Economic Update
05 March 2021

ECONOMIC UPDATE

Flying through the clouds

- Manufacturing sector expanded further with Feb PMI climbing to 51.6pts.
- Total export-import turnover reached US$95.8bn (+25.5% yoy) in the first two months of 2021 despite the shortage of empty containers in Asia.
- Inflationary pressure bounced back with CPI rising 0.7% yoy in Feb 2021.

Manufacturing activities continued to expand

According to the General Statistics Office of Vietnam (GSO), Vietnam's Index of Industrial Production (IIP) in 2M21 increased 7.4% yoy, which was higher than the 6.2% rate seen in the same period last year. Meanwhile, Vietnam's Purchasing Managers' Index (PMI) in Feb 2021 inched up to 51.6pts from 51.3pts in Jan 2021. These data indicated a further expansion in manufacturing sector despite the third outbreak of COVID-19 in Vietnam.

Service sector softly recovered in the first 2 months of 2021

The new outbreak of COVID-19 in Vietnam has caused some damage to the service sector as intercity traffic activities in some parts of the country were restricted and several non-essential services in some localities were required to be suspended. Gross retail sales of consumer goods and services in the first two months of 2021 reached VND904.5 trillion, up 5.49% yoy. If excluding the price factor, the increase was 5.52% yoy (that in the same period in 2020 was 5.4% yoy).

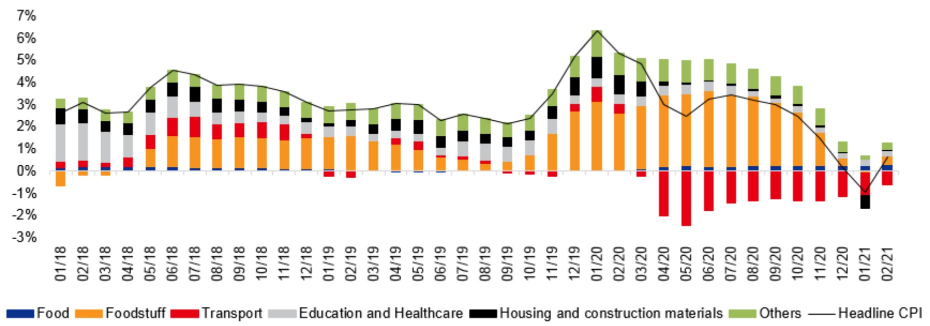
Trade surged as global supply chain was gradually rebuilt

Per GSO data, total export-import turnover reached US$95.8bn (+25.5% yoy) in the first two months of 2021, of which export value climbed to US$48.5bn (+23.9% yoy) while import value rose to US$47.3bn (+27.1% yoy). This is an impressive result given the scarcity of empty containers in Asia. The strong simultaneous growth of both export and import activities also showed optimistic signals about the prospects of the recovery of the world economy as well as the regeneration of the global supply chain.

Inflationary pressure is heating up though still under control

Vietnam's headline inflation rose 0.7% yoy in Feb 2021 (vs. a decline of 1.0% in Jan 2021). On a mom basis, the consumer price index (CPI) rose significantly by 1.5% because Vietnam Electricity (EVN) has ended its support program to reduce electricity bills for customers while domestic gasoline prices increased following upward momentum of global oil prices. However, the average inflation in the first 2 months of 2021 still declined by 0.1% yoy, suggesting that inflation remains under control.

Figure 1: Headline CPI rose 0.7% yoy in Feb 2021 (% yoy)



Source: GSO, VNDIRECT RESEARCH

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FLYING THROUGH THE CLOUDS

Manufacturing activities continued to expand

According to GSO, Vietnam's Index of Industrial Production (IIP) in 2M21 rose 7.4% yoy (vs. 6.2% rate seen in the same period last year). In which, manufacturing sector increased strongly by 10.4% yoy (vs. 7.1% rate seen in the same period last year), electricity production and distribution sector increased by 4.3% yoy (vs. 7.0% in 2M20), waste and wastewater management and treatment rose 4.8% yoy (vs. 4.6% in 2M20), only mining sector declined 11.0% yoy (vs. -2.7% in 2M20). Thus, the Index of Industrial Production of the manufacturing sector has returned to the double-digit level, equivalent to the level before the COVID-19 pandemic broke out in Vietnam.

