

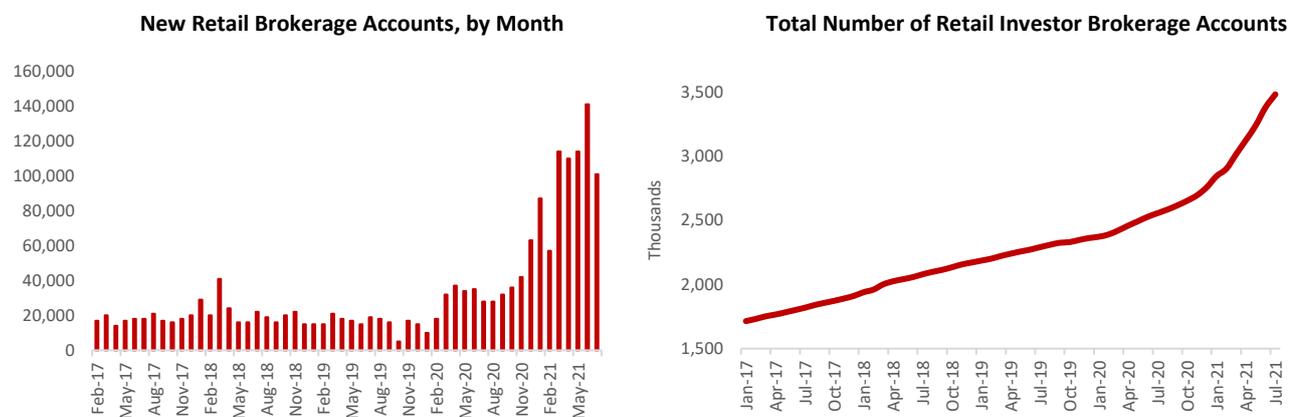
Michael Kokalari, CFA  
Chief Economist

## The Evolution of Vietnam's Stock Market

The development of Vietnam's stock market leapt forward in recent years. For example, the number of Vietnamese companies with market capitalizations of over USD1 billion rose from 10 in 2015 to nearly 50 today, while the stock market's total value surged from 30% of Vietnam's GDP to 90%/GDP, which is comparable to that of Vietnam's regional peers. Recently, a surge in retail investor participation further propelled the market's development, which is discussed below.

### **LOWER Interest Rates Prompt HIGHER Retail Investor Participation**

The number of new stock brokerage accounts opened by retail investors doubled in 2020, and in the first half of 2021, the total number of new accounts was more than the number of new accounts in 2019 and 2020 combined. A series of record-high, monthly account openings were widely reported in the local press, which has in-turn enthused investors in Vietnam's stock market and helped the VN-Index (VNI) shrug off COVID-related issues this year.



This recent enthusiasm to invest in the stock market partly stems from a circa 150bps drop in the 1-Year, term deposit rates that banks pay savers, as well as from an expected 36% yoy surge in earnings in 2021. Interest rates started falling in early 2020, which prompted many savers to seek alternative investments when their deposits matured, which corresponds to the surge in monthly retail brokerage account openings that can be seen in the chart above.

Vietnamese investors have historically invested in real estate, gold, and/or in the stock market – in that order of preference. However, attractive investment opportunities in Vietnam's real estate market dried up recently for a few reasons, including COVID-related construction delays, while gold is currently less appealing to many local savers because gold prices traded in a narrow range over the last year, and because the price of gold in Vietnam is already 17% above world gold prices (Vietnam imposes strict quotas on gold imports).

### **New Investors Initiated to Vietnam's Stock Market**

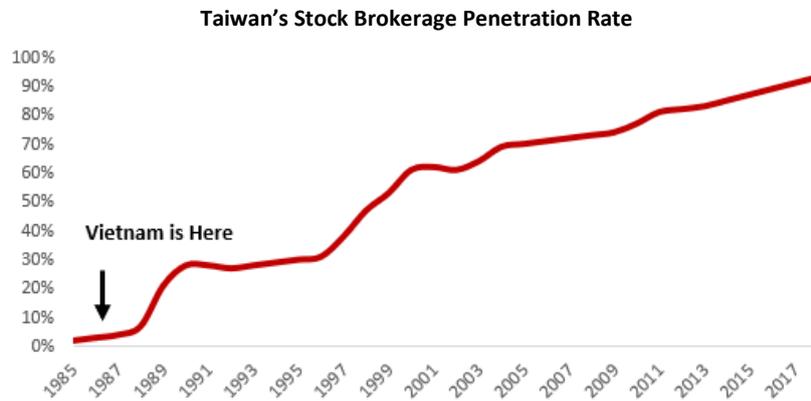
In the absence of attractive investment alternatives, local savers are turning to the stock market, and the enthusiasm with which newly initiated retail investors are embracing the stock market, coupled with the very low current participation rate of retail investors, are clear indicators that this is a sustainable development. Budding investment communities are forming with very active and sophisticated on-line discussions about stocks, mutual funds, and ETFs, and local fund management companies (including VinaCapital's wealth management subsidiary) are being inundated with inquiries.

