Deepening the Vietnam market through IPOs

Speaking at Hubbis' Vietnam Wealth Management Forum 2017 – Bill Stoops of Dragon Capital explains why the capital markets look to be an effective way to increase liquidity and diversity in the country.

Increasing liquidity and diversity in Vietnam is a key goal for many asset managers and other players in the wealth management industry.

And Bill Stoops, chief investment officer of Dragon Capital, is optimistic about the developments in the local market that point towards this being underway.

For example, there is primary-market activity from multiple sources, not just the IPOs of state-owned enterprises (SOEs).

As a result, he believes that Vietnam is becoming a serious investment target for foreign investors. And that the process for the country's inclusion in the MSCI Emerging Markets Index is likely to start soon.

REAL GROWTH

There are various positive signs to support these views – one of which being that the combined market cap in Vietnam has more than tripled over the past five years.

There is no doubt that the market is still comparatively small in Asia; with a market cap of just over USD100 billion, it is ahead of Sri Lanka and Pakistan, but much smaller than neighbours like the Philippines, Malaysia, Thailand and Indonesia.

However, when looking at the ratio of its market cap to GDP, Vietnam is on a rising trend, says Stoops. Plus, it has respectable levels of trading, at around USD200 million.

This has been spurred by the soaring number of trading accounts over the past 10 years; there are now around 1.9 million local accounts, and roughly 21,000 foreign ones.

All this has led to a high percentage in terms of turnover / market cap, as of mid-August 2017, he adds – in turn

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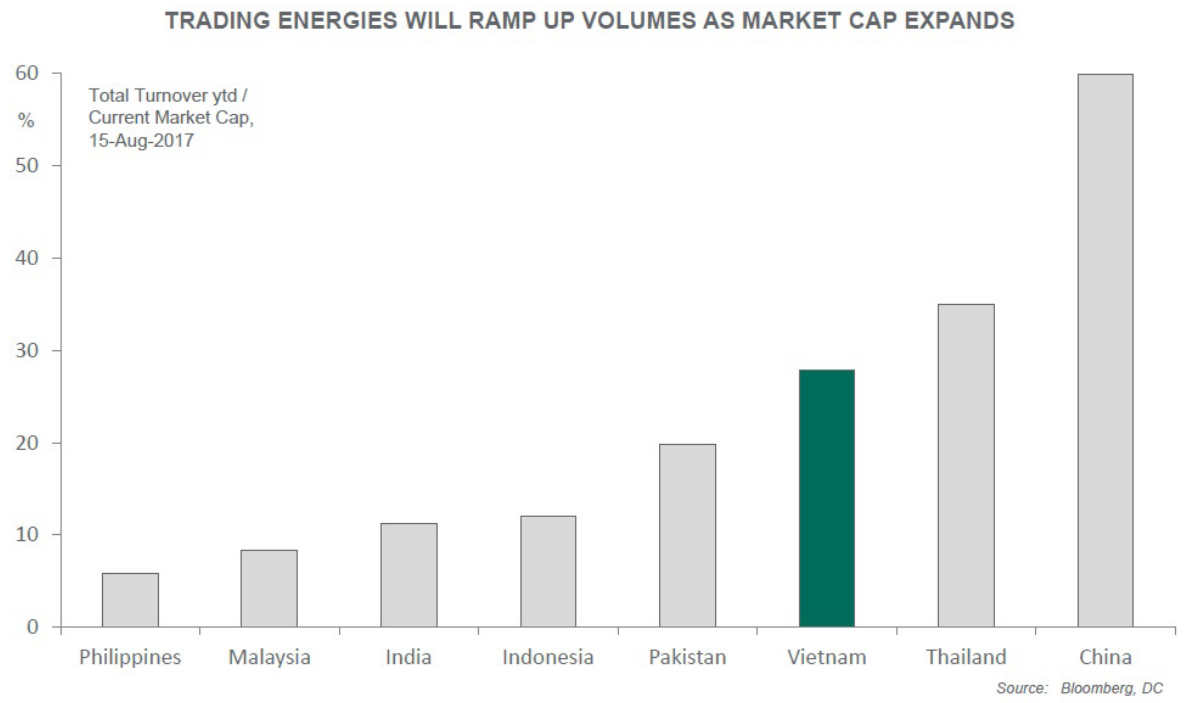

putting Vietnam ahead of the Philippines, Malaysia, India, Indonesia and Pakistan on this metric.

ACCESS SOLUTIONS

According to Stoops, there are several practical ways that Vietnam can open its market to further drive liquidity and diversity.

These include: increasing foreign ownership limits, which is on the cards for 2018; allowing derivatives trading, which recently got underway; and privatisation, which is already happening.

In terms of the current SOE privatisation pipeline, Stoops says it involves companies from every industry nationwide – valued at USD11.5 billion at 2015 parent book value.

The book will be revalued for issues in 2017 to 2019, he explains, and ot will be a significant size as the programme accelerates.

Looking at the SOE IPO pipeline into 2019, he predicts that privatisation will pick up over the next two years.

For instance, the government is indicating a 20% minimum offer, leading Dragon Capital to estimate USD6,750 million worth of issuance.

Even at half of this amount, it would still be significant for Vietnam, believes Stoops.

However, he says that the opaque nature of the process requires investors to have a local presence to take advantage of this.

Meanwhile, further SOE divestments are also expected. And this is an important follow-on from the IPOs.

These will be more transparent, for example, and therefore easier to access

It would bring, Stoops predicts, USD8,115 million in issuance at current prices. Again, he adds, even half this amount would still be an achievement for Vietnam.

From the perspective of private-sector activity, he explains there has been major IPO / placing activity in the last 18 months, with USD925 million in issuance.

And market estimates suggest there might be another USD1,600 million between Q4 2017 and Q2 2018.

Stoops says this will be via book-builds rather than auctions for IPOs.

And while it will be more expensive, there will be greater transparency. ■