

# **VIETNAM**

## **FREIGHT TRANSPORT REPORT**

INCLUDES BMI'S FORECASTS





# VIETNAM FREIGHT TRANSPORT REPORT Q2 2011

INCLUDES 5-YEAR FORECASTS TO 2015

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## Part of BMI's Industry Survey & Forecasts Series

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## Executive Summary

Foreign interest in Vietnam's transport infrastructure is growing; international investors realise the growth potential in a market where trade volumes are expanding beyond the capabilities of a logistics sector stunted by years of underinvestment. There are plans to open four new container terminals in the Ho Chi Minh port area alone between 2011 and 2013. Growing international interest in Vietnam is reflected in our macroeconomic forecasts; Vietnam's real GDP growth came in at a better-than-expected 7.4% year-on-year (y-o-y) in Q310, supported by robust growth in the construction and manufacturing sectors. The latest figures remain in line with our view that private consumption and infrastructure investments would continue to drive economic growth. Our real GDP forecast for 2011 remains at 5.6% in anticipation of a slowdown in external demand.

### Headline Industry Data

- Air freight tonnes + 5.25% to 147.91 from 140.54 in 2010
- Air freight tonnes/ km + 4.88% to 327.73 from 312.48 in 2010
- Port of Ho Chi Minh tonnage + 7.45% to 21,843.71 from 20,329.57 in 2010
- Port of Da Nang tonnage +2.76% to 3,292.86% from 3,204.35 in 2010
- Road freight tonnes/km + 6.88% to 30,186.26 from 28,242.09 in 2010
- Inland waterway freight/km +4.53% to 27,365.02 from 26,179.87 in 2010.

### Key Industry Trends

#### Multimodal/ Logistics

*China's SITC To Build Logistics Park In Vietnam, Reflecting Growing International Interest*

**BMI** believes that **SITC International Holdings Company** (SITC)'s plans to build and operate a logistics park in Haiphong's Dinh Vu Port is a further indication of growing international interest in Vietnam, as it becomes a significant export nation. The agreement announced in November will see **SITC International**, through its wholly owned subsidiary **SITC Shipping Asia PTE**, establish a joint venture (JV) named **SITC-Dinh Logistics Co with Dinh Vu Port Development and Investment Joint Stock Company** in Haiphong. The JV company will carry out logistics between Vietnam and neighbouring Asian countries.

#### Rail

*Vietnam Looks to China to Improve Intra-Asia Rail Links*

**BMI** expects Asian rail freight infrastructure to come under the spotlight in the coming years as intra-Asia trade grows. We have previously reported on the explosion of international interest in intra-Asia

shipping routes. We are now noting a trend of growing Chinese investment in rail links in the region as it seeks to improve trade links with the ASEAN countries. Vietnam's Minister of Transport Ho Nghia Dung has confirmed plans to create a partnership with the Chinese government to upgrade the existing main lines between Hanoi, Hai Phong and the Chinese border crossings at Lao Cai and Dong Dang by 2020.

## **Road**

### *New Trucking Service To Capitalise On Intra-Asia Trade*

**APL Logistics** has launched a new containerised cross-border trucking service, which will cater for customers between Phnom Penh in Cambodia and Cai Mep Port in Vietnam. The new service provides shippers with a later cut-off time at a container freight station in Phnom Penh. The service is designed to cater for shippers when production runs unexpectedly late. This will also reduce transit time between the two destinations. The company introduced the service as Cai Mep emerges as a significant gateway for growing trade through Vietnam.

## **Maritime**

### *International Lines Increase Calls as Vietnam Becomes Export Centre*

**BMI** continues to single out Vietnam as an outperformer in the sector as its role grows in the global box shipping sector. The country is set to benefit from direct links with the US and Europe, and in **BMI's** opinion will become a focal point for many lines' expansion into intra-Asia trade routes.

In November 2010 **CMA CGM** became the latest global shipping line to add Vietnam as a direct port of call to its Asia-Europe services. The French carrier added the Vietnamese port of Cai Mep to its French-Asia Line 3 (FAL3).

## **Risks To Outlook**

The main risk to our outlook is on the downside. Further investment is needed to ensure that Vietnamese ports can handle an expected increase in traffic. If that is not forthcoming, Vietnamese ports will become congested and will lose business to better prepared neighbours due to lack of capacity. As Vietnam's role in the box shipping sector increases, more pressure will be placed on the country's port infrastructure. Vietnam is attracting investment into its port sector with four new container terminals planned to be launched between 2011 and 2013 in the Ho Chi Minh port area alone. However, **BMI** fears that this will not be enough, and that although port-side investment is flooding in, money is also needed further up the logistics supply chain for the country's road and rail sectors.

Further downside risk comes from the possibility of a slowdown in China. As mentioned, China is funding much of the infrastructure development in Vietnam. Any decline here will directly impact Vietnam's freight transport sector. A slowdown in external demand for Vietnamese exports presents a similar downside risk.

## SWOT Analysis

### Vietnam Freight Transport SWOT

- Strengths**
- Vietnam's strong domestic growth rate coupled with its geography: a long country stretching for thousands of kilometres on a north-south axis creates a need for long-distance freight haulage.
  - Recovery of the nation's ports in 2010 is expected to continue over the mid-term.
  - Vietnam's location on the South China Sea gives the country access to the main inter-Asian shipping routes, as well as access to the developing land transport links with ASEAN countries, allowing the country scope to develop its trade logistics.
- Weaknesses**
- The generally poor state of the road network. Despite new highway construction, only 13.5% of the road network is considered to be in good condition, only 26% has two or more lanes and only 29% is tarred.
  - Traditionally low investment in rail; although attempts are being made to rectify this, the potential of rail for cost-effective bulk freight is being under-utilised.
  - Decades of under-investment have left the country with a port infrastructure system that is poor by international standards.
- Opportunities**
- The beginnings of local commercial vehicle production, which will help improve the stock of lorries used by road haulage companies.
  - Chinese investment could bring about much needed improvements in the rail sector.
  - Growing international interest in Vietnam as a growth market within the box shipping sector.
- Threats**
- Vietnam risks losing out to neighbouring countries if it can't develop its infrastructure to keep up with the pace of demand.
  - Vietnam is vulnerable to any slowdown in Chinese investment.
  - A drop in international demand for exports would negatively effect Vietnam's freight transport sector.

### Vietnam Political SWOT

- Strengths**
- The Communist Party government appears committed to market-oriented reforms, although specific economic policies will undoubtedly be discussed at the 2011 National Congress. The one-party system is generally conducive to short-term political stability.
  - Relations with the US are generally improving, and Washington sees Hanoi as a potential geopolitical ally in South East Asia.
- Weaknesses**
- Corruption among government officials poses a major threat to the legitimacy of the ruling Communist Party.
  - There is increasing (albeit still limited) public dissatisfaction with the leadership's tight control over political dissent.
- Opportunities**
- The government recognises the threat that corruption poses to its legitimacy, and has acted to clamp down on graft among party officials.
  - Vietnam has allowed legislators to become more vocal in criticising government policies. This is opening up opportunities for more checks and balances within the one-party system.

- Threats**
- The slowdown in growth in 2009 and 2010 is likely to weigh on public acceptance of the one-party system, and street demonstrations to protest economic conditions could develop into a full-on challenge of undemocratic rule.
  - Although strong domestic control will ensure little change to Vietnam's political scene in the next few years, over the longer term, the one-party-state will probably be unsustainable.
  - Relations with China have deteriorated over the past year due to Beijing's more assertive stance over disputed islands in the South China Sea and domestic criticism of a large Chinese investment into a bauxite mining project in the central highlands, which could potentially cause widescale environmental damage.