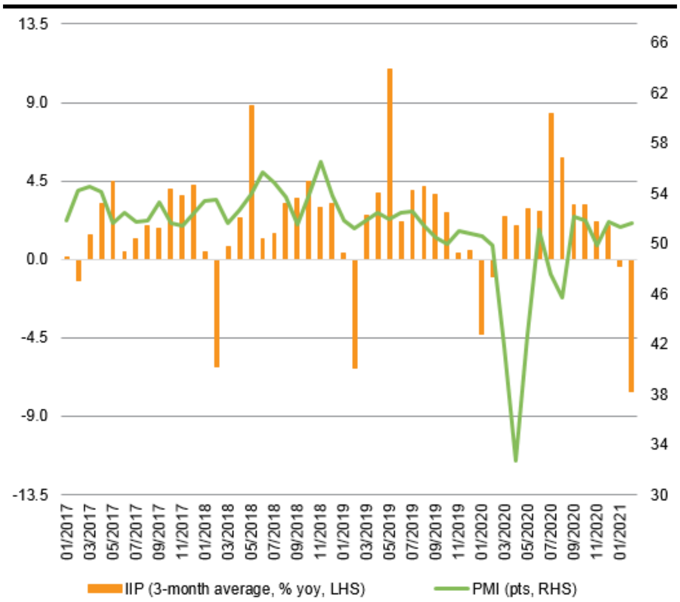
Regarding the manufacturing sector, the strong expansion was contributed by the improvement of metal production (+30.3% yoy), electronics (+21.2% yoy), electrical equipment (+17.5% yoy), furniture production (+10.4% yoy), motor vehicle (+10.2% yoy) and paper and related products (+10.1% yoy).

Meanwhile, Vietnam's Purchasing Managers' Index (PMI) in Feb 2021 inched up to 51.6pts from 51.3pts in Jan 2021, indicating a further expansion in the manufacturing sector despite the third outbreak of COVID-19 in Vietnam.

We think the strong growth of manufacturing is due to the following key supporting factors:

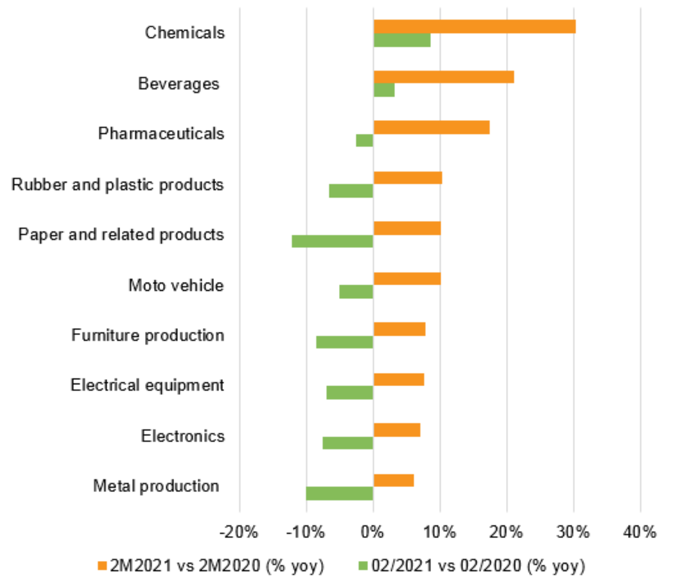
- The strong recovery of the world economy, led by the US and China, has led to a sharp increase in demand for industrial and durable goods. The US' manufacturing data released on 1 Mar showed the sector at its highest growth level since Aug 2018. Previously, a report on 26 Feb showed that personal income surged 10% mom in Jan, thanks largely to US$600 stimulus check from the US. government while household spending rose 2.4% mom. The recovery of major economies, such as the US, the EU and China has boosted demand for Vietnam's export products, especially manufacturing products such as computers, mobile phones, machine and equipment.
- The trend of shifting production from China to Vietnam continues. Vietnam has gradually become an important manufacturing base for some of the world's leading electronics manufacturers such as Samsung, LG and Intel.

Figure 2: PMI remained above the 50-pt level, suggesting the expansion of manufacturing sector



