two decades saw a massive expansion of coal-fired power generation, driven by a 13% annual increase in demand for electricity. Currently, coal-fired power plants provide about 50% of electricity – up from 17% in 2010. As a result, Vietnam's energy sector accounts for 65% of its overall greenhouse-gas (GHG) emissions.

Wind farms will help the country ease its reliance on fossil fuels, supporting a smooth decarbonisation of the power sector. For example, two onshore wind power plants in central Vietnam – in Binh Thuan and Ninh Thuan – will generate about 170 million kWh of clean energy per year once they start operating later in 2021.

Developed by Thuan Binh Wind Power JSC (TBW), a subsidiary of Refrigeration Electrical Engineering Corporation (REE), the project will provide enough power for about 100,000 Vietnamese homes per year. Moreover, it will help avoid about 123,000 tonnes of GHG emissions each year, which is roughly equivalent to taking 27,000 passenger vehicles off the road.

"Increasing the sources of clean energy is essential for Vietnam considering its vulnerability to the effects of climate change," said Nguyen Ngoc Thai Binh, REE deputy CEO. "In the past, we had invested in coal-fired power; however, it is clear that the future lies in renewable energy."

Binh added, "The conditions in Binh Thuan and Ninh Thuan are ideal for wind power development and we look forward to completing the combined 54.2MW plants by October."

Funding factor

Despite Vietnam's huge potential, by the end of 2020, wind power accounted for less than 1% (or 670MW) of the nation's total installed capacity. The Vietnamese government aims to increase renewable energy capacity – mainly wind but also solar power, including rooftop solar – by 19GW to more than 36GW by 2030.

However, to realise that target Vietnam needs an estimated $20 billion in investment, not including the costs for the necessary transmission infrastructure development. Given the constraints on public resources and the economic challenges of an ongoing global pandemic, private sector engagement is essential to provide this funding.

While local banks have funded the considerable scale-up of solar power in the country over the last three years – their balance sheet, project tenor, and sector exposure limits are finite and international lenders are therefore needed to support the further scale-up of renewable energy.

Yet most international lenders have not been able to fund the sector with normal (non-recourse) project finance due to the high-risk power purchase agreement (PPA) between projects and the government-owned offtaker, Electricity of Vietnam (EVN).

IFC's 12-year dollar-denominated financing package of $57 million, with corporate support from REE, is unusual for such corporate structures. Both projects will sell their energy to EVN through dollar-denominated PPAs, well-aligned with the currency of the debt.

"IFC's long-tenor funding is key to the project sustainability. It demonstrates the viability of Vietnam's nascent wind power sector while encouraging other lenders to participate and promote renewable energy solutions in Vietnam," Binh said.

Local power

IFC has a track record of supporting transformational local renewable energy developers in Vietnam. In 2016, IFC's equity investment in Gia Lai Electricity JSC (GEC) helped finance the country's first private grid-connected solar farm. IFC also anchored the green bond issuance of AC Energy, a Philippine power company with a pan-Asian footprint: IFC's investment of $75 million was earmarked to support AC Energy's renewable energy projects in Vietnam.

The two TBW projects will be the first wind power projects in Vietnam adhering to IFC's internationally benchmarked performance standards. IFC guided and supported the developer through this process, allowing TBW to adopt best industry practices and standards for its projects, now and in future.

Clean energy contributes to national power security, fueling economic growth and resilience. As local developers like TBW and REE scale up their renewable energy investments, it will help Vietnam move closer to energy transition success by achieving its target of reducing GHG emissions by 9% by 2030, lower the contribution of coal-fired power to the country's overall capacity, and ultimately shift to a low-carbon economy that is both sustainable and inclusive.

"This wind power project marks IFC's first engagement in the wind sector and is part of our ongoing efforts in Vietnam to help the country transition away from a coal-dominated power sector to one that is dominated by renewables, with gas-fired power as a 'backbone' and to help integrate the intermittent renewable capacity. We look forward to doing more in this critical effort," said Oliver Behrend.

