



The Investment Case for Vietnam: Asia's Last Tiger Emerging

MACROECONOMIC HIGHLIGHTS

A refocusing of monetary policy in 2011 from “growth above everything” to the pursuit of long-term economic stability heralded a new era and has created a macroeconomic landscape encompassing:

- GDP growth of 6.8% in 2017 & similar level expected in 2018
- Inflation rate moderate at 4.5% y/y (July 2018)
- Currency stability reinforced by daily setting of the reference rate
- Trade balance improvements driven by FDI into higher value-added production, particularly electronics
- Recent and pending Free Trade Agreements with South Korea, Russia, European Union & ASEAN whilst (CP)TPP was revived without US involvement

THE INVESTMENT CASE

MACRO

- 93 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, urbanising nation moving up the value chain
- GDP growth sustainable at a minimum of 6.7% p.a. over each of the next 3 years
- Inflation accelerating slightly but below 5% in 2018
- 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 2018 & 2019 after 12% in 2017
- Market expanding through listings & sales of private companies & large-scale SOEs
- The market remains reasonably priced outside of a small number of index heavyweights
- Improvements to accessibility on the agenda to promote Vietnam's case for MSCI Emerging Market Index inclusion

THE RISKS

MACRO

- Currency depreciation beyond policy possible as a result of USD strength / CNY weakness
- CPI may exceed targets if credit growth targets continue to be raised
- Trade protectionism may increase under US administration
- Geopolitical tensions arising from East (South China) Sea manoeuvring
- President Trump & Kim Jong-un

MARKET

- Increase in nominal market capitalisation not currently matched by free float
- SOE privatisations currently failing to attract interest at similar levels to those of private companies
- Market access for foreign investors narrowly focused

VALUATIONS: Regional comparison

	<u>2017 PE</u>	<u>2018 PE</u>	<u>2019 PE</u>	<u>2018 Earnings Growth</u>	<u>2019 Earnings Growth</u>	<u>2016 GDP</u>	<u>2017 GDP</u>	<u>2018 GDP</u>
Viet Nam Index	18.3 x	16.4x	13.5x	14.1%	12.5%	6.2%	6.8%	6.8%
PXP Coverage	18.1x	19.0x	16.7x	26.1%	13.9%	6.2%	6.8%	6.7%
SE THAI	17.6x	15.5x	14.1x	10.9%	7.0%	3.3%	3.9%	4.2%
FTSE Malay KLCI	17.2x	17.1x	15.9x	8.8%	5.8%	4.2%	5.5%	5.5%
Jakarta Comp	22.3x	14.9x	13.2x	117.7%	-31.9%	5.0%	5.2%	5.3%
PSEi - Philippines	22.1x	17.4x	15.4x	16.4%	7.6%	6.9%	6.6%	6.7%

Source: Bloomberg consensus except "PXP Coverage" (PXP Vietnam Asset Management)
16 Aug 2018

ACCESSING THE MARKET

Closed end
Funds

Exchange
Traded Funds

Direct Equity
Access

Open-Ended
Funds

- Discounts of closed end funds have finally begun to narrow 6-years into a bull market. Very few remain, and are subject to pricing risk
- ETFs facilitate easy access and exit but cannot hold the higher quality stocks at the foreign ownership limit and performance has suffered accordingly
- Direct equity access is problematic due to the cumbersome application process, foreign limits and with limited stock coverage by the sell-side
- Open-ended funds, such as PXP VEEF, allow focus on the underlying assets instead of creating confusion between “discount” and “value” and will continue to provide liquidity when closed end funds may not

THE ROAD TO MSCI EMERGING MARKET STATUS

Vietnam seems determined to achieve re-classification from MSCI Frontier to MSCI Emerging status. Whilst market size & liquidity measures are probably sufficient, the country has further to go before achieving its goal.

