

# FEATURE-Vietnam's volatile stock market draws money, needs depth

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March 1 (Reuters) - Vietnam is hoping that falling inflation and rising global risk appetites will spur sustained interest in the country's small stock market, a frontier where many pioneers have been burned.

Cheap valuations and optimism that Vietnam is getting on top of deep economic problems have attracted share-buyers this year.

The country has been one of the world's top performing equity markets so far in 2012. The benchmark index for the main bourse, the Ho Chi Minh City Stock Exchange, was up 20.5 percent through Wednesday.

The big question, though, is sustained performance. The market needs to be broader and deeper to move well away from being an adventuresome roller-coaster ride.

Vietnam's stocks, once a hot frontier market for investors, never fully recovered after the index plunged 66 percent in 2008, during the global financial crisis.

The index rebounded 57 percent the next year, but in 2010 -- a strong year for most Asian markets -- Vietnamese shares dropped 2 percent. Then it tumbled 27 percent last year.

There is encouraging economic news. Sky-high annual inflation, which hit 23 percent in August, is falling, reaching 16.4 percent in January. Economists expect that monetary authorities can start cutting interest rates by the second half -- unless world oil prices spike, pushing inflation back up.

Vietnam's easing inflation and an improving trade balance suggest that the economy is stabilising, Fitch Ratings said on Monday.

## ADDRESSING IMBALANCES

Mark Mobius, executive chairman of Templeton Emerging Markets Group, said there has been renewed foreign interest in Vietnam "coupled with positive local sentiments that the government has effectively addressed some of the economic imbalances."

The \$843 million Templeton Frontier Markets fund has about 8.5 percent of its portfolio in Vietnam equities.

Mobius, who manages \$40 billion worth of emerging market assets, has invested in Vietnamese consumer and commodities stocks.

Nguyen Vu Ngoc Trinh, chief investment officer at Manulife Asset Management (Vietnam) Co. Ltd., said that a stabilised economy with reasonable inflation level "would create a platform for growth in Vietnam."

Thanks to the government's "bold and consistent measures" to deal with inflation and restructure the economy, "money is coming into the stock market upon expectations that the macro situation has established a bottom," said Nguyen Hoang Long, investment director at An Binh Securities.

Manulife's Trinh recommends that investors look at companies in the financial and consumer goods sectors that they could hold for the long-term.

One of the Vietnamese market's main problem is a shortage of long-term institutional investors.

## MORE REFORMS NEEDED

However, drawing more of these investors depends on more concrete reforms to Vietnam's public finances and shaping up inefficient, indebted state-owned enterprises to get listed.

To try deepen the market, officials in Vietnam have indicated that a long-clogged pipeline of initial public offerings will reopen, and chunks of major state-owned enterprises will be sold.

Vietnam has said it plans to allow exchange-traded funds and open-end funds to operate.

One example of a global fund manager that has invested directly in many Asian markets -- but not yet Vietnam's -- is Aberdeen Asset Management.

"From a longer-term perspective, Vietnam is very promising, it's got a big population and it's in a very early phase of development. However, they need the maturity of management and a wider pool of companies other than state-owned ones," said Christopher Wong, a senior investment manager at Aberdeen in Singapore.

Citigroup is bullish on Vietnam and said in a Feb. 22 report that the country should be a core frontier market holding for investors, citing attractive long-term economic prospects on the back of a fast-growing population and low-cost labour pool.

"Low valuations have also helped," Citi said. Although Vietnam's stock market has sharply outperformed this year's 3 percent gain by the MSCI Frontier Markets' index', it still looks cheap.

#### LAGGING OTHER MARKETS

According to StarMine data, Vietnam stocks are trading at 11 times its earnings, lower than some of its peers. Indonesia's market, which rose 46 percent in 2010 and 3 percent in 2011 before cooling this year, is trading at 18 times.

Despite the rebound in the Ho Chi Minh index this year, it still lags other markets. It fell 27 percent last year, compared to 22 percent for MSCI Frontier Markets and MSCI Asia ex Japan's 18 percent loss.

The market capitalisation of Ho Chi Minh's stock exchange, just under \$28 billion, is much smaller than those of others in Southeast Asia. As of midday on Thursday, Indonesia's exchange had a capitalisation of \$351.5 billion, while Malaysia had \$268.4 billion.

Through Feb. 22, Vietnam this year had attracted \$32.3 million net inflows from equity funds. In the same period, some of its peers such as Malaysia, which only saw \$12.2 million of fund inflows, data from fund flows tracker EPFR Global showed.

LionGlobal's S\$47.5 million Vietnam fund has been one of the beneficiaries, having gained 12.3 percent in January in US dollar terms, outperforming the benchmark's 10.4 percent rise for that month.

"Sectors we like are the consumer names, and we are bearish on the real estate sector, due to oversupply and clamping down by central bank on lending to this sector," said LionGlobal in a report.

Although it is neutral on financials, LionGlobal counts Vietnam's largest insurer Baoviet Holdings and bank Sacombank among its top holdings, and also has a stake in food and natural resources firm Masan Group Corp.

Long of An Binh Securities recommends Vietnam's large banks and blue chips with strong cash flows, such as Petrovietnam Fertilizer and Chemicals Corp and software firm FPT Corp.

(Additional reporting by Duy Vu in HANOI and Rajesh Chandnani and Patturaja Murugaboopathy in BANGALORE; Editing by Richard Borsuk)

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