

Investing in Vietnam - Finding the Best Value Today

A panel of five experts assembled at the Vietnam Wealth Management Forum to ponder the best way to approach the Vietnamese financial markets, on both a shorter-term and longer-term perspective. Vietnam is well recognised as an economy on the rise and a financial market on the cusp of moving from frontier to emerging status. But does that mean there is value aplenty?

These were the topics discussed:

- Where are the opportunities for both local and international investors?
- What's the outlook for the financial markets in Vietnam over the next decade?
- What should Vietnam do to increase its attractiveness for the offshore wealth management industry - and encourage more investment in Vietnam?
- Vietnam is a key beneficiary of the current US/China trade war, but is this trend sustainable?
- Is the Vietnam's stock market fairly priced?
- Do Vietnam's stock market indices reflect what is happening in the broader market?
- What are the risks?
- Public equity vs credit vs private markets?
- Is there enough market depth and liquidity?

PANEL SPEAKERS

- **Andreas Vogelsanger**, Chief Executive Officer, Asia Frontier Capital
- **Rainer Michael Preiss**, Executive Director, Investment Advisory, Taurus Family Office
- **Thi Xuan Dung Nguyen**, Investment Director, VinaCapital
- **Lawrence Brader**, Co-Portfolio Manager, PXP Vietnam Asset Management
- **Anh Tuan Phung**, Managing Partner, VCI Legal



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THE KEY TAKEAWAYS

Signals all positive

Vietnam is enjoying strong GDP growth, rising FDI, rapid expansion and diversification of consumer spending, the country's fiscal position is robust, and Vietnam appears to be benefiting from the US trade troubles with China.

But financial markets less developed

The long-anticipated transition from MSCI frontier market to emerging market has not yet happened, and the equity market remains thin, with volumes of only about USD300 million a day, much higher than in recent years, but far from appealing for the larger global investors. With little research and the lack of presence of major global banks and brokerages, specialist active funds are likely the best way in.

Foreign limits limit interest

The EFT market struggles to track the main index because of foreign investor thresholds, which are already full for most of the largest stocks, especially State-controlled companies.

Fixed income appeals

With high interest rates - deposits yield 5% to 8.5% depending on the maturity - the fixed income market is appealing, although thus far it is relatively thin, research/data is limited, and ratings are unreliable. Nevertheless, improvements are taking place, and the government is encouraging leading global institutions to help develop the sector.

A window of opportunity

For Asia's HNWIs, there appears to be a window currently open in which to invest before the larger international funds join the party. As one guest noted, the conferences as yet remain half full, once they are bursting at the seams, valuations will be considerably higher.

Infrastructure boom to continue

There are many fascinating sectors in Vietnam, from the financial arena to fintech, consumer stocks, healthcare and others, but as to larger funding needs, infrastructure demand will continue apace, hence more roads, ports, power, telecoms and other investments.

Governance issues

Few investors or experts would extol the virtues of Vietnam's corporate governance, but things are improving. Diversification of smaller holdings in the public markets is the best approach.

Hold the Vietnamese currency

With a high cash yield and stability against the US dollar, experts advise a long-term hold for the Vietnamese dong, which has already been appreciating against some Asian neighbours.

Buy it all

A final comment came from one Vietnam bull, who said that the decade ahead will see continued expansion of the economy, private wealth and markets. A broad holding in debt and equity markets is strongly advised.



ANDREAS VOGELSANGER
Asia Frontier Capital

V IETNAM IS ENJOYING STRONG AND STABLE GDP GROWTH, rising FDI and trade activity, a rapid expansion of the spending power that is boosting consumption, a fast-growing middle class that is helping diversify demand in the economy. On the macroeconomic view, Vietnam has stable credit growth and robust monetary policy alongside solid currency control and strengthening reserves. And the country appears to be one of the major beneficiaries of the US-China trade wars, picking up a lot of inward investment from places such as China and Hong Kong, amongst others.

A panellist began by remarking that there is a strong consensus that Vietnam is on the right track in many areas. “There is a lot of domestic confidence here,” he said, “Anybody who you speak to would say that things are looking pretty good for Vietnam at the moment.”

