

Vietnam:

The Rise of Supporting Industries and Opportunities for Plastic Component Suppliers

Executive Summary

Vietnam is in need of intermediate goods

- Rapid growth of FDI in manufacturing sector.
- Local production does not match rapid demand and required product standards.



Thailand has potential in this market, especially **plastic pellets**:

- Thailand-based manufacturers have *long experience in supplying plastic pellet* regionally and globally.
- *Cost of capital* of Thai entities is relatively lower.
- *production quality* is better than local firms.



Business Opportunities for plastic pellet manufacturers in Vietnam



Export to Supply Potential Sectors



Manufacture to Serve Demand in Vietnam

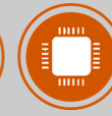
Plastic pellets are needed for:



Food & Beverage



Construction Materials



Technical Products (automotive & electronics)

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Executive Summary

With Vietnam’s transition to an economy powered by manufacturing, supporting industries have become a key determinant of the country’s industrialization process. There are potential opportunities for supporting activities of Vietnam’s plastic industry that Thai investors could explore.

Key Drivers

- **Local production** of plastic pellets is **insufficient** for the manufacturing of downstream products.
- **Growing downstream industries** and exports require a larger quantity of inputs.
- **Abundant raw materials** are required for production, such as oil and gas for plastic production
- Abundant **young labor** and **low labor cost**

Potential Intermediate Products Manufacturing

- **Plastic Pellets**
Thailand currently is one of the top five sources of quality inputs for Vietnam’s plastic industry. Cost of capital of Thai entities is relatively lower than local firms.

- **Metal:**
Thailand has lower cost competitiveness than China.

- **Electronic Parts and Components:**
Thailand has lower technology competitiveness than Japan and South Korea.

Opportunities for Thai Plastic Producers in



Food & Beverage



Construction Materials



Technical Products
(automotive & electronics)

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Overview of Vietnam's Supporting Industries

Potential Needs for Plastic Intermediate Goods

Summary & Recommendations

KASIKORNBANK Support



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Potential Needs for Plastic Intermediate Goods

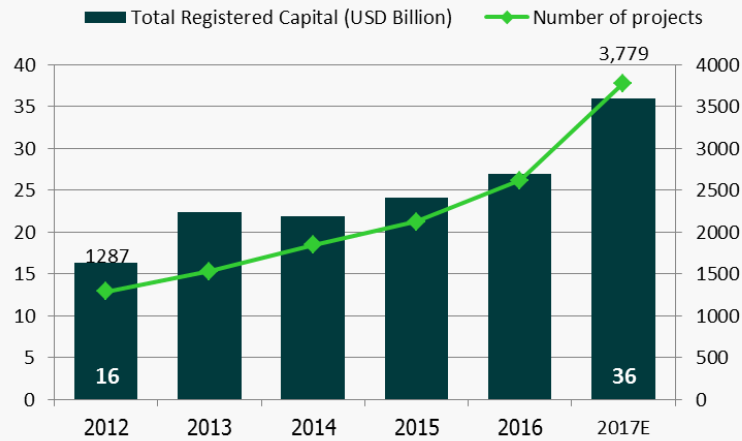
Summary & Recommendations

KASIKORNBANK Support

Overview of Vietnam's Supporting Industries (1/2)

Vietnam has become a production base to access to global market, as evidenced by increased investment from multinational enterprises (MNEs).

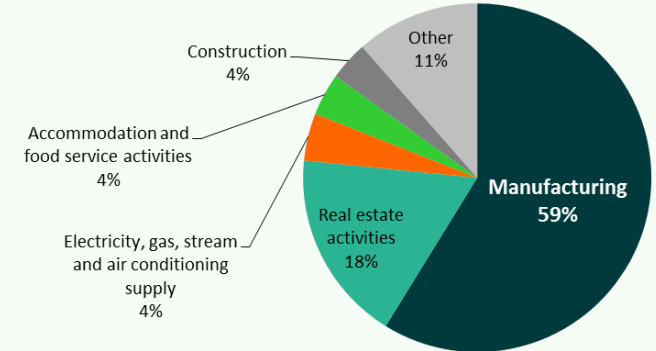
Foreign Direct Investment in Vietnam by registered capital