Remaining requirements:

- Increased free float through secondary offerings
- Significantly improved access through real relaxation of foreign ownership restrictions

Time-frame:

- Annual market classification review in June each year (earliest June 2019)
- MSCI decision is announced one year later (earliest June 2020)
- Reclassification to EM from Frontier effective one year later (earliest June 2021)

Potential Impact:

- Approx. US\$1.6 trillion follows MSCI EMI; a 0.1% weighting might attract US\$ 1.6 billion of inflows (> 10 days current turnover & >2 times 2017 inflows)

THE VIEW FROM PHAN XI PANG

Core elements are in place for continued strong index performance in 2018:

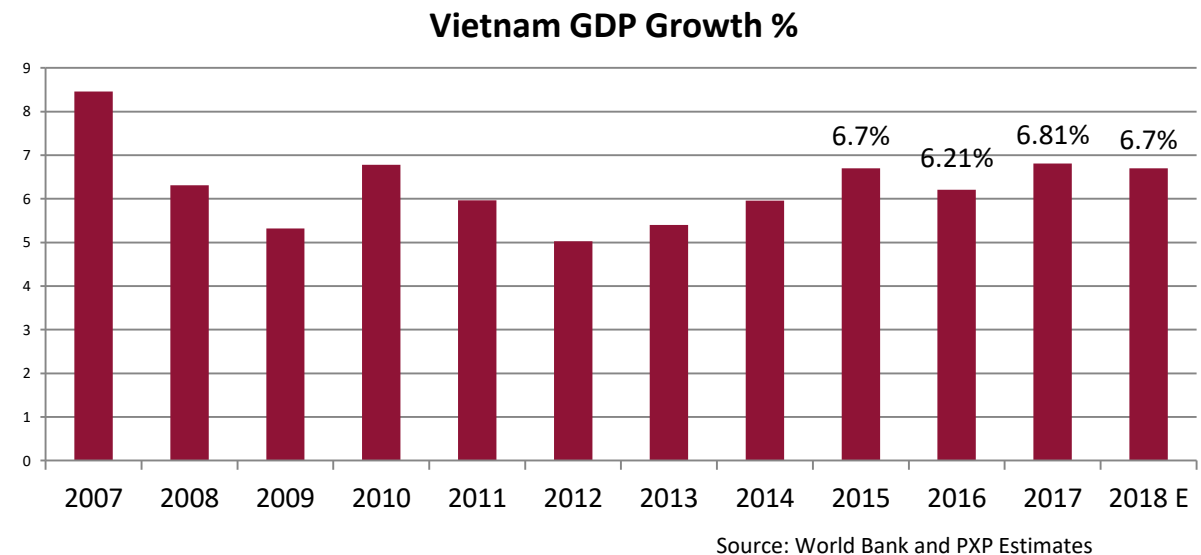
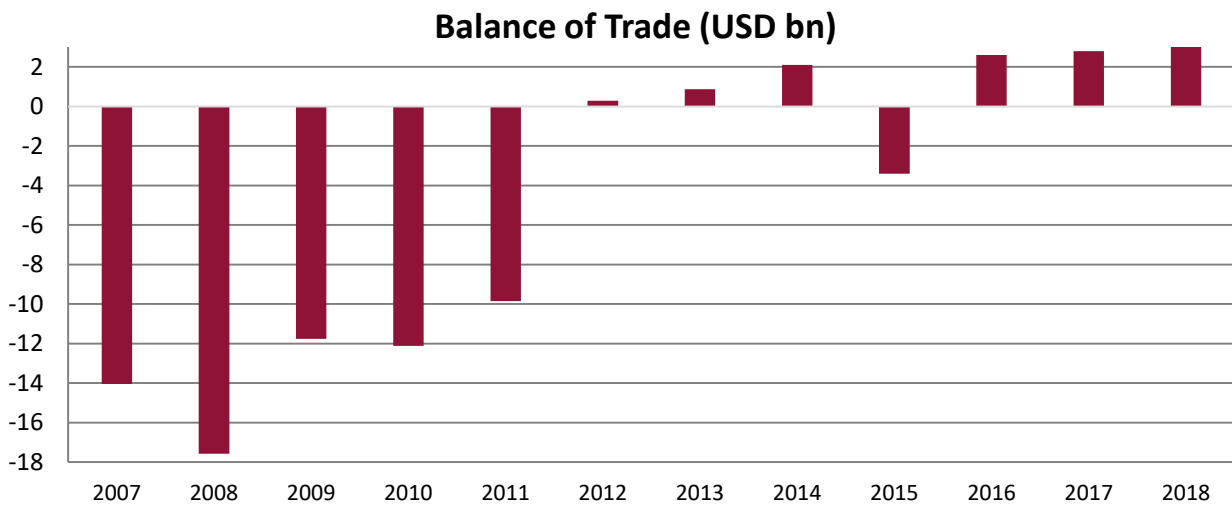
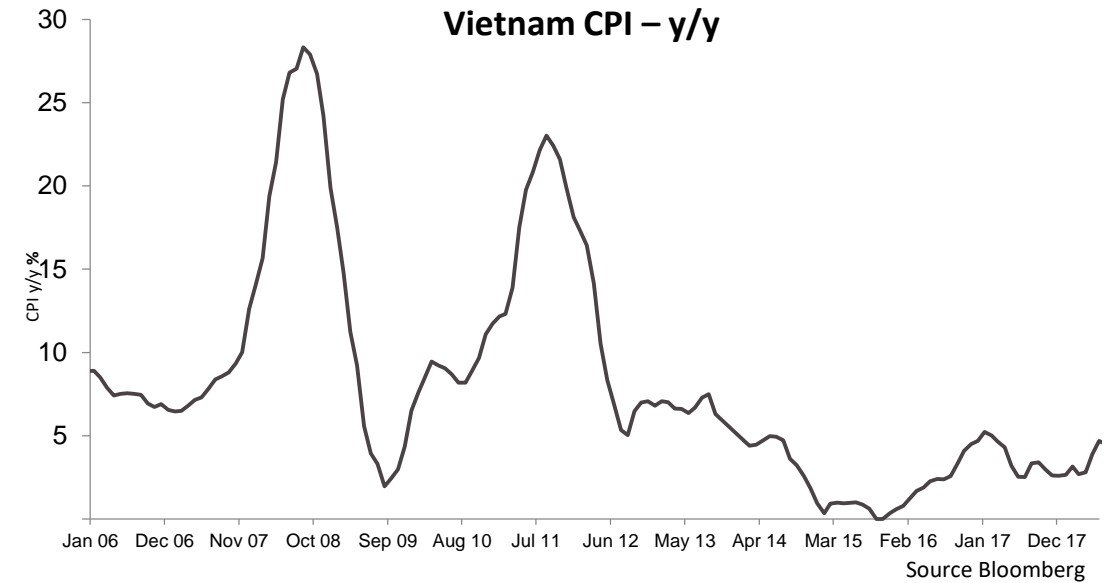
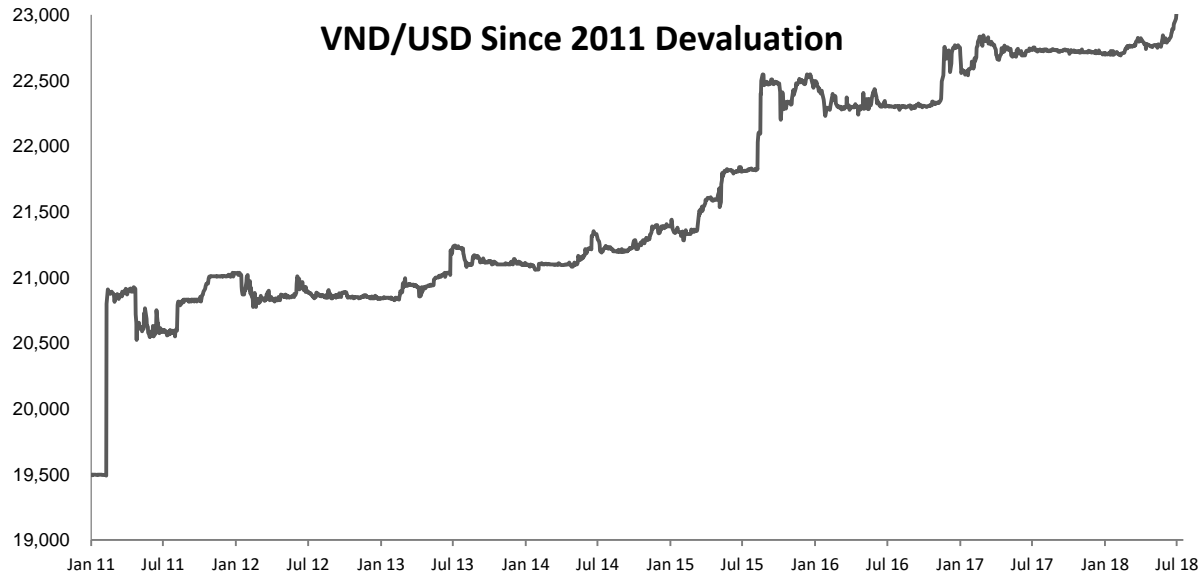
- Supportive macroeconomic environment
- Political stability
- Reform-minded government
- Decent earnings growth
- Increased market visibility and a surge in (particularly foreign) interest