Source: GSO, VNDIRECT RESEARCH

Figure 3: Industrial production by category



Source: GSO, VNDIRECT RESEARCH

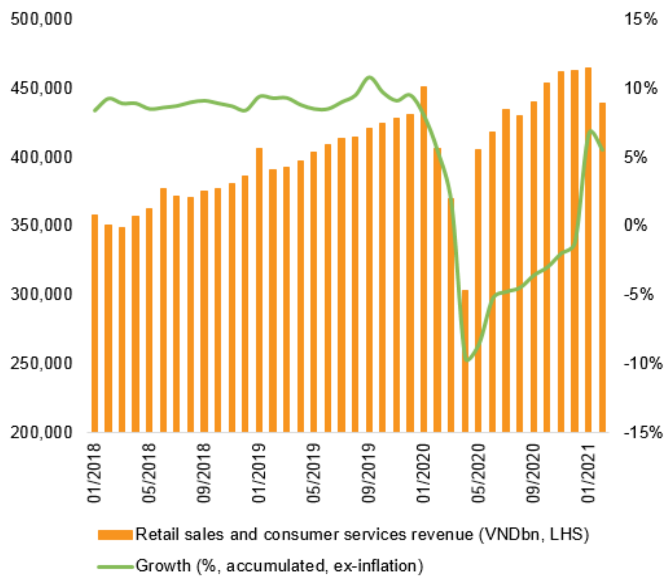
Service sector softly recovered in the first 2 months of 2021

The new outbreak of COVID-19 in early Feb 2021 has hindered the recovery of service sector as intercity traffic activities in some parts of the country were restricted and several non-essential services in some localities were required to be suspended. However, the service sector has overcome difficulties caused by the new outbreak of COVID-19 to maintain positive growth. Gross retail sales of consumer goods and services in the first two months of 2021 reached VND904.5 trillion, up 5.49% yoy. If excluding the price factor, the increase was 5.52% yoy (that in the same period in 2020 was 5.4% yoy).

To be specific, revenue from accommodation and catering services dropped 4.3% yoy while travelling revenue plunged 62.1% yoy in the first two months of 2021. These services have recovered slowly as they continued to be negatively affected by the COVID-19 pandemic. On the positive side, retail continued to strengthen, increasing 7.8% yoy, while revenue from other services rose 3.0% yoy in 2M21.

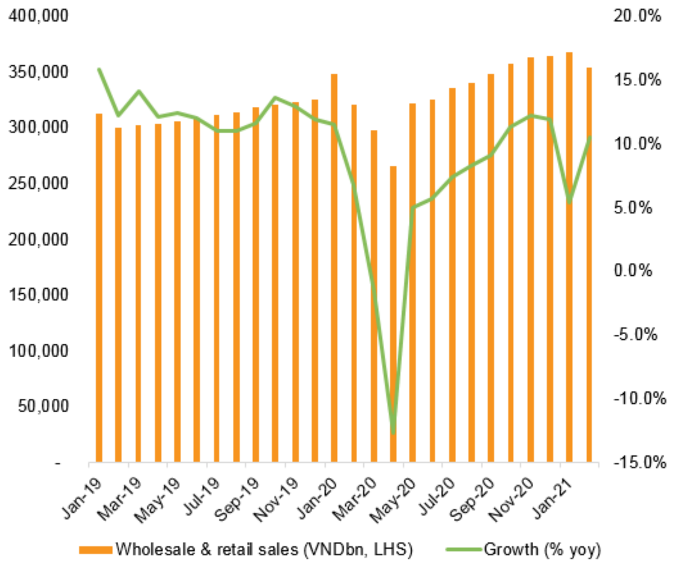
Air transport continued to witness difficulties due to the impact of the COVID-19 pandemic. The total number of flights operated by domestic airlines in the first 2 months of 2021 was 38,588, recording a decrease of 36.9% yoy.

Figure 4: Service sector recovery slowed down due to the third COVID-19 outbreak in Vietnam