FDI in Vietnam has been growing at an average of 14.5%

- Location, workforce, and continuously improving trade legislation are Vietnam's main driving factors – Vietnam's strategic location, sharing oceans with big countries, home to young and affordable workforce, and a number of free trade agreements (FTAs) make it an attractive base for multinational enterprises (MNEs) that are part of global supply chains.
- Japan topped the list – In 2017, Japan became Vietnam's top investor with USD9.11 billion or 25.4% of the country's FDI, followed by South Korea (23.7%) and Singapore (14.8%).

Foreign Direct Investment in Vietnam, 2016 by economic activity



MNEs having production base in Vietnam



Overview of Vietnam's Supporting Industries (2/2)

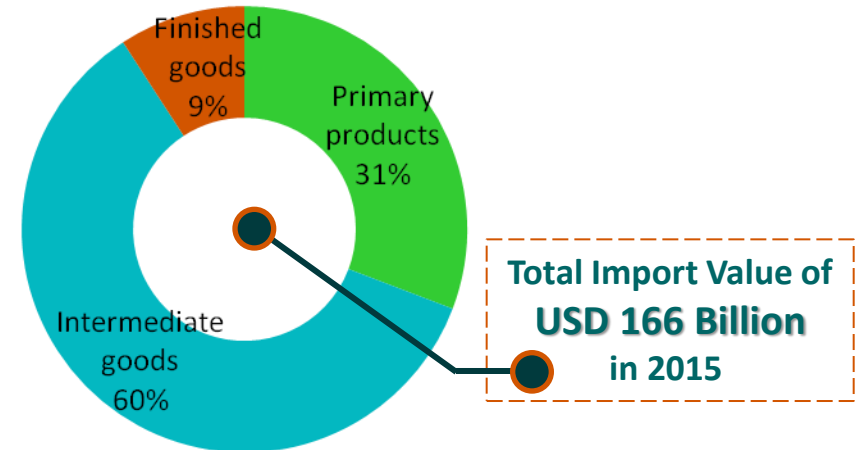
Rapid FDI inflow has created a gap between domestic supporting industries and downstream manufacturing, which struggles to match required product standards and production volumes. Thus, Vietnam is forced to import intermediate goods.

Quality and quantity of local suppliers in Vietnam (2016)



- Supporting industries have been established, but the demand has not yet fulfilled – Although there are almost 1,800 components manufacturers in Vietnam, domestic suppliers cannot adequately serve domestic downstream manufacturing sector due to their relatively low quality and production capacity.

Shares of intermediate goods imports (%)



- Vietnam is in lack of supporting products – As seen from trade figures, about 60 % of Vietnam's imports in 2015 were in the category of intermediate goods.
- Asian countries are major trade partners - East Asian countries, especially Japan, China and South Korea, are major trading partners for high-value intermediate goods, such as mobile phones and auto parts.

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Vietnam's Supporting Industries: Trends

To address the “middle middle” of domestic manufacturing supply chain, Vietnam has offered investment incentives to attract FDI into promoted industries. This could also benefit their supporting industries.

Promoted Industries



Textile & Garment



Footwear-Leather



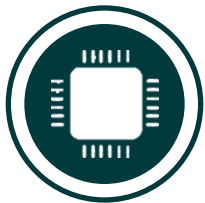
Electronics



Automobile



Mechanical Fabrication



Supporting Products used in hi-tech

Investment Incentives for Promoted Industries

Tax

Corporate income tax incentives

- Incentive tax rate of **10% for 15 years**.
- **Tax exemption of up to 4 years**, followed by a period of 50%-tax rate for up to 9 years.

Import duties incentives

- Imported commodities for fixed assets, raw materials and components which cannot be domestically manufactured and need to be imported to serve production shall be **exempted from import duties**.

Non Tax

Credit incentives

- Supported industry projects shall be granted **soft loans** by the designated state financial institutions.
- SMEs may take loans of up to 70% of their investment value with guarantee provided by the organizations permitted to guarantee for SMEs.