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RETAIL

HCM City to spend $3.3m to support small traders at traditional markets affected by pandemic

HCM City is considering a financial support package worth more than VND76 billion (US$3.31 million) from the State budget to support small traders at traditional markets affected by the pandemic.

According to the city's Department and Industry and Trade, it would be disbursed from now to the end of the year.

Shops selling shoes at Ben Thanh Market in HCM City's District 1 have no visitors amid the Covid-19 outbreak. The city expects to provide a financial support package worth US$3.31 million to small traders at traditional markets affected by the pandemic.

The department has proposed that the Department of Planning and Investment petition the People's Committee to ask the People's Council to approve the package.

The amount of support would be equivalent to 50% of the maximum market fee payable to market management stipulated in the city's Decision 24.

Based on the area of the shop, traders at grade-one markets (14 markets) would receive VND100,000 per sq.m per month, grade-two markets (52 markets) VND70,000 per sq.m per month, and grade-three markets (168 markets) VND50,000 per sq.m per month.

According to the Department of Industry and Trade, small traders at traditional markets are facing many difficulties as purchasing power has dropped significantly. Nearly 60,000 shop owners at traditional markets would benefit from the package.

To be eligible, beneficiaries must have fulfilled their financial obligations to the market manager and their tax obligations to the State, and have a tax identification number.

A small trader at Ba Chieu Market in Binh Thanh District, who declined to be named, said the level of support was not much, but it was encouraging for small traders (such as clothing, fabrics, fashion, and shoes) who have seen sharp drop in the number of shoppers at traditional markets.

In February, city authorities ordered traditional markets to reduce their rent for traders by 50% for six months.

According to many shopkeepers, sales at traditional markets last year fell by 60-80% from previous years.

Ben Thanh Market, one of the city’s oldest markets and a major tourist site, has only a few dozen visitors during weekends compared to thousands during normal times. Most of its 3,000 stalls, which sell food, garments, footwear and handcrafts, are closed.

Most shops that sell Vietnamese handicrafts and fried seafood, favoured by both foreign and local visitors, have been closed since March last year.

The same situation has occurred in other wholesale markets in the city, including An Dong in District 5, Binh Tay in District 6 and Soai Kinh Lam in Cho Lon (Big Market) in District 5.

Stall owners used to hire at least three salespeople, but have had to let many go since they cannot afford to pay them. Many of them have had to shut their shops due to lack of business.

Taxes are one of the biggest concerns of small businesses, which pay an average of VND4-6 million a month. Stall owners want the city to reduce or waive taxes for six months, saying it would be of greater help in reducing their financial burden and would help them stay open.

Consumers flock online after HCMC shuts down street markets to contain Covid

Supermarkets in HCMC have seen online orders increase by 3-10 times after temporary street markets were ordered shut on Saturday to contain a Covid-19 surge.

She said: "I place orders for vegetables and even meat and fish. The prices are reasonable, and I do not have to travel while the Covid-19 situation is worrisome."

Nguyen Thi Bich Van, head of communications at Thai retailer Central Retail Vietnam, which owns the GO! Supermarket chain, told *VnExpress* that immediately after the city banned street markets the number of online orders experienced a surge.

"Supermarkets have increased the number of delivery employees to meet the demand."

They have also increased stocks by 50-60 percent, she said.

A spokesperson for retailer Saigon Co.op said the number of customers placing orders online and through phone jumped threefold on June 21 after the street markets were closed down.

VinMart reported a 526% increase over last week in the number of orders made on its VinID application, a 1,200-percent rise in the number of orders on its website and a nearly 680-percent rise in the number of orders on e-commerce platform Lazada.

Most supermarkets said they have been increasing stocks and the number of employees to meet the surging demand.

HCMC is now the second worst Covid-hit locality with 1,973 cases as of Wednesday morning.

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LOGISTICS

Logistics properties attract strong investor interest

In May Singapore's Emergent Vietnam Logistics Development Pte. Ltd. was licensed to develop the US$34.4 million Logistics ECPVN Binh Duong 2 Centre.

The facility at the Tan Dong Hiep B Industrial Park, when completed, will offer logistics, storage and warehousing services.

