

28.3.2023

## **WHEN WILL THE VIETNAMESE STOCK MARKET GATHER SPEED?**

### **The past 12 months in Vietnam – experienced a lot of headwinds:**

- Retail investors were rattled by the arrests of corporate executives and politicians.
- Due to local conditions, the VN-Index fell more than the ASEAN-4 markets (Indonesia, Malaysia, Philippines and Thailand).
- Stricter regulations were introduced for the corporate bond market in September.
- Liquidity dried up in the C-bond market.
- The average yield on C-bonds jumped to 27 percent in November.
- Margin calls on retail investors' equity portfolios.
- Panic selling in the stock market in November.
- The stock market hit bottom on November 17, 2022.
- Bank deposit rates rose to a record-high level in December 2022.
- The Fed quickly hiked interest rates by 475 basis points in less than 12 months.
- The Vietnamese dong depreciated momentarily after the US dollar appreciated too quickly.
- Vietnamese listed companies weak earnings growth in Q4/2022.

### **The next 12 months for Vietnam – equities are cheap and the list of new negatives turning minimal:**

- The deposit rates of Vietnamese banks will fall to 5–6 percent by the end of 2023.
- The list of corporate executives and politicians to be arrested is starting to get short.
- The regulation of the corporate bond market is moving in the right direction.
- Regulations restricting banks' ability to participate in the bond market may be eased (Circular 16).
- Liquidity will improve in the corporate bond market.
- The inflation rates in Europe and the US will take a clear downward turn.
- The Fed will end its interest rate hikes.
- The appreciating trend of the US dollar will come to an end.
- The valuation gap between the Vietnamese stock market and the ASEAN-4 countries will close. Focus will turn to earnings growth outlook in the coming years.

**The Vietnamese stock market hit bottom in November 2022. The market is consolidating before a new bull run.**



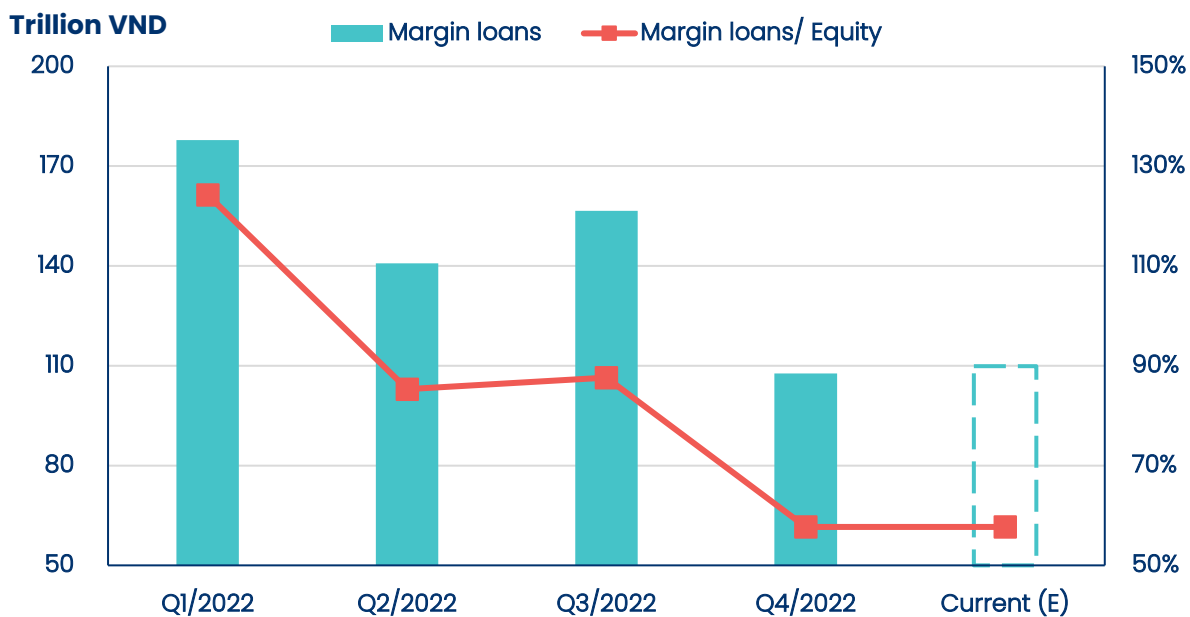
Source: Bloomberg

The VN-Index hit bottom in November 2022. At its lowest point, the index was at 911. The market has since recovered to some extent, with the index now trading in the range of 1,000–1,100. Going forward, the rate of recovery will be determined by the earnings growth outlook of listed companies, liquidity and interest rates in the Vietnamese financial markets, and the gradual dissipation of the impacts of the recent sources of uncertainty.

Vietnamese retail investors substantially reduced their use of margin loans on their trading accounts over the past 12 months, and the use of margin is currently very low. When sentiment in the market improves, these margin limits will again be deployed to purchase equities.

