BusinessWeek online

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SEPTEMBER 11, 2006

ASIA

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Saigon's Stock Market Surges

No longer a joke, the Vietnam stock exchange is up by 67% this year, and it welcomes foreigners interested in mines, pharma, and Nike

For most of its six-year history, the Vietnamese stock market has been something of a joke. As recently as January, its market capitalization was less than $500 million while average daily turnover was all of $700,000. International fund managers viewed the Ho Chi Minh City Stock Exchange as nothing more than a financial curiosity not worth their time.

But get this: Vietnam's stock market has turned in a better performance this year than China's two white-hot exchanges—in Shanghai and Shenzhen—and is tops in the region. It is up 67% as of Sept. 11 and 97% in the past 12 months. Market capitalization has increased sixfold, to $3 billion, and it could easily double in the next 12 months if planned initial public offerings come to market as expected. And while that's still pocket change to most money managers, "now is the time to move," wrote Hong Kong-based Pan-Asian equity analyst Garry Evans in an HSBC research report released in early September.

LACK OF BENCHMARKS. That's not to say investing in Vietnamese equities isn't a white-knuckle ride. The market climbed 105% before hitting a peak in late April then lost 38% before bottoming out at the beginning of August. It has since climbed back up 28%. And as in any emerging market, transparency is a problem. None of the stock exchange's 48 listed companies is subject to audits by international accounting firms.

Though the companies are required to release quarterly earnings reports, the absence of sophisticated analyst research on a company-by-company basis makes it difficult to rely on basic benchmarks such as price earnings ratios. "There are no consensus numbers, it's pretty hard to tell," says Spencer White, Merrill Lynch (**MER**) equity strategist in Hong Kong.

Yet White is still one of Vietnam's biggest boosters. A report he penned back in February, in which he declared Vietnam a "10-year-buy," played no small part in the first-quarter rally. Local retail investors, who account for 95% of the market in Vietnam, bought in anticipation of a flood of foreign money. White says the market got ahead of itself, though now, after a healthy correction it offers "the opportunity to buy into one of highest growth economies in Asia."

EARNING A PLUS. Economic fundamentals certainly look good. Vietnam has boasted the second fastest-growing economy in the region after China's in recent years, and it is replicating its Communist big brother's privatization of state-owned companies and embrace of the market economy. Vietnam's economy is expected to grow 8% this year to $60 billion, on the back of 8.5% growth in 2005.

Standard & Poor's on Sept. 7 raised Vietnam's sovereign credit rating to BB+ from BB, citing the country's economic growth prospects, improvements to infrastructure, and reforms in the banking system. Another enticement to potential investors is the likelihood Vietnam will be admitted to the World Trade Organization by the end of this year.

In 2005 the country attracted $5.8 billion in foreign direct investment as money poured into pharmaceuticals and shoe and mobile-phone manufacturing. In March, Vietnam made big headlines when Intel (**INTC**) Chairman Craig Barrett traveled to Ho Chi Minh City, also known as Saigon, to receive an investment license to invest up to $605 million building a semiconductor test and assembly plant there (see BusinessWeek.com, 3/13/06, **"Good Morning, Vietnam"**).

LOW CEILING. The good news behind all this is that foreigners can participate directly in the Vietnam stock market. This entails obtaining a trading code, a relatively simple process of submitting a four-page application form in English together with supporting documents translated into Vietnamese. Banks such as Merrill Lynch can also buy shares on behalf of individuals. There are no foreign exchange limits on repatriating income, nor is there any withholding tax on dividends or capital gains.

But obtaining the right to buy equities is the easy part. Because the 49% ceiling on foreign ownership has already been reached for most listed companies—it's 30% on Vietnamese banks—finding tradable shares in the best companies is extremely difficult. For example, Sai Gon Thuong Tin Commercial Joint Stock Bank (Sacombank), in which Melbourne-based ANZ Bank holds a stake and listed in July, trades at a price ratio more than double the average for banks elsewhere in the region.

Even so, the 30% foreign limit has been reached. Together with Vietnam Dairy Products Joint-Stock Company (see BusinessWeek.com, 1/31/06, **"Vietnam: Land of Milk and Honey"**), Sacombank accounts for more than 50% of the market capitalization.

ENTER THE DRAGON. There is talk, however, of lifting the ceiling on foreign ownership again. "They have to make a decision fairly quickly," says Merrill Lynch's White, who points out there has been an avalanche of foreign funds trying to flow in since the limit was revised upwards from 30% to 49% last October.

In the meantime, the best way to gain Vietnam exposure might be through buying listed closed-end funds. These typically invest in both listed and over-the-counter Vietnamese stocks, a potentially large pool of some 2,400 companies. There are about a dozen closed-end Vietnam funds, most of them listed in London or Dublin. The largest is Vietnam Enterprise Investment Fund, managed by Dragon Capital since 1995, with a net-asset value of more than $350 million. Saigon-based Dragon also manages the $192 million Vietnam Growth Fund.

The $230 million Vietnam Opportunity Fund is managed by VinaCapital and is listed on London's AIM board. It currently trades at a more than 30% premium to net-asset value. Other Dublin-traded funds include PXP Vietnam Fund, and PXP Vietnam Emerging Equity Fund. Prudential says it plans to begin raising between $150 million and $200 million for an offshore Vietnam fund, pending Vietnamese regulatory approval expected within a few months.

CURRENT FAVORITES. However, Prudential may have its work cut out for it, as existing funds are already having trouble finding places to park their money inside Vietnam. Instead, experts advocate the indirect route of investing in overseas companies with significant exposure to Vietnam. HSBC suggests Toronto-listed mining stocks Tiberon Minerals with a major stake in a Vietnamese tungsten mine, and gold exploration company Olympus Pacific Minerals.

Merrill's Spencer White likes Hong Kong-listed Yue Yuen, which owns Vietnamese manufacturing plants producing sports shoes for Nike (**NKE**). Also among his favorites are Singapore-listed Fraser & Neave, which derives 35% of group profits from its Vietnamese brewery and owns a chunk of Vinamilk. Jonathon Waugh, manager of PXP Vietnam Asset Management in Saigon, likes Ellipsiz, also based in Singapore, which manufactures probe cards used in test and assembly of semiconductors.

Yet greater breadth and depth in listed stocks may soon be in the offing. In January, a new securities law takes effect in Vietnam that will require unlisted companies whose shares trade over the counter to be subject to the same reporting requirements as listed companies. The current law has discouraged many from listing on the stock market. The government is also offering a 50% tax break for companies during their first two years on the exchange.

If this carrot-and-stick approach works, billions of dollars of companies' value currently traded on the OTC market could become fair game for foreign investors. That could bring the market capitalization to about $10 billion by the end of next year, according to Merrill Lynch, which received a trading code to invest directly in securities in August.

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