



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

# BUILDING ON MACROECONOMIC SUCCESS

**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 has moderated from 4.7% y/y in June 2018 to below 4% as of August 2018; in line with target
- Currency stability reinforced by daily setting of the reference rate
- Trade balance improvements driven by FDI into higher value-added production, particularly electronics
- Vietnam continues to negotiate bi-lateral and multi-party free trade agreements even as protectionism becomes more prevalent

# THE INVESTMENT CASE

## MACRO

- 93 million people with one of the highest literacy rates in the world (95%)
- Near-perfect demographics with ~ 60% 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 still below 4% annualised as of August 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
- The market remains relatively cheap 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
- Emerging market contagion
- Trade wars

## MARKET

- Increase in nominal market capitalisation not currently matched by free float
- IPOs (the driver of strong foreign interest in 2017 to 1Q 2018) have stalled after spectacular failures earlier this year
- Market access for foreign investors narrowly focused

# VALUATIONS: Regional & portfolio 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	18.2 x	16.1x	14.4x	13.4%	11.4%	6.2%	6.8%	6.8%
PXP VEEF	14.8x	13.0x	12.3x	13.5%	6.3%	6.2%	6.8%	6.8%
PXP VSCF	13.2x	11.1x	10.2x	17.2%	10.6%	6.2%	6.8%	6.8%
SE THAI	17.4x	16.2x	14.8x	7.2%	9.3%	3.3%	3.9%	4.4%
FTSE Malay KLCI	19.1x	17.0x	16.2x	12.3%	5.0%	4.2%	5.9%	5.1%
Jakarta Comp	22.3x	14.7x	13.4x	33.5%	10.2%	5.0%	5.1%	5.2%
PSEi - Philippines	22.1x	16.2x	15.1x	16.4%	7.5%	6.9%	6.7%	6.5%

Source: PXP Vietnam Research, Bloomberg consensus , 21 Sep 2018

# ACCESSING THE MARKET

Closed end  
Funds

Exchange  
Traded Funds

Direct Equity  
Access

Open-Ended  
Funds

- Discounts of closed end funds (CEFs) remain wide 6-years into a bull market. Very few still in existence, 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 historic 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 PXPVEEF & PXPVSCF, 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 is determined to achieve re-classification from MSCI Frontier to MSCI Emerging Market status. Whilst market size & liquidity measures are probably sufficient, the country has further to go before achieving its goal.**

## **Remaining requirements:**

- Significantly improved access through real relaxation of foreign ownership restrictions
- Simultaneous bi-lingual publication of all corporate announcements

