A strong bet on Vietnam’s quiet progress

Vietnam’s market hit bottom in 2012, argues David Roes, and since then his hedge fund has shifted from wider Asean market exposure to a 90% allocation to Vietnam.

Roes, co-founder of boutique firm Asean Investment Management, runs a hedge fund that focuses on “deep value” opportunities in Asia.

The investment strategy is focused on buying equities at low valuations and selling when the market recovers in a normal cyclical movement. Roes said they are patient buyers and will even wait for forced sellers and accumulate positons slowly, which means liquidity is low.

“We’re focused on what you pay for an asset. We’re not focused on liquidity and are willing to buy when others are unwilling, at the lowest point of sentiment.”

Hot and cold

To get to Vietnam's low point, it’s necessary to rewind to 2007. Hot money poured in. Listed companies were trading at 20x earnings.

“Vietnam had a newly-created capital market,” Roes said. “Banks were lending when they shouldn’t have, everything was hot. The fall off [around 2008] was extremely sharp.

“We were not buyers in 2007 but we went back at the end of 2011 and what we found was very different.”

Roes said he found extremely low valuations and listed companies that hadn't been visited by analysts or portfolio managers for years.

"If a listed company is trading at less than 3x earnings in Singapore, you have to figure out what's wrong with it. When we go to Vietnam and find 200 companies trading at less than 3x earnings, it's not the company, it's the negativity of the correction that happened in 2007.

"The market was at the bottom of a five-year bear market in 2011-2012," he said, and the fund began to shift exposure from Asean countries to almost exclusively Vietnam.

Risk remains

Roes' fund is agnostic on sectors. However, 65% of allocation is in real estate and durable goods sectors. The fund also has exposure to a tourism company, and to the largest capitalised company on the stock market, Vina Milk.

Yet liquidity is slowing in emerging markets, which have seen strong capital outflows since 2013 and remain out of favour with investors.

"We are already seeing pressure on Vietnam," Roes admitted. "But the currency and equity market have fared better than neighboring countries."

Vietnam's market is not directly correlated with global markets, and it has been an outperformer in the region, he said. "The last four years it had positive performance, something no other relevant benchmark country has done."

Daily trade volume and market cap size are tiny compared to China, but the direction is positive, Roes said. In 2011, average volume was $20m per day. Today it's $80-$120m.

Another concern is a potentially steep currency devaluation. On a cumulative basis, the Vietnamese dong has dropped 8% since 2011 and analysts expect a further decline.

As China's currency devalues, other economies that compete for exports with China could also devalue their currencies, creating a race to the bottom. In such a scenario, Roes believes Vietnam will not face a crisis.

He said about 11% of Vietnam's exports are to China while 30% of imports are from China. As China's exports become cheaper, so do the imports for Vietnam. "A 6-8% devaluation is manageable and good for Vietnam's exporters."

The slowdown in China's GDP growth has been positive for Vietnam, he added. Vietnamese labour costs are one-half to one-fifth of China's, creating a pull for manufacturing operations. "Vietnam has had a consistent level of foreign direct investment, now attracting $10bn per year. Samsung now manufactures more mobile phones in Vietnam than in Korea."

Roes also mentions the general improvement in economic indicators. In 2011, interest rates and inflation were over 20%. Now, inflation is less than 1%, bank deposit interest is in the single digits and lending rates are moving there. In 2015, foreign ownership of listed companies was 22% compared to 10% in 2011.

The next China?

Despite his positive outlook on Vietnam, he avoids labelling it the "next China".

“I can’t understand China,” Roes said. “It’s a wild animal with crazy politics and monetary results aren’t correctly reported. The last rally was driven not by fundamentals but by government policy. I love the demand story, but generally people who have lost money in China outnumber those who have made money.

“In Vietnam the playing field is much more understandable. There has been a tremendous amount of policy improvement over the last five years. They allow foreigners to buy and own land with identical rights to locals and they allow 100% foreign ownership of most publicly-listed companies.

"Most economic improvement today is driven by domestic activity. You’ve got the whole set up for attracting capital.”

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