Current Private sector Actions'

SAMSUNG

Samsung aims to **connect domestic component suppliers** to its manufacturing hub in Vietnam, ranging from renowned mobile phones to household appliances. (190 tier-2 suppliers involved).

THACO
TRUONG HAI AUTO



In March 2018, THACO, local giant conglomerate, cooperated with Mazda to **open the biggest Mazda auto assembly in Southeast Asia** with a manufacturing capacity of 100,000 units a year and target to raise the localization rate to 40%.

Opportunities for Thai Intermediate Goods Suppliers in Vietnam

With growing demand for intermediate goods, Thailand, as major regional supplier for Vietnam, especially plastic pellets, could leverage these advantages to expand their manufacturing base to Vietnam.

Basic Intermediate Goods needed in Vietnam Manufacturing Industry

Plastic Pellets [Recommended]

- Thailand currently is one of the top five sources of quality inputs for Vietnam’s plastic industry.
- Cost of capital of Thai entities is relatively lower than local firms.

Metal

Thailand has lower cost competitiveness than China.

Electronic Parts and Component

Thailand has lower technology competitiveness than Japan and South Korea

Key Drivers for Plastic Pellet Demand

- **Local production of plastic pellets is insufficient** – Vietnam needs to import high volume of plastic components. Approximately 75-80% of total inputs are required for downstream plastic production. Korea is Vietnam’s main source of plastic imports, accounting for 20% of total imports, followed by Taiwan, Saudi Arabia, and Thailand which accounted for 16%, 16% and 9%, respectively
- **Growing downstream sectors and exports require a larger quantity of input.** Currently, the plastic industry in Vietnam requires roughly 3.5 million tons of input materials per year. However, domestic capacity can supply merely 900,000 tons. Moreover, the demand tends to increase to **8.3 million** tons by 2020 due to growing FDI and increasing exports volume to advanced markets such as US and EU.

Potential Supporting Industries

Thai plastic pellet manufacturers may take these opportunities to expand their production base to Vietnam to supply these potential industries:



Food & Beverage
Plastic Packaging



Construction
(industrial goods ,
house accessories,
construction
materials)



Plastic technical
products (for automotive
and E&E industries)



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Overview of Vietnam's Supporting Industries

Potential Industry Needs for Plastic Intermediate Goods

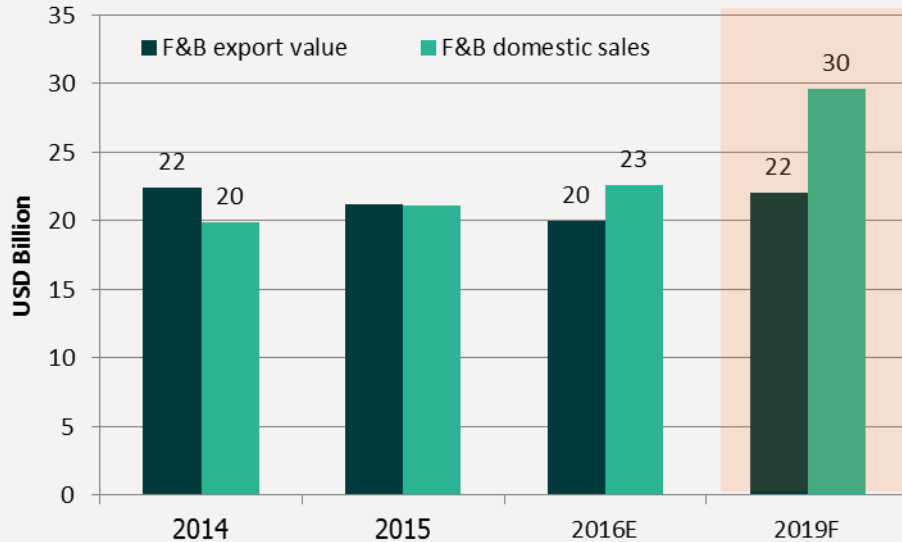
Summary & Recommendations

KASIKORNBANK Support

Overview of Plastic Packaging Demand

Demand for plastic packaging products is expected to increase as a result of growing sales of food and beverage products in both domestic and international markets.