Source: GSO, VNDIRECT RESEARCH

Figure 5: Monthly wholesale & retail sales revenue



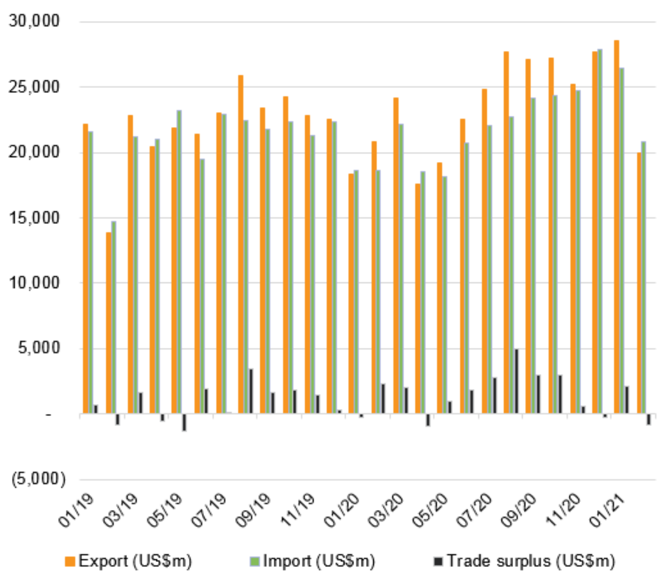
Source: GSO, VNDIRECT RESEARCH

Trade surged as global supply chain was gradually rebuilt

Thanks to the efficiency of its Covid-19 containment, Vietnam has kept its manufacturing activities running uninterrupted and won more external orders. Per GSO data, export value climbed to US$48.5bn in 2M21, recording an impressive growth rate of 23.9% yoy, as global demand showed sign of recovery after major economies took further steps to reopen their economies amid the availability of Covid-19 vaccines. Among Vietnam's export products, the items that recorded the highest export growth rates in 2M21 include rubber (+109.7% yoy), cassava & products (+78.2% yoy), machine and instrument (+72.6% yoy), steel (+71.9% yoy), camera & camcoders (+71.1% yoy) and furniture made of non-wood materials (+62.9% yoy).

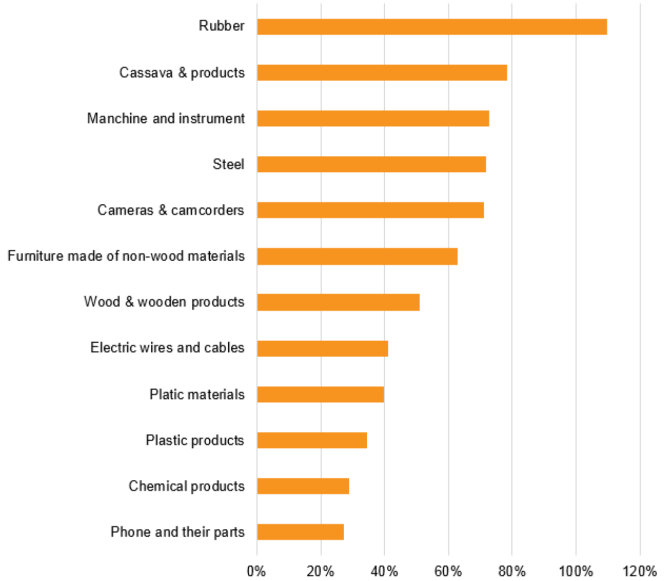
As for imports, Vietnam's import spending rose to US$47.3bn in 2M21 (+27.1% yoy). The country witnessed a strong increase in 2M21 imports as the sustainable expansion of Vietnam's manufacturing sector boosted demand for imported raw materials and input products, while resilient domestic demand accelerated the imports of consumer goods. As a result, Vietnam recorded nearly US$1.3bn of trade surplus in 2M21 (vs. a trade surplus of US$2.0bn seen in 2M20). Among Vietnam's import products, the items that witnessed the highest import growth rates in 2M21 include electronic devices, computers and their parts (+74.6% yoy), machinery and instrument (+30.8% yoy), plastic products (+30.8% yoy), steel (+29.5% yoy) and chemicals (+29.4% yoy).

Figure 6: Exports remained strong despite the shortage of empty containers in Asia



Source: GSO, VNDIRECT RESEARCH

Figure 7: Top strongest export growth by category



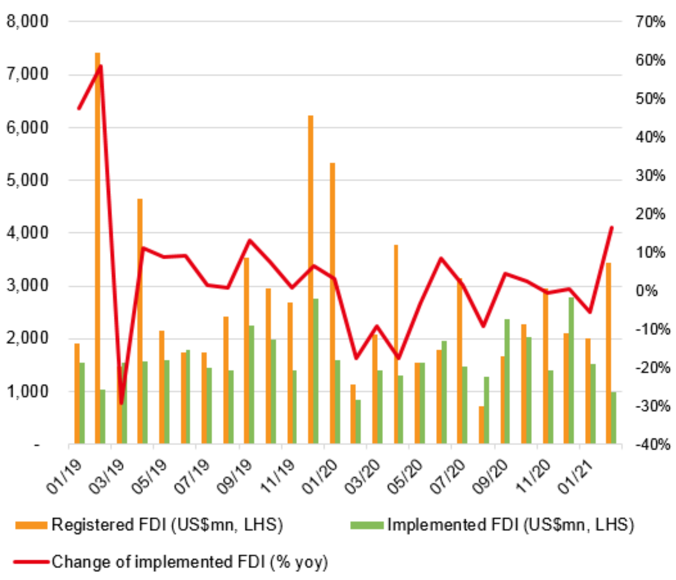
Source: GSO, VNDIRECT RESEARCH

State investment maintained encouraging growth while the inflow of Foreign Direct Investment (FDI) remained weak