Another Singaporean company, Frasers Property, a developer of residential, commercial and industrial properties in Vietnam, plans to develop its Binh Duong Industrial park into an industrial and logistics complex focusing on distribution and light, supporting and hi-tech industries.

Also in May ESR Cayman Limited and BW Industry Development Joint Stock Company entered into a joint venture for a project at Binh Duong Province's My Phuoc 4 Industrial Park. It will provide services for logistics and light industrial activities.

Denmark's A.P. Moller- Maersk decided to strengthen its contract logistics and distribution capabilities in Vietnam by opening two new facilities in Binh Duong and another in the northern province of Bắc Ninh, creating an additional 38,000 square meters of warehousing space in addition to its current 11 self-managed facilities in the country.

In addition to directly investing in the Vietnamese logistics industry, foreign investors are also tying up with the local industry.

Start-up EcoTruck, established in 2017, recently received $2 million from South Korean fund STIC Ventures. The money will be used for expanding operations using technology.

EcoTruck has over 300 partners with 9,000 vehicles serving 500 customers across the country and abroad.

Market observers said in the first five months of this year logistics property projects accounted for a large proportion of FDI projects licensed. Domestic companies have also been active.

In 2020 EcoTruck had raised more than VNĐ100 billion from a group of local investors led by internet and technology giant VNG Corporation.

Nhat Tin Investment Development Joint Stock Company (Nhat Tin Logistics) has developed around 100,000 square metres of warehouses across the country including Van Giang Warehouse in the northern province of Hung Yen and Song Than Warehouse in the southern province of Binh Duong.

Several acquisition deals have been announced recently in the sector, one of which is Duong Minh Logistics, which received $15 million from an undisclosed investor through an M&A deal.

Provincial and city governments too have entered the race with logistics infrastructure development plans. Among them are Ha Tinh, Dong Nai, Vung Tau, Hau Giang, Da Nang, HCM City and Can Tho.

Ha Tinh, for instance, has approved a detailed plan to build a 133ha logistics centre in Vung Ang District.

HCM City has approved an ambitious logistics development plan for 2021-30 under which 7 logistics centres with around 623 hectares of space to be used for storage, order picking and distribution of goods will be built.

The Cuu Long (Mekong) River Delta Province of Hau Giang has announced plans to develop three logistics centres by 2025.

Bui Trang, senior director of markets at property consultant Jones Lang LaSalle Vietnam, said in the last two years nearly $3 billion had been invested in warehousing and logistics.

Why has the sector become so attractive to both domestic and foreign investors?

Marco Civardi, managing director of Maersk Vietnam, Campuchia and Myanmar, said warehousing demand has increased sharply for foreign trade during the Covid-19 pandemic due to a severe shortage of vessels and containers.

Nguyen Thi Vu Anh, director of Gaw NP Industrial, said supply of logistics facilities including warehousing space and ready-built workshops is unable to meet demand.

Civardi said another very important reason is the rapid growth in e-commerce and door-to-door delivery services.

Analysts said warehouse logistics play a very important role in the e-commerce industry.

A global report by Savills says the boom in e-commerce, especially amid the COVID pandemic has boosted warehousing demand in many markets around the world including Vietnam.

Low operating cost is another reason for warehouse expansion in Vietnam.

The Savills report, made last March, says warehousing property costs are highest in major world cities with large populations and little land supply, with four markets standing above the rest: London, Tokyo, Hong Kong, and Singapore. All have costs well above $20 per sq ft.

Very low labour costs coupled with extremely low energy costs make Vietnam the cheapest location, led by Ha Noi, according to the report.

In Ha Noi the average cost per square foot of warehouse space is around $5, and in HCM City it is less than $10.

These low costs make Vietnam highly attractive to multinationals, but the Government is actively targeting companies with enormous potential.

According to the Vietnam E-commerce Association, the country's e-commerce growth in recent years has averaged 18% a year and the rate is expected to continue until 2025.

According to the Vietnam Logistics Association the industry is growing at an annual rate of 14-16% and is worth $40-42 billion now.

Tran Ngoc Thai Son, general director of Tiki, said e-commerce in HCMC, the country's biggest economic hub, was growing at two or three times the country's average rate.

