



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:

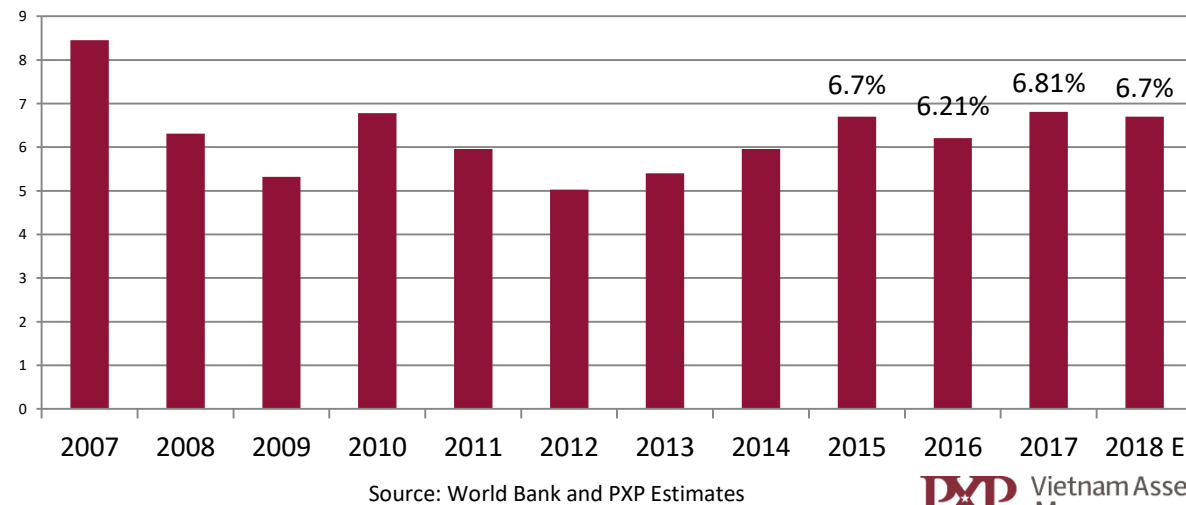
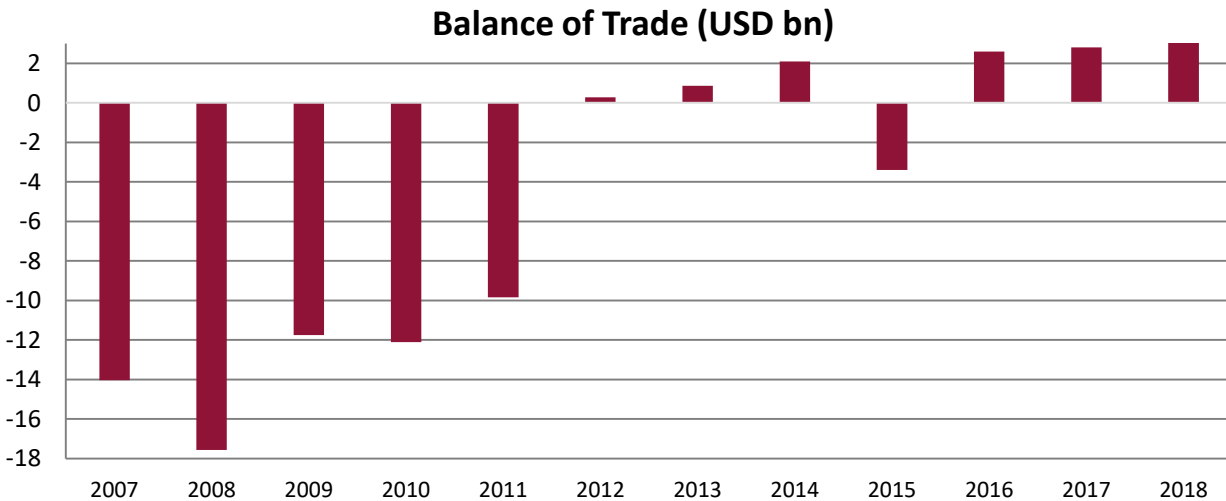
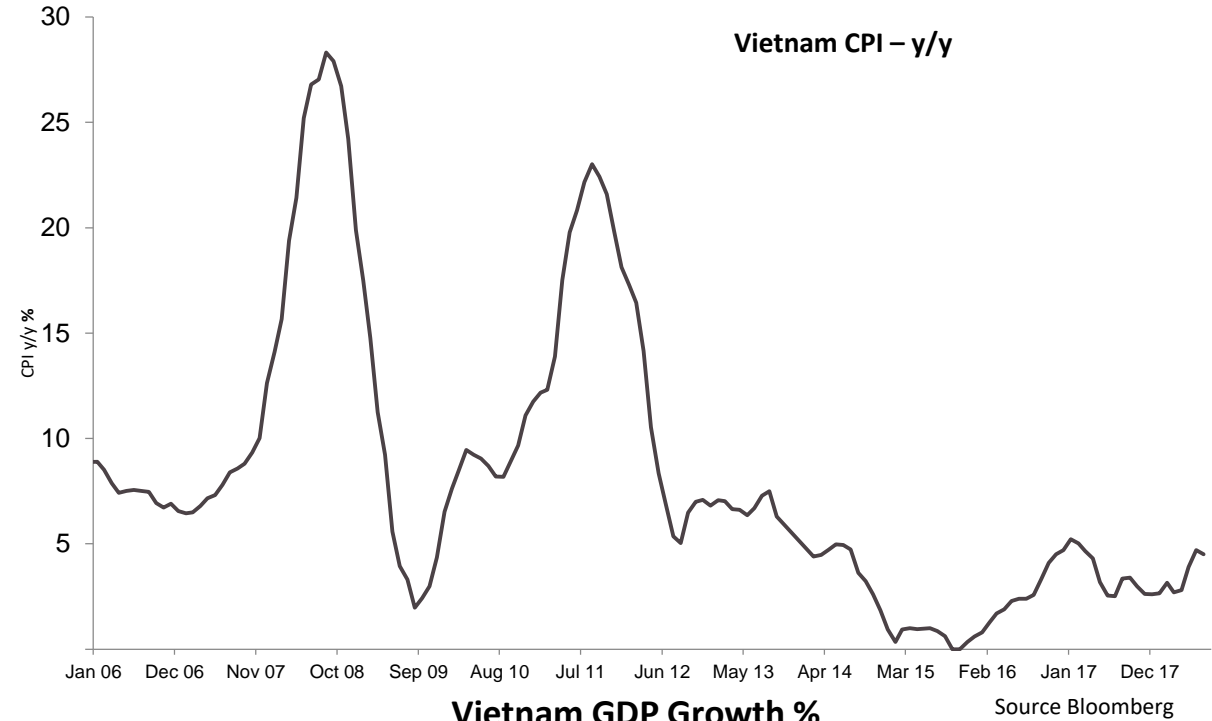
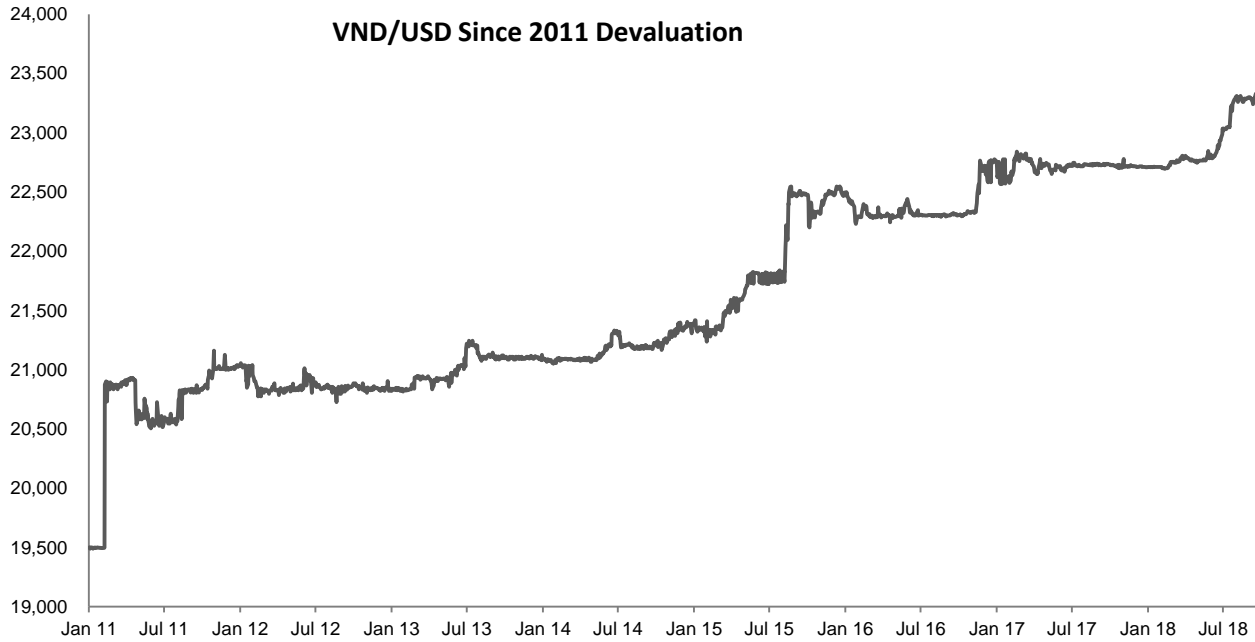
- Supportive macroeconomic environment
- Political stability
- Reform-minded government
- Decent earnings growth
- Increased market visibility and a surge in (particularly foreign) interest

