# **The VN-Index is Up 34% YTD, Driven By Stellar Earnings Growth**

The VN-Index (VNI) has soared 34% YTD, driven by expected EPS growth of 34% in 2021. Bull markets driven by earnings growth are healthier and more sustainable than those driven by P/E multiple expansion, so we are encouraged by the fact that the VNI’s FY21 P/E ratio is nearly unchanged since the beginning of the year, at circa 17x.

Banks and real estate developers made major contributions to the performance of the VN-Index in 2021. Bank stock prices are up 40% YTD and have a circa 30% weighting in the VN-Index, so about 12%pts of the 34% YTD increase in the VNI are attributable to the banking sector’s strong performance. The stock prices of real estate developers, which have a 25% weighting in the index, are up 55% YTD, contributing another 13%pts towards the 34% YTD increase in the overall market.

*VN-Index chart:*

* Highlights 3rd COVID Wave, 4th Wave, and HCMC Lockdown  
   *Bar chart: "What Drove the VN-Index Higher"*
* Banking sector: +12%pts
* Real estate: +13%pts
* VN-Index = +34% YTD

That said, there is significant dispersion in the performance of the stocks within both the banking and real estate sectors, as well within most other sectors in Vietnam’s stock market. Furthermore, there was significant dispersion in the performance of the sectors themselves, all of which explains why some active fund managers – including VinaCapital – dramatically outperformed the VN-Index this year.¹

Finally, the VN-Index reached a new record high of 1,500.8 in late November, after having shrugged off two major COVID outbreaks during the year and before concerns about Omicron paused the market’s on-going bull market. The market’s resilience is partly attributable to the recent surge of interest in the stock market by retail investors, which we discussed in this report.

## **Active Management Shines**

The circa 40% YTD surge in Vietnamese bank stock prices was equally driven by earnings growth and an increase in the valuation of those shares. That said, there are significant differences in the stock price performance of the individual shares in the sector, which gave active managers the potential to significantly outperform both the sector and the VN-Index.

For example, the share prices of the nine private sector banks covered by VinaCapital’s research team surged by an average of 73% YTD (note that the banks VinaCapital’s research team covers represent about 80% of the total market cap of all private sectors banks in the VN-Index). However, in contrast to the stellar performance of the private sector banks, the stock prices of the country’s three listed State-Owned Commercial Banks (SOCBs) are nearly flat YTD, partly because those banks will likely sacrifice profitability to help support Vietnam’s economy in the wake of COVID.

Furthermore, the share price performance of those nine private sector banks ranged from 50–100% YTD for several reasons, including windfall gains at some banks from bancassurance deals, as well as the vastly different credit growth among those banks. Specifically, the credit growth of those banks in 9M21 ranged from 5–17%, partly because the State Bank of Vietnam allocated high credit growth quotas to banks with higher asset quality.

¹ *VinaCapital’s flagship VVF UCITS fund has outperformed the VN-Index by nearly 20%pts YTD.*

**Within the real estate sector**, the share price of the largest developer, Vinhomes (VHM), is only up 20% YTD, driven by circa 25% earnings growth, while the share prices of the five medium-sized developers covered by VinaCapital’s research team are up 150% YTD on average, driven by circa 130% earnings growth. This divergence in earnings and share price performance is partly attributable to the fact that VHM is much larger than the other firms in the sector, making it difficult for the company to grow its revenues at a rapid pace (VHM’s market cap is larger than the next five developers combined).

**Next**, construction materials companies, which have a circa 10% weighting in the VN-Index, are up 70% YTD, which in turn boosted the VN-Index 6ppts. The sector’s increase was driven by a 175% surge in the expected earnings of the country’s leading steel producer Hoa Phat Group (HPG) in 2021 on account of the Government’s plans to ramp up infrastructure spending as well as the recent reduction of Chinese steel exports, which lifted steel prices and Vietnamese steel producers’ sales volumes.

**Another instance of an opportunity for savvy stock pickers** this year is illustrated by the stunning surge in the share prices of the country’s two leading retail stockbrokers, SSI and VN Direct, driven by the recent frenzy of retail investor activity. We expect SSI’s 2021 earnings to increase by more than 60%, which propelled a circa 130% YTD increase in its share price, and we expect VN Direct’s earnings to increase by more than 110%, which fuelled a circa 310% increase in its share price. Retail investors’ enthusiasm for small and mid-cap stocks also drove a 60% YTD increase in the VN-MidCap index and a near 100% YTD increase in the VN-SmallCap index, which presented opportunities for fund managers to find small-cap and mid-cap hidden gems not covered by the sell-side brokers.

**Finally**, in contrast to all the above, the stock prices of Vietnam’s two leading consumer companies, Vinamilk and Sabeco Brewery, both fell by about 20% YTD for a variety of reasons, including depressed sales due to the COVID lockdowns earlier this year. Avoiding such underperformers, which have a circa 5% weighting in the VN-Index, also helped active managers outperform the broader stock market this year.

### **Vietnam Outperformed its Regional Peers**

The VN-Index significantly outperformed its regional peers in 2021, even though Vietnam’s COVID lockdown measures earlier this year were considered to be the strictest in the region and Vietnam’s stock market suffered comparable outflows from foreign investors, year-to-date. We believe Vietnam’s resilience reflects:

1. solid earnings growth,
2. the continued optimism of local investors, and
3. Vietnam’s circa 10% valuation discount to its regional peers.

(*Chart titled “Vietnam Outperformed Its Regional Peers in 2021” showing Vietnam’s performance exceeding Thailand, Indonesia, Philippines, and Malaysia by a wide margin.*)

### **Conclusion**

The VN-Index is up 34% YTD, driven by expectations for 34% EPS growth in 2021. Its 17x price-earnings ratio (P/E), which is based on consensus forecasts, is below the valuation of Vietnam’s regional peers, and the market’s circa 14x FY22 P/E, which is based on the market’s expectation that earnings will grow by more than 20% next year, is also very attractive on a price-earnings-growth ratio (PEG) basis. Further to that last point, Vietnam’s stock market remains very appealing to a wide range of investors, including those who favour the “Growth At a Reasonable Price (GARP)” investment strategy, while the performance dispersion among stocks and sectors in Vietnam this year illustrates why active management works so well in this stock market.

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