GOOD MORNING **VIETNAM**

An investment expert's visit to Vietnam leaves him convinced the country is a clear winner on the value investing front, even as concerns about Asia's economic prospects deepen

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Vietnam is a country that combines progress with tradition. Busy swarms of motorbikes are slowly but surely being replaced by cars, yet there is still the odd wooden cart full of local fruit and traditional wares that frustrates the flow of traffic.

Tourism is growing at about 10% a year. Visitors are increasingly arriving from all over the world, drawn in by the vast number of new hotels offering rooms for just $30 a night as well as food and drink bargains in the colourful street markets and the many cafes that dot the cityscape.

The demographics of the country, a highly literate population of 93 million people with a median age of approximately 30 years, are in the sweet spot of the economic growth curve.

DEMOGRAPHIC SWEET SPOT

Vietnam has many factors in its favour. Labour costs are substantially lower than Indonesia, Thailand, China, Malaysia and the Philippines. It boasts strategic geographic positioning and rising levels of foreign direct investment. These attributes have propelled Vietnam into the enviable position of being one of the fastest-growing economies in the world.

PwC projects Vietnam to be the second fastest-growing economy in the world until 2050, and Boston Consulting Group expects the middle and affluent class to double between 2014 and 2020.

The Ho Chi Minh Stock Exchange is the only index in the region to show positive returns in each of the past four years, with a cumulative return of 64.7% over this period. Furthermore, the Vietnamese currency has depreciated the least over the past four years, cumulatively 5.1%, and most of this was a result of recent China-based volatility.

In comparison, Indonesia, which was the consensus favourite during 2012, generated equity returns of 20.2% over the same time period while losing 34% in currency terms.

Although anomalies thrown up by China and the rest of the world can negatively impact Vietnam, in general we like this market due to its relative non-correlation to other markets. Vietnam should continue to outperform other regional markets, and there are some key reasons behind this.

DOMESTIC GROWTH DRIVERS

Much of the recent recovery in Vietnam has been driven by domestic factors. Although foreign ownership doubled in the past four years, and it had started from a low base of 10% in 2012.

This draws another comparison with Indonesia, where the foreign participation in the free float is above 60%. Any liquidity withdrawals are likely to have a greater impact in markets where foreign funds are currently dominant.

Moreover, as the double-digit inflation rate of four years ago is now less than 1%, bank deposit and lending rates have also been reduced towards single-digit levels, thereby creating stability in the economy and stimulating growth. Growth is currently trending at 6.8% a year, and it's likely to head higher over the next two years.

Although strong FDI has certainly been a contributor to historical economic strength, Vietnam's performance in the listed equity markets to date has principally been driven by domestic participation. As the cycle matures, foreign fund inflows are also likely to increase markedly and, therefore, positively impact valuation levels.

On a government policy basis, the excesses of bank lending at the peak of the 2007 cycle are being dealt with through a state-sponsored asset management company.

Other policy moves are also likely to be positive; two major changes took place in 2015 alone. First, a revised real estate law now allows for direct foreign property ownership.

Additionally, the previous limitation of 49% foreign ownership for listed companies has also been removed, allowing up to 100% foreign ownership in non-restricted sectors.

Finally, Vietnam is also participating in more than 10 trade agreements, most notably the EU-Vietnam Free Trade Agreement, the Republic of Korea-Vietnam Free Trade Agreement, and the Trans-Pacific Partnership, along with several inter/intra-Asean trade agreements.

NEW WORKSHOP OF THE WORLD

Many companies that previously manufactured in China (including Chinese companies themselves) are now actively establishing operations in Vietnam. This is, in part, to take advantage of the favourable terms of these trade agreements.

One of the key reasons why we were attracted to Vietnam in 2011 was the fact that the valuations attributed to listed companies were at 'crisis levels'. By implementing a deep value strategy, we could find many companies trading at between 2x and 3x earnings, despite the lack of a discernable crisis.

Although still regarded as a frontier market, Vietnam is moving towards emerging status and, on a like-for-like comparison across Asean markets, Vietnam was (and still is) the clear winner for value investing.