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

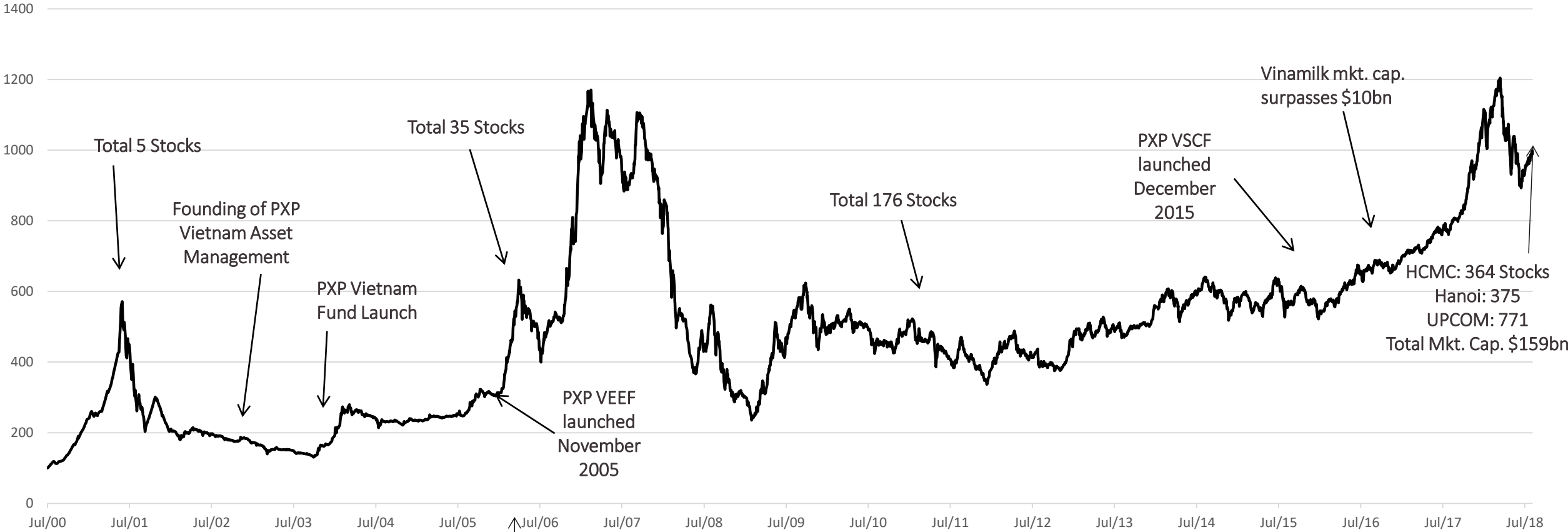
- Increased free-float through public primary & secondary offerings
- Improved access through encouraging relaxation of foreign ownership restrictions after rationalisation of conflicting legislation via a new Securities Law (expected in 2018)

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)

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