According to the Ministry of Planning and Investment, the registered capital of FDI projects in 2M21 dropped 15.6% yoy to US$5.5bn. Of which, 126 newly licensed projects with a registered capital of US$3.3bn, a decrease of 33.9% in terms of registered capital compared to the same period in 2020; 115 projects licensed in the previous years approved to adjust investment capital (incremental FDI) with total additional capital of US$1.6bn, 2.5 times higher than the same period last year; 445 turns of capital contribution and share purchases of foreign investors with total value of capital contribution of US$0.5bn, a drop of 34.4% over the same period in 2020. However, we still see some bright spots in FDI inflows to Vietnam. Firstly, the incremental FDI rocketed 152% yoy to US$1.6bn in 2M21, showing that many investors are operating efficiently in Vietnam and willing to expand their businesses there, especially as Vietnam is one of the world's fastest growing countries last year thanks to its success in controlling the COVID-19 pandemic. Secondly, implemented FDI capital in 2M21 reached US$2.5bn, a growth of 2.0% over the same period last year.

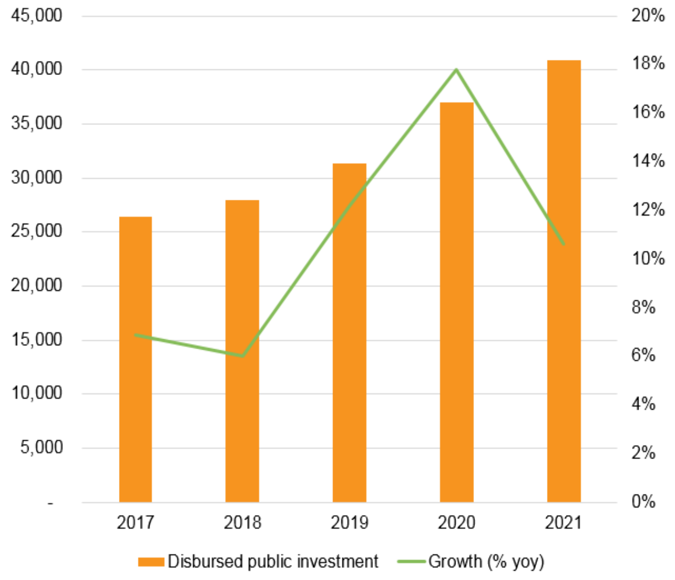
Notable registered FDI projects in the first 2 months of 2021 include, expanding LG Display project in Hai Phong city with a value of US$750m for manufacturing OLED TV screen products, plastic OLED screens for devices, and LCD screens, Foxconn project in Bac Giang province (US$270m) for processing tablets and laptop, and JA Solar PV Vietnam project (China) with an investment of US$210m.

Figure 8: Implemented FDI inched up 2% yoy in 2M21



Source: GSO, VNDIRECT RESEARCH

Figure 9: Public investment maintained a positive growth in 2M21 (VNDbn)



Source: GSO, VNDIRECT RESEARCH

In order to reverse the weakening of investment by FDI sectors, the government continued to boost public investment. According to GSO, disbursed investment under the state budget (public investment) in 2M21 jumped 9.0% yoy to VND40.9tr. We expect the government to keep accelerating the disbursement of public investment throughout 2021F to support growth. Most of the public investment projects are infrastructure construction investments, with project durations of 2-4 years. Six of the 11 sub-projects in the eastern section of the North-South Expressway that started construction in 4Q19-4Q20 will proceed in 2021F and are expected to be completed in the 2022-23F period. The remaining sub-projects in the same section are expected to be implemented in 2021. Furthermore, the government also plans to start Phase 1 construction of the Long Thanh airport, with total investment of up to VND114,451bn, in May 2021. Therefore, we expect public investment disbursements to accelerate further towards end-2021.

Figure 10: Eleven sub-projects in the eastern section of the North-South expressway and My Thuan–Can Tho expressway