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

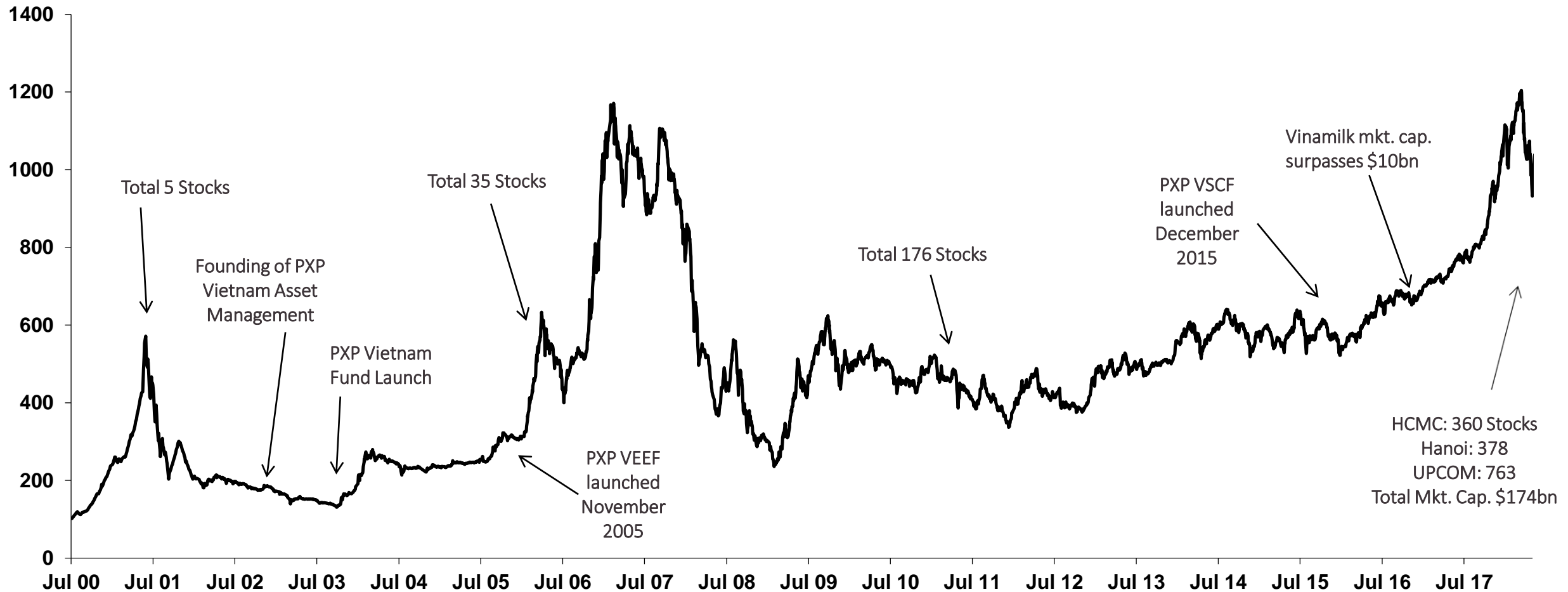
- Increased free-float through public primary & secondary offerings
- Improved access through encouraging relaxation of foreign ownership restrictions through rationalisation of conflicting legislation

Although disappointed by its omission in 2017 and 2018, possibly due to a lack of sustained progress in free-float expansion and the glacial progress of improvement in foreign access we see few other realistic alternatives for re-designation.

APPENDIX A: Macro data



APPENDIX B: The life-cycle to date of the VN Index



Ho Chi Minh City Stock Exchange opens (2 stocks, \$35m Mkt. Cap.)

Vinamilk (VNM) lists Jan 06, Mkt. Cap. \$500m (50% of total market)

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