



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 7.1% in 2018, 7.0% in 2019, 6.8% expected in 2020
- Inflation had previously moderated from 4.7% y/y in June 2018 to within the Government’s <4% target until December 2019, reaching 5.2% y/y. This breach was mainly attributable to a sharp increase in pork prices due to African Swine Fever
- 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 enter bi-lateral and multi-party free trade agreements even as protectionism becomes more prevalent globally

THE INVESTMENT CASE

MACRO

- 96 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
- 2019 monthly inflation remained below 4% annualised target until December 2019. We expect the 4% target to be challenging in 2020 due to increased pork prices and the impact of the new coronavirus
- Record trade surplus (\$11.2bn) in 2019. 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 2020 and 2021
- The market remains relatively cheap on both a historical and relative regional basis

THE RISKS

MACRO

- Currency depreciation beyond policy (1.5-2.0% p.a) possible as a result of USD strength / CNY weakness
- Emerging market contagion
- Trade wars
- Impact of new coronavirus

MARKET

- Increase in nominal market capitalisation not currently matched by free float
- IPOs (a catalyst for foreign demand for stocks in 2017 to 1Q 2018) have stalled after spectacular failures in 2018
- Access for foreign investors remains problematic due to foreign ownership limits. This will be alleviated to some extent by the impact of planned new domestic ETFs not subject to FOL

VALUATIONS: Regional & portfolio comparison

	<u>2019 PE</u>	<u>2020 PE</u>	<u>2021 PE</u>	<u>2020 Earnings Growth</u>	<u>2021 Earnings Growth</u>	<u>2019 GDP</u>	<u>2020 GDP</u>	<u>2021 GDP</u>
Viet Nam Index	17.0x	13.1x	11.1x	24.7%	18.6%	7.0%	6.8%	6.9%
PXP VEEF	12.2x	11.0x	9.6x	9.9%	15.1%			
PXP VSCF	9.5x	7.8x	6.7x	18.4%	20.6%			
SE THAI	18.5x	15.6x	14.4x	15.7%	8.7%	2.5%	2.9%	3.3%
FTSE Malay KLCI	18.3x	15.4x	14.5x	15.6%	6.0%	4.5%	4.3%	4.5%
Jakarta Comp	19.6x	14.2x	12.3x	30.2%	15.0%	5.0%	5.0%	5.3%
PSEi - Philippines	17.0x	14.6x	13.2x	10.5%	10.3%	5.8%	6.1%	6.3%

ACCESSING THE MARKET

Closed end
Funds

Exchange
Traded Funds

Direct Equity
Access

Open-Ended
Funds

- Very few closed-end funds remain and are subject to pricing risk
- Offshore ETFs facilitate easy access and exit but cannot hold the higher quality stocks at the foreign ownership limit (with the exception of the local vehicle). Impending domestic ETFs will provide a way around this
- Direct equity access is problematic due to the cumbersome trading code application process, foreign ownership limits and restricted (but improving) stock coverage by the sell-side
- Open-ended funds, such as PXP VEEF & PXP VSCF, 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 Market status. Whilst market size & liquidity measures are probably sufficient, the country has further to go before achieving its goal. We await the impact of the FOL evading domestic ETFs

Remaining requirements:

- Significantly improved access through real relaxation of foreign ownership restrictions, or alternative solution including Non-Voting Depository Receipts
- Simultaneous bi-lingual publication of all corporate announcements

Time-frame:

- Annual market classification review in June each year (earliest June 2020)
- MSCI decision is announced one year later (earliest June 2021)
- Reclassification to EM from Frontier effective one year later (earliest June 2022)

