



VIETNAM: Asia's Last Tiger Emerging

THE INVESTMENT CASE

MACRO

- 92 million people with one of the highest literacy rates in the world (95%)
- Near-perfect demographics with ~ 65% under the age of 35
- A fast developing nation, moving up the value chain
- GDP growth expected at 6.5% in 2017 with acceleration over the next 3 years
- Inflation relatively benign with CPI 4.5% forecast for 2017
- Trade surpluses now the norm with FDI & exports driving the economy
- One of the most stable currencies in the region thanks to disciplined monetary policy

MICRO

- Double-digit earnings growth expected in 2017 to 2019
- Market expanding through listings & sales of sought-after SOEs
- Renewed impetus to open market in order to seek MSCI Emerging Market status by 2020



THE RISKS

MACRO

- Currency depreciation beyond policy possible as a result of USD strength / CNY weakness
- CPI to exceed target if credit growth accelerates
- Trade protectionism may return under new US administration
- Geopolitical tensions arising from East (South China) Sea manoeuvring
- President Trump

MICRO

- Increase in nominal market capitalisation not currently matched by free float
- Failure to introduce real improvements in foreign access may disqualify Vietnam from inclusion in the MSCI Emerging Market Index within the next 5 years



THE VIEW FROM PHAN XI PANG

Core elements are in place for a continuing strong index performance this year:

- Supportive macroeconomic environment
- Political stability
- Reform-minded government
- Reasonable earnings growth
- Increased market visibility and a surge in (particularly foreign) interest

A further boost may come from optimism around re-designation as “MSCI Emerging” assuming:

- Increased free-float through public primary & secondary offerings
- Improved access through encouraging relaxation of foreign ownership restrictions

In our view, the core delivers index performance of 10 to 15% in 2017. We are optimistic that although Vietnam is some distance from fulfilling the market access criteria necessary for inclusion in the MSCI Emerging Market Index, its engagement with MSCI over recent months may enable inclusion on the watch list in June 2017 with the caveat that it has a year to achieve dramatic improvements in market access or risk being removed from consideration.



VALUATIONS: Regional comparison

	<u>2016 PE</u>	<u>2017 PE</u>	<u>2018 PE</u>	<u>2017 Earnings Growth</u>	<u>2018 Earnings Growth</u>	<u>2016 GDP</u>	<u>2017 GDP</u>	<u>2018 GDP</u>
Viet Nam Index	15.5x	14.8x	13.0x	8.4%	16.3%	6.2%	6.4%	6.5%
PXP Coverage	16.1x	15.1x	13.3x	6.6%	13.5%	6.2%	6.5%	6.7%
SE THAI	16.4x	15.3x	13.7x	7.2%	11.7%	3.2%	3.4%	3.5%
FTSE Malay KLCI	16.2x	16.9x	15.9x	-4.1%	6.3%	4.2%	4.6%	4.5%
Jakarta Comp	22.9x	16.1x	13.8x	42.2%	16.7%	5.0%	5.2%	5.4%
PSEi - Philippines	19.4x	19.3x	17.3x	0.5%	11.6%	5.0%	5.2%	5.4%

Source: Bloomberg consensus except "PXP Coverage" (PXP Vietnam Asset Management)
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