

Vietnam Stocks Emerge From Slump

Overhauls Pay Dividends as Peers in Developing Economies Struggle

HANOI—When Vietnam's decadelong economic boom ended in 2009, Nguyen Huynh Diep lost about \$50,000. A novice investor in the country's stock market, Mr. Diep said he saw the value of many of his holdings slump.

Now, though, he is back on the trading floors of Hanoi's stock brokerages, picking up bargains when he can as Vietnam's economy begins to heat up again after a long and often painful thaw. "The market's back up this year," the 40-year-old Mr. Diep said. "And I keep buying more stock."

Vietnam's main stock-market index is up 16% this year, according to FactSet, one of the best performers among emerging markets. In comparison, the MSCI Emerging Markets Index, which tracks 21 countries, is down 3.7% year to date.

This strong showing has come amid worries over future growth rates in China and the expectation that the U.S. Federal Reserve eventually will end its bond-buying program—at its meeting last week, the Fed kept the asset purchases intact—with expectations that this would send interest rates higher, prompting investors to pull money out of emerging markets from Brazil to Indonesia and put that cash back to work in developed economies. Over the past several years, low interest rates and easy-monetary policies in the developed world sent investors on a hunt for higher-yielding assets in emerging markets.

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Justin Mott For The Wall Street Journal

Investors keep an eye on Vietnamese stocks, which are up 16% this year. Above, a trading floor in Hanoi.

The difference between Vietnam and more troubled emerging markets is that Vietnam's boom ended in 2009. That has given the country more time to put in place overhauls to help strengthen its economy, while some of its peers faced pressure to put their houses in order only during this year's selloff.

The country has begun paring back the scope of its state-owned enterprises, spinning off noncore assets and preparing to lay off tens of thousands of "ghost workers" still on the books at some industrial conglomerates. Vietnam also is planning to revive a stalled series of privatizations, including an initial public offering for Vietnam Airlines planned for this year.

In addition, Prime Minister Nguyen Tan Dung said in a recent interview that his government now is focusing on keeping inflation in check rather than going all out to promote growth. That has helped improve confidence among some entrepreneurs. New business registrations increased 7.6% to hit record levels in the first six months of 2013. Inflation, meanwhile, was at 7.5% in August, ticking higher from 7.3% in July, but still within a manageable level as the economy shows signs of picking up speed.

"I think it's time for more differentiation by investors between emerging markets," said Frederic Neumann, an economist at HSBC in Hong Kong, who warns that governments have to work harder to earn investment. "From this perspective, the crises elsewhere should serve as a reminder of what happens if you don't persevere with reforms."

Among the better performers in emerging markets, Poland's main index is up 5.3% since the start of the year, while the Philippines's has gained 11%. Both have worked to strengthen

their economies, in the Philippines's case by launching a broad-ranging effort to curb corruption. Laggards include commodity-dependent Brazil, down 10% this year.

On the trading floors of brokerages in Hanoi and Ho Chi Minh City, investors scour electronic tickers, looking for bargains. Others log in to trade electronically on laptop computers and tablets at the street-side cafes and noodle shops that dot this leafy, scooter-choked capital.

"Many shares are undervalued," said Dao Danh Hieu, 39, watching share prices move on one of the screens. He said he worries about the accuracy of financial information released by many listed firms, "but I still hope the market can go up." Government officials acknowledge that accounting practices still lag behind international standards.

In Ho Chi Minh City, formerly Saigon, some fund managers are increasing their exposure to the market, too.

Kevin Snowball, chief executive at asset-management firm PXP Vietnam, recently increased his firm's holdings in Vietnam. One of the chief reasons was the government's move to establish a "bad bank" to buy nonperforming loans to revive confidence in the banking sector. The entity, called the Vietnam Asset Management Co., isn't fully operational yet, but economists said it is also helping to restore confidence.

Bank lending expanded 6.5% over the first eight months of the year compared with growth of just 0.3% in the first quarter. "It's had a significant impact," said Mr. Snowball, whose firm manages more than \$100 million in assets and specializes in Vietnam.

What could generate more interest, he said, are proposals to raise foreign ownership limits at listed companies to 60% from the limit of 49%. Mr. Snowball predicts share prices could rise at least 10% from current levels if the move is approved and anticipates a flood of interest in the country from foreign funds that previously shied away because of the shareholding restrictions and the relative paucity of buyers and sellers in what is still a rather small market.

Meanwhile, some analysts see buying opportunities. Vinasecurities and Macquarie Securities issued a report recently saying that a range of stocks look competitive, with price/earnings ratios in single digits and high dividend yields. Among them: FPT Corp., Hoa Phat Group and PetroVietnam Fertilizer & Chemical.

Problems remain. Vietnam's penchant for locking up dissidents could damage relations with trade partners, especially the U.S. The political fallout from Vietnam's previous slump continues. Infighting between Mr. Dung, the prime minister, and his critics delayed the introduction of many recent overhauls and could stymie other initiatives. Overhauls in the state-run sector are especially vulnerable to political interference, economists said, potentially delaying the reshaping of Vietnam's economy. The state sector contributed to a disproportionately large chunk of Vietnam's bad-debt problem, and some analysts and ratings companies warn that nonperforming loans could comprise up to a sixth of the total outstanding loans in the banking sector.

"There is a lot we don't know," said Nguyen Duy Hung, chairman and chief executive of Saigon Securities Inc., one of the country's largest brokerages.

There also is an argument that Vietnam should capitalize on the interest of major global manufacturers such as Samsung Electronics Co. that are now flocking to the country by quickly liberalizing its economy.

"Investors are a fickle bunch," HSBC's Mr. Neumann said. "If there is not sustained progress in reforms, they'll quickly sour and head onto the dance floor with someone else."

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