The P/S (price to sales) ratio is a good general indicator of the overall situation in stock markets. The P/S ratio of the Vietnamese stock exchange is currently at 1.2, which is a modest level for a stock market where companies achieve strong annual growth. Vietnam's economic growth will continue, and interest rates will come down. It is difficult to see the P/S ratio falling below 1.0 without the Vietnamese Macro economy drifting into a crisis. The sales side of the P/S ratio is growing from one year to the next, which means that the ratio continuously becomes more attractive if stock prices do not react upwards. In times of falling interest rates, the P/S ratio can easily reach 2.0.

## The use of margin loans on trading accounts decreased substantially



Source: FiinPro, PYN Fund Management

At a maximum, stock brokerage firms can issue margin loans at a ratio of 2:1 relative to company's equity. A year ago, the rate of margin utilization was 124 percent. Over the past few months, their utilization has stabilized at the very low level of 58 percent. Brokerage firms are eager to issue margin loans on their trading accounts, but customers appear to be waiting for a signal on when it is safe to return to the stock market. The Fed's interest rate hikes and, in particular, the fate of Credit Suisse have kept local investors on their toes.

## Corporate bonds

The crisis in the corporate bond market has been a significant local uncertainty factor. The market has now settled after the yields of 27 percent seen in November and is trading around 13–14 percent. Companies have bought back and paid off bonds prematurely and the nominal value of outstanding debt securities has fallen from USD 57 billion to less than USD 50 billion. That can be compared to the total amount of lending by the Vietnamese banking sector. The corporate bond market only represents less than 10 percent of that total, as the market is still undeveloped.

The customers in the corporate bond market are mostly retail investors, as the opportunities of Vietnamese banks to hold corporate bonds have been restricted by a separate government decree. Local investors have borne the risks of these fixed income instruments, and there are many investors involved – the number of VTP bondholders alone has been estimated at 40,000. Although the corporate bond market ran into problems in the fall, the amount of defaulted bonds has remained fairly low at USD 4 billion.

In our view, all of the parties are now well aware of the market conditions, which is why we do not expect major negative surprises in the bond market going forward. The Vietnamese government aims to get the market to once again operate actively, and several significant and successful new issuances of bonds have already been seen in March.

## The Vietnamese stock market will narrow the gap that has emerged between it and the ASEAN-4 countries

The Vietnamese stock market fell by 32.8 percent in 2022 and is down by 30 percent over the past 12 months. The VN-Index should close the gap created by its underperformance relative to the ASEAN-4 stock markets.

Having said that, it is clear that economic growth in Vietnam slowed in the final quarter of 2022 and the first quarter of 2023. There are many reasons for the weak purchasing power. The rapid rise in deposit rates has cooled the housing market due to the higher borrowing costs, and many other purchases have been postponed as consumers have preferred to put their funds in deposit accounts to accumulate high interest. At the same time, Vietnam's production sector has been slowed by weak exports.

It appears to be a universal post-COVID phenomenon that the drivers of economic growth are in the service sectors, and the strong growth of trade in goods will not be realized. The growth of domestic air travel broke records in January 2023. We expect the Vietnamese economy to grow, driven by the service sector, close to 4 percent in the first quarter, in spite of the very low activity in the housing market and declining exports. Our view is that an acceleration of economic growth in Vietnam is right around the corner, as falling interest rates and the liquidity maintained by the central bank will accelerate economic activity starting from the second quarter and through the remainder of 2023. We expect the economic growth end up above 5.5 percent this year, despite weak export demand.

## The Vietnamese stock market VS ASEAN-4 (Indonesia, Malaysia, Philippines and Thailand)

	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Forward P/E 2023	13.6	13.3	11.5	15.4	10.4
Listed companies Net debt/Equity (*)	9.1%	34.1%	52.0%	93.9%	16.0%
Index 12-month performance	-4.1%	-10.1%	-6.5%	-5.3%	-30.1%
Earnings growth 2023E	2.5%	7.6%	4.3%	10.5%	11.2%

(\*) Comparison of 50 biggest listed companies, excl. banks.

Source: Bloomberg

Local reasons led to an exceptionally sharp decline in the Vietnamese stock market in 2022. Local reasons will also trigger the rebound of Vietnamese equities. Vietnamese listed companies have low

gearing ratios, their earnings growth outlook for the next few years is the strongest, and Vietnam's forward P/E ratios are currently at an exceptionally low level when compared to the country's peers. At its widest, the valuation gap to the ASEAN-4 was 30 percent, but the gap has already begun to narrow since the turn of the year.

