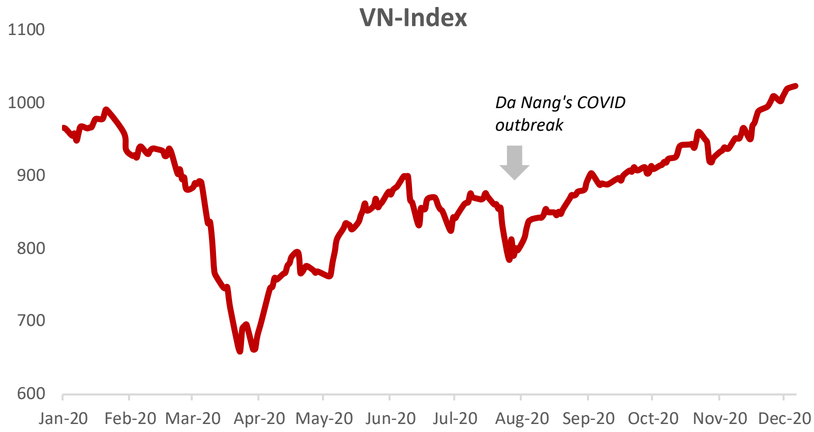
Michael Kokalari, CFA
Chief Economist

Vietnam's "Covert Stock Market Rally" is Set to Continue in 2021

Vietnam's VN-Index (VNI) has surged by over 30% since late July, which is about double the increase of the MSCI-EM and S&P 500 over that time. But this stellar performance has largely gone unnoticed, even by emerging market investors who follow Vietnam!

That's partly because a string of new record highs at the Nasdaq, Dow Jones, and S&P 500 indices understandably outshone Vietnam, especially in November, which was a month of superlatives for the US stock market.



The three main reasons that Vietnam's stock market has outperformed since late-July, when the country suffered a brief, isolated "second-wave" COVID outbreak centered around the seaside city of Danang, are:

1) The Government successfully **contained the Danang COVID outbreak,** which boosted the confidence of Vietnamese consumers and businesses, especially as the social distancing measures that were adopted at that time were carefully formulated to minimize both public health risks ***and*** economic disruptions.

2) Vietnam's **economic growth has steadily accelerated** each month since the 3-week, localized Danang lockdown ended in August[1].

3) **Monetary conditions** in Vietnam are very loose, and look set to ease further, driven by a drop in CPI inflation from 3.4% yoy in July to 1.5% in November, resulting in 10Y Vietnam Government Bond yields (VGB) dropping by about 50 bps since July, to circa 2.5%.

Further to #2 above, the two main drivers of Vietnam's economic growth[2] in 2020 have been manufacturing and domestic consumption, both of which have sharply rebounded since August; the growth of Vietnam's manufacturing output surged from 0% yoy in August to nearly 12% in November, and retail sales growth surged from 4% yoy to nearly 9% over the same period.

[1] The social distancing measures that the Government implemented from late-July to mid-August were centered on the region around Danang.

[2] Vietnam's GDP is expected to grow by ~2% in 2020, making Vietnam one of the few countries with positive GDP growth this year.

Firm Foundation for Further Upside

The VN-Index has increased 7% YTD versus circa 7% YTD *declines* in Vietnam's regional stock market peers (Philippines, Indonesia, Thailand), and we expect the VNI will enjoy double-digit gains in 2021, because:

1) We forecast ~20% EPS growth next year and have a high degree of certainty in that forecast.
2) The VNI's 13x Forward P/E valuation is attractive, and in-line with its 10-year average.
3) Domestic liquidity is supportive [3].

We are confident in our 20% EPS growth estimate, which is below the markets' 28% consensus EPS growth forecast, because the on-going rebounds in Vietnam's domestic consumption and manufacturing activity virtually guarantee that the economy will grow by at least 6.5% next year. For that reason, VinaCapital's research team expects strong "bottom up" earnings performance across a wide range of stocks and sectors in 2021.[4]

Further to that last point, the ~30% surge in Vietnam's stock market since late-July has been driven by 30-50% surges in the prices of financial, consumer, and construction materials stocks. We believe that the breadth of the market's strength puts the VN-Index on a firm foundation for a further increase next year.

Domestic AND Foreign Investors To Propel the Market Higher

Vietnam's retail investors account for about 85% of the country's stock market trading volume, and the number of retail trading accounts surged by 75% yoy in 11M20.

The surge in local investors' interest in the stock market stems from widespread confidence in the Government's handling of COVID and from a drop in bank deposit rates, which were as high as 8% before the COVID outbreak emerged and have fallen to below 6% for 1-year term deposits at present. That said, local investor sentiment is far from euphoric, which is reflected by the market's modest valuation, especially compared to Vietnam's regional peers, as can be seen in the table below.

	2021F EPS Growth	2021F P/E
Philippines	39%	19.1
Thailand	48%	18.2
Indonesia	48%	15.4
Vietnam	**20%**	**13.4**

Source: Bloomberg, VinaCapital

Finally, the widely discussed narrative that "*Asia handled COVID well*" has started to prompt foreign investors to pour money into regional markets, which helps explain why China's FII stock market inflows surged by more than 25% yoy to a record high of over USD200 billion YTD. This phenomenon to likely accelerate next year, and Vietnam's attractive valuation should entice foreign investors to buy Vietnamese stocks, especially given that the VNI's 13x P/E ratio is predicated on a very realistic 20% EPS growth forecast that does not entail any "heroic assumptions".

[3] The State Bank of Vietnam (SBV) has bought an estimated USD16 billion of FX reserves YTD and paid for those US Dollars with freshly printed VN Dong in what economists call "unsterilized" currency intervention. The resulting flood of liquidity depressed interbank interest rates to below 0.3% in H2, and we expect this phenomenon to continue in 2021 for a variety of reasons, including a surge in Vietnam's trade surplus to above 9% of GDP this year, which will enable to SBV to continue aggressively accumulating FX reserves.

[4] VinaCapital's research group covers more stocks than any other research team in the country.

Disclaimer

Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or to sell any securities or any option, futures, or other derivative instruments in any jurisdiction. Nor should it be construed as an advertisement for any financial instruments. Officers of VCFM may have a financial interest in any securities mentioned in this report or in related instruments. This research report is prepared for general circulation and for general information only. It does not have regard to the specific investment objectives, financial situation or particular needs of any person who may receive or read this report. Investors should note that the prices of securities fluctuate and may rise and fall. Past performance, if any, is no guide to the future.

Any financial instruments discussed in this report may not be suitable for all investors. Investors must make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular financial situation and investment objectives. This report may not be copied, reproduced, published, or redistributed by any person for any purpose without the express permission of VCFM in writing. Please cite sources when quoting.