

VIETNAMESE MARKET CRASHED – WHAT'S NEXT?

Are Fed's rate hikes a threat to Vietnam's growth?

No. Vietnam has healthy structural demand, and neither growth nor investments are based on easy money. Interest rates have been kept higher than inflation, and Vietnam has a positive real interest rate. There is no distortion caused by central bank monetary policy as in the USA or Europe, and thus a rise in global interest rates does not pose a major threat to economic growth in Vietnam.

Will Vietnam's economy go into recession as two important export markets, the USA and Europe, are cooling down?

No. The Subprime crisis in the USA caused the collapse of the global trade for 2009, and Vietnamese exports also fell by 9%, but thanks to a strong domestic market, Vietnam's economy grew by 5.4% in the same year. The rises and falls in exports of manufacturing sector hit especially FDI companies, i.e. the benefits of an annual increase or fall in demand are primarily affecting factories, which are owned and headquartered by foreign companies. In this case, Vietnamese banks or listed companies are not directly affected. Of course, a longer-term fall in industrial production would also hamper Vietnamese employment and external balance.

Did the Vietnamese stock market crash because of the war in Ukraine and the fall on the Nasdaq?

No. The Vietnamese Government's sudden move to clean up stock manipulation and the arrests of key players caused the crash in the Vietnamese stock market. The Vietnamese stock exchanges do not have the so-called "cashburning" companies, growth companies which have negative cash flow, since their listings are not allowed in the conservative Vietnam. There is no fundament-based causality with the biggest drivers of the downturn in Nasdaq. As for the market sentiment in Vietnam, the big dips in the USA have certainly also affected to the sell-off that originally started by the clean-up of the Vietnamese market. The effects of the war in Ukraine in Vietnam by industry are mainly headache at FDI export companies, which are not listed. The Vietnamese listed export companies (oil, fisheries, vegetables, rice, coffee, textiles, fruit) even seem to have improved margins due to the rise in prices brought by the war.

Did you expect such a sell-off in the Vietnamese stock market?

No. I have expected the valuation multiples of the US stocks to moderate, because valuations reached high levels during loose monetary policy, and they should adjust downwards at a time of tightening monetary policy. Vietnam market's ethical clean-up came as a total surprise, although it has been common knowledge who are the players and which companies have been actively manipulated. Now the local investors' portfolios were badly hit, and due the severity of the crash, the selling pressure spilled over also to the blue chips.

What is happening next?

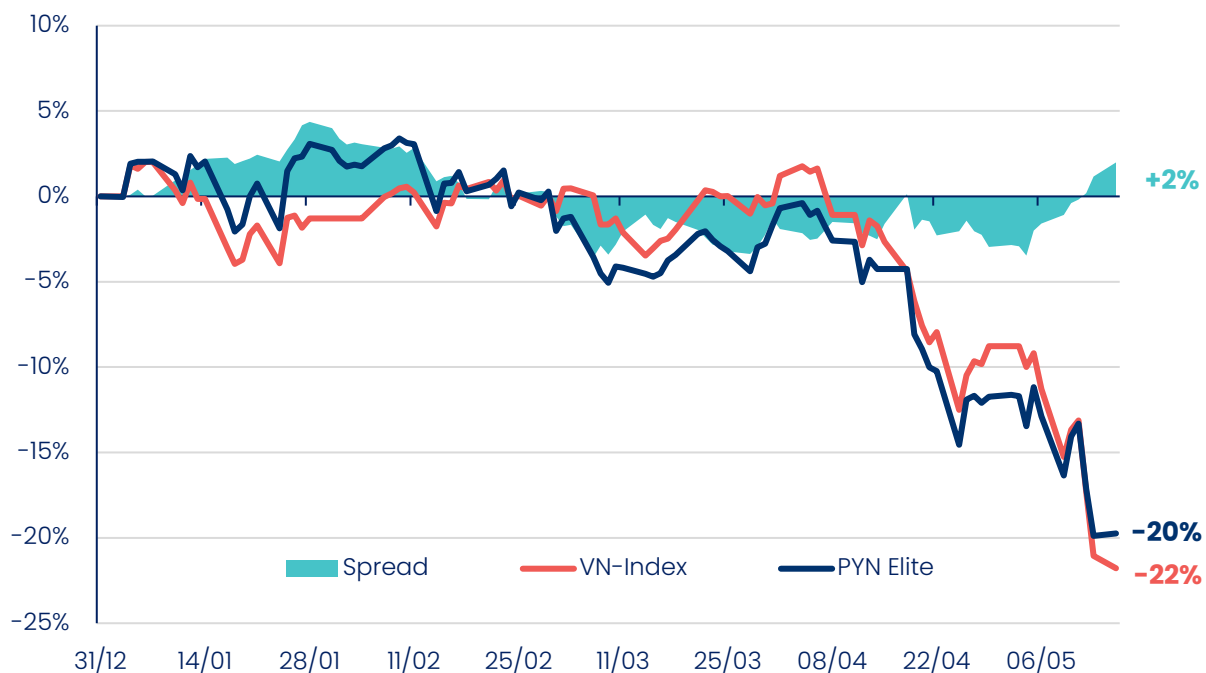
I would be still cautious about equity markets in general, as valuations on several markets trade above historical averages and the tightening of the liquidity has only recently started. The bursting of the tech bubble in 2000 caused the Nasdaq to fall by 35 per cent during the spring, but in the summer of 2000 the Nasdaq recovered by 20 per cent, after which the breakdown of valuation multiples continued for a long time.