#### Vietnam Economic SWOT

- Strengths**
- Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 7.6% annually between 2000 and 2009.
  - The economic boom has lifted many Vietnamese out of poverty, with the official poverty rate in the country falling from 58% in 1993 to 20% in 2004.
- Weaknesses**
- Vietnam still suffers from substantial trade, current account and fiscal deficits, leaving the economy vulnerable as the global economy continues to suffer in 2010. The fiscal picture is clouded by considerable 'off-the-books' spending.
  - The heavily-managed and weak dong reduces incentives to improve quality of exports, and keeps import costs high, thus contributing to inflationary pressures.
- Opportunities**
- WTO membership has given Vietnam access to both foreign markets and capital, while making Vietnamese enterprises stronger through increased competition.
  - The government will in spite of the current macroeconomic woes, continue to move forward with market reforms, including privatisation of state-owned enterprises, and liberalising the banking sector.
  - Urbanisation will continue to be a long-term growth driver. The UN forecasts the urban population to rise from 29% of the population to more than 50% by the early 2040s.
- Threats**
- Inflation and deficit concerns have caused some investors to re-assess their hitherto upbeat view of Vietnam. If the government focuses too much on stimulating growth and fails to root out inflationary pressure, it risks prolonging macroeconomic instability, which could lead to a potential crisis.
  - Prolonged macroeconomic instability could prompt the authorities to put reforms on hold, as they struggle to stabilise the economy.

#### Vietnam Business Environment SWOT

- Strengths**
- Vietnam has a large, skilled and low-cost workforce, that has made the country attractive to foreign investors.
  - Vietnam's location - its proximity to China and South East Asia, and its good sea links - makes it a good base for foreign companies to export to the rest of Asia, and beyond.
- Weaknesses**
- Vietnam's infrastructure is still weak. Roads, railways and ports are inadequate to cope with the country's economic growth and links with the outside world.
  - Vietnam remains one of the world's most corrupt countries. Its score in Transparency International's 2009 Corruption Perceptions Index was 2.7, placing it in 22nd place in the Asia-Pacific region.



- Opportunities**
- Vietnam is increasingly attracting investment from key Asian economies, such as Japan, South Korea and Taiwan. This offers the possibility of the transfer of high-tech skills and knowhow.
  - Vietnam is pressing ahead with the privatisation of state-owned enterprises and the liberalisation of the banking sector. This should offer foreign investors new entry points.
- Threats**
- Ongoing trade disputes with the US, and the general threat of American protectionism, which will remain a concern.
  - Labour unrest remains a lingering threat. A failure by the authorities to boost skills levels could leave Vietnam a second-rate economy for an indefinite period.

## Market Overview

In January 2007 Vietnam officially joined the WTO, an event seen as an important milestone in the country's closer integration into the global economy. WTO membership has helped boost Vietnam's international trade and develop its freight transport capabilities.

Road transport is the most advanced in terms of freight sector privatisation and is the dominant mode for freight, with a market share of around 60% of domestic cargo. There are over 1,050 enterprises registered in the road transport business, which include 16 state-owned enterprises (SOEs), 233 limited liability companies, 350 private companies and 450 joint stock companies. Very few foreign-invested companies are present.

Most road transport companies are of small or medium size, and each company, on average, owns about 50 vehicles. In addition, tens of thousands of individual household businesses exist that operate informally in the road freight sector, and are thus difficult to account for and monitor.

Vietnam has a national road network of 222,179km. Of this, only 42,167km, or 19%, is paved. In addition, recent surveys indicate that approximately 40% of the network is in poor to very poor condition and will require substantial investment even to reach a maintainable condition. The quality of Vietnam's road infrastructure was judged by the World Economic Forum (WEF) to be poor and was ranked 102 out of 133 nations surveyed in the WEF 2010 Global Competitiveness Report.

Vietnam's railway transport sector has only one operator, the **Vietnam Railway Corporation (VRC)**, established in April 2003 as a state corporation operating railway transport and related services. The government has announced plans to separate the management of rail infrastructure from passenger and cargo services. Vietnam's rail network totals 2,600km (excluding sidings). The network is mixed-gauge, comprising 2,169km of 1.000m gauge and 178km of 1.435m gauge. The network has 1,790 bridges totalling 45km and 11.5km of tunnels. The principal axis is Hanoi-Ho Chi Minh City (1,726km). Other lines emanating from Hanoi are to Hai Phong (102km), Lao Cai (296km) and Dong Dang (162km). Railway infrastructure in Vietnam was ranked 58 out of 114 by the WEF.

There are two principal airlines operating in Vietnam: **Vietnam Airlines** and **Pacific Airlines**. Both are majority state owned, although Australia's **Qantas** is now a minority shareholder in Pacific Airlines. The government has announced plans to build the country's largest airport at Long Thanh in the southern province of Dong Nai, at an estimated cost of US\$8bn. The authorities also plan to expand Noi Bai International airport in Hanoi. The three major airports handling freight are located at Ho Chi Minh City, Hanoi and Da Nang, each of which have international connecting flights. Minor airports such as Cat Bi at Haiphong are generally used for domestic flights to the three larger hubs. In 2010, Vietnam's air transport infrastructure was ranked 84/ 133 nations by the WEF.

Vietnam's dense river and canal network provides the country with a highly developed inland waterway system. This is the second-largest sub-sector involved in domestic cargo transport, accounting for 25-30% of total transport volumes. The inland waterway transport sub-sector is managed by two state corporations affiliated to the Ministry of Transport, one SOE affiliated to the Vietnam Inland Waterway Authority, and some enterprises managed by other ministries, operating in support of the power generation, cement and paper industries. In addition, there are about 230 co-operatives and hundreds of inland waterway transport enterprises in the country.

Vietnam's seaport network comprises of many small- and medium-sized entities, with inefficient distribution. Most big ports are located far inside rivers, like Hai Phong and Ho Chi Minh City, with limited depth at the entrance. Some ports are located in big cities, thus making it difficult to connect with other modes of transport for cargo transfer to and from ports, due to traffic congestion. Except for several new or upgraded ports, most have been operating for many years and lack investment and are seriously degraded.

The loading and unloading equipment in some ports is obsolete, leading to low productivity. The average productivity of a Vietnamese port is only 2,500 tonnes/m per wharf, or 40-50% of productivity of other ports in the region.

Vietnam's port infrastructure is poor by international standards. The World Economic Forum's 2010 Global Competitiveness Report gives it a score of 3.56, putting it just ahead of the regional underperformer, the Philippines, which scores 2.92, and well behind regional leaders Singapore and Hong Kong. Increasing international interest in Vietnam's port sector on the back of growing intra-Asia trade should help to close the gaps in infrastructure investment.

## Industry Trends And Developments

### Multimodal And Logistics

*China's SITC To Build Logistics Park In Vietnam, Reflecting Growing International Interest*

**BMI** believes that plans by **SITC International Holdings Company** (SITC) to build and operate a logistics park in Haiphong's Dinh Vu Port is a further indication of growing international interest in Vietnam, as it becomes a significant export nation.

The agreement announced in November will see SITC International, through its wholly owned subsidiary **SITC Shipping Asia PTE**, establish a joint venture (JV), named **SITC-Dinh Logistics Co**, with **Dinh Vu Port Development and Investment Joint Stock Company** in Haiphong. The joint venture company will carry out logistics between Vietnam and neighbouring Asian countries, covering door-to-door services that include shipping agency, multimodal transport, trucking, container freight stationing, warehousing, forwarding, container repair and customer declaration services.

The JV will lease a 30,000 square metre (sq m) container yard in Dinh Vu Port on which it will build and operate logistics park facilities for a total investment of US\$2mn. SITC International will contribute 49% and Dinh Vu Port 51% to the JV company. SITC International plans to replicate its existing Qingdao Logistics Park at Dinh Vu, creating a 'customer-oriented integrated logistics park' near port, highway and rail facilities as well as enhancing sea, land and airfreight services and distribution and delivery.

**BMI** notes that the plan forms part of a wider move by SITC to expand its operations in Association of Southeast Asian Nations (ASEAN) countries. SITC International chairman and executive director, Yang Shaopeng, said: 'We are positive about the trade among ASEAN countries and will expand our container shipping network to cover more ports in ASEAN countries including Vietnam, Thailand and Indonesia. Establishing ancillary land-based logistics services nearby these ports comes as part of our strategy.'