We view retail investors' current enthusiasm as yet another harbinger of the development that lies ahead for Vietnam's stock market, given that retail investor participation in the market is still in its infancy (which is discussed below), Vietnam's mutual fund industry is at a very early stage of development, corporate pension plans are just starting to be introduced, and the fact that derivative products were only recently introduced to the local market (the derivative products available to local investors are still rudimentary<sup>1</sup>).

<sup>1</sup> Futures on the VN30 index were introduced in Aug 2017, and covered warrants were introduced in June 2019. There are a total of 43 covered warrants listed on the stock market that enable investors to speculate on 18 different stocks.

**The Beginning of a Multi-Decade Surge**

The number of retail stock brokerage accounts in Vietnam only equates to around 3% of the country's population, despite the recent surge of retail participation, and that 3% figure is comparable to Taiwan's retail stock brokerage account penetration rate around 1986, as can be seen below. Vietnam is following the same "East Asian Development Model" that Taiwan and the Asian Tigers used to become wealthy - and every Asian Tiger's stock market flourished as their economies grew - so we believe Vietnam is still at the very beginning of a multi-decade development of the country's stock market.

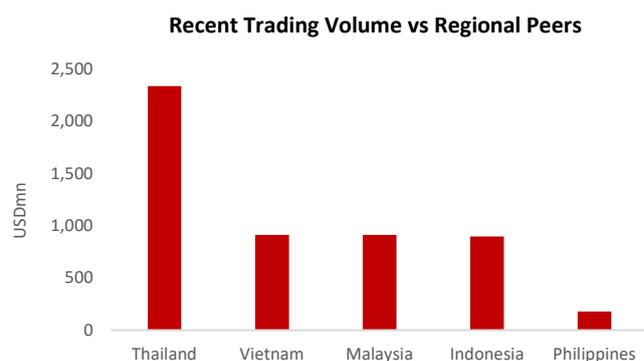


Source: Yuanta Securities

Vietnam's Government aims to increase the country's stock brokerage penetration rate to 5% by 2025, and to 10% by 2030, which seem like realistic targets given the trajectory of Taiwan's retail investor participation when it was at a comparable stage of economic development; Vietnam's USD3,500 per-capita GDP is similar to Taiwan's USD4,000 per-capita GDP (expressed in terms of 2020 Dollars) when its retail stock brokerage penetration rate was still only 3%.

**Exploding Trading Volume**

Vietnam's new retail investors exploded the country's daily trading volumes, as can be seen below. This surge overloaded the stock exchanges' trading and clearing computer systems, causing some disruptions, including the early closure of the Ho Chi Minh Stock Exchange (HOSE) in the afternoon of June 1, 2021.



The HOSE exchange had been using the same trading systems since it was established 21 years ago, and temporarily upgraded to a system developed by FPT, Vietnam's leading technology company, on July 5<sup>th</sup>. The FPT system boosted HOSE's capacity from 900,000 orders per day to around 4 million orders/day, and an upgrade to a system developed by the Korea Stock Exchange (KRX) has already been in the works for some time and is likely to go live in early 2022. The KRX system, which is currently being tested, will have additional features besides increased capacity, including eliminating the need to pre-fund trades, and the ability to do same-day settlement, which will enable intra-day trading in Vietnam.

**Conclusion**

The recent enthusiasm of retail investors to invest in Vietnam's stock market was prompted by falling interest rates and robust corporate earnings growth, and is another step in the development of the market we expect in the decades ahead. The participation rate of local investors in the stock market is still in its infancy compared to Asian Tigers such as Taiwan when those economies were at a similar stage of economic development, and all the basic building blocks of a modern stock market are still being put in place to accommodate anticipated growth.

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