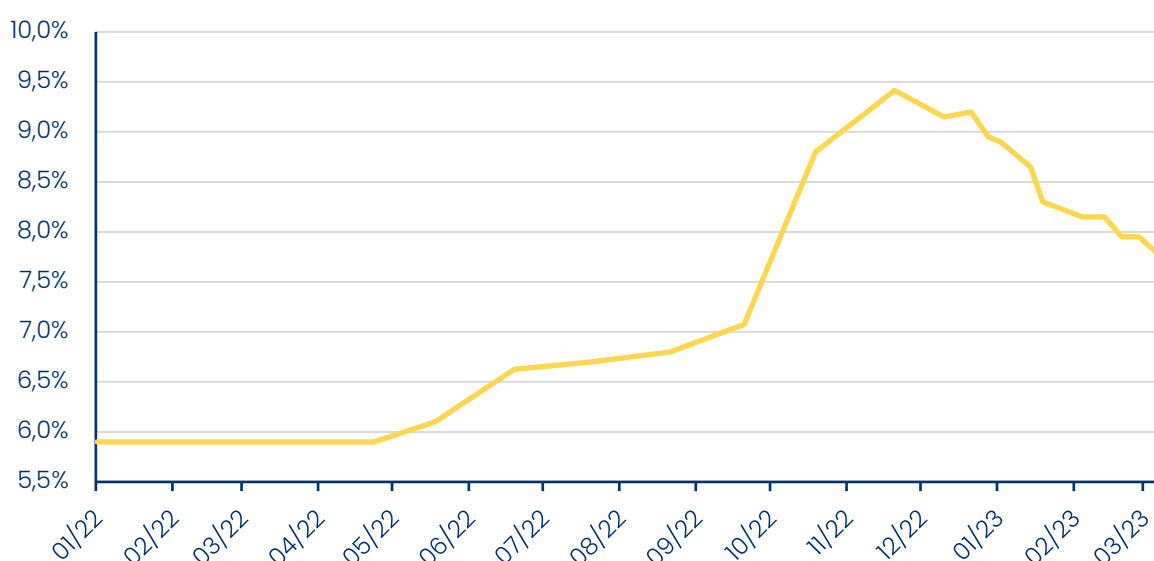
#### Year-to-date performance of stock indices, Vietnam and ASEAN-4

VN Index	Indonesia	Malaysia	Philippines	Thailand
+3.9%	-1.3%	-4.1%	+1.6%	-4.6%

Source: Bloomberg

#### The deposit rates of Vietnamese banks have turned to a decline

##### Vietnam 12M deposit rate



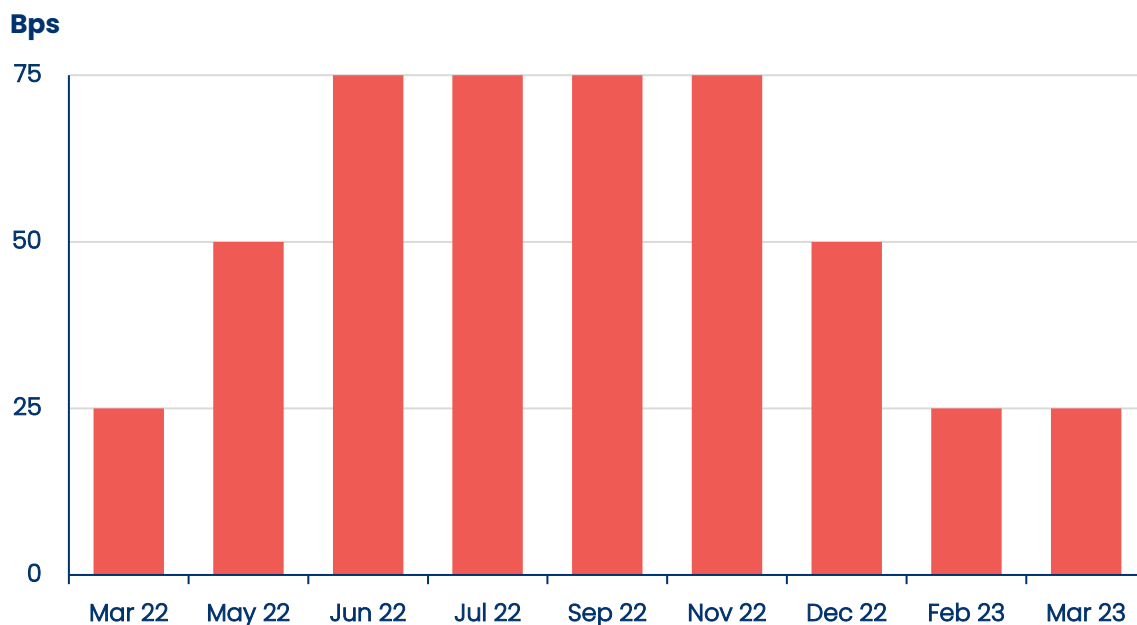
Source: Maybank Investment Bank

Over the past two months, the deposit rates of Vietnamese banks have fallen from 9.4 percent to 7.8 percent. The shock in the corporate bond market in late 2022 led to a sharp rise in the deposit rates of Vietnamese banks. Deposit rates directly guide the interest rates in lending, which makes them crucial for economic activity in Vietnam. The deposit rates have come down since Christmas, and we expect this trend to continue, with deposit rates returning to a more normal level of 5–6 percent by next fall.

