

Should investors buy into this little-known market before it gets re-rated?

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David Kadarauich, investment director at Vietnam Holding Asset Management, explains why investors should consider an investment in Vietnam despite its frontier market status.



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Earlier this year, Vietnam once again failed to make it onto MSCI's watch list for possible upgrade from frontier market to emerging market (EM) status.

Although this generated a smattering of disappointment among some of the stock market participants in the country, it really matters not.

Granted, to be "EM" rather than "FM" (frontier market) makes a world of difference to the amount of institutional money that can invest in the given equity market - by a factor of over one hundred times, according to data from EPFR.

But wise heads need not fret. Vietnam will get there, most likely within a few years.

An international equity investor taking a glance at Vietnam cannot fail to notice the recent major changes. Suddenly, there are over 20 companies with market capitalisations of over \$1bn, up from less than a handful five years ago.

Market valuations, once priced to expect unfulfilled promise at around ten times trailing earnings, are these days reflecting the healthy-but-controlled optimism of a market on the move, at 15 times (give or take, depending on which index is used).

Daily stock market turnover is typically in excess of \$200m these days, and total market cap nearly \$120bn - these figures are representative of a serious market, not the rinky-dink one of under \$50m and \$50bn, respectively, five years ago.

If that equity investor is having a re-look at Vietnam "from the ground", having jetted in, this noticed stock market change is compounded by the new sights on the streets of Saigon or Hanoi reaching their eyes.

Major infrastructure and large-scale property projects are vigorously ongoing wherever one looks. The streets are buzzing as never before with attractive, well-thought-out retail shopping enticements, rather than just the charming-but-cheap ethnic attractions of old.

The population is dominated by prosperous looking local people, living the newly middle-class dream - akin to an optimistic vision of, say, America in the 1950s.



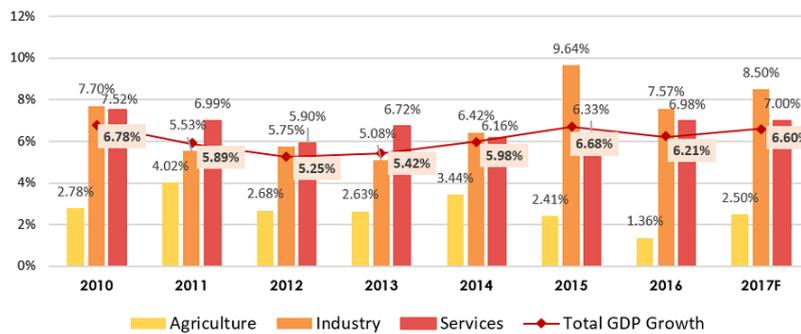
Why are things going along so well for Vietnam these days?

The first answer is the sense of inevitability one gets with respect to the nation's economic rise. Simply put, it's a major place of not far short of 100 million souls, that sits right in between the economic miracle lands of China and northeast Asia and the already-airborne major economies of southeast Asia like Thailand and Malaysia. For Vietnam not to be booming from its low base would be the big surprise.

Second, Vietnam offers such a compelling combination of solid education, keen work ethic, and superb cost competitiveness - such that neither foreign direct investors nor local entrepreneurs can resist it.

And third, in a world where political leadership plays so important a role in either breaking or making countries, the Vietnamese polity - for all its many and obvious faults - has done a competent job of enabling Vietnam's economic rise.

Vietnam GDP growth by sector



Source: Vietnam General Statistics Office

With per-capita GDP (on a purchasing power basis) still only about 35-40 per cent of either Thailand's or China's, there are many future years of high growth available to Vietnam, making it one of the world's very best country investment stories over the coming quarter century

The past five years have seen the Vietnam All Share index, in dollar terms, rise at a compound annual rate including dividends of 15 per cent, and we expect future long term returns to be similarly impressive.

Vietnam isn't "EM" yet, but it's headed that way. The nature of such a status change tends to be that if you wait for it to happen before investing, you'll leave a whole lot of money on the table.

The time to make Vietnam part of a global equity portfolio is now, for the vast majority of investors that haven't already done so.

David Kadarauich is investment director at Vietnam Holding Asset Management. The views expressed above are his own and should not be taken as investment advice.

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David may well be right about Vietnam but I can't find many IT's or OEIC's for the country and the few there are give very sketchy, almost no information. Does he really expect investors to take a blind leap of faith?