Demand for ecommerce had increased significantly during the pandemic, he said.

Analysts say despite the strong investment flows they have attracted, logistics properties in Vietnam are in the early stage of development, and the industry still has much room for growth.

They point to the fact that logistics space per capita in Vietnam is much lower than in many other countries at a 30th of the US's and a third of China's.

IT application in logistics

Analysts say the logistics market, especially logistics properties, in Vietnam has great potential but also faces some hurdles that need to be removed for it to fully develop.

The country lacks logistics enterprises with modern equipment and large distribution networks.

Some have in recent years made an effort to modernise their operations to meet the rising demand from ecommerce, but the transformation has not been as quick as expected.

The two biggest obstacles facing the industry are a shortage of resources and high costs except warehousing, analysts say.

They say however these could be resolved by adopting advanced technologies.

Normally, a worker can handle a maximum of 100-200 orders per hour but IT helps increase that to hundreds of thousands of orders.

IT, automation and artificial intelligence also help control goods, divide and select them better based on encoded dates and minimise manual work.

Le Manh Cuong, chairman of Lokaloop Company, said the Government acknowledged the importance of IT in logistics supply chains and strongly encouraged IT use.

Many logistics businesses, especially start-ups, are using advanced technologies to create convenient and efficient systems at low costs. VNS

Struggling Vietnam Airlines to receive $174m loan

An interest-free loan of VND4 trillion ($173.9 million) will be soon disbursed to national flag carrier Vietnam Airlines, which is on the brink of bankruptcy over Covid-19 impacts.

The legal procedures for an aid package designated for the local aviation sector have been completed, and the VND4 trillion loan, part of the package, is "scheduled to be disbursed to Vietnam Airlines late June or early July," Dang Anh Tuan, head of the carrier's Communications Department, told VnExpress Monday.

Earlier, late last year, the National Assembly had approved an aid package of VND12 trillion for the troubled carrier.

At a press briefing held Monday by the State Bank of Vietnam, the country's central bank, Nguyen Tuan Anh, head of the central bank's Credit Department, said three local banks, SeABank, MSB and SHB, have pledged to offer Vietnam Airlines loans totaling VND4 trillion sourced from the central bank's refinancing operations.

Vietnam Airlines' overdue debts have surged to VND6.24 trillion. According to a report recently drafted by the Ministry of Planning and Investment, the carrier, which racked up losses of nearly VND5 trillion in the first quarter of 2021, is likely to make losses of VND10 trillion in the first half of this year.

As of March 31, Vietnam Airlines posted negative undistributed after-tax profits of more than VND14,218 billion, compared with its registered capital of VND14.19 trillion. If this problem is not solved, Vietnam Airlines shares coded HVN on the local stock market will be delisted.

On April 15, the Ho Chi Minh Stock Exchange put HVN shares on the warning list because the carrier was posting big losses.

At its extraordinary general meeting in late 2020, Vietnam Airlines said it would use VND8 trillion from its share issuance to pay all overdue debts, compensate for shortages of capital for production and business, and repay short-term and long-term loans from banks.

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INVESTMENT

Japanese investors secure foothold in leading VN brands through M&A

Japanese investors have poured billions of dollars to purchase stakes at Vietnamese businesses over the past decade.

As of May 2021, Japan was the second-largest foreign investor in Vietnam with the total registered capital of $63 billion. Japanese investors have also been actively contributing capital and share purchases to Vietnamese firms in various fields such as retail, food and beverage, pharmaceutical, real estate, and finance.

Many well-known Vietnamese brands are now owned by Japanese investors. In 2011, Unicharm acquired local company Diana. In 2015, Unicharm expanded its factory in Bac Ninh Province, targeting a bigger slice of the market.

Also in the same year, brewery group Kirin Holdings acquired major Vietnamese soft drink producer Interfood Shareholding Co. as part of its plans to capitalise on the Vietnamese market. Kirin purchased 57.25% of the total outstanding shares in Interfood for an undisclosed sum and also bought out Wonderfarm Biscuits & Confectionery Sdn. Bhd., a Malaysia-based firm that manages the intellectual property rights of Interfood.