The State Bank of Vietnam started lowering its reference rates in March, but the most significant reference rate was left unchanged. The central bank clearly wanted to test the waters and see how its interest rate decisions would be received by the market. There is reason to believe that the central bank will lower its most significant reference rate in the coming weeks. Inflation is not a problem in Vietnam, and the interest rate hikes last fall were mainly related to managing the exchange rate of the Vietnamese dong. Although Vietnamese exports have faltered since the late fall, mirroring the decline in Asian exports as a whole, Vietnam's foreign exchange reserves have again started to accumulate in the first months of the new year. In November, the foreign exchange reserves dropped to USD 83 billion, but we estimate that they now amount to USD 92 billion. The largest of the Fed's interest rate

hikes have already taken place, which cuts the outlook for a strong US dollar and reduces the need to manage the exchange rate of the Vietnamese dong. The new circumstances give the State Bank of Vietnam more leeway to bring local interest rates back to levels that accelerate economic growth.

### The Fed hiked interest rates by 475 basis points in record-breaking time



Source: Bloomberg

The flipside of prolonged expansionary monetary policy is the economic distortions it causes and their forced correction through contractionary monetary policy measures. Pursuing stable economic growth is always the target, but it is also always challenging. Monetary policy can have considerable excessive impacts on exchange rates, consumer prices, the commodity markets and the valuations of various asset classes.

## Banking stocks

When assessing the risks of banking stocks, it is important to analyze the fundamental factors underpinning their outlook with regard to growth and profitability. Banks are an essential part of the macro economy, and their success is directly linked to the cycles of overall economic activity. It is easy to come up with examples of unexciting banking stocks whose growth is limited by the weak growth of the overall economy. Banking stocks can be an excellent investment in a country characterized by strong demand for banking services and revenue potential from service fees, when those banks, simultaneously, have significant growth prospects associated with the growth of lending.

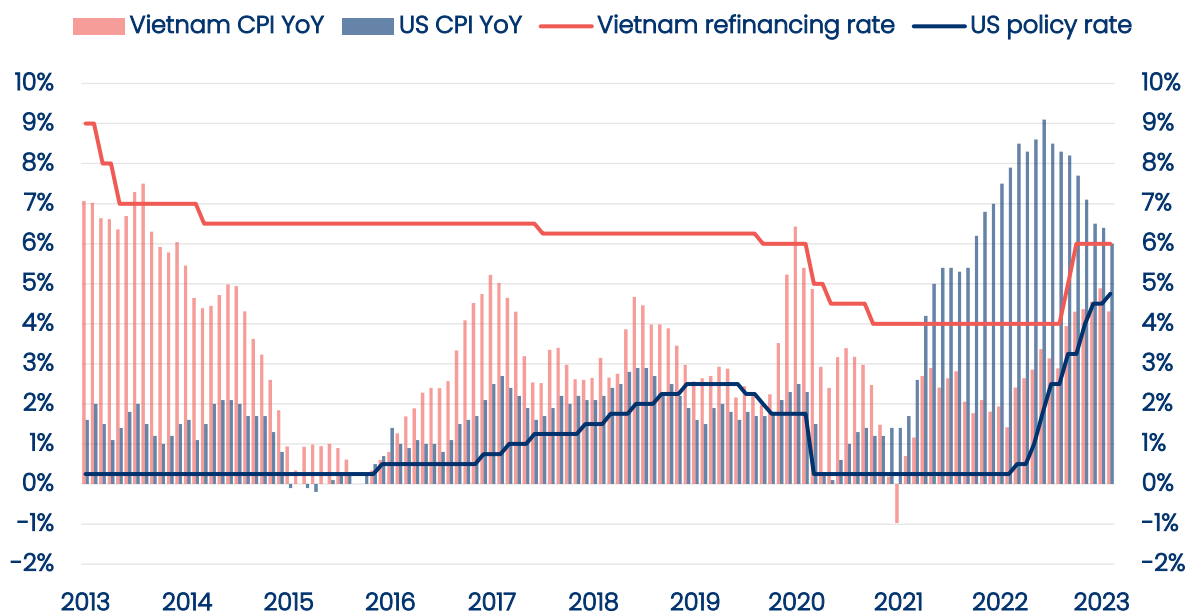
In theory, any bank anywhere in the world could find itself in severe difficulties if its customers were to withdraw their deposits in a short period of time. It is too late to assess that risk when the bank run is already happening. The extent of the risk must be analyzed in advance on the basis of the factors that could potentially lead to an elevated risk scenario.

With regard to Vietnamese banks, I would highlight a couple of very significant factors that substantially reduce the risks:

**1) The cost of money and sustainable economic growth.** The Vietnamese economy has maintained a good growth rate of 6–7 percent without extremely loose monetary policy. The central bank's inflation target is set at 4 percent, which is influenced by 10 percent annual increases in wages, among other factors. Rising wages are positive for the economy, as higher incomes lead to higher domestic demand. In the United States and Europe, interest rates have been kept at an artificially low level for the past decade, which has created additional demand in not only the consumer markets but also the financial markets. Vietnam has purposefully maintained interest rates at a level that restricts excessive demand growth. Even during the slowdown in demand caused by the COVID-19 pandemic, Vietnam's most significant reference rate was not set too low.