Domestic F&B sales have outperformed F&B exports since 2016



- **Packaging Products for F&B, the most valuable product in plastic packaging industry** - In terms of their revenue generation, packaging products for F&B in Vietnam account for **almost 50% of total revenues** in plastic packaging industry.
- **Bright Outlook of Vietnam's F&B Packaging** – Vietnam's F&B packaging is expected to continue to grow at the average of 9.5% CAGR annually during 2016-2019F. While, its exports is also forecast to increase but at a slower pace or 3.3% CAGR per annum.

Leading Players



Tan Tien Plastic Packaging

The company was established as SOE in 1966. It was acquired in 2015 by Dongwon Systems, a Korea's leading packaging company which specializes in producing flexible packaging, bottles, cans, industrial films, and aluminum foils.



Sai Gon Plastic Packaging

A Vietnam-based packaging and container manufacturer. Their customers are manufacturers of seafood products, food, spices and consumer chemicals.



Tan Dai Hung Plastic ,

Established in 1984, TAN DAI HUNG PLASTIC J.S.CO is one of the leading manufacturers of PP (polypropylene) woven bags for packaging rice, fertilizer, animal food, and other agricultural products in Vietnam.



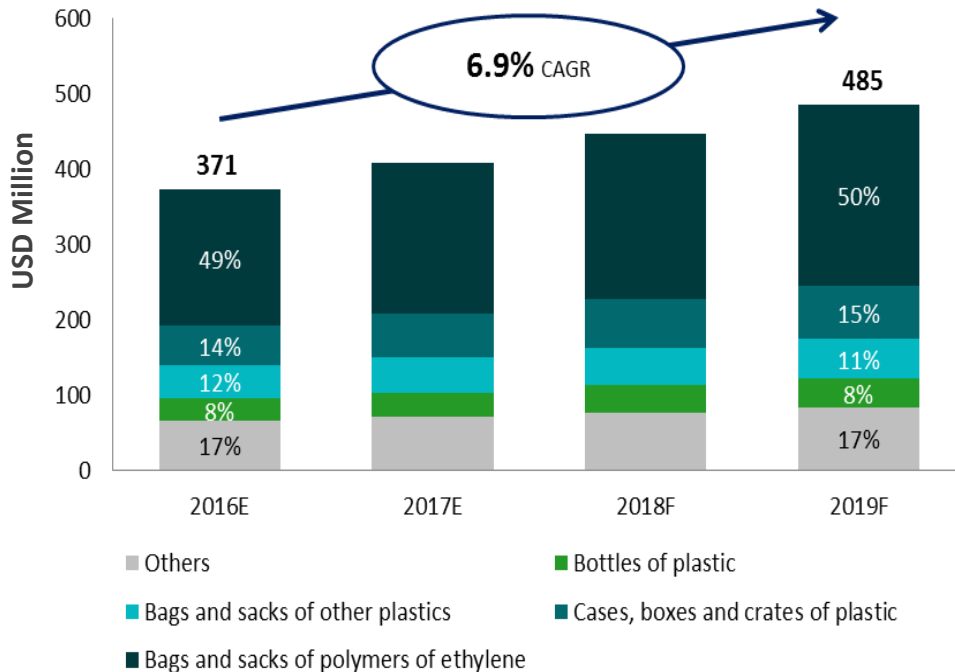
Do Thanh Technology Corporation

Vietnam-based plastic products manufacturer. The company trades and manufactures plastic products, such as plastic bottles, containers, pipes and shapes for household usage, as well as other plastic components for industrial production.

Opportunities: Plastic Components for F&B Products

As demand grows, there will be a higher need for plastic components for F&B plastic packaging production, especially plastic bags, kitchenware, and plastic bottle.