### Rail

*Vietnam Looks to China to Improve Intra-Asia Rail Links*

**BMI** expects Asian rail freight infrastructure to come under the spotlight in the coming years as intra-Asia trade grows. We have previously reported on the explosion of international interest in intra-Asia shipping routes. We are now noting a trend of growing Chinese investment in rail links in the region as it seeks to improve trade links with the ASEAN countries. Vietnam's Minister of Transport Ho Nghia Dung has confirmed plans to create a partnership with the Chinese government to upgrade the existing main lines between Hanoi, Hai Phong and the Chinese border crossings at Lao Cai and Dong Dang by 2020.

Speaking at a conference hosted by state railway company DSVN, the minister said the routes were important freight corridors but the poor quality of track and signalling is limiting capacity. The Vietnamese and Chinese governments have created a partnership to plan electrification and double-

tracking to provide an operational 1,435 mm-gauge route from the Chinese border points to Hanoi. Currently the Dong Dang line is mixed gauge, while the Lao Cai line is one metre gauge.

This is the latest in a series of Chinese initiatives to improve rail links with other Asia countries. China has already announced plans to construct rail links between Kunming, the regional capital of Yunnan province, and Laos and Myanmar. Chinese contractors have completed an update of a 2005 feasibility study for a 257km line between Phnom Penh in Cambodia and Loc Ninh in Vietnam. China has reportedly offered US\$600mn to fund its construction by 2015.

**BMI** believes the push to increase intra-Asia transport links over the past 12 months has a lot to do with the projected increase in trade in the region on the back of a free-trade agreement (FTA) signed between China and the founding ASEAN nations in January 2010. The FTA has eliminated tariffs on 90% of goods traded between the countries and China. A reduction in import tariffs between China and the ASEAN boosted trade between the two by 47% to US\$185bn within the first eight months of 2010.

China's commitment to improving rail links with Vietnam is good news for the country's underfunded freight transport sector. We have previously highlighted the considerable gaps in funding in Vietnam's infrastructure. The country's rapid economic growth has far outpaced its infrastructure, creating major bottlenecks in ports and a constraint on export led-growth and investment.

## Road

### *New Trucking Service To Capitalise On Intra-Asia Trade*

**APL Logistics** has launched a new containerised cross-border trucking service, which will cater for customers between Phnom Penh in Cambodia and Cai Mep Port in Vietnam. The new service provides shippers with a later cut-off time at a container freight station in Phnom Penh. The service is designed to cater for shippers when production runs unexpectedly late. This will also reduce transit time between the two destinations. The company introduced the service as Cai Mep is emerging as a significant gateway for growing trade through Vietnam.

## Maritime

### *International Lines Increase Calls as Vietnam Becomes Export Centre*

**BMI** continues to single out Vietnam as an outperformer in the sector as its role grows in the global box shipping sector. The country is set to benefit from direct links with the US and Europe, and in **BMI's** opinion will become a focal point for many lines' expansion into intra-Asia trade routes.

In November 2010 **CMA CGM** became the latest global shipping line to add Vietnam as a direct port of call to its Asia-Europe services. The French carrier added the Vietnamese port of Cai Mep to its French-Asia Line 3 (FAL3). The 70-day service offers calls at the Asian ports of Qingdao, Ningbo, Chiwan, Nansha, Yantian and Kelang, and will link Vietnam with the major European ports of Malta, Le Havre, Dunkirk, Zeebrugge, Hamburg, Rotterdam and Southampton.

CMA CGM's FAL3 service will become the carrier's only service offering a direct link between Vietnam and European ports. Although it might be the company's only service to offer this, CMA CGM is displaying its confidence in Europe's demand for Vietnamese goods by operating 10 8,500-9,500 20-foot equivalent unit (TEU) vessels on this service, the largest vessels to have pulled into the new deepwater port of Cai Mep.

Japan's **Nippon Yusen Kaisha** (NYK Line) is also cementing its role in Vietnam's maritime sector with a new route linking the country with ports in Thailand and Singapore. NYK Line has joined forces with Vietnam's box carrier **Vinalines Container Shipping Company** (VCSC) and was due to launch a Thailand-Vietnam-Singapore (TVS) service on December 21 2010.

**BMI** notes that this is not the first time NYK and Vinalines have paired up on a Vietnam project. The two carriers, along with **Mitsui OSK Line** (MOL) and the **Itochu Corporation**, got the go-ahead in September 2010 to develop two wharves at the Vietnamese port of Haiphong. NYK is also developing a new container terminal at Cai Mep in conjunction with **Hanjin Shipping** and **Wan Hai**, reflecting Japan's increasing interest in Vietnam.

In November 2010 **United Arab Shipping Company** (UASC) and the container arm of the **China Ocean Shipping Company** (COSCON) became the latest box lines to begin calling at **DP World's** Vietnamese operation, the Saigon Premier Container Terminal (SCPT). The terminal has been attracting many of the major container lines leading **BMI** to increase its forecast for total throughput at the port. The terminal only opened in October 2009, but since then has attracted a number of customers, with UASC and COSCON joining France's CMA CGM, Malaysia's **MISC Berhad** and Japan's NYK Line in making calls at the facility.

Although UASC and COSCON's calls at SCPT are not part of the current big-money services, they show the further development of the intra-Asia trade route. UASC's SEA3 service is a weekly shuttle between the facility and the Malaysian port of Port Klang. SCPT has been added to one of COSCON's intra-Asia services, SCS, which also calls at the Chinese ports of Nansha and Shekou, the ports of Hong Kong and Singapore, and the Indonesian ports of Surabaya and Jakarta.

#### *Terminal Operators Race To Cash In On Vietnam*

**BMI** has noted a trend of international companies developing facilities at Vietnamese ports, indicating growing international interest in Vietnam, as it becomes a significant export nation. Plans by SITC International Holdings Company (SITC) to build and operate a logistics park in Haiphong's Dinh Vu Port are a further reflection of this view.

Further international interest in Vietnam came from Seattle-based **Carrix**, the world's largest privately held rail and marine terminal operator, which plans to build a new container terminal in Quang Ninh province. The move reflects **BMI's** belief that US trade with Vietnam will continue to grow as the country develops into a major export nation.

Cai Lan International Container Terminal, (CICT) a joint venture between Carrix and the Vietnamese company **Cai Lan Port Investment Joint Stock Company**, has secured a US\$100mn loan agreement with a consortium of lenders to build a deepwater container terminal in Northern Vietnam. CICT will have a draft of 10m and 598m of berth, enabling it to receive ships of up to 4,000 TEU. Phase One capacity will be 510,000 TEU a year, and when completed the terminal will be able to handle 1.2mn TEU a year. Construction will be completed next year.

*Infrastructure Failings Jeopardise Vietnam Ports Boom*

Despite these positive developments, **BMI** cautions that further investment is needed to ensure that Vietnamese ports can handle an expected increase in traffic. As Vietnam's role in the box shipping sector increases, more pressure will be placed on the country's port infrastructure. Vietnam is attracting investment in its port sector with four new container terminals planned to be launched between 2011 and 2013 in the Ho Chi Minh port area alone. However, **BMI** fears that this will not be enough, and that although port-side investment is flooding in, money is also needed further up the logistics supply chain for the country's road and rail sectors.

## Global Oil Products Price Outlook

### Blood On The Forecourts

Once again, severe winter weather conditions have been a mixed blessing for the oil markets. Sentiment benefited, as did the price of heating oil, as businesses and consumers struggled to ensure supply. On the flip side, however, there were major disruptions to fuel movements and demand. Overall oil consumption during the winter months is unlikely to have benefited significantly from the unusually low temperatures and the positive pricing effect will prove temporary. However, the strength of underlying crude prices means that all refined products are priced at uncomfortable levels, which poses a threat to consumption.