**2) The supply of money and sustainable economic growth.** In addition to the cost of money, another significant factor is controlling the supply of money. The State Bank of Vietnam learned from the 2008–2011 crisis and, in 2011, established maximum lending quotas for the country's banks. This effectively prevents the development of boom and bust situations. Each year, all of the banks in Vietnam can only increase their lending within the limits established by the central bank. While this operating model certainly reduces economic growth to some extent, it is an excellent instrument for maintaining the sustainability of growth in a rapidly developing economy.

### The use of restraint in monetary policy has reduced the volatility of Vietnam's economic development



Source: Bloomberg

In 2019–2023, Vietnam’s reference rate was not allowed to fall below 4 percent, and the interest rate was kept higher than the rate of inflation. In the US, the reference rate was reduced to 0.25 percent at its lowest point. Simplifying things slightly, it can be said that the difference in interest rate policy has meant that Vietnam has only deviated from its inflation target by 1–2 percentage points, while the US economy has deviated from its inflation target by 7 percentage points.

## PYN Elite’s portfolio

PYN Elite’s portfolio companies delivered robust earnings growth in 2022. In 2023, we expect to still see moderate earnings growth, albeit slower than in 2022. In terms of earnings growth percentages in 2022, ACV and VRE are particularly noteworthy. The airports firm ACV and the shopping mall owner VRE were both added to our portfolio during the COVID-19 pandemic, as their valuations and earnings performance crashed suddenly due to the pandemic-related shutdowns. In 2022, these two companies went on to achieve a turnaround in earnings growth thanks to the reopening of society.

The only portfolio company that recorded declining earnings in 2022 was Vinhomes. That was due to the very high base numbers for 2021 and the dismal situation in the corporate bond market in late 2022, which was directly reflected in the housing market and will continue to have an effect in 2023.

### Earnings growth for the top holdings in the PYN Elite portfolio in 2022

Company	Net income (billion VND)		Change %
	2021	2022	
CTG	14 089	16 908	20%
VHM	38 825	28 628	-26%
STB	3 411	5 041	48%
ACV	480	6 236	1200%
VRE	1 315	2 735	108%
TPB	4 829	6 261	30%
MBB	12 697	17 483	38%
VEA	5 751	7 602	32%
HDB	6 054	7 750	28%
SCS	564	646	15%
CMG	236	301	27%
<b>Median</b>			<b>30%</b>

Source: FiinPro



## Concise comments on the six largest companies in the portfolio:

### CTG

State-owned bank. Steady and secure growth in revenue and earnings. There is still a remarkable gap in valuation when compared to another state-owned bank: P/B CTG 1.2 vs BID 1.9.

### VHM

Vietnam's largest housing company and owner of landbank. The market situation is difficult. The company's performance in 2023 will be supported by USD 4.5 billion in presales from the previous year, most of which will be recognized in revenue this year. Vinhomes is in a better position than smaller housing companies. It has the ability to earn additional revenue from landplots where it has already built basic infrastructure by concluding block deals with foreign property developers. The company has very low gearing. Its debt-to-equity ratio is 14%.

### STB

A bank in special circumstances. Its operational performance is fine, but the bank's profitability has been weighed down by past lending portfolio under its previous management, for which it has made provisions for several years. The interest margin remained low at 2–2.5% until Q2/2022 due to the recognition of extra expenses, but the interest margin returned to a more normal level of 4.5% in Q3 and Q4. In 2023, the bank's interest margins will be at the normal level for the first full year, and there will also be sales of impaired assets that will generate extra gains to banks profits. A new position in the portfolio, added in mid-November.

### VRE

We expect very strong earnings, especially for the first half of 2023. Earnings will grow when the special financial support for tenants granted during the pandemic is eliminated from the financial figures. There are also other factors that increase the company's earnings: the new shopping malls launched in 2022 will be included in this year's figures. Rents being increased by 5–8%. Sales revenue from shophouse properties built by VRE in connection with its shopping malls will be recognized in 2023. We expect earnings growth of approximately 30%.

### ACV

The post-pandemic recovery of air travel is continuing. The passenger volume in domestic air travel reached a new record in January 2023 with 7.5 million passengers (the previous monthly high was 6.8 million in 2020). While domestic air travel has reached a record-high level, international air travel is still lagging. Restrictions on international air travel are still in the process of being lifted, but country-specific exemptions on the e-visa restrictions are expected for Chinese tourists, among others.

## TPB

A pioneer in digital services. The bank sprung a surprise by paying a high cash dividend of VND 2,500 per share on its earnings for 2022. The dividend yield is 11%. It is worth noting that, in a comparison of private banks, TPB was able to maintain the lowest deposit rates while being one of the banks that accumulated the largest amount of deposits. Deposit growth in 2022 was +40%.

