

What are the issues with the local capital market and how do you fix them?

A panel of experts at the Hubbis Vietnam Wealth Management Forum gathered at the final discussion of the day to highlight the immense advances the country's capital markets have achieved in the past decade and a half while acknowledging the many further steps required before Vietnam offers an adequate range of diversity, liquidity and maturity.

These were the topics discussed:

- *What's the role of Vietnam's capital markets (including both equity and fixed income), their development so far, and how capital flows in the system?*
- *How can we build more depth and breadth?*
- *Regulation and compliance - what are the challenges?*
- *What are your best and worst predications for this year?*
- *What are the opportunities in equity?*
- *What's the outcome for fixed-income and the development of structured fixed-income?*
- *How would you explain the biggest opportunities for investors in Vietnam today?*
- *How would you explain the biggest risks?*

PANEL SPEAKERS

- Kevin Snowball, Chief Executive Officer & Chief Investment Officer, PXP Vietnam Asset Management
- Rainer Michael Preiss, Executive Director, Investment Advisory, Taurus Wealth Advisors
- Nga Nguyen Thi Hang, Chief Investment Officer, Vietcombank Fund Management
- Duong Vuong, Deputy Managing Director, VinaCapital





KEVIN SNOWBALL
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EXECUTIVE SUMMARY

Vietnam’s stock market has come a long way in the past 15 or so years, ballooning from around 20 listed stocks to 1400 and from a combined value of less than USD200 million to more than USD160 billion. Government privatisation plans will help boost diversity and liquidity. Regulatory evolution will hopefully encourage and facilitate greater foreign investor participation, as well as boosting local demand, creating a virtuous circle. Domestic private wealth expansion and greater risk propensity will drive local investment in the market.

The economy currently appears solid and set for a sustained period of expansion. Many core sectors of the economy - from banking to consumer products to agriculture to banking - are set for multi-decade growth. Companies are being encouraged by regulation and by the expansion of private capital to diversify away from their long reliance on bank finance for expansion.

But Vietnam to this day remains a frontier market according to MSCI’s index classification. The government and the private sector are determined to make the changes required for MSCI to put the country on its emerging market watchlist, but the earliest this might happen is mid-2019. If it does transpire, there is literally a wall of global money that will need to weight up in the country, bringing an estimated USD11 billion of new money flooding into an equity market that trades only around



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USD200 million a day. It does not take a market expert to work out the implications for valuations and liquidity.

A panel of local and international experts deliberated some of these fascinating developments and anticipated the next steps in Vietnam’s evolution. Delegates at the Hubbis Vietnam Wealth Management Forum were treated to some invaluable insights into, and optimism about, the country’s future.

A SINGAPORE-BASED INVESTOR OPENED the discussion by commenting on some of the key appeals of Vietnam for external investors. “In brief, we believe Vietnam has a very interesting long-term investment opportunity, especially with its demographics of a young and fast-growing population. Vietnam is currently classified as a frontier market, like Kazakhstan, Mongolia, or Sri Lanka, but the opportunity lies between the perception of risk and the real risk.”

Another panellist commented that the macro situation is encouraging, with what he termed an ‘extraordinarily strong economy’ and at the micro level companies are delivering growth combined with improving corporate governance. Foreign investment in the market is increasing and there are more tools available for portfolio construction and management.

Frontier to emerging market? When not if...

“The catalyst for the next phase of growth and development will be Vietnam’s drive towards re-designation as an emerging market,” he reported. “Currently a frontier market, and that has implications of possible contagion from other frontier markets if stressed, but we need to focus on what strengths the country has that differentiate it from those other frontier markets.”

Another panel member noted that Vietnam is often overlooked and under-researched. “There is the contagion fear,” he added, “but some people believe Vietnam could even benefit from an



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escalation of the trade war between China and the US, for example. Therefore, any mass sell-off here would likely create a great buying opportunity, especially for the larger capitalisation stocks.”