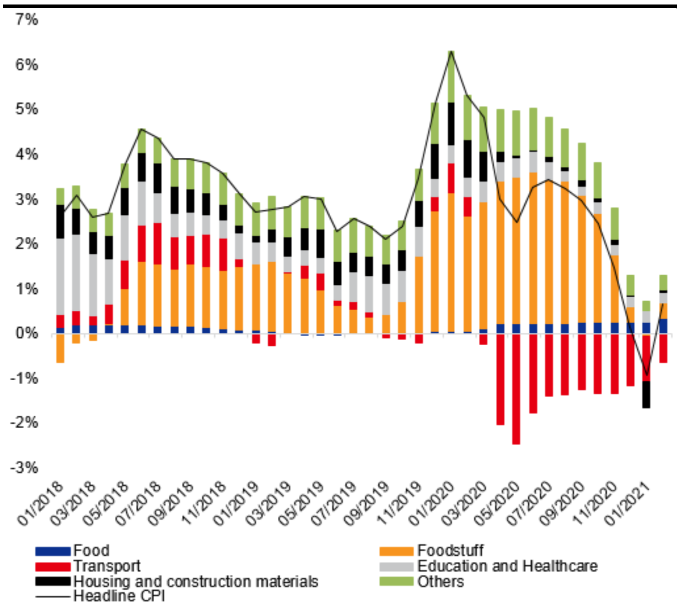
Expressway	Total investment (VNDbn)	Length of the route (km)	Starting time	Financing format
Cao Bo - Mai Son	1,612	15	4Q19	Public investment
Cam Lo - La Son	7,900	98	1Q20	Public investment
My Thuan Bridge 2	5,125	7	1Q20	Public investment
Mai Son – National Highway 45	14,703	63	3Q20	Public investment
Vinh Hao - Phan Thiet	19,648	101	3Q20	Public investment
Phan Thiet - Dau Giay	19,571	99	3Q20	Public investment
Dien Chau - Bai Vot	13,596	50	2021-2025	PPP
Nha Trang - Cam Lam	5,131	49	2021-2025	PPP
Cam Lam - Vinh Hao	15,013	78	2021-2025	PPP
National Highway 45 – Nghi Son	7,769	43	2021-2025	PPP
Nghi Son - Dien Chau	8,648	50	2021-2025	PPP
Total	118,716	653		
My Thuan - Can Tho	4,758	23	3Q20	Public investment

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

Inflationary pressure is heating up though still under control

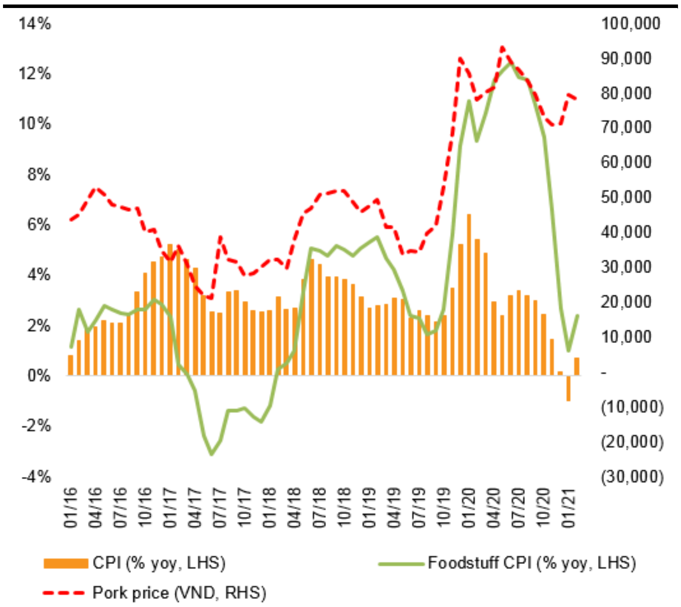
Vietnam's headline inflation rose 0.7% yoy in Feb 2021 (vs. a decline of 1.0% in Jan 2021). On a mom basis, the consumer price index (CPI) rose significantly by 1.5% because Vietnam Electricity (EVN) has ended its support program to reduce electricity bills for customers while domestic gasoline prices increased following upward momentum of global oil prices. However, the average inflation in the first 2 months of 2021 still declined by 0.1% yoy, suggesting that inflation is still under control. The live pork prices averaged VND82,000/kg in 2M21, recording a decline of 4% yoy as the African Swine Fever (ASF) was contained domestically. We expect the live pork price to further decline towards year-end as the ASF vaccine is expected to be commercially produced and marketed from 3Q21F. Another factor showing that inflation is not too worrying is that the core inflation index in Feb 2021 only increased by 0.6% yoy, much lower than the 3-year average rate of 2.0%.

