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Vietnam's 'mini-China' story fuels one of world's top share markets

Gains make traders nervous about country's external risks with an eye on biggest stocks

John Reed in Ho Chi Minh City

Bolstered by an improving economy and a wave of listings that has drawn money from big foreign investors, Vietnam equities have racked up the best gains in Asia in the year to date, making the Ho Chi Minh Stock Exchange one of the world's best performing bourses.

The benchmark VN-Index has risen about 17 per cent in local currency terms in the year to date, handily outpacing Asia's main share benchmarks, and the market has more than doubled over the past two years.

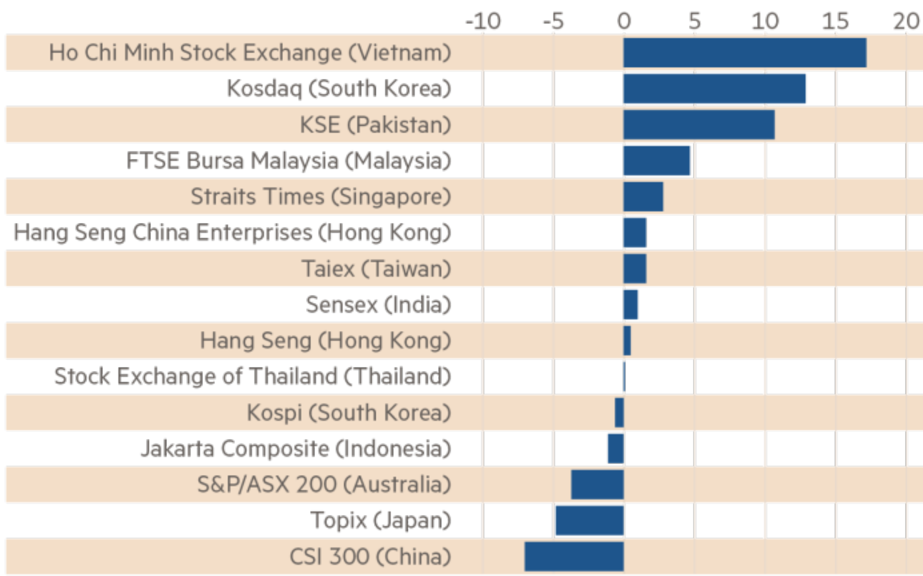
Analysts say investors are drawn to Vietnam's "mini-China" story: that of a communist state increasingly embracing the private economy, integrating itself into the global trading system, and positioning itself as a hub for foreign manufacturing. They add that, while prices for the country's biggest stocks are rich, the Vietnamese economy's promising long-term prospects suggest growth for the wider market.

"The escalation of tension between China and the US is actually somewhat positive for Vietnam," said Trinh Nguyen, senior economist at Natixis in Hong Kong. "Korea and Japan have shifted a lot of production to Vietnam, and one of the reasons they do that is as part of a diversification out of China."

Companies that have set up factories in Vietnam over the past decade, and are now contributing to its improved trade balance, include Intel and Samsung, which makes about half its smartphones there.

Vietnam leads Asian equities markets

Year-to-date returns* (%)



* Returns in local currency
Sources: Bloomberg; Natixis
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Vietnam’s economy grew 7.4 per cent at an annualised rate in the first quarter of this year. Its exports now exceed those of Indonesia — an economy almost five times its size.

The country, unlike some of its neighbours heading into a demographic slump, has a youthful population that is fuelling demand for everything from beer to budget travel.

“People need a motorbike, a home to live in, medical care,” said Andy Ho of VinaCapital, one of Vietnam’s biggest fund managers. “We focus on businesses that invest in sectors that benefit from growth of the domestic economy.”

VietJet Air, the low-cost carrier; Vincom Retail, a shopping mall operator; and Binh Son, the refinery operator, are among the companies that have listed since the beginning of 2017. More initial public offerings are in the pipeline, including Vinhomes, the property arm of the conglomerate Vingroup, and Techcombank, one of the country’s largest banks.

Vietnam’s exchange is still classified as a “frontier” market, but is one of the largest in this category with a market capitalisation of about $140bn, exceeding that of Pakistan, and which MSCI upgraded to “emerging” last year.

“This year, the reason the market has been so strong is because of a lot of IPO activity,” said Dominic Scriven, chairman of Dragon Capital, a leading fund manager. “The capital for that has come from global institutions that are in their early stages of investing in Vietnam.”

Vietnam limits foreign ownership of non-banking stocks to a maximum of 49 per cent, and banks to 30 per cent at most. Market participants have proposed introducing depositary receipts that would allow foreigners to buy majority stakes in listed companies without demanding voting rights, but so far no such securities have been introduced.

People who follow the market said the biggest, most popular stocks look overpriced. The 10 biggest stocks in the VN-Index are trading on a weighted average of about 32 times 2018 projected earnings, said Kevin Snowball, chief executive officer of PXP Vietnam Asset Management. “The idea that it is now the new normal that you will pay more than 30 times earnings discounts the risk of any kind of negative occurrence over the next 30 years,” he said.

Mr Snowball said there were still smaller companies trading at less than 10 times earnings, but added that most brokers did not cover them.

“It’s probably fully valued,” said VinaCapital’s Mr Ho, but he added: “Putting valuations aside, we do see a lot of interest in Vietnam.”

Investors with longer memories say Vietnam also carries risks that go beyond whether shares are overpriced.

The Ho Chi Minh City exchange saw a bull market a decade ago that was cut short by the 2008 financial crisis, which revealed a swath of non-performing loans in a state sector plagued by corruption. The equity market took a dive as growth slowed and inflation rose, and stocks over the next four years showed a peak-to-trough drop of 80 per cent.

Vietnam’s government has in the years since made progress in cutting inflation and improving the country’s external balances.

“There’s no internal risk in Vietnam at this point in time that we can identify, either in the macroeconomy, or in the stock market, or in politics,” said Fiachra Mac Cana, managing director of Ho Chi Minh City Securities. “All the risk is outside Vietnam — but if you look at the climate outside Vietnam, it hasn’t been darker since 1939.”

Additional reporting by Nguyen Khac Giang