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### **The VN-Index is Outperforming ASEAN Stock Markets,**

### **and Headed Higher in 2021**

The VN-Index outperformed emerging ASEAN stock markets¹ by about 70% over the last five years, and 90% over the last ten years. That outperformance was primarily driven by Vietnam-specific factors.

We believe this outperformance is yet another reason supporting our expectation that Vietnam’s stock market will continue to power higher for years to come. This report reviews the three distinct phases of Vietnam’s relative stock market performance vis-à-vis emerging ASEAN’s other stock markets over the last ten years.

### **How Vietnam Went from Underperforming to Outperforming**

In 2010, surging global liquidity helped propel emerging market (EM) stock markets higher, but Vietnam’s acute macroeconomic instability dissuaded foreign investors from pouring money into the country’s stock market. Consequently, the VN-Index severely underperformed its ASEAN peers, as can be seen in the chart below on the left.

*(Charts labeled: "Vietnam Underperformed (2010–12)" and "Vietnam Outperformed (2013–18)")*

Vietnam’s extreme macroeconomic instability in 2010–12 stemmed from the fact that the country’s policy makers overstimulated the economy in 2009 in response to the Global Financial Crisis. Credit growth surged to nearly 50% in 2009, which drove inflation up to as high as 23% yoy by 2011 and led to 17% NPLs in the banking system. This caused a circa 25% depreciation of the VN Dong from 2009 to 2011.

However, in 2012, Vietnam’s Government shifted its priority from economic growth to economic stability, and began taking serious measures to cool inflation, stabilize the currency, and strengthen the banking system. This led to a massive outperformance of the VN-Index over Vietnam’s regional peer stock markets starting from 2013. These actions built a firm foundation for Vietnam’s listed companies that is still helping to support stock prices and should help drive the VN-Index higher in the future.

Specifically, policy makers resolved the country’s NPL problem, reined in credit growth, forced banks to raise capital, clamped down on real estate speculation, and launched a corruption crackdown on the civil servants who had facilitated speculation and other detrimental economic activities.

¹ *The Philippines, Indonesia, Thailand, and Malaysia.*

Finally, the VN-Index’s outperformance over its regional peers reached extreme levels in early-2018, as can be seen in the “Vietnam Outperformed” chart on page one. At that time, the European Central Bank’s massive quantitative easing (QE) program was driving EM stock markets higher. Unlike earlier in the decade, when the US Federal Reserve’s QE drove the 2010-12 bull market in EM stocks (ex-Vietnam), in 2017–18 QE liquidity flowed into Vietnam because of those firm foundations that policymakers put in place.

### **The Market Has Continued Outperforming**

Vietnam continued outperforming its regional peers over the last 1½ years after investors’ euphoria in early 2018 tapered off. But while the market’s massive outperformance in 2013–18 was driven by Vietnam-specific factors, the VN-Index’s subsequent outperformance was driven by a combination of endogenous and external factors.

In 2019, Vietnam’s stock market outperformed its peers when investors came to the realization that the US-China trade war would ultimately benefit Vietnam by accelerating FDI inflows to the country, driven by an exodus of factories re-locating out of China. This narrative captured headlines in prominent publications and sparked enormous enthusiasm for Vietnamese stocks among EM investors.

In 2020, the Vietnamese Government’s adept handling of COVID bolstered the confidence of local consumers and FDI companies, which alleviated potential concerns of foreign stock market investors.  
 In 11M20, foreign investors sold USD700 million worth of Vietnamese stocks, versus USD8.4 billion in Thailand, USD5.6 billion in Malaysia, USD2.9 billion in Indonesia, and USD2.3 billion in the Philippines (although those markets are larger than Vietnam’s).

### **The VN-Index Should Surge 20% in 2021**

The VN-Index is up 12% year to date, and we expect it to surge by another 20% next year, driven by 20% EPS growth². It is possible that Vietnam’s regional peers may outperform the VN-Index next year given that they have underperformed the VNI by about 14%pts in 2020 and given that the consensus 2021 EPS growth forecast for those countries’ stock markets is nearly 40%. It is worth noting that even after this year’s outperformance, Vietnam’s 14x forward P/E ratio is still nearly 20% below the valuation of its regional peers.

Furthermore, we have a high degree of certainty about our 2021 earnings growth forecast because there are no “heroic assumptions” entailed in it. Vietnam’ earnings growth is likely to be driven by a wide range of industries next year and not overly dependent on commodity prices or overly vulnerable to another wave of COVID. We are not clear that the same can be said about the stratospheric consensus earnings growth projections for Vietnam’s regional peers.

Finally, in addition to the above-mentioned reforms that the Government introduced from 2010 to strengthen the country’s banks, corporate sector, and macroeconomic stability, another series of reforms launched in 2015 dramatically improved Vietnam’s capital markets. These reforms continue to benefit the markets by stabilising the Dong, which has paved the way for an expected, sustained appreciation of Vietnam’s currency, and by progressing Vietnam’s stock market towards eventual inclusion in the MSCI-EM index – both of which should also drive the VN-Index higher going forward.

² Note that: 1) VinaCapital’s 20% 2021 EPS growth forecast is considerably lower than the market’s 28% consensus forecast, and 2) we expect EPS to fall by about 5% in 2020.

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