## **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); latest estimate would suggest a 0.7% weighting for Vietnam

# THE VIEW FROM PHAN XI PANG

## **Core elements are in place for a return to the index highs by the end of 2018:**

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

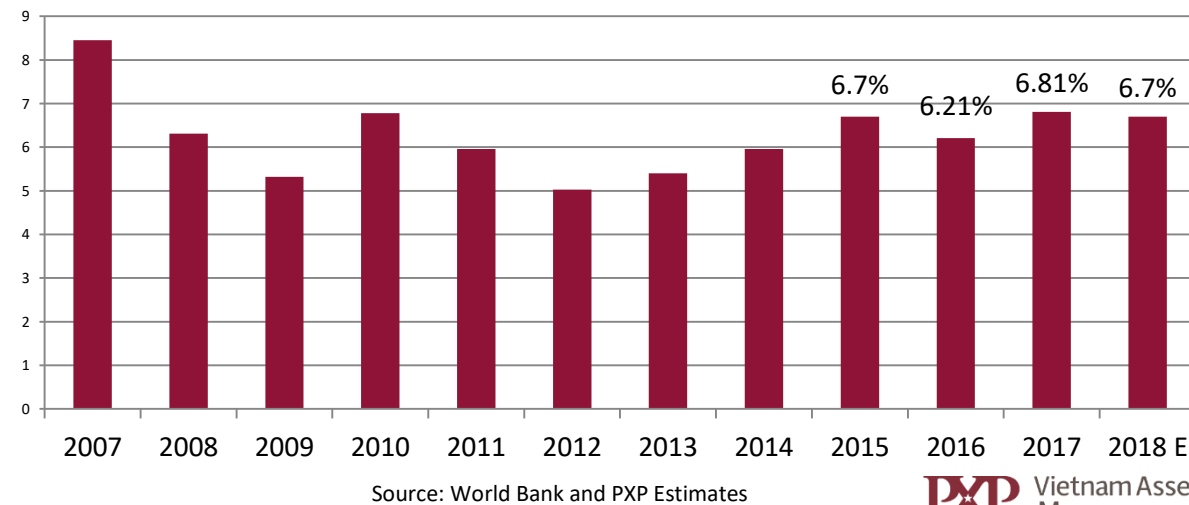
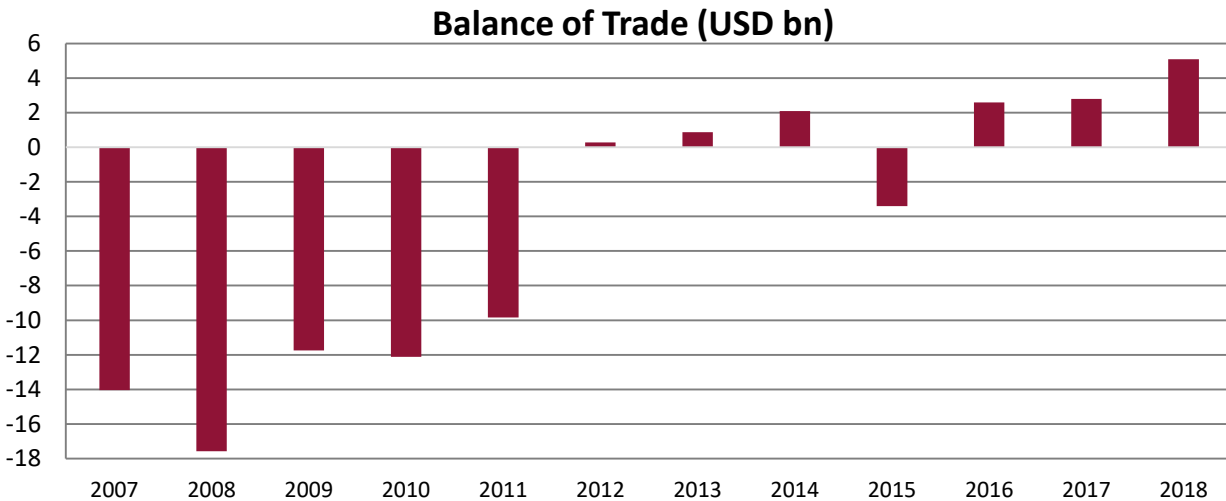
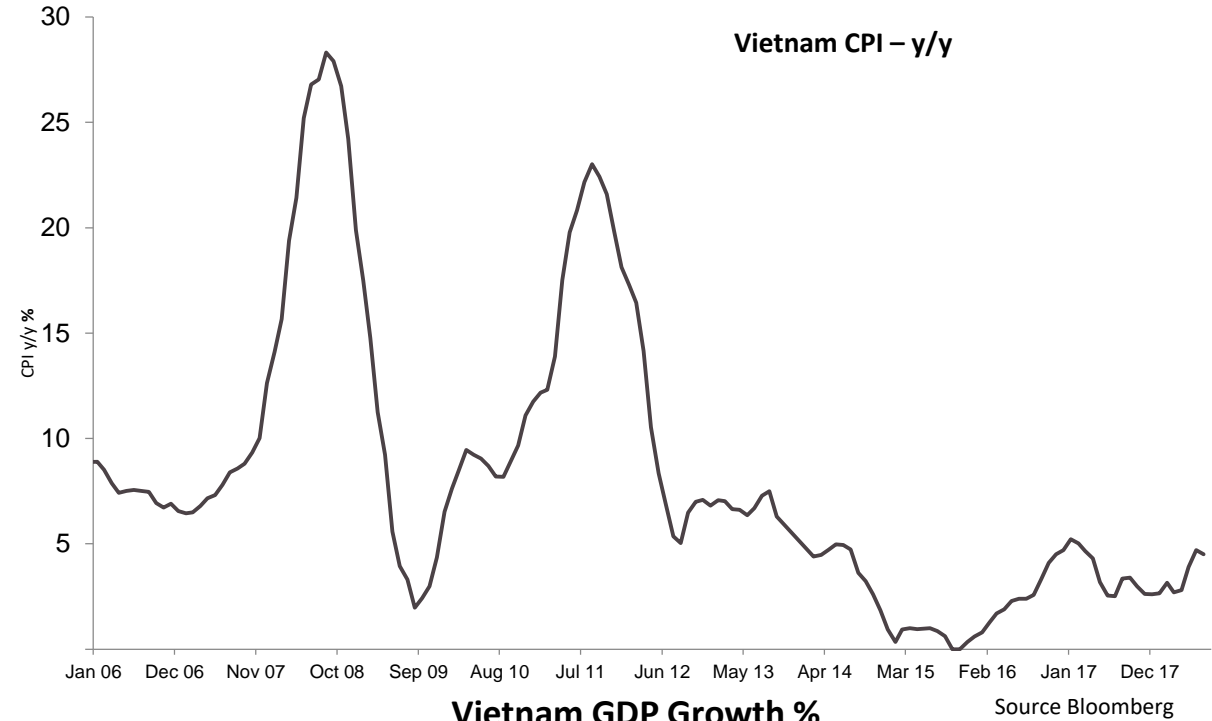
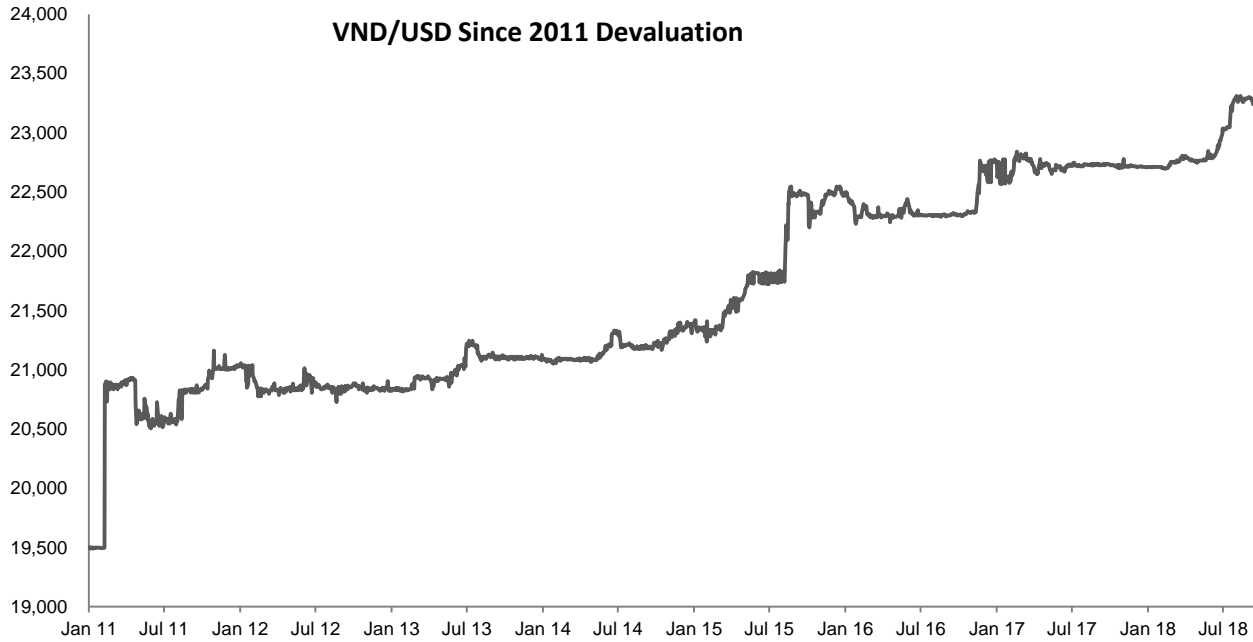
## **Further gains should precede re-designation as “MSCI Emerging” assuming:**