## **Vietnam for the next 120–240 months – on a trajectory of sustainable growth**

Vietnam is led by Nguyen Phu Trong, the long-standing General Secretary of the Communist Party of Vietnam. He deserves credit for Vietnam substantially improving its position in global corruption country rankings. Trong is known as a leader with high morals. When business figures or leading public officials caught acting unethically have been removed from their positions, Western media has been given reason to speculate that General Secretary Trong may have his own self-interested agenda of consolidating power, and such an agenda could involve a muddling of the country's interests and Trong's interests.

The people of Vietnam know their leaders, and rumors of abuses of power or hidden wealth move quickly among the populace. Trong has a clean record. We find Trong's actions to be consistent and prompt. He is following Vietnam's long-term strategy, which aims to elevate the country to an entirely new level on the international stage. Increasing the prosperity of the people is the clear number one goal in the strategy. The sustainable development of an underdeveloped country must be underpinned by discipline and order. This is an increasingly important argument with regard to foreign industrial investors that take a long-term view and plan new investments in Vietnam. In its time, Singapore won a number of industrial mega-investments on similar arguments.

The most recent change in Vietnam's political leadership was the election of a new president. The new president is Vo Van Thuong (52) from southern Vietnam. He is a politician with a strong sense of integrity, and his age and region of birth are viewed positively. He is a career politician, and it remains to be seen how active he will be in his position.

### President Thuong taking his oath of office



Hoang Thong Nhat/AFP/Lehtikuva

### Vietnam's risks and opportunities

Vietnam is often compared to China or the other emerging economies in Southeast Asia. Vietnam's development was hindered by the Vietnam War, which lasted two decades from 1955 to 1975 and meant that the country's economic development lagged considerably behind many other Asian countries. Vietnam's GDP per capita is only one-third of China's. However, Vietnam's post-war industrial policy has been highly purposeful and open. Furthermore, the age structure of the Vietnamese population and the country's investments in education will support continued growth for decades to come. In Vietnam, people who are 30–40 years of age are the largest age group. In China, the 50–60 age group is the largest.

In terms of military policy, Vietnam has opted to remain outside alliances and manage its national defense independently.

One noteworthy observation is that Vietnam has already clearly overtaken Thailand, which is a more advanced economy, in the use of digital payment services. Another interesting fact from IT sector. There are approximately 28 million software engineers in the world. The top three countries are China, India and the United States. With 500,000–1,000,000 programmers, Vietnam is already close to the top three.

The risks of countries with authoritarian regimes have been highlighted particularly by the trade war between China and the United States and the invasion of Ukraine by Putin-led Russia. In our view, Vietnam's situation differs from that of China. Vietnam is not a superpower, and it does not need to get involved in the battle over the world order between the superpowers. As a small country, Vietnam seeks to maintain good relations with all of its trading partners. Unlike China, Vietnam has also adopted a more permissive policy with regard to social media, although there is still significant political censorship of mainstream media, which also applies to large groups in social media.

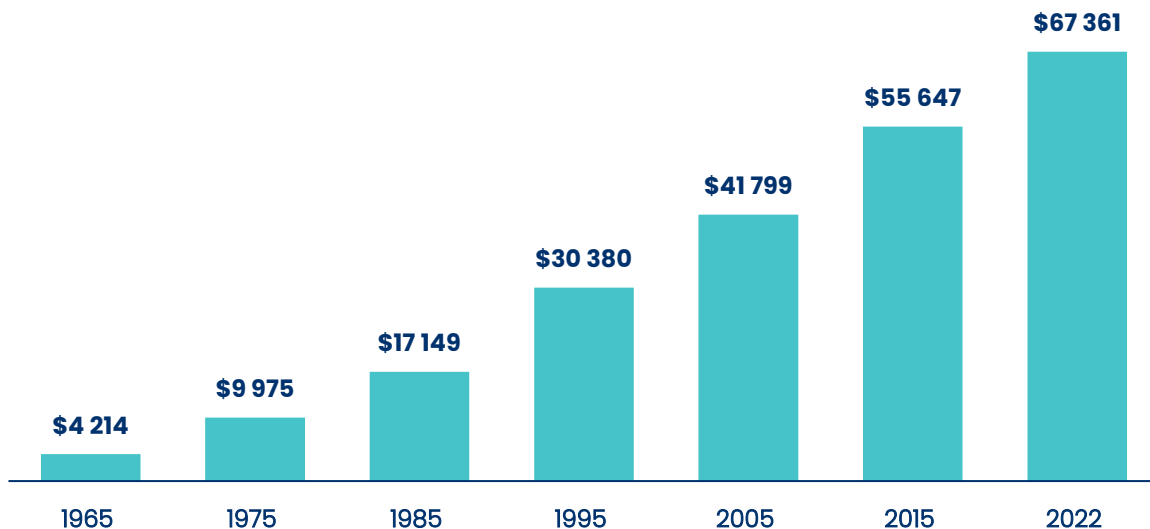
	Vietnam	China
Facebook	Allowed	Not allowed
WhatsApp	Allowed	Not allowed
Twitter	Allowed	Not allowed
Instagram	Allowed	Not allowed
Google	Allowed	Not allowed
YouTube	Allowed	Not allowed

Vietnam has also been more open with regard to industrial policy. While China has imposed import quotas on key industrial raw materials, Vietnam has very few of these. Examples include China's import quotas on cotton, which is a crucial raw material for the clothing industry. China has also banned the import of recycled paper and plastic as raw materials.

