VinaCapital Portfolio Manager Highlights Vietnam's Equity Market Opportunities 2024 and Beyond

Mike Nguyen, Portfolio Manager at leading Vietnam-based asset management house VinaCapital, is excited about the prospects for Vietnam's equity markets in 2024 and beyond. He predicts continuing strong economic growth with robust corporate earnings growth and strong balance sheets, points to attractive valuation and alpha opportunities for active investors, and hopes for an upgrade of the country from frontier to emerging market status.

GET IN TOUCH

[View this Presentation On Demand]

[Find out more about VinaCapital]

MIKE NGUYEN
Portfolio Manager
VinaCapital

Mike's Talk in More Detail

Mike said he would focus on three key areas – the equity market and outlook, the macro environment, and what he described as Vietnam's 'likely' upgrade to emerging market status in the coming years.

Equity valuations at historical lows

He reflected on his experience in the market since 2007, noting challenges such as high inflation in 2010-2012, banking crisis in 2011-2015, trade war in 2018, and the impact of COVID-19 from 2020. Despite some current headwinds, Mike explained that he remained optimistic that the market would overcome these challenges, that it is resilient and predicted that the market would rise in terms of size and also liquidity.

He pointed to traditional metrics, such as P/E and P/B ratios, which are at a 10-year low, but said that his firm prefers to focus on the earnings spread between the earnings yield and the risk-free rate in the market. He noted that the current risk-free rate is 5.1%, lower than during the COVID period, and the earnings yield is approximately 12%, resulting in a significant gap that makes the stock market attractive in VinaCapital's view.

"This valuation gap is the widest in the last decade or even the past 20 years, indicating a favourable investment opportunity compared to historical trends" he reported.

KEY TAKEAWAYS:

- Mike focused on three key areas: the equity market, the macro environment, and Vietnam's potential upgrade to emerging market status. He reported that equity valuations are at historical lows, with traditional metrics like P/E and P/B ratios at more than 10-year lows.
- But there is cause for optimism, as the market is resilient and VinaCapital predicts growth in both size and liquidity. This is especially likely as the valuation gap between the earnings yield and the risk-free rate is the widest in the last decade.
- Corporate performance is encouraging. Companies in Vietnam show robust profitability, with return on equity (ROE) expected to be at least 12% in 2023 and potentially stable or increasing in the coming years. Corporate balance sheets have improved significantly, with net debt to equity decreasing from 85% in 2016 to around 65% currently.
- There is clear value in smart allocation strategies, and Mike emphasised the value of active management in selective high-quality companies that outperform the market index significantly. He pointed to VinaCapital's expertise and track record, with their funds far outperforming the index, in fact with their four key funds for foreign and domestic investors returning from 40% to 99% over the past five years, compared to minor gains on the index.
- Three key economic drivers are sustaining Vietnam's economy – the young and large demographics of 100 million people, the 'China Plus One' theme, and strong FDI flows. Moreover, FDI is seeking higher value industries and sectors for investments, as Vietnam becomes an important manufacturing base for high-tech products
- VinaCapital anticipates a GDP growth rate of 6% to 6.5% in 2024, which Mike said is a very manageable level for the economy. He praised the government's management of financial and economic matters, and highlighted Vietnam's potential equity market upgrade to emerging market status, with active efforts to address any remaining hurdles.

Company profitability remains robust

Mike discussed the profitability of companies in Vietnam, focusing on the return on equity (ROE) as a key metric. He noted that over the past decade, ROE for companies in Vietnam has ranged from 12% to 15%, and said that in 2023, this would be at least 12% and is set to be stable, or potentially increase in coming years.

Robust balance sheets

He also pointed to the strength of company balance sheets. Over the last seven years since 2016, corporate Vietnam has significantly deleveraged, with net debt to equity decreasing from 85% in 2016 to around 65% currently. "This indicates that companies are now healthier and better positioned to withstand economic challenges, having raised capital through various means such as capital accumulation, reduced investments, lowered overall debt and fostered external capital injections," he explained.

He summarised the market situation as characterised by low valuation multiples, robust earnings that compensate investors for the risks, and a corporate sector which has healthier balance sheets than before.

Beating the index…and then some!

Mike said Vietnam's capital markets lend themselves to specialist, active management, comparing the performance of the Vietnam index over the past 10 years to more selective investing in high-quality companies.

"The index is up only 1.8 times in a decade," he reported. "But that annual return of around 6% could have been well beaten with selective investing in sectors such as IT, which is up over 10 times in 10 years, industrial companies, up around 7 times, or even cyclical sectors like materials, which are up over five times in the same decade. The result would be portfolio performance far in excess of the index."

VinaCapital's expertise and track record

That led Mike to highlight the skills and coverage of VinaCapital as one of the largest investment management firms in Vietnam, with a reported AUM of USD4.0 Billion as of 30 Sept 2023.

"We are a multidisciplinary fund management company offering a diverse range of products for both foreign and domestic investors," he explained. In particular, he highlighted two foreign funds and two domestic funds, each with different missions and mandates, but with a similarly uniform approach to their management. "Over the past five years, our funds have far outperformed the index, with cumulative returns ranging from 40% to 99%, while the index has only yielded a 12% return," he reported.

Three key economic drivers

Mike then focused briefly on the macroeconomic situation, identifying three key drivers that they believe will sustain the economy in the coming years. First, the strength of the demographics with approximately 100 million people. Second, the continuation of the 'China Plus One' theme. Third, he pointed to strong FDI and a positive outlook for the continuing inflows and also ongoing upgrade of the types of investments.

A noteworthy aspect of FDI in Vietnam in 2023 is the increased presence of China. China has emerged as the fourth largest FDI investor in Vietnam, and when considering Hong Kong as part of China's extended economic base, the combined investment from China and Hong Kong accounts for 40% of the total FDI in Vietnam for 2023. "There is a powerful wave of Chinese companies moving to Vietnam, and this trend is likely to continue growing," he reported. "The presence of Chinese companies is very significant for the Vietnamese economy."

Solid growth, room for upside

VinaCapital's in-house economist anticipate a GDP growth rate in the range of 6% to 6.5% in 2024. "This is not a particularly high growth rate compared to the historical norms," he reported. "The economy operated at around a 7% growth rate before the COVID-19 pandemic, all of which means we are very confident that 6% to 6.5% is a manageable level for the economy, especially as the economy is operating below its full capacity."

Mike also praised the government's robust management of financial and economic matters. The Vietnam Dong has shown relative strength compared to other currencies, and the government is seen as doing well in balancing the currency with maintaining the country's cost competitiveness. "The macroeconomic tools at the government's disposal, including a strong balance of payments, the trade surplus, low CPI, and the budget surplus, are all favourable and positive," he stated.

Vietnam's recognition still pending

His final word was on Vietnam's potential upgrade to emerging market status by FTSE or MSCI, which currently both rank the country's markets as frontier status. "Despite having a market capitalisation and liquidity comparable to or exceeding many emerging markets, there are hurdles including pre-funding issues and foreign ownership restrictions," Mike noted.

"However, the government and other parties are actively working to address these challenges, with expectations that by 2024, FTSE may upgrade Vietnam to emerging markets status, and MSCI could follow in the near future, potentially bringing significant passive inflows to the country's economy," he said, on closing his talk. ■

« Three key economic drivers are sustaining Vietnam's economy – the young and large demographics of 100 million people, the 'China Plus One' theme, and strong FDI flows. »