- Increased free-float through public primary & secondary offerings
- Improved access through encouraging relaxation of foreign ownership restrictions after rationalisation of conflicting legislation via a new Securities Law (expected in 2018)

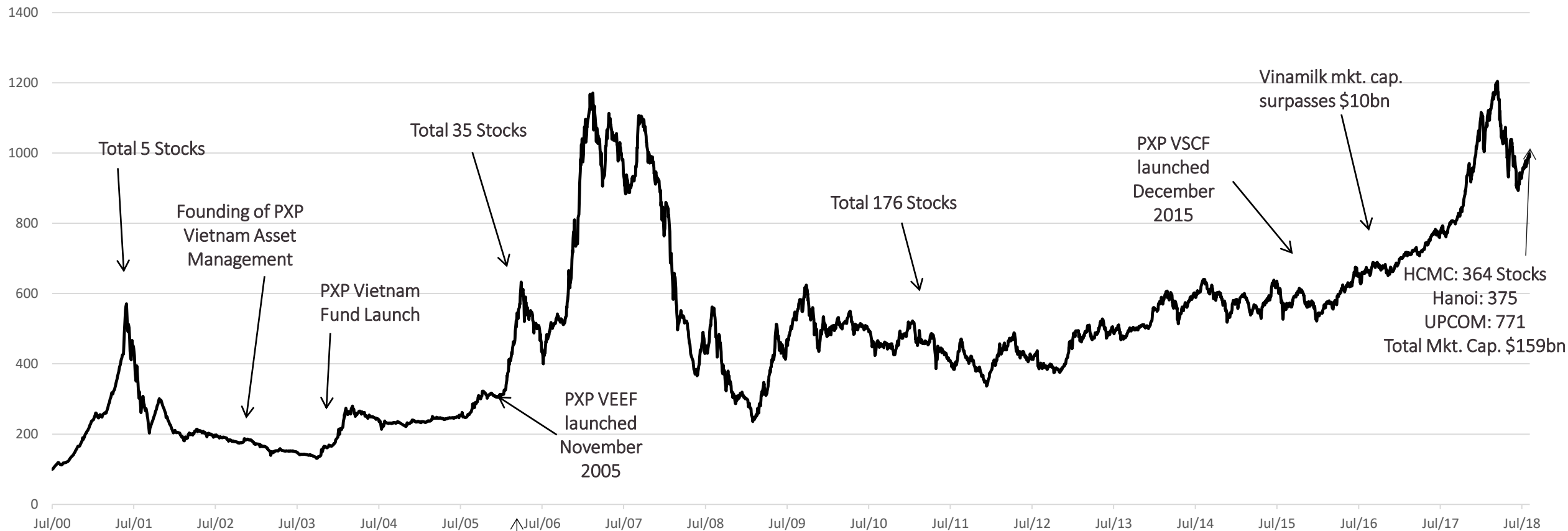
*Although disappointed by its omission in 2017 and 2018, possibly due to a lack of sustained progress in free-float expansion and the glacial progress of improvement in foreign access we see few other realistic alternatives for re-designation, and Vietnam is focused on success.*



# 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)

# Contacts

Kevin Snowball

Chief Executive Officer &  
Chief Investment Officer

Email: KHSnowball@pxpvietnam.com

Steve Mantle

Head of Marketing

Email: SMantle@pxpvietnam.com

Chi Nguyen

Co-Portfolio Manager PXP VSCF

Email: ChiNguyen@pxpvietnam.com

Lawrence Brader

Co-Portfolio Manager PXP VSCF

Email: LBrader@pxpvietnam.com

**[www.pxpvietnam.com](http://www.pxpvietnam.com)**

# Disclaimer

The information contained in this presentation and communicated during any delivery of the presentation, including the talks given by the presenters, any question and answer session and any document or material distributed at or in connection with the presentation are only being made, supplied or directed to persons who are investment professionals, high net worth companies or others who are entitled to be given the presentation under the law of the jurisdiction in which it is given (Qualified Investors). In member states of the European Economic Area, Qualified Investors falls within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC). In addition, in the United Kingdom, this document is limited to and intended for distribution only to persons who (i) are qualified investors (within the meaning of the Prospectus Directive 2003/71/EC) and (ii) who have professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO") and/or to high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2)(a) to (d) of the FPO or to those persons to whom it may otherwise be lawfully communicated. In Singapore, Qualified Investors included (a) institutional investors (as defined in the Singapore Securities and Futures Act (SFA)) pursuant to Section 304 of the SFA, (b) relevant persons (as defined in the SFA) pursuant to and in accordance with the conditions specified in Section 305(1) of the SFA and (c) persons who acquires the Shares as principal on terms that the Shares may only be acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction pursuant to and in accordance with the conditions specified in Section 305(2) of the SFA. Pursuant to Section 305 of the SFA read in conjunction with Regulation 32 and the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 (the "SFR"), the MAS has been notified in relation to the offer of the Shares. In accordance with the SFA and the SFR, the Scheme has been entered into the list of restricted schemes maintained by the MAS for the purposes of the offer of Shares made or intended to be made pursuant to Section 305 of the SFA.

It is the responsibility of every person reading this document to satisfy himself as to the full observance of laws of any relevant country, including obtaining any government or other consent which may be required or observing any other formality which needs to be observed in that country.

This document does not and is not intended to constitute, and should not be construed as, an offer, inducement, invitation or commitment to purchase, subscribe to, provide or sell any securities, services or products of the company in any jurisdiction, or any part of any solicitation of any such offer, inducement, invitation or commitment, or to provide any recommendations for financial, securities, investment or other advice or to take any decision. You are encouraged to seek individual advice from your personal, financial, legal, tax and other advisers before making any investment or financial decisions subscribing for or purchasing any securities.