As far as Vietnam is concerned, I feel that the global markets can take it up and down, but Vietnam's valuations are now irrational, as the VN-Index's forward 2022 P/E is 10.9. The five-year historical rolling P/E has been at 16.5, and in the periods of strong earnings growth, the VN-Index P/E has reached over 20. Earnings growth forecasts for 2022 are between cautious 19 per cent to 29 per cent. Q1/2022 earnings growth was 31 per cent. Our own forecast for the full-year earnings growth is 25 per cent. The outlook of the global stock markets cannot be ignored when assessing the possible timings of the bull runs of the Vietnamese market, but at these valuations Vietnam offers a stable economy and extremely cheap stocks.

What are your own plans with the market?

As I am writing this, the Vietnamese Stock market jumped today reversing the earlier downturn days. I am prepared to subscribe PYN Elite with a significant amount more in the 31.05.2022 subscription day, if the VN-index does not completely run out of hand before then.

PYN Elite and VN-Index YTD until 16.5.2022



Source: Bloomberg

The crash of the Vietnamese stock market between April and May was a complete surprise, as before the sell-off, there were news of the robust earnings growth and the stock market's valuations were modest.

PYN Elite's year started positively, but at the beginning of the crash, our portfolio was hit more than the VN-Index. Later, the slide of our blue chips eased and gave us overperformance to the VN-Index, although the index continued to decline.

Crashes and corrections in Vietnamese stock market

Dates	Type	Fwd P/E	Index	Damage	%- change 1Y	Reasons
12.3.2007 24.2.2009	Crash	38.0 7.7	1,171 236	-80%	110%	Current account deficit at -10%/GDP. Real estate bubble, bank crises. Huge NPL's. Currency forced to devalue -23%. Unsustainable stock market valuations.
9.4.2018 3.1.2019	Crash	21.3 13.4	1,204 878	-27%	10%	Big caps rally was too hot and market Forward PE climbed to 21.3. Caused a longer malaise to the market performance.
22.1.2020 24.3.2020	Crash	14.2 9.9	991 659	-34%	76%	Covid-19 break-out crashed all markets, even though earnings outlook stayed good in Vietnam and stocks before the drop were not expensive.
15.1.2021 28.1.2021	Correction	15.7 13.4	1,194 1,024	-14%	44%	Covid-19 new wave's infection rates halted the market sentiment temporarily.
2.7.2021 19.7.2021	Correction	16.6 14.6	1,420 1,244	-12%	16% (6m)	Covid-19 lockdowns have frozen economy's growth. A prompt market correction.
4.4.2022 16.5.2022	Crash	14.1 10.9	1,525 1,172	-23%		A famous stock manipulator was arrested and other unethical market participants and officers punished. Government's clean up act suddenly made all market players and retail investors shaken up. Market got a sudden crash. Clean up is positive for market in medium term.

Source: Bloomberg, PYN Fund Management

Vietnam's stock market looks very attractively priced with VN-Index under 1200 points and Forward P/E 10.9.

Vietnam valuation and EPS growth versus USA S&P 500

Year	VN-Index EPS growth			S&P 500 EPS growth		
	Actual	Forecast	Fwd P/E	Actual	Forecast	Fwd P/E
2018	9%	4%	15.9	21%	47%	15.4
2019	8%	1%	16.2	6%	23%	19.8
2020	1%	-9%	19.0	-31%	-2%	27.2
2021	35%	34%	17.5	107%	117%	22.7
2022		25%	10.9		14%	17.6

Source: Bloomberg, PYN Fund Management

Vietnam offers more secure earnings growth than the U.S. and it is cheaper to jump in the market. It also seems that the actual earnings growth in Vietnam systematically beats the Bloomberg's consensus forecasts as the US, on the contrary, fails to meet the forecasts.

PYN Elite core portfolio stocks since market peak

Company	Last price		% change from the market peak
	6.1.2022	16.5.2022	
KDH	56,800	39,300	-31%
NLG	64,500	44,700	-31%
CTG	34,000	24,550	-28%
VRE	35,600	26,250	-26%
HDB	30,500	22,500	-26%
TPB	42,000	31,000	-26%
VHM	85,300	65,800	-23%
MBB	28,350	24,600	-13%
ACV	87,000	83,000	-5%
TLG	43,400	41,900	-3%
VEA	43,500	42,500	-2%
CMG	55,046	54,000	-2%
SCS	154,900	162,000	5%
VN-Index	1,529	1,172	-23%
PYN Elite	562	442	-21%

Source: Bloomberg

The top performer of 2021, housing developer NLG crashed. Fortunately, we sold the NLG stock heavily at the beginning of the year (12 million shares > 5 million shares). The current allocation of

PYN Elite's portfolio is as I would like it to be in consideration towards the earnings outlook for 2022 and 2023. During the downturn this spring we have been divesting a bit VEA and MBB and buying more CTG, VRE, TPB and VHM. The importance of these trades is not enormous in terms of return expectations for the entire portfolio for the period after the crash.

Best regards,

PYN Elite
Petri Deryng
Portfolio Manager

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PYN Elite

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