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The top-performing emerging market marching to its own beat

Min-Hwa Hu Kupfer, chairperson of VietNam Holding, argues the case for investing in Vietnamese equities given the region has defied the odds and continued to deliver robust economic growth and decent returns for investors.

By **Min-Hwa Hu Kupfer**, *VietNam Holding*
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In a volatile and challenging world, many equity markets remain deeply troubled. Despite some recent positive signals, the overall global picture is bleak.

A lot of the negativity in recent months has come from the perceived slowdown in China. However, Vietnam provides a gleaming exception. Its economy and its markets continue to provide fertile ground for the value investor.

Vietnam has historically defied the trends of both emerging and developed markets around the world.

Its real GDP continued to grow at over 5 per cent per annum as the rest of the world collapsed in the US-originated financial crisis of 2008-10. Similarly, the recent China-triggered setback in most of the emerging world has coincided with improving economic growth in Vietnam in the range of 5-7 per cent.

Performance of indices over 1 yr

Source: *FE Analytics*

It would be reasonable for a global equity investor to assume that Vietnam is firmly hitched to the Chinese wagon. After all, their political systems are broadly matching. They share state-dominated banking sectors, and both have pursued an export-led manufacturing growth model. Fortunately, this is not the case.

Vietnam has an overall balanced trade flow with the rest of the world, but a massive trade deficit with China itself.

Moreover, its exports to China are mostly consumer and agricultural commodities that are unlikely to suffer as China decelerates. This stands in marked contrast to countries like Indonesia, Australia, South Korea and Japan, which have much more to lose from a sustained Chinese manufacturing stagnation due to their many industrial, commodity, and supply-chain links.

Further reassurance to investors is the fact that Vietnam and China are at vastly different stages of economic development. China's GDP per capita is some 4-5x higher, its manufacturing base is vastly larger, and its costs are higher. Vietnam's "catch-up" still has many years to go.

It has already profited as an attractive manufacturing location for global businesses, successfully avoiding the common emerging market trap of remaining wedded to its commodity sectors.

The presence of leading global manufacturers is progressively spawning a locally owned array of supporting businesses. The proportion of domestically supplied content in exports has grown by nearly half over the last five years, from 22 per cent to 32 per cent. China at 65 per cent and Indonesia at 40 per cent are indicative of the likely future growth for Vietnam.

While the problems of China and other emerging countries do not bode well for the world economy for some time to come, Vietnam stands out as a market that will be able to march to its own beat.

This has already been seen in stock market performance comparisons over the past five years.

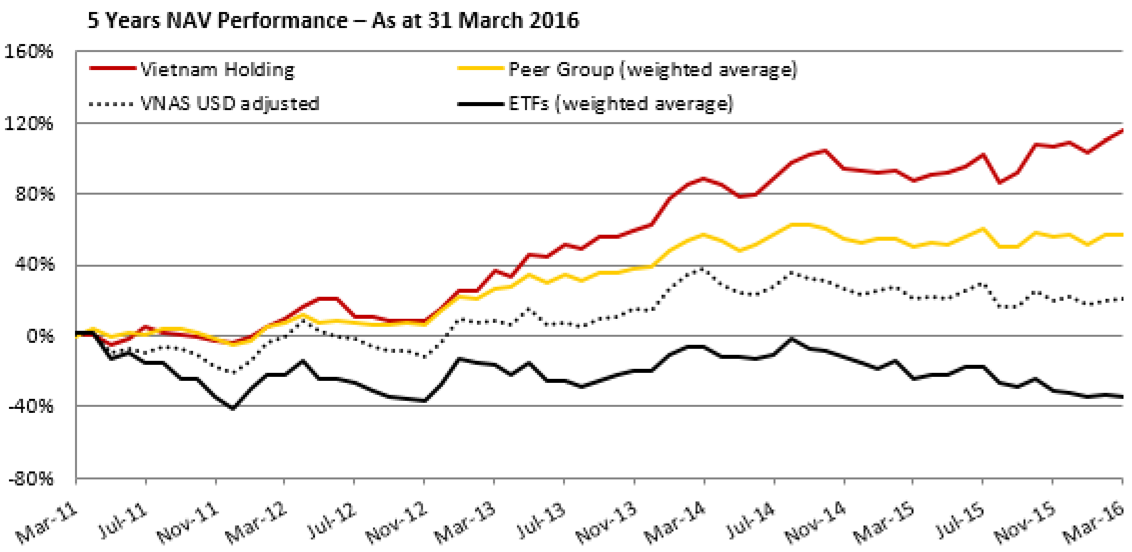
The cumulative outperformance of Vietnamese equities relative to the MSCI emerging and frontier market indices of more than 30 per cent over these five years is expected to be sustained in the coming three to five years. In short, average earnings per share are on the rise, and valuations are modest at less than 12x those earnings.

Privatisation of state-owned businesses - which still produce about a quarter of GDP - is an ongoing long-term project. And importantly, limits on foreign ownership of listed companies - 49 per cent in most cases and 30 per cent for banks - are gradually being increased.

There are many examples of attractive Vietnamese listed companies to invest in.

Among them is Hoa Phat Group (HPG VN), Vietnam's number one steel producer, founded and led by one of the country's leading self-made entrepreneurs. It has a record of continuous market share gains in the ever growing Vietnamese steel market and is very cost competitive against Chinese imports.

Traphaco (TRA VN) is Vietnam's leading herbal medicine firm, boasting one of the country's best earnings per share growth records. Fecon (FCN VN) is a leading contractor that specializes in engineering foundation construction. The three firms, all in the portfolio of VietNam Holding Ltd, trade at between 6x and 12x current earnings.



Source: Bloomberg

Several Vietnam country funds listed on either the AIM market or the main London market trade at a discount to net asset value of 15 per cent and more and thus provide an attractive way to access this exciting market. In particular, they are a more preferable method of investing in this blooming environment to other alternatives such as ETFs, which historically have not performed well in Vietnam and due to the nature of the Vietnamese market, are not well suited for it either.

In fact, the two existing ETFs have underperformed the VNAS by around 60 per cent over the last five years.

Over the same five-year period ending March 31st, 2016, VietNam Holding has outperformed its closest peer by over 40 per cent, and the benchmark index VNAS by over 80 per cent.

Min-Hwa Hu Kupfer is chairperson of VietNam Holding. All the views expressed above are her own and shouldn't be taken as investment advice.