**Table: Oil Product Price Assumptions, Q410-Q411 (US\$/bbl)**

<b>Gasoline</b>	<b>Q410</b>	<b>Q111e</b>	<b>Q211f</b>	<b>Q311f</b>	<b>Q411f</b>
Rotterdam Premium Unleaded	94.61	97.89	89.69	86.06	94.14
NY Harbour Unleaded	94.65	96.79	87.63	84.47	94.18
Singapore Premium Unleaded	95	98.75	87.95	84.25	94.53
Global average	94.75	97.81	88.42	84.93	94.28
<b>Jet/kerosene</b>					
Rotterdam	99.72	97.68	91.35	90.2	99.23
NY Harbour	99.97	99.16	90.89	90.38	99.47
Singapore	98.57	96.46	90.35	88.61	98.08
Global average	99.42	97.76	90.87	89.73	98.93
<b>Gasoil</b>					
Rotterdam	97.45	95.04	89.56	88.45	96.97
Mediterranean	97.46	95.19	89.77	88.42	96.98
Singapore	97.33	96.27	89.94	88.13	96.85
Global average	97.41	95.5	89.76	88.33	96.93
<b>Naphtha</b>					
Rotterdam	87.6	87.86	76.86	74.07	87.16
Mediterranean	87.71	87.38	76.7	73.68	87.27
Singapore	88.02	88.42	78.08	73.67	87.58
Global average	87.78	87.89	77.21	73.8	87.34

e/f = estimate/forecast. Source: BMI

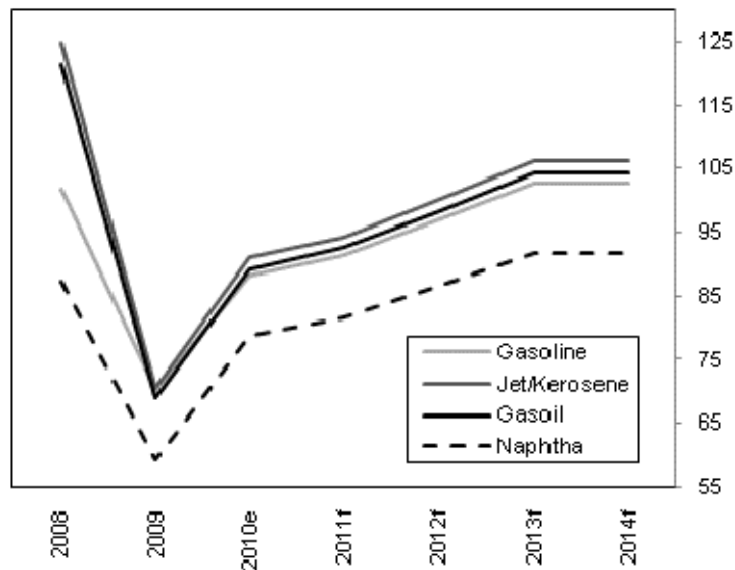


In December 2010 International Energy Agency (IEA) region end-user prices rose by 3.6% in US dollar terms (excluding tax), with gasoline up 3.5% and diesel prices 2.9% higher. Heating oil and low-sulphur fuel oil increased by 4.6% and 3.5%, respectively. Compared with December 2009 average price levels in surveyed IEA-member countries saw a 15.9% year-on-year (y-o-y) increase. The big price gains were automotive diesel (20.3%) and heating oil (19.5%). Canada saw gasoline prices rise by a steep 25.8% y-o-y, while the British heating oil price increased by 33.9%.

It is becoming evident that consumers are reducing fuel purchases as a reaction to record pump prices. The return of cold weather will no doubt maintain support for heating oil, but automotive diesel and gasoline sales will continue to struggle. As in the summer of 2008, prices have reached a level where so-called 'demand destruction' becomes a major factor. It can be seen that the US and European markets were changed permanently by the last period of record pump prices. Should we have a prolonged period of pump price strength, there will be blood on the forecourts as consumers reduce journey times and the move towards more efficient vehicles accelerates.

### Uncomfortable Levels

Oil Product Price Data And Forecasts, 2008-2014 (US\$/bbl)



*e/f = estimate/forecast. Source: International Energy Agency, BMI forecasts*

In Britain and indeed in Europe motor vehicle fuel economy is improving by 3-4% a year, with an obvious knock-on effect in terms of gasoline and diesel use. With the US planning higher standards for car fuel efficiency, gasoline producers in developed markets will continue to have a hard time, with most new growth in fuels demand coming from the non-OECD world. Even here, however, reductions in fuel subsidies and price liberalisation could mean that higher pump prices have a negative impact on demand trends at a critical time for the oil market.

US gasoline consumption in 2010 was a disappointment, and there is no reason to expect anything better in 2011. Even the Energy Information Administration (EIA) sees a likely increase in US fuels consumption of no more than 160,000b/d (0.8%), followed by 170,000b/d growth in 2012. Consumption continues to be dominated by gasoline, where price sensitivity is at its greatest. In 2008 US gasoline demand fell 2.6% y-o-y thanks to the higher cost of the fuel during the summer months. It will take very little to trigger a similar outcome in 2011. Given that throughout the OECD it was much the same story in 2008, demand projections for 2011 look particularly vulnerable in a high-price environment.

At present the EIA forecasts an increase in regular-grade gasoline retail prices from US\$2.78 per gallon in 2010 to US\$3.17 in 2011 (+14%). On-highway diesel fuel retail prices, which averaged US\$2.99/gallon in 2010, are predicted to be US\$3.40 in 2011. Not only is the crude price effect reflected in these price projections, but the US body expects wider gasoline and distillate refining margins to contribute to higher retail prices. The EIA warns that there is an 8-10% risk of summer 2011 gasoline pump prices exceeding US\$4.00/gallon.

#### **Revised Forecasts**

In Q410 **BMI** estimates that the global wholesale price for premium unleaded gasoline was US\$94.75/bbl. This compares with US\$83.16 in Q310. Gasoline prices in Q410 were up 16.4% from US\$81.41 in Q409. For the whole of 2010 the **BMI** calculation for gasoline is an average US\$88.36/bbl. The overall y-o-y rise in 2010 gasoline prices is put at 25.9%.

For Q111 we assume a global unleaded price of US\$97.81/bbl, up 3.2% from Q410 and a y-o-y rise of 11.6%. The full year 2011 wholesale gasoline price forecast is US\$91.36/bbl, up 3.4% y-o-y.

In Q410 gasoil averaged US\$97.41/bbl, based on a **BMI**-calculated composite global price. This was a y-o-y rise of 19.8%. For 2010 as a whole **BMI** calculations suggest an average price of US\$89.32/bbl, peaking in December 2010 at more than US\$101/bbl. The full-year outturn is a 29.5% y-o-y increase. It can be seen that gasoil outperformed gasoline in price terms, as economic recovery stimulated demand.

For Q111 we assume a global gasoil price of US\$95.50/bbl, representing a downturn from the Q410 level as weather factors subside, but a y-o-y rise of 13.5%. The full year 2011 wholesale gasoil price forecast is US\$92.63/bbl, up 3.7% y-o-y.

Jet prices averaged an estimated US\$99.42/bbl in Q410, using the composite for New York, Singapore and Rotterdam. The y-o-y increase was just over 19%, with jet almost matching the gain in gasoil prices. Quarter-on-quarter (q-o-q) the increase was 13.2%. For 2010 as a whole the level is believed to have been US\$91.00/bbl. This compares with US\$70.66/bbl in 2009 (+28.8%).

For Q111 we assume a global wholesale jet price of US\$97.76/bbl, again representing a slight downturn from the Q4 level, but a y-o-y rise of 13.2%. The full year 2011 wholesale jet price forecast is US\$94.32/bbl, or a y-o-y increase of 3.6%.

