

An aerial photograph of a city waterfront, likely Ho Chi Minh City, Vietnam. The image shows a wide river or lake in the foreground, with a paved promenade lined with lush green trees. In the background, a dense urban skyline is visible under a hazy, golden sky. The text 'Vietnam's Stocks Offer Long-Term Profits With Status Upgrades' is overlaid in large, bold, black font across the center of the image.

Vietnam's Stocks Offer Long-Term Profits With Status Upgrades

BY:

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V IETNAM HAS SURGED TO BECOME SOUTHEAST ASIA'S best-performing stock market this year, posting a 12% gain for the benchmark VN index on the Ho Chi Minh Stock Exchange. According to Bloomberg data, Vietnam was the third-best performing market globally over the past five years. Although investors will find that most private banks and wealth managers are still unable to buy or sell Vietnamese equities directly, I would argue that this should be seen an encouraging sign because the market is still not yet on the radar of most investors but the indications are that it will be in the future.

Vietnam appears to be Asia's most interesting macro story and investment case this year. The country's ongoing economic reforms combined with recent geopolitical developments have certainly bolstered the country's outlook. The World Bank expects Vietnam to be among Asia's fastest-growing economies this year, with the country's GDP growth rate forecast to reach 6.6%. And Vietnam's two stock market looks set to benefit further from a major potential catalyst for renewed interest if its equities are added to the widely followed MSCI Emerging Markets Index, which is both long overdue and seems like to happen by 2020, according to Mark Mobius, the veteran investor who earned the moniker: "father of emerging markets."

Many forget how far Vietnam has progressed since the launch of its "doi moi," or renovation, policies back in 1986. The political and economic initiative introduced just over two decades ago was intended to facilitate the country's transition from a centralized economy to

a "socialist-oriented market economy." Doi moi was meant to combine government planning with free-market incentives.

"In the beginning of the 90s, the per capita income of Singapore was 125 times higher than Vietnam, now it is 24 times," Vietnam's Prime Minister Nguyen Xuan Phuc told delegates at the World Economic Forum to ASEAN last year in Hanoi. "Thailand used to be 16 times higher than Vietnam, now the figure is 2.5 times. Compared to Japan, the figure came down from 267 times to 16 times, or the U.S., the figure decreased from 252 times to the current 25 times."

Vietnam's wealth grew by 210% between 2007 and 2017, according to the real estate consultancy Knight Frank, and more than 200 Vietnamese citizens now have investable assets of at least \$30 million. Having expanded by 320% between 2000 and 2016, Vietnam's "super-rich" class is growing faster than that of India (290%) and China (281%). And if current trends continue, it will have grown by another 170%-from 14,300 to 38,600 millionaires-by 2026.

Vietnam has been seen by many as having benefited from the new geopolitical realities of the ongoing U.S.-China trade war. Vietnam is expected to attract more manufacturing FDI as companies seek to build a "China plus one" sourcing strategy to mitigate the risk of further trade disputes between the world's two largest economies. In terms of the stock market, the most direct beneficiaries of this ongoing trend include the Vietnam's industrial park operators, logistics and port operators and air cargo handling companies

And although the recent the Trump-Kim summit in Hanoi may have been a disappointment in terms of denuclearizing the Korean Peninsula, it was a boon for the host country. The summit helped to raise the awareness of "Brand Vietnam" on the global stage while



reaffirming the view that the country has successfully transitioned from a closed, command economy to a market-based, trade-oriented economy. The country's air carriers highlighted that fact when they signed more than \$21 billion in airline orders and service contracts with U.S. companies on the sidelines of the summit.

Vietnam's inclusion into some of the world's most influential equity indices would deliver a much-deserved boost in terms of interest from investors in the nation's stock market. According to an annual review by the FTSE Russell released last September, Vietnam is still currently classified as a frontier market, but has been added to its watch list for possible reclassification as a secondary emerging market. The probability that it will be upgraded in September this year seems relatively high in my view. Currently, the FTSE's secondary emerging category includes China, India, Indonesia, Pakistan, the Philippines and Russia, among others.

Vietnam could also be classified as an emerging market by MSCI next year if its free-float rate increases and the market infrastructure is adjusted to better accommodate foreign investors. Most of the concerns pointed out by MSCI about Vietnam's upgrade are technical and can be addressed with new regulations. Probably the biggest obstacle to overcome would be the willingness of Vietnamese business owners to welcome foreign

investment. This openness to foreign investment will form the biggest impression about Vietnam in investors' eyes, besides the official market status by MSCI.

Policymakers have already expressed their intentions of removing restrictions on foreign ownership of state-owned and listed companies by the end of 2019, as the government looks to open its capital-hungry economy further in order to sustain its rapid growth. The Finance Ministry is currently drafting an overhaul for the nation's securities law, the first major amendment since 2010.

In order to prepare the market for MSCI EM Index inclusion and to deepen liquidity, VN30 index futures contracts were introduced last year and currently the Ho Chi Minh Stock Exchange is seeking the Finance Ministry's approval to start the trading of covered equity warrants in the third quarter of 2019. Underlying assets for the warrants will be stocks that meet certain conditions, such as: belonging to VN30 index or HNX30 index; having free float ratios of at least 20%; an average daily market cap in the most recent 6 months of at least 5 trillion Vietnamese dong (\$215 million). Vietnam's markets regulator is also studying new derivatives index contracts for the future that would use the VNX200 index or VNX100 in addition to the current contracts for the VN30 index. The Hanoi Stock Exchange is also aiming to launch Vietnam government bond futures in the third quarter of 2019. ■