Forecasted Demand for Plastic Packaging Products in Vietnam, 2015 - 2019F



Plastic Packaging Products

Bags and sacks of polymers of ethylene
e.g. plastic shopping bag

Cases, boxes and crates of plastic
e.g. household and kitchen ware

Bags and sacks of other plastics

Plastic Bottle

e.g. plastic bottle for drinking water

Intermediate Goods Required

- Polypropylene (PP)
- Low-density Polyethylene (LDPE)
- High-density polyethylene (HDPE)

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- High-density polyethylene (HDPE)

- Polypropylene (PP)
- Low-density polyethylene (LDPE)

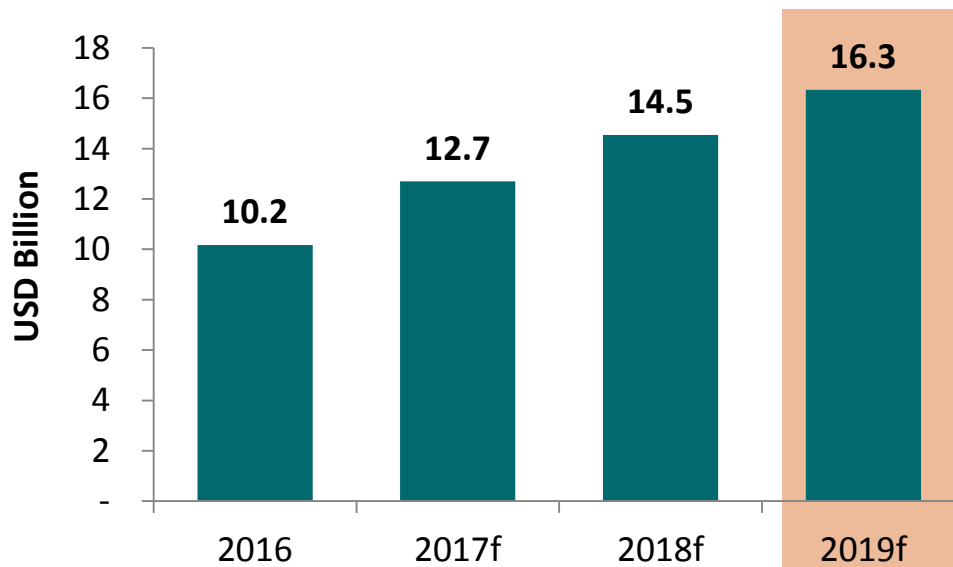
- Polyethylene Terephthalate (PET)
- High-density polyethylene (HDPE)
- Low-density polyethylene (LDPE)

Overview of Plastic Construction Demand

High growth in construction service industry in Vietnam, especially non-residential markets, leads to high demand of plastic construction products.

18.2 Percent of plastic product in Vietnam is used for the construction industry

Construction sector in Vietnam has a promising outlook



The construction sector in Vietnam is expected to grow at **CAGR of 17.1 percent p.a. from 2016 to 2019**. This shows a positive sign of the plastic industry in Vietnam.

Leading Players



Tien Phong Plastic JSC (NTP)

The large construction plastic pipe firm which dominates over 60% of the entire market in the northern Vietnam market.



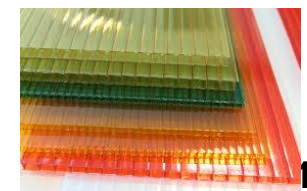
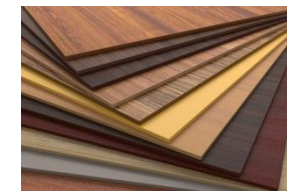
Binh Minh Plastics JSC (BMP)

The company is the top manufacturer of construction plastic pipes in the southern Vietnam market, commanding about 50% of the market.



Dong Nai Plastic JSC (DNP)

A subsidiary of construction company which manufactures and markets plastic products for construction and packaging purposes.

