

Barron's: Vietnam's Economy Is Booming. Not Its Stocks.

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By Craig Mellow

Vietnam is a bundle of contradictions for investors. Economically, the country is an all-star. Growth was cruising around 7% annually before this year. Exports are climbing the value chain from apparel to electronics. The population of 100 million is young, educated, and urbanizing at a rate around 1 million a year.

Governance-wise, Vietnam is a mess. Foreign stock ownership is capped. Arcane trading bottlenecks choke liquidity and elevate prices well above what's listed on the exchange. These and other problems have kept the country in frontier market status, with inclusion in the MSCI emerging market indexes years away, at best.

Global funds have accentuated the negative. The VanEck Vectors Vietnam exchange-traded fund (ticker: VNM) has lost one quarter of its value over the past five years, while global emerging markets are up 12% in that span.

But recent events brighten the outlook. Vietnam has coped with the Covid-19 pandemic better than any other large nation, posting a few hundred official cases and zero deaths, despite locking down nationally for just two weeks. That's enabling economic growth to stumble along at about half last year's rate, which is better than it's doing almost anywhere else. "The market was already attractive, and it was the only Southeast Asian country still growing in the second quarter," says Ruchir Desai, a fund manager at Asia Frontier Capital.

Resurgent U.S.-China trade tensions are stoking a rush to relocate supply chains to Vietnam. Foreign direct investors poured nearly \$9 billion into the country from January to June, pandemic or no.

That all encourages Andrew Brudenell, lead frontier markets manager at Ashmore Group. He has raised his weightings in Vietnam from 9% to more than 16% this year. Oliver Bell, who manages T. Rowe Price's frontier equity strategy, is also a fan. "There's a disconnect here that enables us to buy fundamentally strong companies at P/Es less than 10," he says. "We've been a strong overweight."

Finding such bargains, however, involves digging beyond the biggest-cap names, such as Vingroup (VIC.Vietnam) or Vietnam Dairy Products (VNM.Vietnam), which have been discovered and bid up by foreign capitalists. Frontier market specialists are focused on budding retail chains like Mobile World Investment (MWG.Vietnam) or Phu Nhuan Jewelry (PNJ.Vietnam).

"We particularly like the retail space, which today is dominated by mom and pops and wet markets," says James Bannan, who manages the Coeli Frontier Markets fund. Desai adds to this list Vincom Retail (VRE.Vietnam), a subsidiary of the ubiquitous Vingroup that is leading the charge to build shopping malls.

Opinions are divided on Vietnamese bank stocks. Ashmore's Brudenell is staying away, fearing potential bad-credit minefields as the Covid slowdown works through the economy.

T. Rowe's Bell sees value in lenders like Asia Commercial Bank (ACB.Vietnam) and Military Bank (MBB.Vietnam), with any distress well-priced-in at price/earnings multiples of just of 6 and 5, respectively. "We like banks as a medium-term enabler for middle-class development," he says. "They had a bit of a property crisis seven years ago, but have learned lessons from it."

Market infrastructure and regulation remains a costly lagging indicator for Vietnam. "Foreign ownership limits are a huge headache," Coeli's Bannan says. Nonetheless, the 2020 fault lines of Covid and U.S.-China decoupling are accelerating Vietnam's transformation into an economy to be reckoned with, and invested in, carefully.

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