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February Industrial Production

Hit hard from the coronavirus outbreak

Vietnam's February Purchasing Market Index (PMI) fell under 50 points

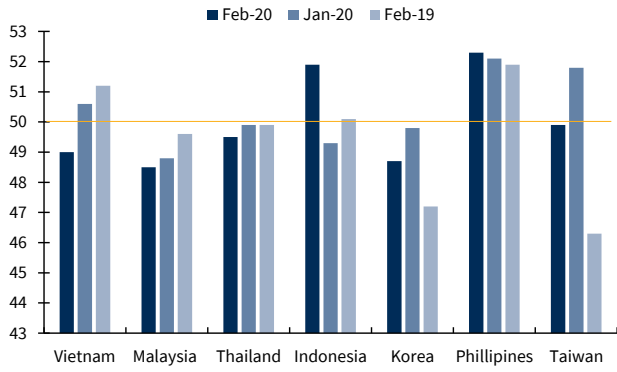
- Vietnam's February IHS Markit PMI at 49.0 and under 50 for the first time in four straight years (January PMI was 50.6).
- The drop was larger than other countries in the region – and second only after Taiwan – implying a strong negative impact from the coronavirus outbreak on manufacturing.
- Hardest hit were consumer and intermediate goods that saw the sharpest contraction in production output, new orders, purchasing activities, labor and output prices, while also seeing more cost pressure amid the growing scarcity of input goods. Only the production of basic goods improved, supported by the increase in purchasing activities, labor and output prices compared to the previous month.
- Notably, the IHS survey showed Vietnam's manufacturing companies remain relatively optimistic about business prospects over the next 12 months given hopes for improving demand. That said, given uncertainty on the duration of the coronavirus outbreak, PMI will unlikely recover to above 50 in the March survey.

Industrial production (IIP) surged for electronics & pharmaceuticals

- Using January & February combined data to adjust for the Tet holiday, overall industrial production slowed vs 2019. In particular, processing and manufacturing production growth slowed to 9.3% from 11.5%.
- Secondary industries slowed sharply with the exception of electronics and pharmaceuticals. We believe resilience from the electronics industry was due to: 1) higher export shipments of Samsung's new S20 handsets (exports of smartphones and components for the first two months of the year rose by 2.3% YoY); & 2) higher exports of machinery & equipment (up 19.6% YoY) in line with improvements in the PMI of basic goods as noted above. Better performance from pharmaceuticals was likely the result of increased production in medical masks and antibacterial cleansers due to the coronavirus outbreak.
- March industrial production for electronics will likely fall sharply as conditions from the coronavirus outbreak worsen for Vietnam's main trading partners – Korea, the US and the EU) – which should lead to a contraction in production and exports. The situation in March could resemble March 2017, when battery problems for Samsung's Galaxy Note 7 led to 9.2% fall in industrial production.

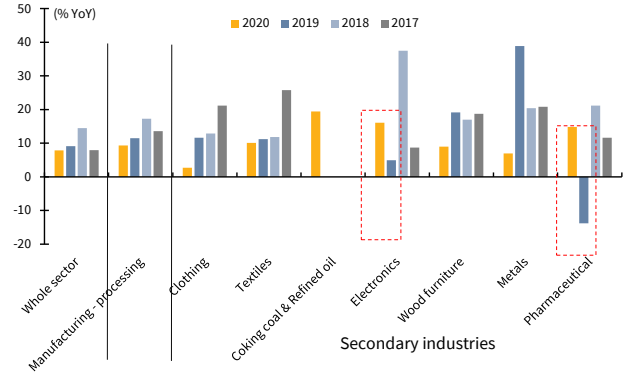


Fig 1. Asia – Regional PMIs



Source: IHS Markit, KB Securities Vietnam

Fig 2. Vietnam – Industrial production of main industries



Source: IHS Markit, KB Securities Vietnam

* Data of 2020, 2019, 2018, 2017: average IIP of the first two months

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

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+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

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