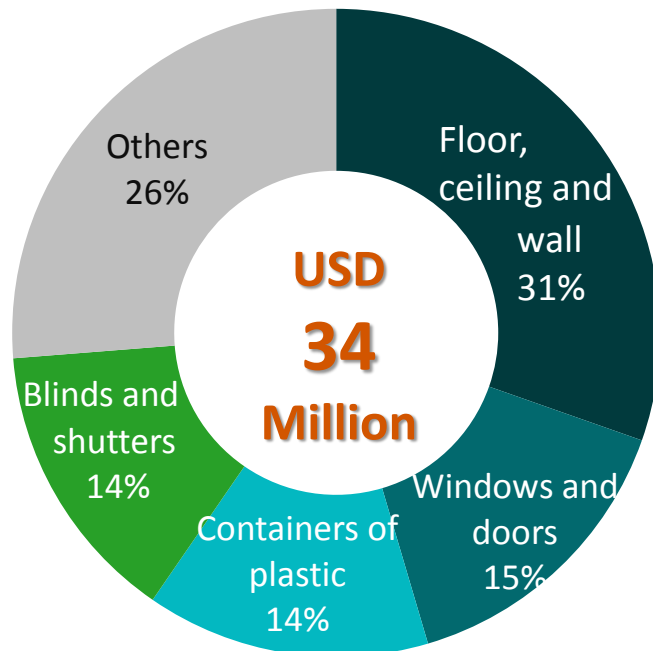


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Opportunities: Plastic for Construction

With rising demand for plastic for construction sector in Vietnam, it would bring opportunities for Thai plastic manufacturers to utilize local raw material to supply plastic intermediate products to Vietnamese market.

Demand of plastic construction products in Vietnam, 2018f



Construction materials and interior components made from plastic would **grow at a rate of 10% p.a.**

Largest demand is for **Floor, ceiling and wall** with total value of USD11 Million.

Positive Growth Drivers

- **Non-residential markets:** They are expected to stay robust in the near future thanks to rising trend of construction in **commercial, tourism, and industrial projects.**
- **Vietnam's economic recovery:** Construction industry positively grows along with the growth of both public and private investment.
- **Limited new supply completed and office rent bottomed out in 2008:** These help to stimulate office building market.
- Moreover, real estate development should enhance **rapid urbanization.**

Opportunities for raw material investment

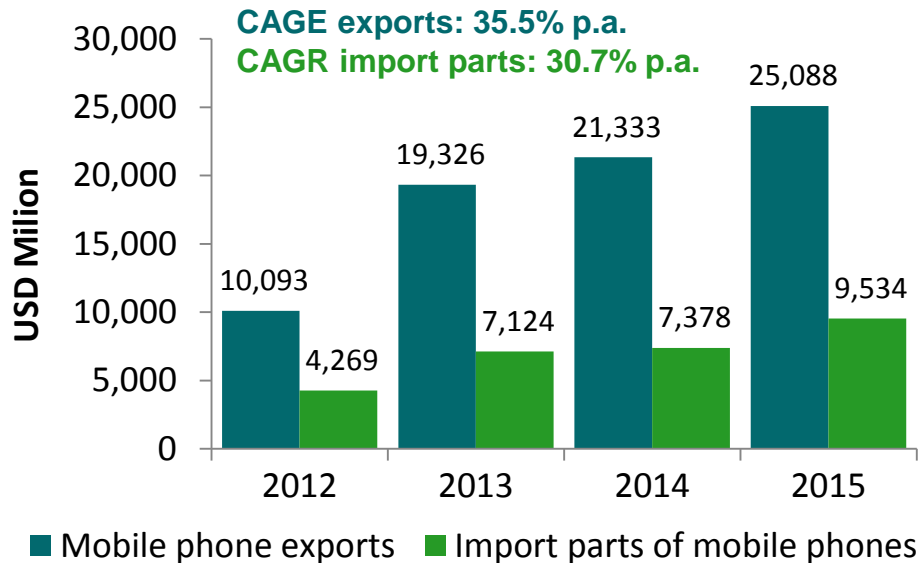
to supply higher demand for plastic construction products, including:

- **HDPE and PP for interior items,** i.e., blinds and shutter, windows, doors
- **PVC for exterior items,** i.e., rain gutters, cable trunking.