**Table: Oil Product Price Data And Forecasts, 2008-2015 (US\$/bbl)**

<b>Gasoline</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	<b>2015f</b>
Rotterdam Premium Unleaded	100.12	70.6	88.96	91.94	97.69	103.44	103.44	103.44
NY Harbour Unleaded	102.54	69.7	87.77	90.77	96.44	102.11	102.11	102.11
Singapore Premium Unleaded	102.64	70.21	88.36	91.37	97.08	102.79	102.79	102.79
Global average	101.77	70.17	88.36	91.36	97.07	102.78	102.78	102.78
<b>Jet/kerosene</b>								
Rotterdam	126.61	70.81	91.22	94.61	100.53	106.44	106.44	106.44
NY Harbour	127.13	71.18	91.69	94.98	100.91	106.85	106.85	106.85
Singapore	121.11	69.99	90.1	93.37	99.21	105.05	105.05	105.05
Global average	124.95	70.66	91	94.32	100.22	106.11	106.11	106.11
<b>Gasoil</b>								
Rotterdam	122.62	68.74	89.23	92.5	98.29	104.07	104.07	104.07
Mediterranean	121.75	69.13	89.28	92.59	98.38	104.17	104.17	104.17
Singapore	119.53	69.01	89.46	92.8	98.6	104.4	104.4	104.4
Global average	121.3	68.96	89.32	92.63	98.42	104.21	104.21	104.21
<b>Naphtha</b>								
Rotterdam	87.31	58.76	78.71	81.49	86.58	91.67	91.67	91.67
Mediterranean	86.2	58.38	78.43	81.26	86.34	91.42	91.42	91.42
Singapore	88.7	60.75	79.23	81.94	87.06	92.18	92.18	92.18
Global average	87.4	59.3	78.79	81.56	86.66	91.76	91.76	91.76

*e/f = estimate/forecast. Source: 2000-2006 data: Energy Information Administration; 2007-2010 data: International Energy Agency; forecasts: BMI*

In Q410 naphtha averaged US\$87.78/bbl on an estimated global basis, compared with US\$72.27/bbl in Q310 and US\$73.44 in Q409. We put the 2010 average naphtha price at US\$78.79/bbl, up almost 33% y-o-y. Thanks to the growth of petrochemicals demand in Asia, naphtha was once again the star performer in 2010, having also beaten the other key products in 2009.

For Q111 we assume a global wholesale naphtha price of US\$87.89/bbl, virtually unchanged from Q410, but a y-o-y rise of 12.2%. The full year 2011 wholesale naphtha price forecast is US\$81.56/bbl, up 3.5% y-o-y.

Looking further ahead, we see gasoline prices rising to US\$97.07/bbl in 2012, and stabilising around US\$102.78/bbl from 2013. Gasoil is expected to climb to US\$98.42 in 2012, reaching a plateau of just over US\$104 from 2013. The price of jet is forecast to average US\$100.22/bbl in 2012 before levelling

out at just over US\$106 from 2013. For naphtha the 2012 estimate is US\$86.66, rising to a plateau of almost US\$91.80 from 2013.

# Industry Forecast

## Macroeconomic Outlook

Going into Q211 we maintain our belief that Vietnamese macroeconomic growth will be driven primarily by domestic consumption and infrastructure investment. Vietnam's real GDP growth came in at a better-than-expected 7.4% year-on-year (y-o-y) in Q310, supported by robust growth in the construction and manufacturing sectors. However, although the government has announced that it is maintaining its aggressive growth target of 7.0-7.5% for 2011, we believe that global economic headwinds coming into play will have a negative impact on investor sentiment and Vietnamese exports. Our real GDP forecast for 2011 remains at 5.6% in anticipation of a slowdown in external demand.

## Road Freight

### Road Freight Keeps On Truckin'

Road building and road usage are both expanding strongly. In 2011 we see a relatively strong growth rate of 6.9% to 30.19mn tonnes per kilometre (tkm). Thereafter road freight growth will continue to gather pace, averaging 6.4% a year in the four years to 2015. This rate will just exceed the average for GDP growth, a pattern consistent with this stage of Vietnam's industrialisation process.

**Table: Road Freight , 2008-2015**

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Road freight, '000 tonnes	455,898.4	494,649.8	461,256.1	491,103.3	525,345.7	563,695.6	604,656.7	624,535.9
– % change y-o-y	13.02	8.50	-6.75	6.47	6.97	7.30	7.27	3.29
Road freight, mn tonnes/km	27,968.00	30,261.40	28,242.09	30,186.26	32,416.72	34,914.74	37,582.85	38,919.64
– % change y-o-y	13.47	8.20	-6.67	6.88	7.39	7.71	7.64	3.56

Source: General Statistics Office of Vietnam

## Rail Freight

### Rail Freight To Lose Some Steam

Rail freight carried increased by an estimated 6.7% in 2010, and is set to experience a bit of a slowdown in 2011, with growth of 4.7% to 4.251mntkms. Average annual growth over the next five years will be 5.5%, below overall economic growth. This suggests there is the possibility that Vietnam will not be making the most of the potential of rail. In volume terms freight carried by rail will recover by 4.8% in

2011 to 8.307mn tonnes. We acknowledge, however that a number of proposed Chinese-backed rail projects for Vietnam present upside risks to our forecasts.

**Table: Rail Freight , 2008-2015**

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Rail freight, '000 tonnes	8,481.10	8,068.10	7,924.43	8,307.32	8,746.60	9,238.56	9,764.03	9,942.30
- % change y-o-y	-6.29	-4.87	-1.78	4.83	5.29	5.62	5.69	1.83
Rail freight, mn tonnes/km	4,170.90	3,805.10	4,059.71	4,251.33	4,471.17	4,717.38	4,980.35	5,095.74
- % change y-o-y	7.43	-8.77	6.69	4.72	5.17	5.51	5.57	2.32

e/f = BMI estimate/forecast. Source: General Statistics Office of Vietnam

## Air Freight

### Air Freight Set To Take Off

Vietnam's airfreight industry is recovering modestly from 2009's downturn. In Vietnam itself the industry is beginning to experience intense competition. In terms of air cargo volume, **BMI** sees growth of 5.3% to 147,910 tonnes in 2011, compared with growth of 2.1% in 2010. In the medium term, the 2011-2015 forecast period, tonnage growth will average 5.13%, just below the country's general rate of economic expansion. In terms of freight carried (volume x distance) we expect to see growth of 4.9% in 2011 to 327.73mntkms, a recovery from 2010's contraction of 1.3%.

**Table: Air Freight , 2008-2015**

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Air freight, '000 tonnes	131.40	137.60	140.54	147.91	156.38	165.85	175.98	180.40
- % change y-o-y	1.39	4.72	2.13	5.25	5.72	6.06	6.10	2.51
Air freight, mn tonnes/km	295.60	316.60	312.48	327.73	345.23	364.83	385.76	394.58
- % change y-o-y	5.61	7.10	-1.30	4.88	5.34	5.68	5.74	2.28

e/f = BMI estimate/forecast. Source: General Statistics Office of Vietnam

## Maritime Freight

### Maritime Freight On Course For Growth

**BMI** is projecting strong growth in 2011 volume handled at the Port of Ho Chi Minh City (also known as SNP, Saigon New Port), up by 7.45% to 21.84mn tonnes, after the 6.22% rate estimated in 2010. Going forward, we believe growth will be vigorous, with the annual average over the 2010-2015 period coming

out at 8.04%, comfortably above the general growth rate of the Vietnamese economy. At Da Nang Port (DNP) we see 2011's volume increasing by 2.8% to 3.3mn tonnes. Average growth of volume at DNP across the forecast period will be 3.35%, also above the general GDP growth rate.