Numerous areas for improvement

A local fund manager highlighted the huge room for improvement in productivity in Vietnam, as well as the government’s privatisation plan. In the markets, we need two elements to improve, namely liquidity and transparency. For the liquidity, the privatisation plans for the coming years will certainly help and also attract more investors, due to the size and quality of the companies in question. The regula-

DO YOU THINK WEALTH IN VIETNAM IS GROWING ...

10% A Year



20% A Year



Source: Vietnam Wealth Management Forum

tory environment is improving but has much further to advance before the market is to international standards.”

Another expert opined on reporting standards and corporate governance. We now have a broad spectrum of management, with some at the best reporting in both English and in Vietnamese, and with extraordinarily high standards of corporate governance that stack up well against anywhere in the world. At the other end of the spectrum, you have far weaker companies in terms of governance and transparency.”

“We would like to see more capital market funding away from dependency on the banks,” added another panellist. “As to investment opportunities, there are many interesting mid to small capitalisation stocks. Privatised companies will achieve higher valuation metrics once they are private and focus on the highest governance standards, with higher incentives for management performance. We think the bank capital market should be opened up to foreign investors as there is a shortage of capital here; banks are a major portion of the stock market, so that would again improve visibility and liquidity.”

Public market, private market characteristics

Another panellist commented that he prefers to look at Vietnam’s public equities more like private equity investment opportunities, more like a strategic investment. “This market is offering good fundamentals but poor liquidity and that seems like a great opportunity. When I speak to



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investors around the world Vietnam is hardly on anybody’s radar screen as far as I can see, it is overlooked and under-researched.”

Tourism was highlighted as a sector of immense growth potential. “We are only just scratching the surface for tourism with around 12 million visitors a year, but if one looks across to Thailand one can see the scale of growth available.”

Personal consumption patterns are also on a rapid growth path, although valuation will also play



a part in. “There is no point overpaying for something even if it is in the long-term winner’s circle,” said one expert.

There are other opportunities, for example, the Vietnamese Dong and the potential carry against a currency such as Singapore. “The carry against Singapore’s currency is more than 6%,” noted one expert, “and the Singapore dollar is coming off more sharply against the US Dollar than the Dong.”

All eyes on MSCI

Another panellist returned to the eventual conversion of Vietnam to an emerging market, under MSCI indexing. “This is vital,” he said, “as it is used by institutions globally that manage literally trillions of dollars of money around the world. If Vietnam were for example re-designated emerging

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market and just 0.1% of those funds flow here than is several billion dollars. But Vietnam at current estimates would represent around 0.7% of an emerging market portfolio so that would be comfortably more than USD11 billion flowing to the market. And with the market trading around USD200 million a day there is literally a tsunami of

money flooding in potentially, so the upward pressure on prices would be immense.”

He added that there is considerable merit in adding Vietnam to the MSCI emerging market index. “Vietnam has a very strong economy, that over the past decade and a half has become part of the global economy. It is solid, increasingly diversified and would add value to the index.”

Doing what it takes

He added that the government has said Vietnam will do whatever it needs to do to be re-designated emerging by 2020. “The first priority is to make the market more accessible, and to that end, new securities laws are in drafting currently; we expect those to review and revise conflicts that dissuaded companies from removing their foreign ownership limits. The second priority is for the leading companies, perhaps the top 30 or 50, to release their corporate announcements simultaneously in Vietnamese and English.”

His conclusion is that Vietnam should go onto the MSCI emerging market watchlist by mid-2019. Another guest noted that passive funds will also be enticed into the market if MSCI reconfigures Vietnam. “Passive is outplaying active globally,” he remarked. “We expect MSCI to draw in more of these funds if the changes take place as expected.”

The panel members were then asked to highlight one company they particularly like. Replies ranged from the Airport Corporation of Vietnam, due to tourism growth, US dollar revenues and pricing flexibility, to integrated steel producer Hoa Phat Group. Military Bank and Vinamilk were also mentioned as core holdings. ■