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

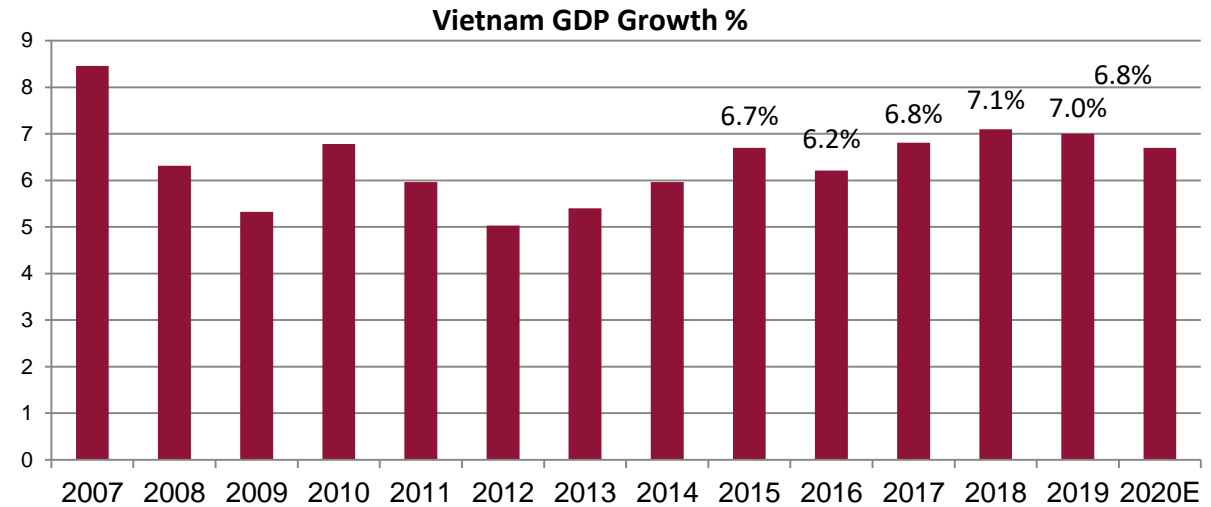
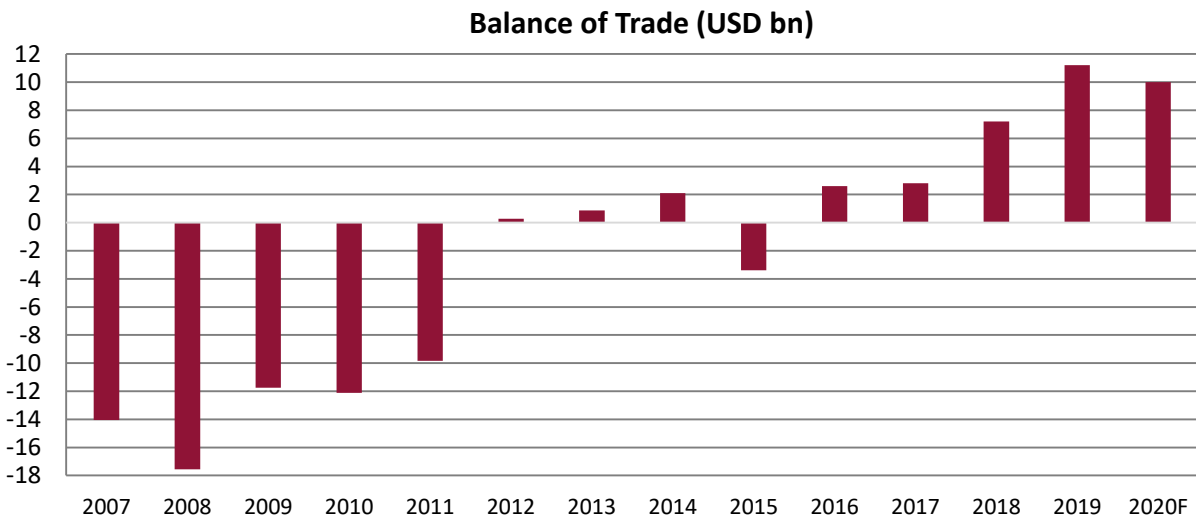
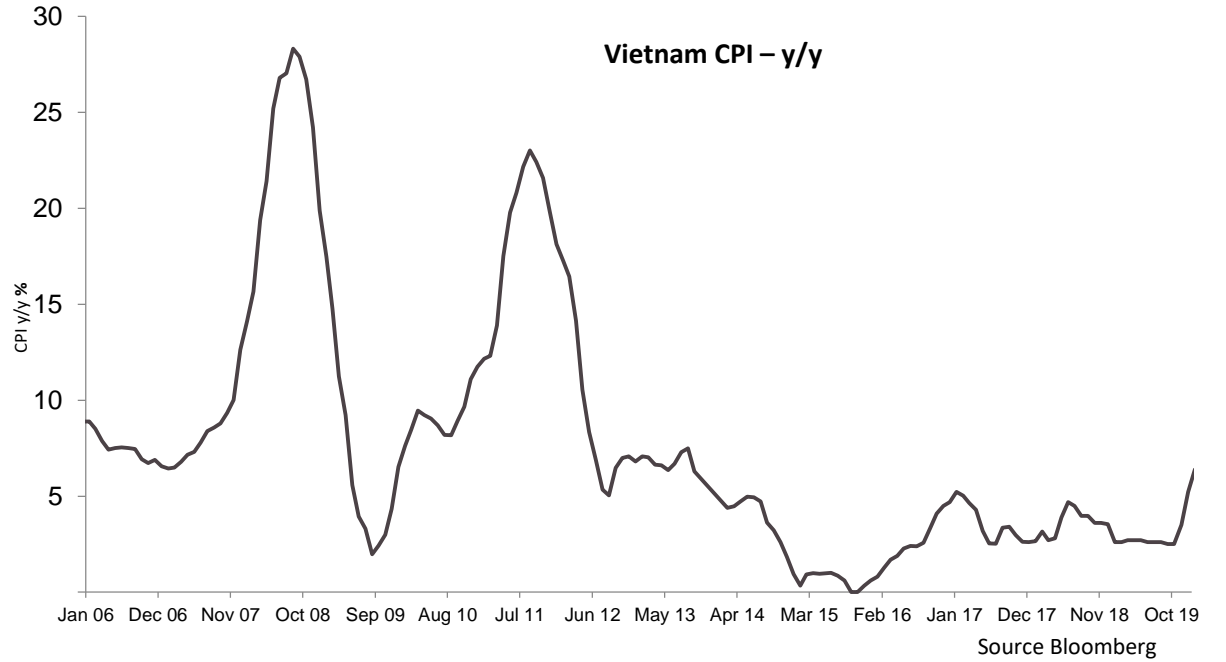
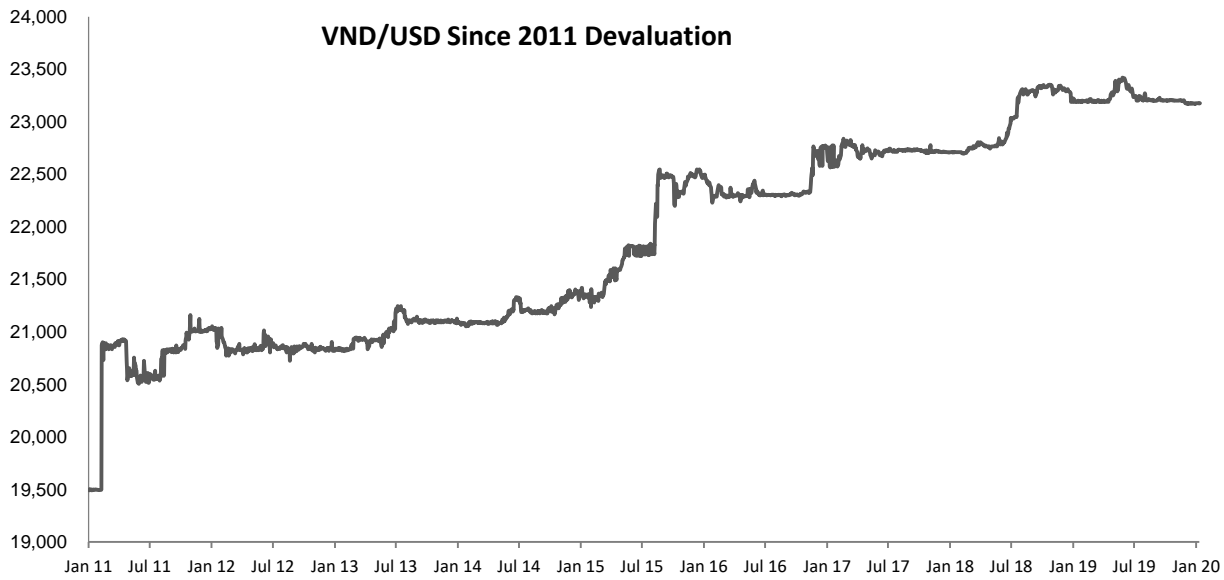
- Supportive macroeconomic environment
- Political stability, with new 5-year government to be elected at the end of 2020
- Strong earnings outlook for 2020, caveated by potential impact of coronavirus

