

## Upgrading Vietnam

Investors are attracted to the country's 'mini-China' story, and with the macro-fundamentals looking stronger than a decade ago, Vietnam's 'frontier' market could be upgraded

Vietnam's stock exchange is still classified as a 'frontier' market, but is one of the largest in this category with a market capitalisation of about \$140 billion. Its performance, powered by foreign investors and fuelled by new listings, also makes it one of the most exciting markets in the world, irrespective of its categorisation.

The Ho Chi Minh Stock Exchange has been one of the world's best performing bourses this year, surging about 17% in local currency terms to 17 April, and the benchmark VN-Index has more than doubled during the past two years.<sup>1</sup>

Investors are attracted to Vietnam's 'mini-China' story: that of a communist state embracing the private economy, integrating itself into the global trading system and setting itself up as a hub for foreign manufacturing. Indeed, tensions between the US and China have been helpful: both Korea and Japan have shifted a lot of production to Vietnam, partly to diversify away from China.<sup>2</sup>

Over the past decade, companies such as Intel and Samsung have set up factories in Vietnam and are now contributing to its improved trade balance. The latter makes about half its smartphones there.

True, there is a danger that market valuations are looking rich, but there is an underlying foundation for investors' optimism. The Vietnamese economy, which nose-dived after a 2012 banking crisis and a collapse in property prices, is in robust health, growing at an annual rate of 7.4% in the first quarter of this year. And the country's exports now exceed those of Indonesia – an economy almost five times its size.<sup>3</sup>

The country also has a youthful population that is stimulating consumption across all sectors of the economy, and encouraging investors in new stock market listings being promoted by a government that seems to favour the privatisation of some state-owned enterprises (SOEs) and, crucially, the participation of foreign investors.



## Dragon Bridge in Da Nang, Vietnam: the country has a youthful population that is stimulating consumption

Vietnam limits overseas ownership of non-banking stocks to a maximum of 49%, and of banks to 30%, and there have been proposals to introduce depositary receipts that would allow foreigners to buy majority stakes in listed companies without voting rights.

### Stock market frenzy

Since taking office in 2016, prime minister Nguyen Xuan Phuc's administration has aimed to cut back the role of the SOEs that dominated the economy, selling stakes in food and drink, oil and power generation companies. In December 2017, a consortium led by Thai Beverage bid \$4.8 billion to buy a controlling stake in Sabeco, the country's largest brewer, and last February the government announced that it had set up a committee to oversee \$220 billion-worth of state-owned assets as part of its plan to generate half of its economic output from the private sector within two years.<sup>4</sup>

Private companies that have listed since the start of 2017 include low-cost carrier VietJet Air, shopping mall manager Vincom Retail, and refinery operator Binh Son.<sup>5</sup> Singapore's sovereign wealth fund, GIC, has agreed to spend about \$850 million for a 7.1% stake in luxury property developer Vinhomes in an offering that would surpass a planned \$922 million offering from Techcombank, where GIC is again a cornerstone investor.<sup>6</sup>

However, investors are less enthusiastic about privatisation deals due to aggressive valuations. Vietnam Cable Television had to cancel its stock market debut in early April after just one investor turned up at the auction. Furthermore, state-owned hydroelectric contractor Song Da is trading 28% below its December IPO price and Power Generation Corporation 3 has traded at a 35% discount since its February offering.<sup>7</sup>

In fact, high valuations in general could curb the stock market's momentum. The 10 biggest stocks

in the VN-Index are trading on a weighted average of about 32 times 2018 projected earnings,<sup>8</sup> and the market has a recent history of boom and bust. The Ho Chi Minh City exchange's bull run took a dramatic dive after the 2008 financial crisis, as growth slowed and inflation rose, with stock prices plummeting 80% over the next four years.<sup>9</sup>

On the other hand, the macro-fundamentals look stronger than a decade ago, foreign companies are establishing manufacturing bases with confidence and the Vietnamese government is encouraging overseas investors. Vietnam's frontier market could well be on its way to an upgrade in classification.

### Sources:

- 1 Financial Times, 17 April 2018.
- 2 Natixis, April 2018.
- 3 HSBC, April 2018.
- 4 Financial Times, 27 March 2018.
- 5 Financial Times, 17 April 2018.
- 6 Bloomberg, 18 April 2018.
- 7 Bloomberg, 18 April 2018.
- 8 PXP Vietnam Asset Management, April 2018.
- 9 Financial Times, 17 April 2018.

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