**Table: Maritime Freight – Throughput, 2008-2015 ('000 tonnes)**

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Port of Ho Chi Minh City (Saigon New)	20,180.0	19,140.0	20,329.6	21,843.7	23,581.4	25,564.5	27,691.8	29,920.8
– % change y-o-y	-21.17	-5.15	6.22	7.45	7.96	8.41	8.32	8.05
Port of Da Nang	2,742.26	3,132.00	3,204.35	3,292.86	3,394.43	3,510.34	3,634.68	3,778.43
– % change y-o-y	0.19	14.21	2.31	2.76	3.08	3.41	3.54	3.95

*e/f = BMI estimate/forecast. Source: Port authorities*

**Table: Inland Waterway Freight , 2008-2015**

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Inland waterway freight, '000 tonnes	133,028	135,688	129,222	134,835	141,721	149,630	158,483	167,939
– % change y-o-y	-1.67	2.00	-4.77	4.34	5.11	5.58	5.92	5.97
Inland waterway freight, mn tonnes/km	24,869.0	25,365.2	26,179.9	27,365.0	28,728.1	30,245.8	31,873.6	32,485.1
– % change y-o-y	11.84	2.00	3.21	4.53	4.98	5.28	5.38	1.92

*e/f = BMI estimate/forecast. Source: General Statistics Office of Vietnam*

## Trade

### **Total Trade To Grow, Slower But Steady**

In real terms Vietnam's total trade (imports + exports) grew by 19.45% in 2010, a rate which we see dropping to 11.3% in 2011. Over our forecast period, up to 2015, exports will grow at an average per annum rate of 7.3%, ahead of imports at 5.9%. In real terms we expect imports to grow by 11.6% and exports to grow by 11% in 2011. In nominal terms in 2011 imports will gain 20.8% to US\$105.8bn, while exports will grow 20.2% to US\$93.8bn.

**Table: Trade Overview , 2008-2015**

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
Imports, real growth, % y-o-y	11.92	-13.81	17.90	11.60	6.50	6.50	6.50	6.50
Exports, real growth, % y-o-y	10.85	-15.00	21.00	11.00	8.00	8.00	8.00	8.00
Total trade, real growth, % y-o-y	11.38	-14.40	19.45	11.30	7.25	7.25	7.25	7.25
Imports, US\$bn	83.60	73.00	87.57	105.80	119.99	138.98	160.32	184.19
– % change y-o-y	26.71	-12.68	19.97	20.81	13.42	15.82	15.35	14.89
Exports, US\$bn	69.95	63.39	78.05	93.78	107.87	126.69	148.20	172.67
– % change y-o-y	27.88	-9.38	23.12	20.16	15.01	17.45	16.98	16.51
Total trade, US\$bn	153.55	136.39	165.62	199.58	227.86	265.67	308.52	356.85
– % change y-o-y	27.24	-11.18	21.43	20.51	14.17	16.59	16.13	15.67

e/f = BMI estimate/forecast. Source: General Statistics Office of Vietnam, BMI

**Table: Vietnam's Main Import Partners, 2002-2008 (US\$mn)**

	2002	2003	2004	2005	2006	2007	2008
Mainland China	2,158.84	3,138.55	4,595.10	5,899.70	7,391.30	12,502.00	17,592.90
Singapore	2,533.49	2,875.82	3,618.40	4,482.30	6,273.90	7,608.60	9,617.87
Japan	2,504.65	2,982.06	3,552.60	4,074.10	4,702.10	6,177.70	8,614.94
South Korea	2,279.60	2,625.44	3,359.40	3,594.10	3,908.40	5,334.00	6,089.65
Thailand	955.24	1,282.19	1,858.60	2,374.10	3,034.40	3,737.20	5,458.74

Source: IMF's Direction of Trade Statistics

**Table: Vietnam's Main Export Partners, 2002-2008 (US\$mn)**

	2002	2003	2004	2005	2006	2007	2008
United States	2,453.15	3,939.56	5,024.80	5,924.00	7,845.10	10,089.10	12,594.10
Japan	2,436.96	2,908.60	3,542.10	4,340.30	5,240.10	6,069.80	8,264.30
Australia	1,328.33	1,420.86	1,884.70	2,722.80	3,744.70	3,556.90	4,466.29
Mainland China	1,518.33	1,883.12	2,899.10	3,228.10	3,242.80	3,356.70	4,174.25
Germany	729.03	854.71	1,064.70	1,085.50	1,445.30	1,855.10	2,714.70

Source: IMF's Direction of Trade Statistics



Table: Key Trade Indicators , 2008-2015

<b>Agricultural raw materials</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>	<b>2014f</b>	<b>2015f</b>
Imports, US\$mn	2,415.93	2,215.20	2,720.81	3,263.67	3,749.39	4,398.80	5,140.79	5,984.65
– % change y-o-y	24.45	-8.31	22.82	19.95	14.88	17.32	16.87	16.42
Exports, US\$mn	2,416.63	2,099.17	2,563.83	3,144.87	3,597.38	4,202.61	4,882.84	5,643.75
– % change y-o-y	30.15	-13.14	22.14	22.66	14.39	16.82	16.19	15.58
<b>Ores and metals</b>								
Exports, US\$mn	553.33	437.13	546.13	663.16	767.87	907.88	1,067.84	1,249.76
– % change y-o-y	47.72	-21.00	24.94	21.43	15.79	18.23	17.62	17.04
Imports, US\$mn	2,824.71	2,649.93	3,247.65	3,995.07	4,577.15	5,355.69	6,230.71	7,209.50
– % change y-o-y	6.42	-6.19	22.56	23.01	14.57	17.01	16.34	15.71
<b>Iron and steel</b>								
Exports, US\$mn	411.02	442.56	558.23	682.43	793.55	942.13	1,111.88	1,304.95
– % change y-o-y	-20.82	7.67	26.14	22.25	16.28	18.72	18.02	17.36
Imports, US\$mn	4,946.04	5,304.42	6,418.02	7,810.54	8,895.01	10,345.5	11,975.7	13,799.3
– % change y-o-y	-14.85	7.25	20.99	21.70	13.88	16.31	15.76	15.23
<b>Manufactured goods</b>								
Exports, US\$mn	32,534.8	28,748.0	35,341.5	42,420.8	48,754.9	57,223.7	66,899.8	77,904.3
– % change y-o-y	23.16	-11.64	22.94	20.03	14.93	17.37	16.91	16.45
Imports, US\$mn	54,527.3	47,929.5	57,491.4	69,448.1	78,759.8	91,214.3	105,212	120,870
– % change y-o-y	24.31	-12.10	19.95	20.80	13.41	15.81	15.35	14.88
<b>Fuel</b>								
Exports, US\$mn	14,833.7	12,788.8	15,696.5	18,818.5	21,611.9	25,346.7	29,613.9	34,467.0
– % change y-o-y	47.44	-13.79	22.74	19.89	14.84	17.28	16.84	16.39
Imports, US\$mn	13,811.1	11,047.5	13,527.9	16,629.7	19,045.3	22,276.2	25,907.5	29,969.5
– % change y-o-y	57.95	-20.01	22.45	22.93	14.53	16.96	16.30	15.68

e/f = estimate/forecast. Source: BMI

## Company Profiles

### Doan Xa Port

- |                      |  |
|----------------------|--|
| <b>Strengths</b>     | <ul style="list-style-type: none"> <li>▪ Given Vietnam's strong growth record in recent years and the country's sharply increasing foreign trade, the port sector is expected to remain broadly profitable.</li> </ul>   |
| <b>Weaknesses</b>    | <ul style="list-style-type: none"> <li>▪ Like other Vietnamese ports, Doan Xa needs to improve its infrastructure if it is to handle increasing trade volumes as Vietnam establishes itself as a centre for exports in the region.</li> </ul>                            |
| <b>Opportunities</b> | <ul style="list-style-type: none"> <li>▪ Hai Phong's strategic location means Doan Xa can benefit from growing trade with China (it is close to Hong Kong, Macau, Kunming and Guangzhou).</li> <li>▪ It also can act as an eastern port for Myanmar and Laos.</li> </ul> |
| <b>Threats</b>       | <ul style="list-style-type: none"> <li>▪ If the port cannot handle increasing throughput levels, it risks losing its share of Vietnam's growing trade to neighbouring ports.</li> </ul>  |

#### Company Overview

Doan Xa Port Joint Stock Company (DXP) is a Vietnam-based port operation company in Hai Phong. It mainly manages operations at Doan Xa Port, and provides port services, including loading/discharging cargo, warehousing, inland transportation and shipping agency.