And the easiest way to play that, he added, is to buy a fund because it remains quite cumbersome to open an account in Vietnam, with masses of paperwork and then a universe of companies that are not so well researched. Moreover, he added that even though a lot of foreigner investors like ETFs, they struggle to track the index as they might do in other countries because of foreign ownership limits, meaning some of the key blue chips are not accessible because limits are already reached. “ETFs therefore tend to underperform the market in the long run,” he noted, “maybe not this year but if you are looking at several years, ETFs



ANH TUAN PHUNG
VCI Legal



THI XUAN DUNG NGUYEN
VinaCapital

have heavily underperformed the market, so we believe actively managed funds make much more sense here.”

Another guest focused on the fixed income and credit markets, stating that this is well positioned for portfolio diversification. “The corporate bond market has grown quite well and has high returns and the currency has performed well over the past year, supported by USD69 billion of reserves, equivalent to about three months of imports. With interest rates high, a stable local currency and the macroeconomy very stable, so too the political system, fixed income and credit is a good choice for risk diversification and also for yield. It is a small market but growing rapidly as well.”

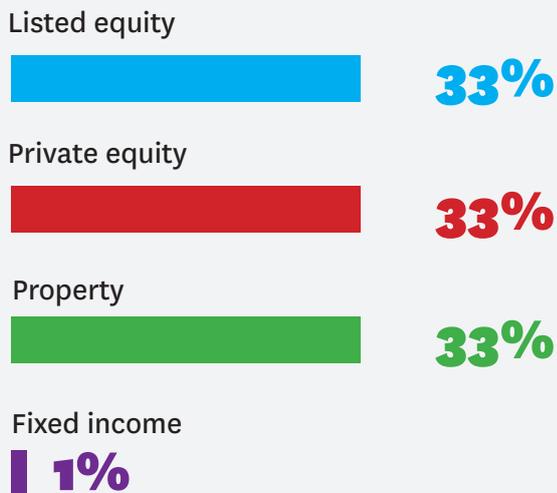
A guest noted that the re-rating that investors had expected in both currency and country risk is providing major tailwinds to Vietnam. “Then there is the ‘conference’ factor,” he said, “with people remarking that when conferences on markets or countries are full, that is the time to sell, but today they are still only half full. Looking across to India, as soon as some of the major banks went overweight there, the country’s markets were in a bubble. But we are far from that here.”



RAINER MICHAEL PREISS
Taurus Family Office

Another reported that some major research houses and banks are now underlining how powerful Vietnam’s economy can be in the future, but he said the flood gates of foreign money are not yet open wide and the re-rating of the country is still taking place gradually.

IF YOU TAKE A FIVE YEAR VIEW ON VIETNAM - WHICH OF THE FOLLOWING OFFERS THE BEST OPPORTUNITY?



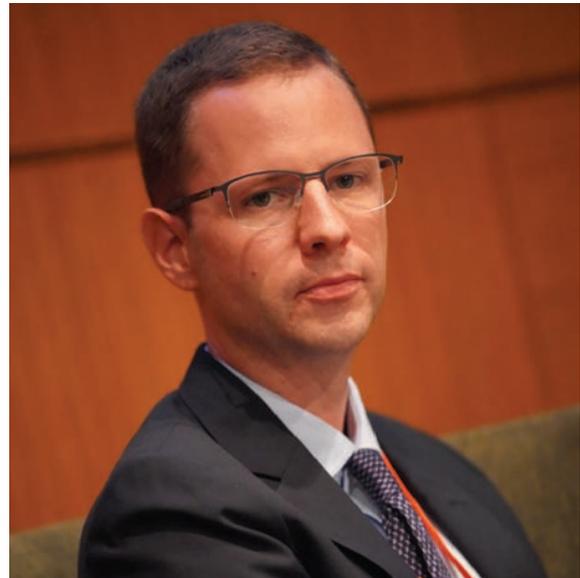
Source: Vietnam Wealth Management Forum 2019

A panellist discussed whether Vietnam’s economy would drop back if the US-China trade wars ended, noting that there are many Chinese and other companies that are using Vietnam as a kind of transshipment or backdoor manufacturing hub to bypass restrictions.