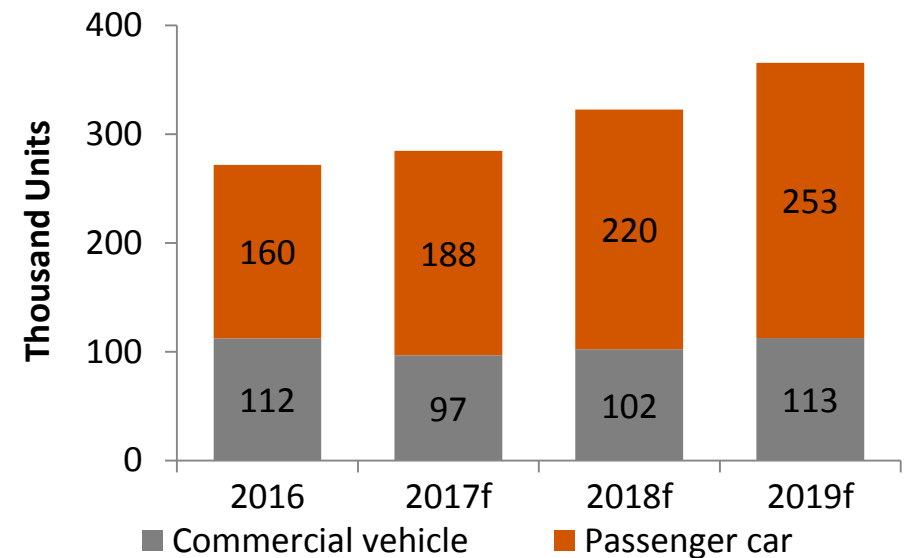
Overview of Plastic Technical Demand

Technical sectors include an assemblage of automobile, motorcycle and electronic devices. The plastic production volume for these sectors takes up 20% of the total production and is mainly used domestically.

Exports of mobile phones & import of mobile phone parts



Sales of passenger cars and commercial vehicles



Strong growth in exports of E&E:

It would continue to support E&E production in the future. The need for plastic components of mobile phones should also increase.

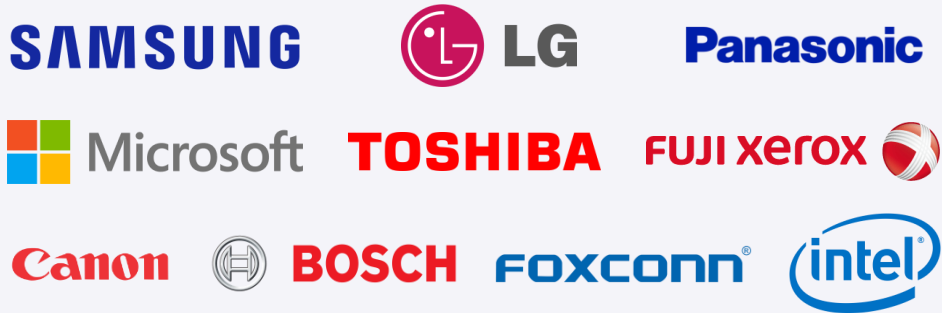
Strong growth in sales of vehicles :

Vietnam has 10.4% p.a. growth in sales of vehicles (CAGR, 2016-2019). This positive trend would require supporting industries that could serve both OEM and REM segment.

Opportunities: Plastic for Technical Sectors

Given a positive outlook for both E&E and automotive industries, there are investment opportunities for foreign investors, including Thais, to set up production base of supporting activities in Vietnam.

E&E MNEs' production based in Vietnam



Automotive assembly based in Vietnam



Investment Opportunities

Plastic technical Products

E&E Products
e.g. television, PC, Printer plastic IC, DVDs, CDs

Automotive Parts
e.g. pressure pipes, automotive replacement, interior (door)

Intermediate Goods Required

- Polypropylene (PP)
- Polyethylene (PE)
- Polyethylene Terephthalate (PET)
- Acrylonitrile butadiene styrene (ABS)
- Polystyrene (PS)



Challenges

- Lack of *highly skilled labor* in Vietnam
- *High competition* due to relatively low number of plastic manufacturers
- Limited automotive *production capacity*



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Potential Industry Needs for Plastic Intermediate Goods