The company also offers minor supporting services, such as customs declaration, the wholesaling of handling machinery, and construction and maintenance of marine infrastructure. The company is an affiliate of Vietnam National Shipping Lines (Vinalines).

#### Financial Performance

In September 2010, DXP was reported to have made a VND50bn (US\$2.56mn) pre-tax profit in the first eight months of 2010, an increase of 18% year-on-year (y-o-y). Revenues rose by 19% to VND123.2bn, according to DXP. For 2010 as a whole the company had earlier said it was targeting a pre-tax profit of VND45bn on revenues of VND120bn. In fact, both these targets were surpassed at the eight-month point.

#### Latest Activity

DXP is one of several Vietnamese port operators that stand to benefit from an infrastructure credit initiative agreed in June 2010. The contract, which targets high-priority infrastructure projects in Vietnam, is worth US\$500mn.

The cooperation framework set out between the two banks is a clear acknowledgement of the investment opportunities that exist in Vietnam, both for US infrastructure firms and for other infrastructure-dependent businesses. The expressed aim of the contract is to support Vietnam's socio-economic development, as well as to enhance cooperation between the two countries in trade and investment.

The credit provided would be used to invest in infrastructure development projects with an emphasis on improving transportation and communication networks for projects undertaken by US companies.

One of the most active US players operating in Vietnam is power generator **AES**, a company which has exhibited an appetite for risk in its ventures, hence it was among the first to

venture into Vietnam. With the US guarantees in place, creating a safety net, we anticipate other US companies will follow.

## Vietnam Airlines

- Strengths**
- The national carrier in a high-growth country, set in a high-growth region, with rising living standards set to boost demand for air travel at a proportionately greater rate than GDP growth.
- Weaknesses**
- To maintain market share in a dynamic but toughly competitive market, the company must gain professional skills and expertise, and a flow of new investment at an accelerated rate. Any slippage is likely to have an immediate negative impact on margins.
- Opportunities**
- Developing the regional passenger market in Asia is Vietnam Airlines' main opportunity, with cargo business as a second revenue stream.
- Threats**
- The main threat is regulatory: that the government will open up the industry at a faster pace, not giving the airline the necessary time to prepare for competition with private sector start-ups or established foreign carriers.

### Company Overview

Vietnam Airlines was established as a state-owned airline in 1989 and merged with a number of service companies in 1996 to achieve its present form. The government's stated goal is to further integrate the company into the global market and establish itself as a regional player.

Vietnam's national carrier operates 64 routes to 20 domestic and 24 international destinations. Its fleet of 50 modern aircraft have carried more than 9mn passengers. In 2006, it was officially accepted as a full member of the International Air Transport Association.

The Vietnamese carrier provides passenger air services to 25 destinations in 15 countries including many in South East Asia, Australia, Russia, France, Germany and the US. The company has a number of codeshare operations with foreign companies, in particular the February 2004 agreement with Air France to share 11 non-stop scheduled flights between Ho Chi Minh City and Paris.

Vietnam Airlines' cargo operations serve 20 destinations in Asia, the Middle East, Australia and Europe, with partner networks serving other destinations. The cargo division operates a joint venture (JV) with Singapore Airport Terminal Service, Tan Son Nhat Cargo Services, that has an annual cargo throughput of 100,000 tonnes.

### Financial Performance

Vietnam Airlines has announced that it expected pretax profit of VND350bn (US\$18mn) in 2010, up from VND154bn in 2009. The country's flag carrier said in a statement that it expected revenue in 2010 to reach VND36.27trn, up 47.3% from 2009. Vietnam Airlines expected to transport 12.3mn passengers and 166,300 tonnes of cargo in 2010, up 33.7% and 43.9% from 2009, respectively. The company said it had targeted revenue of VND45.5trn, and to transport 14mn passengers and 193,000 tonnes of cargo in 2011.

### Latest Activity

In 2010 the airline opened seven international air routes and four domestic routes as well as increasing frequencies in both segments, bringing its total number of daily flights to 320 from the previous 225. BMI notes that 2011 will be an important year for the airline, as it will see

the beginning of a five-year development plan for the company. Under the plan, the airline aims to continue heavy investment in both soft and hard infrastructure development, including a fleet and flight network expansion and service improvement, to gradually become one of the leading airlines in Southeast Asia. Vietnam Airlines is looking to carry more than 14mn passengers in 2011, up 20% y-o-y and to carry 193,000 tonnes of cargo, an increase of 16% over the year. The airline expects to post revenue of VND45.5trn (more than US\$2.3bn) in 2011.

According to a report by Asia Pulse news agency in early September 2010, rapid growth in the domestic air travel market was presenting Vietnam Airlines and its competitors with new opportunities. The agency said that Vietnam's airports had welcomed 26.16mn passengers and 446,000 tonnes of cargo in 2009, a four-fold increase on levels in the year 2000. Passengers carried in the first seven months of 2010 were up 33% y-o-y, with revenues from domestic air travel up by 20% y-o-y. The main competitors on domestic routes were Vietnam Airlines and JetStar Pacific. Vietnam Airlines had a roughly 80% share of the domestic air travel market, flying 300 routes a day, mostly between Hanoi, Ho Chi Minh City, Da Nang, and Phu Quoc Island. Asia Pulse cited Vietnam Airlines' deputy director general, Trinh Hong Quang, who said that due to a shortage of aircraft the company was failing to fully meet demand for travel. More competition was expected, with Air Mekong expected to begin operations in October 2010. A new licence was also granted to Blue Sky Air. This took the number of licensed local passenger and cargo carriers up to nine.

## Vietnam Petroleum Transport Jsc (VIPCO)

- Strengths**
- At this stage in its economic development, Vietnam will require rapidly increasing import volumes of oil, gas and certain petrochemicals, as well as extra export capacity. VIPCO is well positioned in a high-growth segment of the shipping market.
- Weaknesses**
- The global economic downturn of 2009, accompanied by lower oil prices and sharply lower shipping freight rates, posed a serious challenge to profitability.
- Opportunities**
- Tanker rates are expected to perform better for dry bulk over the coming months, meaning that Vipco may be well advised to focus on improving market share within its existing segment, rather than diversifying.
- Threats**
- Vipco has a privileged position as a subsidiary of the state oil company. Any change to this role for regulatory reasons could therefore be a threat, implying potential loss of secure contracts.