With regard to politics, I have jokingly suggested that the Communist Party of Vietnam could change its name to reflect its pro-business economic policy, where the prosperity of the citizens is a key objective. PFP, People First Party, would be a more apt name.

In my view, Vietnam's approach to governance and the country's future trajectory have clear similarities with Singapore. Over a period of 60 years, Singapore has gone from being a country characterized by corrupt British power to being one of the world's least corrupt countries. The country's rock-solid political foundation has underpinned its growing prosperity, where the basic pillars have been similar to those of Vietnam's: education, discipline and order. Singapore has been governed by the same party, PAP, for several decades. Singapore's GDP per capita is USD 67,000 (Finland: 45,000, Vietnam: 3,800).

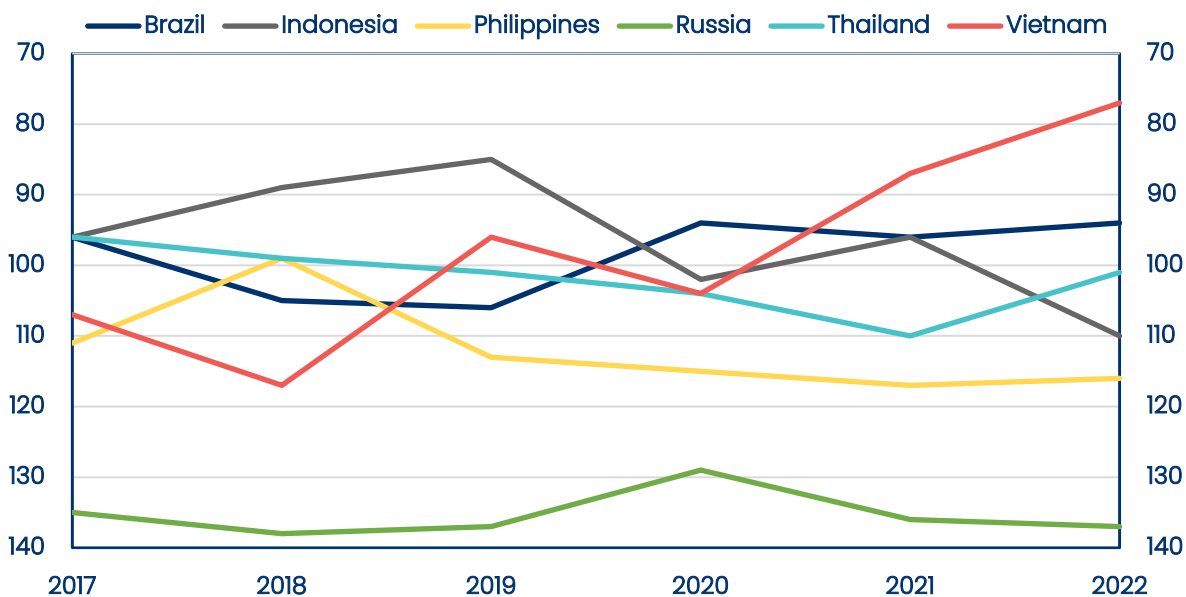
### Singapore's GDP per capita



Source: Department of Statistics Singapore

The policy of discipline and order implemented by Vietnam has produced significant results, with the country improving its position in global corruption rankings by 30 places over a period of five years. It can be assumed that Vietnam's ranking will continue to improve. Although the most significant reorganizations at the highest levels of decision-making have already been made, ethical codes are still being continuously improved in various state agencies and state-owned companies.