Eath Chemical also took over A My Gia, which is known for the Gift brand household detergent and Ami brand air fresheners. Sojitz Corporation spent around $91 million on acquiring a 95% stake in Saigon Paper Corporation, which is the largest tissue paper and industrial paper producer nationwide. Japanese drugmaker Taisho Pharmaceutical Co., Ltd. also takes control of Hau Giang Pharmaceutical JSC. Other M&A deals involving Japanese investors include NTTData's acquisition of Payoo, AEON Group's acquisition of Citimart, and Line's acquisition of Webtretho.

In 2021, Maruha Nichiro decided to acquire Saigon Food in order to secure a new marine product processing base and to acquire a platform for the development, processing, and sales of processed foods. Meanwhile, Japanese mega financial institution Sumitomo Mitsui Financial Group (SMFG) has just acquired 49% stake in Vietnam's largest consumer finance company FE Credit. The Japanese bank will invest more than $1.4 billion in FE Credit as early as October.

Speaking at the Vietnam M&A Forum 2020, Masataka "Sam" Yoshida, head of the Cross-border Division of RECOF Corporation and CEO of RECOF Vietnam Co., Ltd. said that M&A investments in Vietnam will be a trend for Japanese companies which will last for the years to come.

The first trigger is the destiny for Japanese companies to find new markets to expand outside Japan. The fact is that most of the sectors in Japan are already mature. For instance, almost one-third of the

Japanese population is over 65 years old. This makes the average age of Japanese people 48.4 years, almost 20 years older than the figure for Vietnam. Also, around 276,000 people (more than a quarter of a million) are disappearing every year.

“The second trigger is 'M&A as a growth strategy' which is backed up by the abundant accumulated cash during the last 20 years which is reaching $2.34 trillion as bank deposits with almost zero interest rate. Pushed by shareholders’ requirements to make use of the money, these funds have started to flow into the M&A market which made its highest record in 2019 by 4,088 deals. This means there were more than 4,000 active and successful Japanese investors,” he said.

South Korea's SK Group plays catch-up in Vietnam

Southeast Asian investment unit raises stake in drug firm Imexpharm

A unit of SK Group, South Korea's third-largest conglomerate, is raising its stake in Vietnam’s Imexpharm Pharmaceutical JSC as it plays catch-up with fellow chaebol Samsung and Hyundai in overseas expansion.

Singapore-based SK Investment Vina III has snapped up 3.4 million shares in the Vietnamese drug company for US$1.5 million, increasing its holding to 29.22% from 24.02%. The sellers are VOF Investment and Vietnam Ventures. Both are part of VinaCapital, a leading investment and asset management firm in the Southeast Asian nation.

Shortly after the transaction, the buyer, already a major shareholder in Imexpharm, registered to buy another one million shares to raise its ownership to 30.7%. The deal is set to go between June 18 and July 17 2021.

In 2018 the Korean conglomerate formed Singapore-based SK Southeast Asia Investment to focus on investing in startups and high-growth projects in the region, as well as managing the group’s current flagship businesses. It is part of SK Group’s efforts to keep up with Samsung and Hyundai in developing business overseas.

Two months after setting up the company, the group acquired a 9.5% stake in Vietnamese conglomerate Masan Group for US$470 million through the investment firm. In April 2019 it started investing up to US$1 billion into Vingroup, Vietnam’s biggest company by value. Like Vingroup, Masan is among the 10 biggest Vietnamese-listed firms by market cap.

The deals show that SK Group is focusing on the retail sector in Vietnam, where the population is approaching 100 million people.

This April the chaebol spent US$410 million buying a 16.3% stake in VinCommerce, the largest retail chain in the country. It acquired the shares from Masan Group, which has a controlling stake in VinCommerce.

VinCommerce used to belong to Vingroup but was sold to Masan in 2019. After that, Masan set up The CrownX as its integrated consumer retail platform by merging VinCommerce and Masan Consumer Holdings.