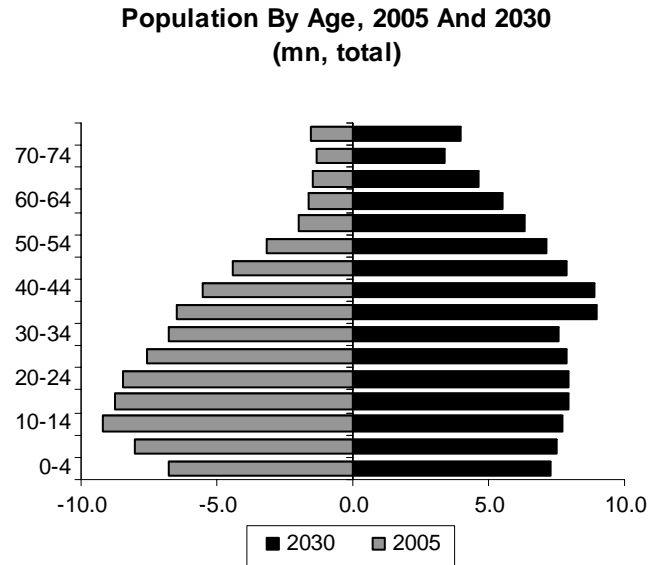
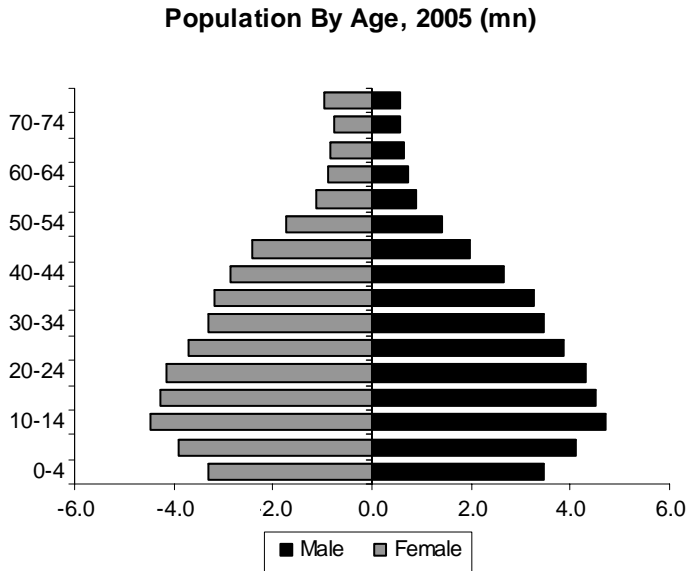
**Company Overview** Vietnam Petroleum Transport Joint Stock Company (Vipco) specialises in marine transportation. It mainly offers marine transportation services, freight forwarding, shipping brokerage, customs clearance and port operation. Other activities include merchandise of petroleum, liquefied gas and petrochemicals; trading supplies and equipment, manning and warehousing; and minor industrial construction. The company has five subsidiaries and one affiliate, and is itself a subsidiary of Vietnam National Petroleum Corporation (PetroVietnam).

**Financial Performance** Vipco made a net profit of VND17.4bn (US\$915,700) in the first half of 2010, a 72.3% year-on-year (y-o-y) fall, according to a report by Vietnam News Briefs published in mid-August 2010. The fall in profitability came despite a 27.9% increase in revenues to VND693.77bn during the period. For the year as a whole the company has been targeting a pre-tax profit of VND74.2bn on revenues of VND1,475bn.

**Latest Activity** In September 2010 PG Bank and Indovina Bank were said to have agreed to provide a US\$19.6mn loan guarantee to Vipco to enable the tanker company to build two asphalt-transporting ships with a total capacity of 2,800 deadweight tonnes (dwt). The overall cost of the new ships was estimated at US\$26.19mn, and they are being added to Vipco's fleet as part of a plan to meet increasing demand for asphalt transportation from local companies.

# Country Snapshot: Vietnam Demographic Data

## Section 1: Population



Source: UN Population Division

**Table: Demographic Indicators, 2005-2030**

	2005	2010f	2020f	2030f
Dependent population, % of total	34.1	29.9	30.4	31.2
Dependent population, total, '000	28,318	26,225	30,950	34,499
Active population, % of total	65.8	70.0	69.5	68.7
Active population, total, '000	54,650	61,263	70,706	75,927
Youth population*, % of total	28.8	25.0	23.4	20.3
Youth population*, total, '000	23,972	21,887	23,807	22,508
Pensionable population, % of total	5.2	4.9	7.0	10.8
Pensionable population, total, '000	4,346	4,338	7,143	11,991

f = forecast. \* Youth = under 15. Source: UN Population Division

**Table: Rural/Urban Breakdown, 2005-2030**

	2005	2010f	2020f	2030f
Urban population, % of total	26.7	29.4	34.7	41.8
Rural population, % of total	73.3	70.6	65.3	58.2
Urban population, total, '000	22,509	26,395	35,230	46,123
Rural population, total, '000	61,729	63,323	66,426	64,306
Total population, '000	84,238	89,718	101,656	110,429

*f = forecast. Source: UN Population Division*

## Section 2: Education And Healthcare

**Table: Education, 2002-2005**

	2002/03	2004/05
Gross enrolment, primary	98	93
Gross enrolment, secondary	73	75
Gross enrolment, tertiary	10	16
Adult literacy, male, %	na	93.9
Adult literacy, female, %	na	86.9

*Gross enrolment is the number of pupils enrolled in a given level of education regardless of age expressed as a percentage of the population in the theoretical age group for that level of education. na = not available. Source: UNESCO*

**Table: Vital Statistics, 2005-2030**

	2005	2010f	2020f	2030f
Life expectancy at birth, males (years)	68.4	69.9	74.2	75.8
Life expectancy at birth, females (years)	72.4	73.9	78.4	80.0

*Life expectancy estimated at 2005. f = forecast. Source: UNESCO*



## Section 3: Labour Market And Spending Power

Table: Employment Indicators, 1999-2004

	1999	2000	2001	2002	2003	2004
Employment, '000	38,120	38,368	39,000	40,162	41,176	42,316
– % change y-o-y	3.1	0.6	1.6	2.9	2.5	2.7
– male	19,029	19,292	19,744	20,356	20,959	21,649
– female	19,091	19,076	19,257	19,807	20,217	20,666
— female, % of total	50.0	49.7	49.3	49.3	49.1	48.8
Unemployment, '000	909	886	1,107	871	949	926
– male	439	468	458	398	402	410
– female	470	418	650	473	547	517
– unemployment rate, %	2.3	2.2	2.7	2.1	2.2	2.1

Source: ILO

Table: Consumer Expenditure, 2000-2012 (US\$)

	2000	2007e	2008f	2009f	2010f	2012f
Consumer expenditure per capita	110	265	301	368	386	427
Poorest 20%, expenditure per capita	49	119	136	166	174	192
Richest 20%, expenditure per capita	243	587	668	815	855	946
Richest 10%, expenditure per capita	316	763	868	1,060	1,112	1,230
Middle 60%, expenditure per capita	85	206	235	286	301	332
<b>Purchasing power parity</b>						
Consumer expenditure per capita	556	1,196	1,297	na	na	na
Poorest 20%, expenditure per capita	250	538	583	na	na	na
Richest 20%, expenditure per capita	1,231	2,649	2,872	na	na	na
Richest 10%, expenditure per capita	1,600	3,444	3,734	na	na	na
Middle 60%, expenditure per capita	433	931	1,009	na	na	na

e/f = BMI estimate/forecast. na = not available. Source: World Bank, Country data; BMI calculation

## BMI Methodology

### How We Generate Our Industry Forecasts

BMI's industry forecasts are generated using the best-practice techniques of time-series modelling. The precise form of time-series model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined. For example, data for some industries may be particularly prone to seasonality, i.e. seasonal trends. In other industries, there may be pronounced non-linearity, whereby large recessions, for example, may occur more frequently than cyclical booms.

Our approach varies from industry to industry. Common to our analysis of every industry, is the use of vector autoregressions. Vector autoregressions allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

It must be remembered that human intervention plays a necessary and desirable part of all our industry forecasting techniques. Intimate knowledge of the data and industry ensures we spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

### Transport Industry

There are a number of principal criteria that drive our forecasts for each transport variable:

#### **GDP Growth**

As transport activity is heavily influenced by real GDP growth, this factor is examined to ascertain its relationship with overall trade volumes. Projected GDP growth is calculated using BMI's own macroeconomic and demographic forecasts.

#### **Real Trade Volumes**

The sum of imports and exports plays a particularly important role in developing countries with a small

domestic industrial sector. In particular, the focus is on goods, as services do not employ transport. The volumes are forecast based on the following criteria:

- Trends manifested through historical data;
- The impact of future step changes to the economy (such as future membership of the EU or some other regional body).

#### **Port Traffic**

Port traffic levels act as a 'second opinion' on trade volumes. However, this check needs to be used with caution as trade values and volumes do not always move over time in the same way.

#### **Market Share**

The market share of each mode (road, rail, inland waterway, coastal shipping) for future years is based upon:

- Trends in historical modal split data;
- Evidence of government policy favouring one or more modes over others;
- Government and or private sector investment plans in specific modes.

## Sources

Sources used in transport reports include local transport ministries, officially released company results and figures, established think tanks and institutes and donor agencies such as the World Bank and the Asian Development Bank.