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

- Increased free-float through public primary & secondary offerings
- Improved access for foreign investors

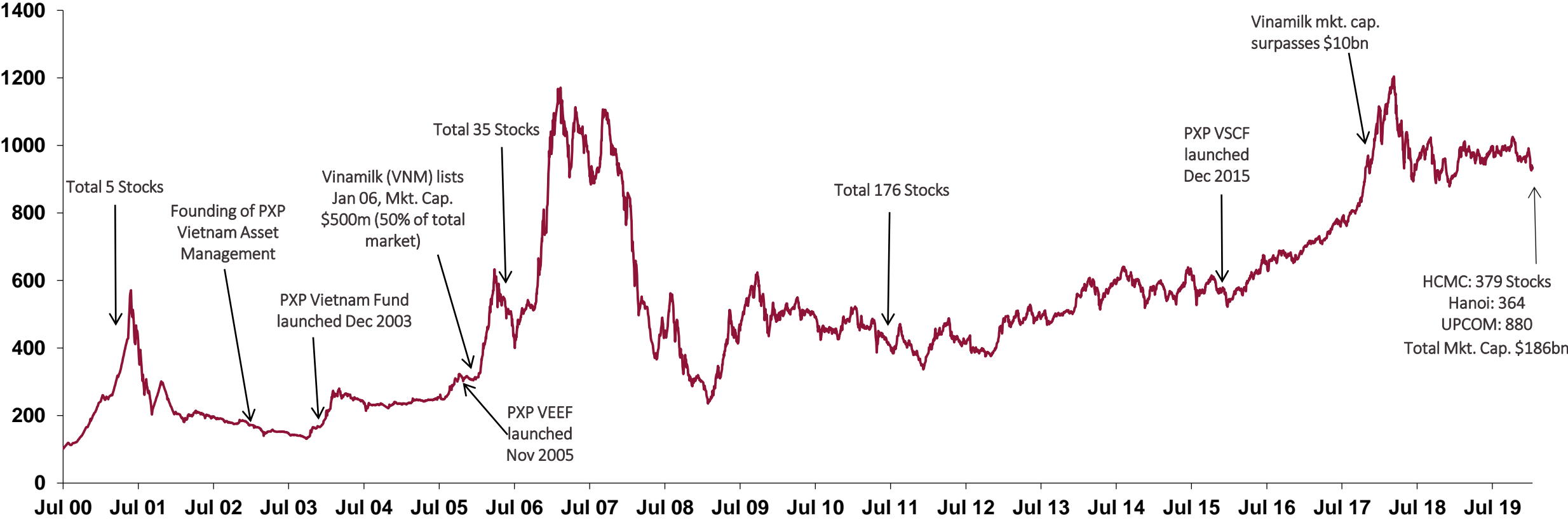
Although disappointed by its omission in recent years, possibly due to a lack of sustained progress in free-float expansion and the glacial progress of improvement in foreign access, we see no other realistic alternatives for re-designation. Some concerns as to the relevance of Frontier ex-Vietnam

APPENDIX A: Macro data



Source: World Bank and PXP Estimates

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



HCMC: 379 Stocks
 Hanoi: 364
 UPCOM: 880
 Total Mkt. Cap. \$186bn

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

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