“So, yes,” he said, “there is some risk as well as opportunity, but the retail market is expanding well here, and so too the property market, with strong and growing foreign demand as well. Sectors such as renewable energy are growing fast, both solar and wind, and infrastructure development is moving fast. The financial markets are expanding, so too fintech, with a young consumer market here that is tech-savvy, so for example the app and e-payment segments are doing well.”

Market liquidity is an issue for equities. A panel member noted that a few years ago, the average market volume has grown in recent years from less than USD100 a day to over USD250 million. “There has been a lot of talk about MSCI upgrading from frontier market to emerging market status,” he remarked, “and it seems very close now. Perhaps the growth of non-voting shares here as a means to access the market will help, we are certainly optimistic in that regard, as a means to overcome foreign ownership limits and boost liquidity.”

“With infrastructure demand so intense,” said another guest, “and some of the larger, listed state enterprises heavily involved there, we think the government will have to lift ownership limits anyway, and there will be a rapid expansion in equity and debt funding. And the privatisation



LAWRENCE BRADER
PXP Vietnam Asset Management

pipeline is significant, although the government is also concerned about foreign ownership of some of those entities. Compliance and regulation will also improve, helping draw more foreign funds in here.”

“Yes,” said a fellow panellist, “certainly in the fixed income market, our foreign buyers need more information on the issuers, and it is also tough to set up accounts here. The government needs to centralise information and encourage corporates in Vietnam to focus more on ESG, so that foreign investors can assess the risks and build their long-term investment strategy in Vietnam.

IS THE VIETNAM MARKET FAIRLY PRICED?

Yes



No



Source: Vietnam Wealth Management Forum 2019

Another expert picked up on this confidence factor. “It takes time to build the confidence of foreign buyers coming in here,” he said, “so it is rare that we meet a new client and they buy into our fund straight away. But for sure we are getting a lot more inquiries from overseas and we are in year six or seven of the bull market now. We now need the larger international banks becoming more comfortable working here. So, in short, there is an opportunity for investors to put money in here before the big foreign funds come in, as they don’t yet see the liquidity and the standards to invest here significantly. The MSCI upgrade will help in that regard.”

Volatility will continue, said another guest, noting that the market reached a new high earlier in the year, only to drop back by about 20% after the poor performance of the Techcombank IPO, which slumped about a third on listing. “New inflows should come in gradually, not in a rush,” he advised.

The discussion moved to governance, with one expert noting that to address those concerns, his fund invests in more than 60 listed stocks, with a maximum stake of 3.5%.” Another guest remarked that there are selective private equity opportunities for those prepared to commit the time and focus, as it is currently a difficult market to access for that type of money.

“There remains some lack of governance here, everyone would admit,” said a guest. “The private equity market does not allow for easy exit, so we prefer the public market, but there are success stories in the private space.”

With a cash yield of about 7.6% in the Vietnamese Dong, an expert remarked that a good call for the years ahead is to go long

the Vietnamese Dong, with leverage from their investor’s domestic currency adding to those returns, potentially.

“Yes, the history of the currency is quite stable against the US Dollar,” said another panellist, “and you can see that the Vietnamese Dong is still today almost flat against the US Dollar while other currencies in Asia depreciated sharply, especially the Chinese Yuan. The government here is clearly working towards providing good infrastructure and legal framework to accommodate all the investments from overseas to Vietnam and I think for that the stable macro conditions, stable political system, and other factors will support the long term investment strategy for the corporate bond market space.”

They added that the Vietnamese government is understood to be trying to work with the all

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the largest financial institutions in the world like the World Bank, the IFC, and other credit rating agencies like S&P and Moody to help Vietnam develop the credit rating system that helps the investors to better assess Vietnamese credits.

“I think really it doesn’t matter what people buy,” said another expert on closing the talk, “Vietnam is going up over the next 10 years. Whatever it is that you decide fits with your mandate is probably a good idea, so focus on quality, but clearly both fixed income and equity look good.” ■

