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What You Need to Know About Vietnam's Three Stock Exchanges... ...and Understanding Q1 22 Performance

Vietnam has three stock exchanges: The **HCM Stock Exchange** (aka "HOSE") was established in 2000, the **Hanoi Stock Exchange** (aka "HNX"), which was established in 2005, and the **Unlisted Public Company Market** (aka "UPCOM"), which started trading in 2009. This report provides investors with background information on these three exchanges and reviews the Q1 2022 performance of each, with a view to illustrating the ample opportunities that active fund managers in Vietnam have to outperform Vietnam's benchmark stock market index, the VN-Index (VNI).

As of Q1 2022	HCMC Stock Exchange	Hanoi Stock Exchange	Unlisted Public Company Exchange
Market Cap ¹	\$259b	\$20b	\$65b
# of Stocks	409	341	858
Market Index	VN-Index	HNX Index	UPCOM Index
# of Stocks Advanced / Declined	57% / 39%	54% / 43%	44% / 39%
Performance in Q1	-0.4%	-5.1%	+3.8%

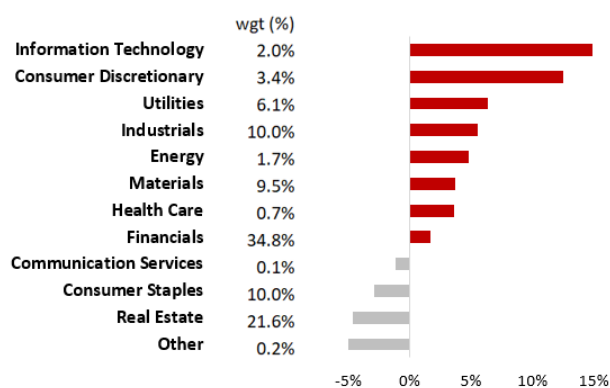
The VNI is a market cap-weighted index of all 409 stocks listed on the HOSE and is the most widely quoted Vietnam stock market index in the international press. Most of Vietnam's large cap stocks are listed on HOSE. The Hanoi exchange was originally intended for smaller, high growth Vietnamese companies, so listing requirements on this exchange are less strict than for HOSE, and the daily trading limit up/limit down for stocks traded on the Hanoi exchange is +/-10% versus +/-7% for companies listed on HOSE.

There are only two companies on the Hanoi exchange that have a market cap of above USD1 billion, while all the top 20 companies on HOSE have market caps of above USD3 billion. The HCM and Hanoi exchanges are slated to be merged at some point in the future, and it is likely that Hanoi will eventually become the trading floor for derivatives and bonds in Vietnam. Several companies, including ACB, SHB, and VCG, have already migrated their listings from Hanoi to HOSE in recent years. Finally, UPCOM was established in 2009 as an intermediary step for companies to transition to a formal listing on HOSE or HNX, but it has also ended up being home to some fairly large companies, which is discussed below.

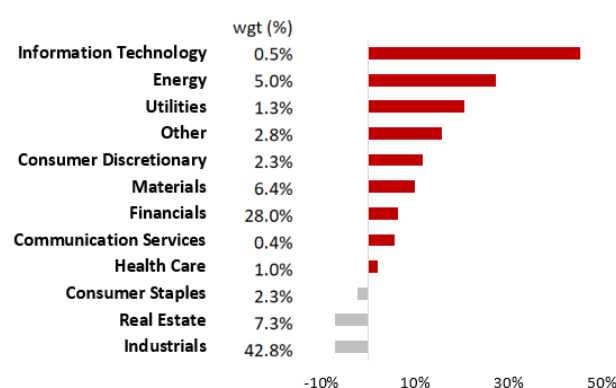
Performance Dispersion in Q1

The sector performance of the HCM and Hanoi stock markets appear below (this information is not available for the UPCOM market). Within each sector, active managers profited from many stock-specific stories profit. For example, financial stocks listed on HOSE increased by less than 5% in Q1, but BIDV (BID) and Military Bank (MBB) were up 17% and 14%, respectively, driven by company-specific factors, while HD Bank (HDB) fell 8% because of profit taking following the stock's 60% surge in 2021.

