ECONOMIST'S NOTE

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THE VN-INDEX IS OFF TO A STRONG START IN 2023

The VN-Index (VNI) surged 10.3% in January, driven by an easing of concerns about Vietnam's credit crunch and corporate bond market, which were the main drivers that pushed the VNI down 33% in 2022 (which we discussed in this report), and by a resurgence of foreign buying. In this report, we look "under the hood" at the performance of the index with a view to illustrating that: 1) the rally in Vietnamese stocks still has a long way to go, with the consensus expecting the VN-Index to increase by over 20% this year; and 2) that an active management strategy – based on a fundamental research-driven stock selection – continues to offer investors superior risk-returns in Vietnam, given the market's inefficiency.

	Name	% Move in January	% of VNI Move	Top 20 Worst Performing Stocks in 2022?
VCB	Vietcombank	13.9	13.1	
BID	BIDV Bank	12.8	6.4	
HPG	Hoa Phat Steel	22.8	5.9	X
CTG	Vietin Bank	13.0	4.1	X
ACB	ACB Bank	18.4	3.4	
VHM	Vinhomes	6.5	3.3	X
VIC	Vingroup	6.5	3.3	X
TCB	Techcombank	13.3	3.0	X
GVR	Vietnam Rubber Group	21.0	2.9	X
VPB	VP Bank	9.3	2.7	X
SAB	Saigon Beer Alcohol Beverage	9.3	2.5	
MSN	Masan Group	7.6	2.5	X
VIB	VIB Bank	24.6	2.4	X
MBB	MB Bank	12.4	2.4	X
STB	Sacombank	21.3	2.2	
FPT	FPT Corp	9.6	2.0	
VRE	Vincom Retail	12.1	1.8	
GAS	PetroVietnam Gas	3.6	1.7	
PLX	Petrolimex	17.4	1.7	X
HDB	HD Bank	17.3	1.7	
			69%	34%

The table above highlights the top 20 stocks that contributed to the increase in the VN-Index in January. The increase in these 20 stocks explains nearly 70% of the increase of the VN-Index (circled in RED), which is a market-cap weighted index of all 403 stocks listed on the Ho Chi Minh

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Stock Exchange (HOSE)[1] [2]. The column labeled "% of VNI Move" above shows how much each individual stock contributed to the VN-Index's 10.3% increase in January. At the time of writing, the index is up 6% YTD due to some profit taking following last month's surge and because the recent, modest rebound in the value of the USD has somewhat weighed on stock prices in EM Asia.

As can be seen in the table above, the biggest contributor to the increase in January was an average 15% rise in the prices of bank shares, which accounted for nearly half of the VNI's climb. That increase was spurred in part by an easing of concerns that corporations in Vietnam (especially real estate developers) will face challenges rolling over/refinancing USD13b of maturing corporate bonds this year (which is discussed below) and which could have created significant issues for Vietnam's banks, which hold nearly USD10b worth of corporate bonds on their balance sheets.

Notwithstanding all of the above, we also see some evidence that the rebound in bank share prices was also driven by a rotation out of the best performing stocks in 2022 and into the worst performing stocks. The table above also highlights the fact that over half the stocks that drove the increase in the VN-Index in January were among the 20 stocks the pulled the index down the most last year, and that these 20 "worst performing" stocks of 2022 contributed about one-third of the market's increase in January.

Furthermore, the 20 of the worst performing stocks in 2022 were up about 12% in January, while the 20 best performing stocks in 2022 (i.e., those that added the most to the VN-Index last year) were only up about 4% in January. This divergence means the rebound in both bank share prices and the overall VN-Index was somewhat driven by rotation/portfolio rebalancing from the best performing stocks into the laggards. Such mean reversion is common in stock markets around the world and bolsters the case for active fund management.

Relief for Banks

Last year, the Government introduced new regulations limiting the range of investors that could buy newly issued corporate bonds and introduced other measures that made it more difficult for companies to issue bonds (note that retail investors in Vietnam had been enthusiastic buyers of corporate bonds as a higher-yielding alternative to bank deposits). These measures were

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[1] The top 30 performing stocks in the VN-Index account for about 80% of the index's performance in January vs. 69% for the top 20.