On May 18 2021, Masan said a consortium led by China's Alibaba Group and Baring Private Equity Asia was investing US$400 million in The CrownX, an investment that will further fuel businesses under Lazada – Alibaba's Southeast Asian e-commerce platform.

Meanwhile, E-mart, South Korea's largest retailer, has sold its business in Vietnam to Thaco, one of the country's biggest private conglomerates. The Vietnamese buyer, also a leading player in the local auto market, is operating E-mart Vietnam as a franchise and will pay royalties to E-mart.

The E-mart network in Vietnam has only one shopping mall, located in Ho Chi Minh City. Thaco expects to expand the system to 10 stores by 2025.

Tay Ninh: 'promised land' for foreign investors

The southern province of Tay Ninh has become a "promised land" for foreign investment, and at the same time, foreign direct investment (FDI) has contributed to the development of Tay Ninh's economy.

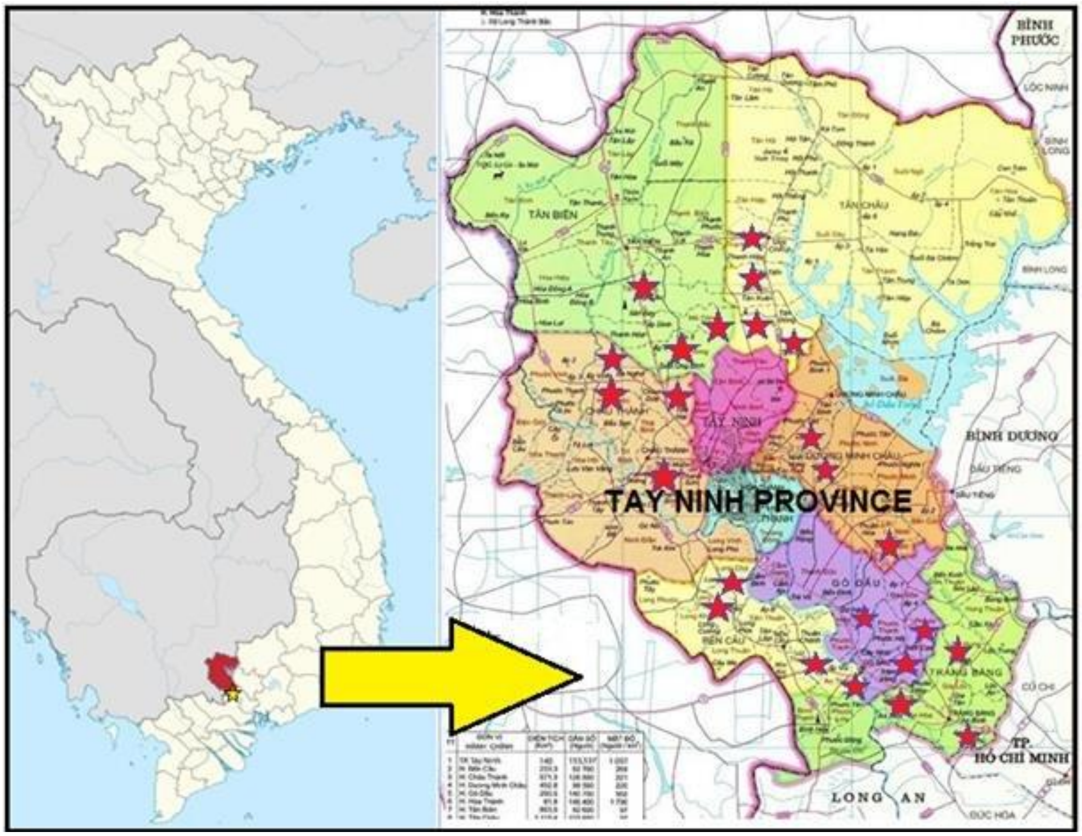
Strictly implementing the Government's Resolution No. 02 on improving the business environment, Tay Ninh has applied the one-stop mechanism in business establishment to shorten the time for implementing administrative procedures, create a favorable business environment, support effective start-ups, and improve competitiveness of local businesses.