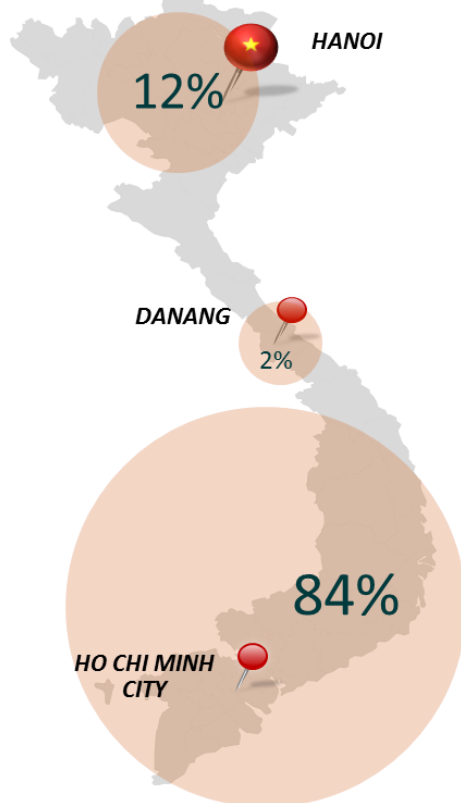
Summary & Recommendations

KASIKORNBANK Support

Plastic Investment Clusters

Vietnam’s plastic pellets production for Polypropylene (PP) and Polyethylene (PE) are clustered in Southern region, which makes it an optimal location for investment.

Locations of Vietnam’s Plastic Business Supply Chain Cluster By Geography’s Proportion



- Current local capacity of plastic raw materials is around **900,000** tons; while Vietnam plastic industry needs around **3.5 million** tons of raw materials.
- The demand for PP, PE tends to increase in the future due to growing investment in the construction and electronic & electrical (E&E) sectors.

A number of plastic businesses operate in Southern Vietnam, which is the main location of refineries.

The first petrochemicals complex in Vietnam, Long Son Petrochemicals is also located in the south. This complex is expected to start operations in 2022.

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SWOT for Investment in Vietnam's Plastic Components

S trength

- Room to fulfill Vietnam's limited local supply of plastic raw materials as domestic production capacity is below the demand
- Attractive Investment incentives and trade privileges granted by advanced countries
- Self-sufficiency in plastic raw materials, Vietnam has massive oil and gas resources which are key components for plastic production.

W eakness

- Lack of skilled labor to operate intermediate-upstream businesses
- High logistic cost due to underdeveloped infrastructure

O pportunity

Investment and trade opportunities for Thai manufacturers are present in plastic's intermediate goods for:

- Food & Beverage
- Construction
- Automotive
- E&E industries

T hreat

- Uncontrollable factors such as global commodity prices and foreign exchange
- Changes in Tax structures such as the environmental protection tax rate that tends to increase, the import duty of PP resin rising from 1% in January 2017 to 3%



Agenda

Overview of Vietnam's Supporting Industries

Potential Industry Needs for Plastic Intermediate Goods

Summary & Recommendations

KASIKORNBANK Support

KASIKORNBANK – AEC+3 Regional Support

-  27 Japanese Partner Banks
-  1 M & A Specialist Bank
-  7 Public Organizations
-  6 Partner Banks
-  2 Partner Banks
-  7 Partner Banks

KASIKORNBANK in AEC

-  Lao PDR
-  Cambodia
-  Branches
-  Myanmar
-  Vietnam (HC&HN)
-  Indonesia
-  Rep Office



AEC+3 presence to support client's regional expansion

AEC+3

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 - Financial Advisory
 - Border Trade
 - Financing
- Regional Support**
 - Overseas branches in China, Lao PDR, Cambodia;
 - Representative offices in Myanmar, Vietnam, Indonesia and Japan
- Non-Financial Services**
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The image shows the cover of the 'Thailand Investment Guide 2017'. The background is a cityscape of Bangkok. The text 'Thailand Investment Guide 2017' is prominently displayed in the center. To the right, there is a list of information included and benefits for members.

Thailand Investment Guide 2017

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