Figure 11: Headline CPI rose 0.7% yoy in Feb 2021



Source: GSO, VNDIRECT RESEARCH

Figure 12: Foodstuff inflation vs. pork price



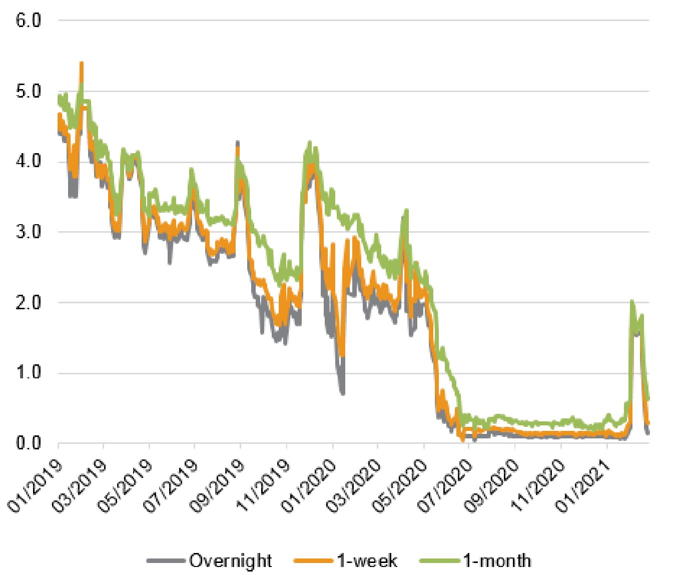
Source: GSO, VNDIRECT RESEARCH

The interbank interest rate slumped as expected

After Tet holiday, the interbank interest rate dropped sharply because the demand for cash withdrawal and payment returned to normal levels. According to Bloomberg data, the overnight rate fell to 0.14% on 26 February 2021, down 71 bps from the previous week and back to the low level seen in late Jan 2021. The liquidity of the interbank system has shown signs of redundancy in the last three weeks, therefore the State Bank has net withdrawn VND50.7 trillion on the interbank system, equivalent to the amount of money pumped out earlier to support system liquidity.

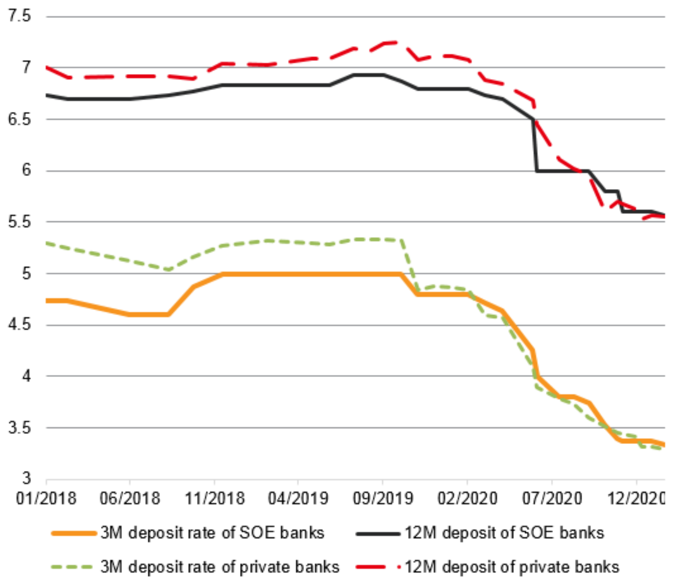
Vietcombank (VCB), the market leader, also recently decided to reduce lending rates by up to 1% on all existing and new corporate loans for a period of three months from 15 Oct 2020 to 15 Mar 2021. This is a signal that the lending interest rate could decrease further in the upcoming months.

Figure 13: Interbank interest rate dropped as expected (%)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 14: Banking deposit rate remained stable at low level (%)