Nothing contained herein should be relied upon as a promise or representation as to the future. There is no obligation or responsibility to advise any person of changes in the information set forth herein after the date hereof. None of the members, directors, officers, employees, agents or representatives nor any other person accepts any liability whatsoever for any errors, omissions or inaccuracies in such information or opinions or for any loss, cost or damage suffered or incurred howsoever arising, directly or indirectly, from any use of this presentation or its contents or otherwise in connection with the subject matter of this presentation or any transaction. The information contained in this document is not to be relied upon for any purpose whatsoever. Certain statements in this presentation may be forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties and assumptions about the company and investments that could cause actual results or events to differ materially from those expressed or implied by the forward looking statements. Forward looking statements contained in this presentation regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as required by applicable law or regulation, there is no obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise. You should not rely on forward looking statements, which speak only as of the date of this presentation.

The information contained in this presentation is not intended to be viewed by, or distributed or passed on (directly or indirectly) to, and should not be acted upon by any class of persons other than Qualified Investors. This presentation is strictly confidential and may not be copied or distributed or passed on by any recipient. None of the company or person acting on its behalf shall (without prejudice to any liability for fraudulent misrepresentation) have any liability whatsoever for loss however arising, directly or indirectly, from the use of information or opinions communicated in relation to this presentation.

By accepting a copy of this document, you agree to be bound by the foregoing limitations and, in particular, will be taken to have represented, warranted and undertaken that you have read and agree to comply with the contents of this notice including without limitation the obligation to keep this document and its contents confidential.

# Switzerland Disclaimer

The information contained in this presentation and communicated during any delivery of the presentation, including the talks given by the presenters, any question and answer session and any document or material distributed at or in connection with the presentation are only being made, supplied or directed to persons who are qualified investors (the "Qualified Investors") as defined in Article 10 § 3 of the Swiss Collective Investment Scheme Act ("CISA") and Article 6 of the Collective Investment Scheme Ordinance ("CISO"). The fund has not been and will not be registered with the Swiss Financial Market Supervisory Authority ("FINMA").

The Representative of the fund in Switzerland is ARM Swiss Representatives SA, with its registered office at Route Cité-Ouest, 2, 1196 Gland. The statutory documents of the fund, its prospectus, offering memorandum or private placement memorandum and annual or semi-annual reports can be obtained free of charge from the Representative. The place of performance and jurisdiction for shares of the fund offered or distributed in or from Switzerland is the registered office of the Representative. It is the responsibility of every person reading this document to satisfy himself as to the full observance of the laws, including obtaining any government or other consent which may be required or observing any other formality which needs to be observed in that country.

This document does not and is not intended to constitute, and should not be construed as, an offer, inducement, invitation or commitment to purchase, subscribe to, provide or sell any securities, services or products of the company in any jurisdiction, or any part of any solicitation of any such offer, inducement, invitation or commitment, or to provide any recommendations for financial, securities, investment or other advice or to take any decision. You are encouraged to seek individual advice from your personal, financial, legal, tax and other advisers before making any investment or financial decisions subscribing for or purchasing any securities.

Nothing contained herein should be relied upon as a promise or representation as to the future. There is no obligation or responsibility to advise any person of changes in the information set forth herein after the date hereof. None of the members, directors, officers, employees, agents or representatives nor any other person accepts any liability whatsoever for any errors, omissions or inaccuracies in such information or opinions or for any loss, cost or damage suffered or incurred howsoever arising, directly or indirectly, from any use of this presentation or its contents or otherwise in connection with the subject matter of this presentation or any transaction. The information contained in this document is not to be relied upon for any purpose whatsoever.

Certain statements in this presentation may be forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties and assumptions about the company and investments that could cause actual results or events to differ materially from those expressed or implied by the forward looking statements. Forward looking statements contained in this presentation regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as required by applicable law or regulation, there is no obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise. You should not rely on forward looking statements, which speak only as of the date of this presentation.

The information contained in this presentation is not intended to be viewed by, or distributed or passed on (directly or indirectly) to, and should not be acted upon by any class of persons other than Qualified Investors. This presentation is strictly confidential and may not be copied or distributed or passed on by any recipient. None of the company or person acting on its behalf shall (without prejudice to any liability for fraudulent misrepresentation) have any liability whatsoever for loss however arising, directly or indirectly, from the use of information or opinions communicated in relation to this presentation.

# NOTES

