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Outbreak Hits GDP

nCoV knocks GDP off government's 6.8% growth plan

Vietnam's 6.8% GDP growth plan may be difficult to achieve in 2020

— Both scenarios from the Ministry of Planning & Investment (MPI) are below the government's official 6.8% GDP growth plan. Containment by 1Q likely to see GDP growth slow to 6.3%, while 2Q containment would see GDP growth of 6.1% for 2020.

— The Ministry expects the impact to hit hardest in 1Q – with growth almost halving to 3.8% from its original target of 6.5% – and the most damage likely for tourism, agricultural and fishery exports and the import of capital goods.

— CPI estimates in both scenarios are 4.0% and 4.9%, respectively, for 2020.

Although 6.8% may be tough, several factors may offset the concerns of the Ministry

— Our scenarios estimate the impact from nCoV at 0.4% points if contained to 1Q and 0.8% point impact for containment by 2Q or 2020 GDP growth of 6.4% and 6.0%. In both scenarios, the impact to 1Q GDP is 1.4% points vs the MPI's 2.7% point impact to 1Q.

— For tourism, we remain more optimistic on the fact that: 1) flights to/from Hong Kong, Taiwan and Macau have been partially restored from February 2; and 2) tourism season peaks from April and leaves room for recovery. We estimate declining revenue from international visitors at 0.4% points of 1Q GDP in scenario 1 and 0.6% points in scenario 2.

— Exports should not be as heavily impacted because only trade across land routes will feel the brunt of any border closures and sea ports remain open for business. Since most of the export items are agricultural & fishery products – with short inventory life – we estimate that closures until the end of February may lead to a 25% drop in exports for these items in 1Q.

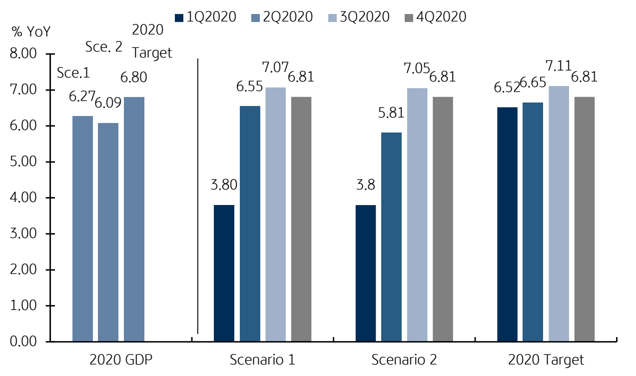
— Imports of capital goods could fall by 10% by our estimates in both scenarios due to production disruptions in China. But offsetting factors include: 1) most are machinery & equipment that can be stored; 2) many have actively pulled forward imports due to the long Lunar New Year in China; and 3) trading activities along sea routes have not slowed.

Government stimulus should also support 2020 GDP

— We expect the government to tap public investment funds and use large-scale projects to narrow any gap in GDP to the annual 6.8% target, including the North-South highway and Long Thanh airport projects.

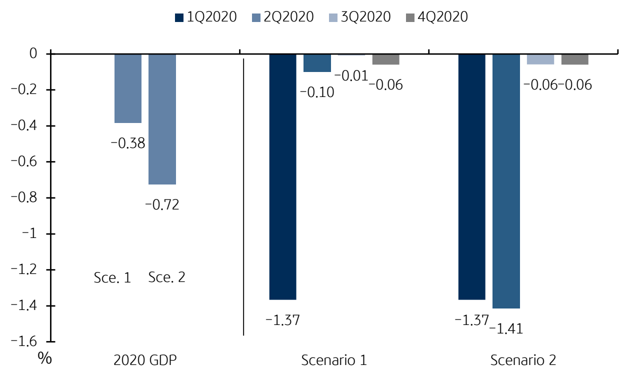
— In terms of monetary policy, we expect 1H measures to include the State Bank of Vietnam (SBV) asking banks to cut lending rates to support businesses hit by the nCoV outbreak and 2H action – assuming inflation remains in check – to include easing of monetary conditions via a synchronous lowering of the interest rate ceiling, cut in the benchmark rate, lifting credit limits for banks that have met Basel II and measures to support systemic liquidity.

Fig 1. Ministry of Planning & Investment – GDP growth scenarios, 1Q20-4Q20 (%YoY)



Note: Scenario 1: Contained by 1Q20; Scenario 2: Contained by 2Q20
Source: Ministry of Planning & Investment, KB Securities Vietnam

Fig 2. KB Securities Vietnam – GDP growth scenarios, 1Q20-4Q20 (%YoY)



Source: KB Securities Vietnam

Fig 3. KB Securities Vietnam detailed impact

	Scenario 1	Scenario 2	Assumptions
GDP 2020 (%)	6.388	6.048	
Down in tourist revene (USDbn)	3.360	5.750	
In which			
From Chinese (USDbn)	0.86	1.95	Numbers of arrivals are down by 90% in Feb and Mar, 75% in next 3 months
From foreigners exclude Chisese (USDbn)	0.45	1.1	Down by 20% each month
From domestic (USDbn)	2.05	2.7	Down by 70% in Feb and Mar, 30% for the next 3 months
Imports from China (USDbn)	1.26	3.15	Down 10% each month
Exports to China (USDbn)	1.73	3.3	Down by 25% in Feb and Mar, 15% for the next 3 months

Source: KB Securities Vietnam

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Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market