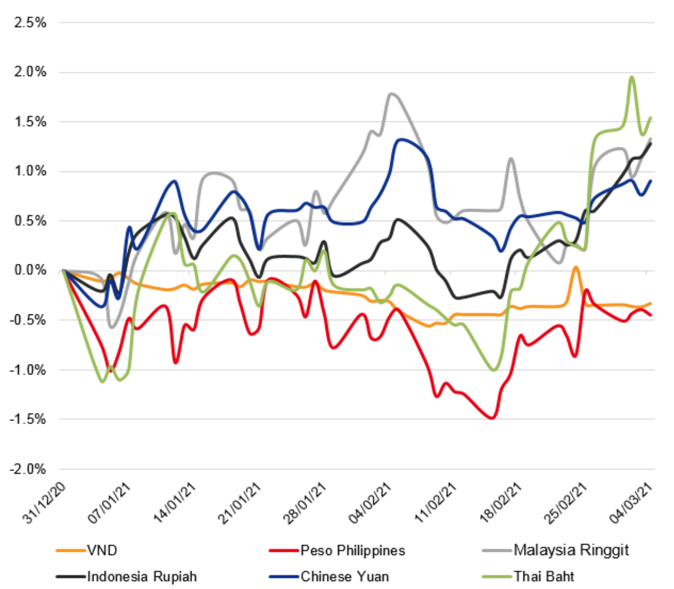


Source: Commercial banks, VNDIRECT RESEARCH

Exchange rate kept diverging

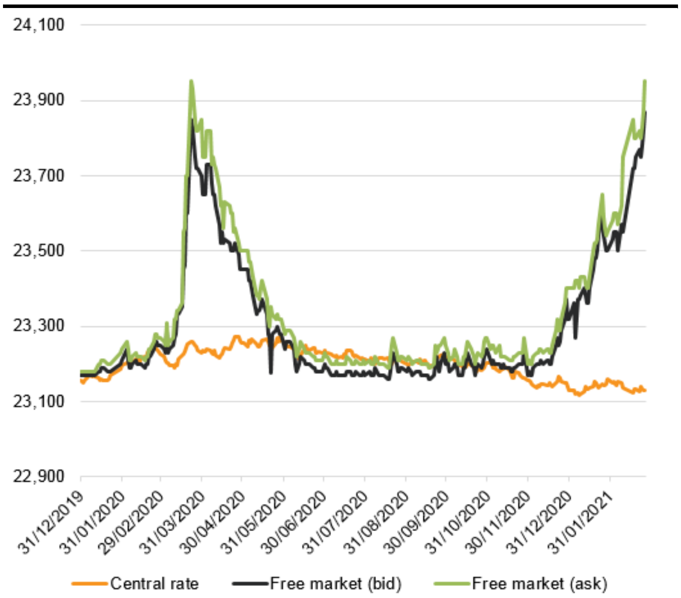
As at 26 Feb, the Vietnam Central bank-set exchange rate for the US$/VND stood at 23,130, slid 0.1% mom, while the interbank exchange rate for US$/VND also declined 0.1% mom. Meanwhile, the US$/VND exchange rate in the free market rose 1.6% mom. As Vietnam maintained a high trade surplus of US$1.3bn in 2M21, we believe that foreign currency supply in the market is still abundant and we expect exchange rate to remain stable in the first quarter.

Figure 15: Performance of regional currencies in 2M21 (% YTD)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 16: Central bank exchange rates and free market rates diverged further (US$/VND)



Source: SBV, VNDIRECT RESEARCH

We expect GDP to expand 5.1% yoy (+/- 0.3% pt) in 1Q21F

We expect Vietnam's economy to have a brighter outlook in the upcoming months as the third outbreak of COVID-19 pandemic has been totally controlled. The industrial activities could accelerate growth thanks to (1) more people returning to work after the last outbreak is contained and (2) global demand recovers as global economy is on track to recovery amid mass vaccination. The services sector is expected to return to the recovery process soon thanks to (1) reopening of non-essential services and (2) domestic demand recovering after the government relaxes social distancing rules. As a result, we forecast Vietnam's GDP to expand 5.1% yoy (+/- 0.3 percentage point) in the first quarter of 2021, which is higher than the growth rate of 3.7% seen in the same period last year (1Q20) and 4.5% seen in the previous quarter (4Q20). For entire 2021F, we keep our GDP growth forecast for Vietnam's economy unchanged at 7.1%.

Figure 17: Key macro forecasts in 2021F

Indicator	Unit	2017	2018	2019	2020E	2021F	1Q21F
Real GDP growth	% yoy	6.8	7.1	7.0	2.9	7.1	5.1
Agriculture, forestry, aquacuture	% yoy	2.9	3.7	2.0	2.7	3.2	4.3
Industry & construction	% yoy	8.0	8.5	8.9	4.0	9.0	6.8
Services	% yoy	7.4	7.0	7.3	2.3	7.1	4.6
Export growth	% yoy	21.8	13.3	8.4	6.5	12.0	
Import growth	% yoy	21.4	11.8	6.9	3.6	11.0	
CPI (period average)	% yoy	3.5	3.5	2.8	3.2	2.9	0.6
Credit growth	% ytd	18.3	13.9	13.7	12.1	13.0-14.0	3-4
M2 growth	% ytd	15.0	12.4	14.8	14.7*	15.0-16.0	3.5-4.5
Refinancing rate	%	6.25	6.25	6.0	4.0	4.0	4.0
Exchange rate (USD/VND)	% yoy	1.2	1.8	1.4	0-1.0	+/-0.5	-0.3
Fiscal balance	% of GDP	-2.7	-2.8	-2.5	-4.0	-3.5	
Public debt	% of GDP	61.4	58.3	55.0	55.8	57.0	

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

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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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