

# ▶ VIETNAM'S 30 YEARS OF RENOVATION POLICY SPUR ECONOMIC AND MARKET GROWTH

The World Bank calls Vietnam's development record over the past 30 years remarkable and observes that the economic and political reforms under *Đổi Mới*, launched in 1986, have spurred rapid economic growth and development and transformed Vietnam from one of the world's poorest nations to a lower middle-income country.

Government reform policies included in the 2016 to 2020 Social-Economic Development Plan are intended to take this further and call for 21 macroeconomic, social and environmental targets, which include average GDP growth of 6.5 to seven percent per year, with 85% of output coming from the industrial and service sectors by 2020. The plan defines three "breakthrough areas":

- (i) **promoting skills development, particularly for modern industry and innovation;**
- (ii) **improving market institutions, and**
- (iii) **further infrastructure development<sup>1</sup>.**

The bank further observed in its 2017 review of the ease of doing business report that Vietnam and Indonesia have implemented the most reforms of any countries in the past 15 years, with 39 reforms each. Today, an entrepreneur in Ho Chi Minh City



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spends 22 days and 6.5 percent income per capita registering a new company, compared to 61 days and 31.9 percent in 2003<sup>2</sup>.

Investors are taking notice. The VN-Index recorded a 10-year high at the end of 2017<sup>3</sup> and Forbes Vietnam added 12 new companies to its top 50 list for the country last year, including Vietjet, Petrolimex, Novaland and Sabeco<sup>4</sup>.

In fact, Sabeco is a good example: On 18 December 2017 Vietnam privatized its state-owned Saigon Beverage Company (Sabeco), successfully placing 53.59% of the shares with an entity belonging to the Thai Beverage Company for USD4.83 billion. Founded in 1875, Sabeco was viewed as one of the last major beer assets for sale in Asia and has a 41% market share in Vietnam. Beer consumption in Vietnam is projected to grow at least at compound average growth rate (CAGR) of 10 to 15% over the next five years. At the placement price, Sabeco's 2017 price-to-earnings ratios is 44 times, high compared to peers in Asia

and some might say frothy (vs 20 times price-to-earnings at Japan's Asahi Group Holdings, 17 times price-to-earnings for Thai Beverage PCL and 15 times price-to-earnings for Japanese brewer Kirin). On the other hand, Sabeco's earnings before interest, tax, depreciation and amortization (EBITDA) margin is 16.9% as of 2016, and in our view, the company has room to improve the margin to 20% to 25%.

The Sabeco deal shows how attractive privatisation is for foreign investors. Privatisations also benefit the Vietnamese capital markets, providing more liquidity, more asset diversification and more foreign interest. Currently, Vietnam's Ho Chi Minh City Stock Exchange's total market capitalisation is USD112 billion or 56% of Vietnam's GDP. By the end of 2019, we expect Vietnam market capitalisation will be around USD200 billion or 80% of GDP following anticipated new listings of privatised SOE firms and private sector companies.

The Vietnam Ministry of Planning and Investment has finalized a list of 375 state-owned enterprises to be wholly or partially divested by 2020 with total capital exceeding USD4.7 billion, according to Viet Nam News. This year is expected to be the peak period of divestment, with 185 companies up for at least partial divestment, as well as those which missed the 2017 deadline<sup>5</sup>.

Where is the magic coming from? We agree that government reforms have fostered benign inflation (about 3%) plus solid GDP growth (6.7%), and when coupled with a large population (93 million), youthful demographic and relatively low

labour costs, this country becomes a favorite destination for flow. The average earnings of companies listed on Vietnam stock exchanges increased about 20% for 2017 over 2016. Foreign direct investment (FDI) has also soared. In 2017 newly registered FDI reached USD21.3 billion, an increase of 42.3% over 2016<sup>6</sup>.

A major beneficiary of Vietnam's success is Korea, leading the way as a foreign investor in the equity markets<sup>7</sup> with a 40% market holding<sup>8</sup> and as the largest FDI provider. Korea seeks continued upside in corporate earnings growth and new opportunities for diversification. One third of Vietnam's 2016 FDI was from Korea<sup>9</sup>, including investment in manufacturing and infrastructure, designed to take advantage of the economic and labour environment as well as proximity to China markets.

By the end of November 2017, the Vietnam stock market index (VNINDEX) had rallied 46.8%<sup>10</sup>, making it one of best market returns in the world. Daily market liquidity in 2017 already reached USD148 million per day, surpassing that of its neighbor ASEAN country Philippines. Despite the bull market of 2017, Vietnam's forward multiple for 2018 is, at 16 times the price-to-earnings ratio, attractive compared to peers, especially given its robust growth rate, and is not in our opinion, frothy.

We believe that Vietnam's vibrant equity markets have more upward potential as the privatisations continue to roll out and the Đổi Mới program momentum builds in 2018.

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Sources: <sup>1</sup>The World Bank Group - Vietnam Public Expenditure Review: Summary Report, as at 6 September 2017. <sup>2</sup>Nhan Dan Online - Vietnam improves significantly in ease of doing business: World Bank, as at 1 November 2017. <sup>3</sup>Vietnam Breaking News - VN Index ends 2017 at 10-year high Most Recent News, as at 31 December 2017. <sup>4</sup>Nhan Dan Online - Forbes Vietnam announces top 50 listed companies, as at 30 May 2017. <sup>5</sup>The Diplomat - Vietnam Gears up to Divest State-Owned Enterprises in 2018, as at 21 December 2017. Ministry of Planning and Investment - Government to fully own 34 less SOEs by 2020, as at 7 June 2017. <sup>6</sup>Electronic Information Page Foreign Investment - Vietnam's FDI Disbursement in 2017 Reached a Record, as at 15 January 2018. Ministry of Planning and Investment - Brief on foreign direct investment of the first 11 months 2017, as at 15 December 2017. <sup>7</sup>BusinessKorea - Warning against leaning, South Korean investors account for 40% of foreign ownership of Vietnamese stocks, as at 8 January 2018. <sup>8</sup>Ignites Asia - Koreans are top foreign investors in Vietnamese stocks. <sup>9</sup>Vietnam Investment Review - South Korea unchallenged as largest foreign investor in Vietnam, as at 29 September 2016. Ministry of Planning and Investment - Brief on foreign direct investment of the first 11 months 2017, as at 15 December 2017. <sup>10</sup>Includes dividend yield.

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