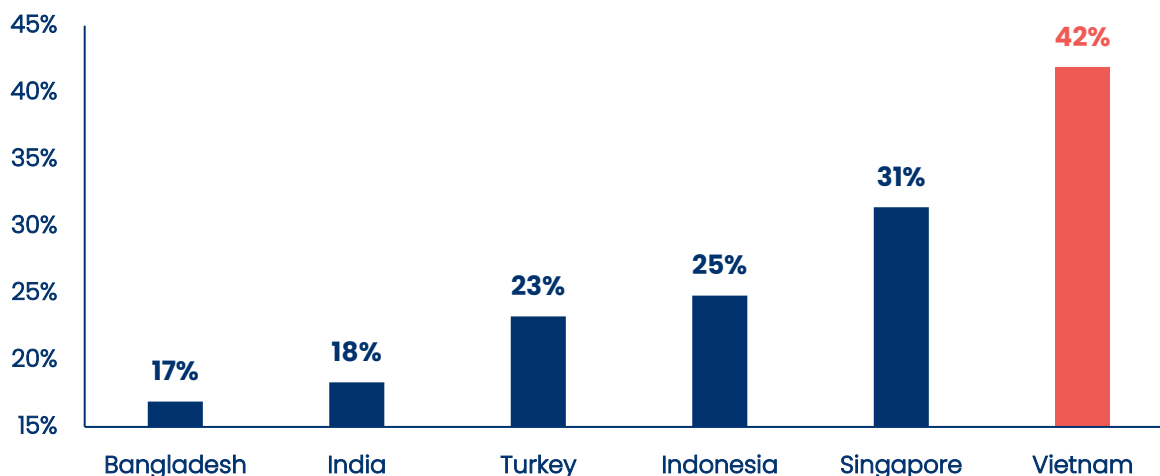
### Vietnam has already surpassed Thailand in corruption rankings



Source: Transparency International

Vietnam compares favorably to many other emerging economies with regard to income equality between women and men. It is typical of developing countries that women are in a disadvantaged position with regard to income, but Vietnam ranks considerably better than its peers in this respect.

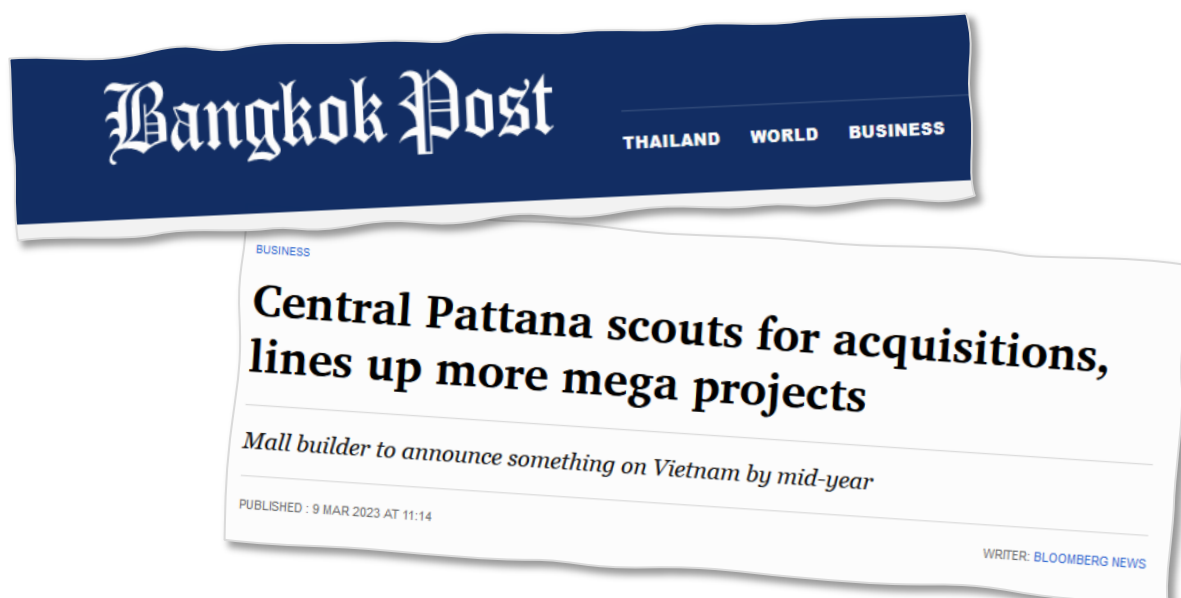
### Women income equality table / Women's share of total incomes from employment



Source: World Inequality Database

Women's share of employment earnings in Vietnam is 42 percent, and women are prominently involved in key positions in the business sector in Vietnam.

### Bangkok Post front page news, March 2023



Central Pattana is a Thailand-based blue chip company that already has a strong foothold in Vietnam. In March, the company announced it intends to increase its investments in Vietnam by making acquisitions. This news came out in the midst of a period of uncertainty in the global financial markets.

Central Pattana has a market capitalization of USD 8.5 billion and it is the leading owner of shopping malls in Thailand.

Central Pattana's interest in Vietnam might suggest that this is not the worst moment to allocate more investment to the Vietnamese market. PYN Elite's NAV has recovered slightly from the dip seen in 2022. Fund units have generated a return of +3.9 percent since the beginning of 2023. PYN Elite has a fund-specific HWM (currently 566). It is only when that unit value is exceeded that performance-based fees can once again be collected from the fund. In practice, this means that customers' additional subscriptions may rise to the HWM without any performance-based fees being collected.

The next PYN Elite subscription day will be on March 31, 2023.

Wishing you a pleasant spring.

PYN Elite

Petri Deryng

Portfolio manager

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