Tay Ninh's investment environment has become more attractive in the eyes of domestic and foreign investors. Tay Ninh has been moving forward in the Provincial Competitiveness Index (PCI) in recent years. Compared to the previous period, the number of newly registered enterprises in Tay Ninh and the investment capital attracted by the province have both risen.

As of April 2021, Tay Ninh had lured $427.54 million in foreign capital, up 28% over the same period of 2020. Specifically, the province granted investment registration certificates for seven projects with a total investment capital of $74.25 million – equivalent to 78% of the number of projects and 22% of the registered capital over the same period of last year. Six FDI projects increased capital with a total amount of $357.18 million - an increase of 128% in registered capital year on year; and 3 FDI projects reduced capital, totaling $3.88 million. Cumulatively, Tay Ninh had 338 foreign investment projects with registered capital of $8 billion by April 2021.

As of April 2021, the authorities of Tay Ninh Province signed international cooperation agreements with the cities of Gimhae and Chungju in South Korea and the provinces of Svay Rieng, Prey Veng, Tboung Khmum, Kampong Cham in Cambodia to promote comprehensive cooperation in the fields of economy, culture and society, mainly focusing on the potential and strengths of the two sides such as agriculture, trade, science and technology, and cultural and sport exchange.

Foreign investment projects are operating evenly across all districts and towns in the province. Trang Bang town has attracted the highest number of FDI projects, with 203 projects, accounting for 62.1% of the total FDI projects in Tay Ninh, followed by Go Dau district with 67 projects, accounting for 20.4% of the total FDI projects.



Choosing FDI projects selectively

According to the Department of Planning and Investment in Tay Ninh province, thanks to the implementation of the open-door policy and policies to attract foreign investment, the foreign-invested economic sector has increasingly promoted its important role and made significant contributions to the local economy and the country's socio-economic development in general. The attraction and use of foreign investment over the past time has basically met the goals of attracting capital, creating jobs, increasing labor productivity, and absorbing technology.

FDI projects in Tay Ninh province are stable, with indicators as revenue, export and import earnings of FDI projects rising gradually year by year. The FDI sector has significantly contributed to creating jobs for the local workforce, raising incomes and improving people's lives.

According to the Department of Planning and Investment in Tay Ninh province, in order to diversify investment and mobilize capital sources to promote fast and sustainable socio-economic development, in the coming time, the province will strongly support connections, transfer of technology and value chain linkages between local and foreign-invested enterprises.

In addition, the province will invest in road and waterway systems, create conditions for the transport of goods between industrial parks, economic zones and provinces and cities; continue to develop infrastructure at industrial zones and industrial clusters; and improve efficiency of logistics to reduce transportation costs, input costs, and improve competitiveness for businesses.

Tay Ninh will choose reputable investors and corporations with international brands, taking quality, efficiency, technology and environmental protection as the main criteria for evaluation of FDI projects. The province prioritizes attracting large investment projects with advanced technology, green projects, projects with modern management, high value-added content, spillover effects, and connections to global production and supply chains.

The People's Committee of Tay Ninh Province issued Decision No. 586 dated March 26, 2020 on the implementation of the Action Program No. 217 of the Provincial Party Committee to realize Resolution No. 50 of the Politburo on orientations for improvement of institutions, policies, the quality and efficiency of foreign investment cooperation until 2030, which concretizes the tasks assigned to each department, agency and locality in the province.

In the coming time, Tay Ninh province will continue to carry out comprehensive and synchronous administrative reform in association with strongly improving the investment environment towards transparency and high competitiveness; and innovate and improve the quality and efficiency of investment promotion. The province will promote the application of information technology and modernize public administrative services, thereby drastically improving the PCI.

In recent years, the province's average economic growth has exceeded the target set by the Resolution of the 10th Party Congress for the period 2015-2020, reaching 8.04% per year. Its industrialization pace has been very fast, with industry and services accounting for 75.5% of the GRDP at present. Particularly, the industry contributes the highest to local economic growth, reaching 38.7% in 2020.

In the 2015-2020 period, the province attracted 145 FDI projects with total registered capital of nearly $4.4 billion. It was listed among the provinces and cities with a high foreign investment attraction rate.

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