[2] Note that the market cap of HOSE is currently around USD189b, the market cap of the Hanoi Stock exchange is around USD11b, and the market cap of the UPCOM market of companies that do not qualify for a listing on HOSE or Hanoi is USD43b. The VN-Index, which is the most widely followed index in Vietnam, is comprised of all stocks listed on the HOSE, while the VN30 index, which is the basis for several ETFs, includes the top 30 market-cap stocks on the HOSE. Finally, we expect the HOSE and Hanoi exchanges to merge at some point in the future, after which Hanoi will focus on derivatives and bonds, similar to the distinction between the Tokyo and Osaka Stock Exchanges.

introduced as part of a regulatory crackdown that itself was prompted by concerns that companies (primarily real estate developers) had raised funds in the bond market, but then deployed the money in manners inconsistent with the prospectuses used to sell the bonds to investors.

The introduction of these measures, coupled with the high-profile arrests of three real estate developers, drove a circa 50% sell-off in real estate share prices and a 40% sell off in bank stocks at the worst point last year. The recent moves by the Government to potentially slow the implementation of those restrictive measures drove a rebound in the share prices of banks, which are likely to face less asset quality issues as a result. That said, there was considerable dispersion in bank share prices both last year and in January 2023, attributable to both valuation and exposure to asset price issues, as well as to a range of other factors, which again reinforces the case for active investment management of Vietnamese stock portfolios (the performance of bank share prices in January ranged from -4% for Eximbank to +25% for VIB Bank in January).

Foreign Inflows and Other Performance Drivers

Foreign inflows to Vietnam's stock market rebounded in November-January, partly because the market's valuation had reached its lowest level in nearly 10 years, with a P/E ratio of below 10x. Foreign investors bought USD1.3b of stocks in November-January, including USD179m in January alone (or over USD300m in January if the divestment of Sumitomo Bank from Eximbank is excluded).

Foreign investors poured money into all three listed Vingroup stocks in January (VIC, VRE, and VHM were all among the top 10 foreign purchased stocks in January), which helped support the VN-Index to some degree, but the stock that foreigners bought the most in January was steel producer Hoa Phat Group (HPG). Foreigners are hopeful that China's re-opening will also lead to a revival of real estate construction in that country and that Vietnam's Government will follow through on its ambitious plans to increase infrastructure construction spending by 50% this year (to circa USD30b), resulting in the stock spiking nearly 23% in January, making it one the biggest contributors to the increase in the VN-Index despite its ~3% weighting.

Finally, its needs to be acknowledged that a modest decline in the value of the US Dollar/DXY Index helped boost Asia EM stock markets in January (and also led to a near 1% appreciation in the value of the VN Dong), which was another factor that helped drive the VN-Index higher. The 10% increase in Vietnam's stock market outpaced the 4% average increase in the bourses of its Asia EM peers (Thailand/Indonesia/Malaysia/Philippines), partly because the decline in Vietnam's stock market last year (-33%) was much larger than that of its peers (-8%).

Conclusions

We remain cautiously optimistic that the Vietnam market will move higher in 2023, even after the strong start. We also believe that while many of the stocks that drove the market higher in January will be decent performers this year, much of this year's performance will come from stocks that did not have a very strong January, and that select mid- and small-cap stocks (not mentioned in this report) will be very attractive the next 12 months.

In short, stock selection will continue to be important this year because 2023 will not be a simple beta rally. Active managers like VinaCapital have an opportunity to outperform the VNI and deliver a better risk-adjusted return. As an example, P/E multiple valuation of VinaCapital's flagship equity fund, VVF, is comparable/slightly lower than that of the VN-Index, but we expect 24% earnings growth for the companies in that portfolio versus the consensus expectation that the earnings of the companies in the VN-Index will grow by about 5% this year.