HCMC Sector Performance



Hanoi Sector Performance



¹ As of March 31, 2022

The performance of the individual sectors above was primarily driven by corporate earnings expectations in Q1. For example, Vietnam's retail spending surged towards the end of Q1 (from a 1.7% yoy increase in 2M22 to a near 10% yoy rise in March) as workers – who had previously fled to their hometowns after the COVID lockdowns were lifted in late 2021 – finally returned to the greater HCMC and Hanoi regions. The jump in retail spending drove the performance of HOSE-listed consumer discretionary stocks in Q1, although there were also some stock-specific stories for investors to profit from, such as the 50% increase of FPT Retail (FRT), which is a retailer spun out of Vietnam's technology giant FPT and which has a relatively new pharmacy chain format that is currently gaining traction.

Similarly, the healthy performance of Vietnam's energy stocks was driven by the increase in global energy prices in Q1, but the energy stocks listed on the Hanoi exchange significantly outpaced the performance of those in the VN-Index, despite both stock markets being home to companies that are more-or-less equally representative of Vietnam's oil industry. That divergence partly stemmed from the fact that foreign investors favored stocks that are listed on the HCM exchange (including oil & gas stocks), while Vietnamese retail speculators favored those listed on the Hanoi stock exchange – and local investors have been the main drivers of the performance of Vietnam's stock market over the last year.

Hanoi Versus HCMC

The listing requirements on HOSE are stricter than those of the Hanoi exchange. HOSE-listed companies usually have better disclosure and are more willing to meet investors, both of which are important to foreigners. In contrast, local speculators prefer the Hanoi exchange, partly because of its wider daily trading band.

Next, the HOSE/VNI significantly outperformed the HNX index in Q1 because one company, THD (which has an 18% weighting in the HNX index), fell 39%, dragging down the performance of the HNX index by -7%pts. THD, which has a USD2.6 billion market cap, focuses on acquiring companies which have attractive land banks that can be converted/re-zoned for residential and other higher value uses, but the stock was pulled down by some recent regulatory issues that have weighted on Vietnam's real estate sector, which we will discuss in a future report. Note that the disproportionate impact THD and a handful of other relatively large stocks listed on Hanoi have on the overall HNX index is reflected by the fact that the market cap of the top 20 stocks in the index equates to about 70% of Hanoi's total market cap.

Finally, the performance of Vietnam's IT stocks listed on the Hanoi and HCM stock exchanges varied considerably for reasons that are un-related to their core businesses. In the case of HOSE, a single USD4 billion market cap company, FPT, accounts for nearly all of the IT sector's weighting in the VN-Index, and FPT's very healthy core business pushed its stock price up by 15% in Q1. However, the 11 IT companies listed on the Hanoi stock exchange are smaller, more speculative companies, so the near 50% rise in that sector in the Hanoi index was largely attributable to company-specific factors.

More About UPCOM

The listing and disclosure requirements on UPCOM are less stringent than the other two exchanges as it was intended for companies (including privatized SOEs) that are on the way to being listed on the HCM or Hanoi exchanges. However, a handful of large companies never transitioned to the main boards, and those names also have a disproportionate weight in the index, similar to the Hanoi exchange (the top 3 stocks in UPCOM account for over one-quarter of the exchange's market cap, and the top 20 account for above 60% of the total market cap). The largest stock in the UPCOM index, Airports Corporation of Vietnam (ACV), has a market cap and index weighting of nearly USD9 billion and 14% respectively. ACV was expected to be listed on HOSE soon after it was privatized in 2015, but this transition was delayed for a variety of reasons.

Conclusions

The HCM stock exchange (aka "HOSE") is the largest and most liquid stock exchange in Vietnam, and the widely quoted VN-Index (VNI) is comprised of all stocks listed on that exchange. HOSE is also the exchange on which most of the AUM that VinaCapital manages is deployed and from which most of the alpha our PMs generate is earned. That said, VinaCapital participates in all three exchanges because there are numerous opportunities for active fund managers on all three.

In Q1, there were significant performance discrepancies between all three exchanges, as well as among the individual stocks and sectors within Vietnam's stock markets, which is an ideal environment in which active fund managers like VinaCapital can outperform the benchmark VN-Index. VinaCapital builds portfolios by identifying stocks with high profit potential based on thorough research and analysis. This helps explain why our VEOF and VESAF funds were the two top-performing Vietnam funds in Q1, with performances of over 8% YTD for each versus a 0.4% decline in the VN-Index during that period, while the NAV's of our two offshore equity funds VVF and VAF grew by more than 5% and 7% respectively in Q1.

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