No cause for concern over foreign capital outflows

The Vietnamese market remains attractive to long-term investors despite recent sell-offs. **Peter Ryder**, CEO of Indochina Capital, shared with *VIR*'s **Nam Phuong** his thoughts on the issue.

Foreign investors have sold a significant amount of Vietnamese blue chip shares since the start of 2016. Do you think this signifies a capital outflow from the country?

It's true that foreign investors have been net sellers on the listed markets over the past nine months. However, from our perspective, this isn't a sign that they are running away from the Vietnamese market.

Firstly, it's normal for investors to partially cash out on stocks after prices have gone significantly higher, especially over a short period of time. A number of blue chips like VNM (Vietnam Dairy Products JSC), GAS (PetroVietnam Gas JSC), and VCB (Vietcombank) have picked up substantially in price. It's understandable that foreign investors, who have held on to these stocks for a long time, may want to take this situation and lock in their profits.

Secondly, due to the price surge, these stocks may have crossed their approved limits in some portfolios. As a result, portfolio managers are required to reduce their holdings in respective stocks as part of their regular rebalancing effort.

Thirdly, foreign investors have opened nearly a thousand new accounts since the beginning of 2016, four times the 2015 figure. This definitely signals increasing interest from foreign investors in Vietnam.

Lastly, the proceeds from these sales will be re-invested in other stocks, providing an opportunity for these stocks to outperform.

This selling spree can be a good buying opportunity for other foreign investors. After the recent rally, the Vietnamese stock market is still cheaper than its neighbours, with a 16.3 price-on-earnings ratio (PER) compared to the average 20.1 PER for ASEAN and China.

The dividend yield in Vietnam is also attractive at 2.4 per cent, against the ASEAN average of 2.2 per cent. The macro-economic situation is also favourable, with strong foreign direct investment inflows leading to strong manufacturing growth, tame inflation, and currency stability.

Overall, we believe the Vietnamese equities market still has tremendous potential, and the recent offloading of shares by foreign investors is more of a buy opportunity than any matter of great concern.

The US dollar is forecast to strengthen at the end of this year, creating pressure on the Vietnamese dong. How will foreign exchange issues affect foreign investors in Vietnam?

Since the beginning of the year, strong foreign direct investment (FDI) inflows, a trade surplus, and relatively high forex (FX) reserves have been support pillars for the dong. The new FX mechanism, which allows the VND/USD rate to change on a daily basis, also alleviates the volatility of VND to fluctuations of the global FX market.

We believe these elements will continue to create a buffer for VND against depreciation pressures, including the potential rate hike in December by the US Federal Reserve. VND depreciation until the end of the year is likely, but we do not expect the magnitude to be significant.

What can keep overseas investors excited about the Vietnamese market in 2016 and 2017?

In my opinion, the Vietnamese equities market is moving in the right direction, with a series of progressive regulations. Examples include the lifting of foreign ownership limits in listed firms and state divestment from leading corporations.

Foreign investors are particularly eager for large-scale equitisations such as the telecommunications giant Mobifone, listings of leading breweries Saigon Beer or Hanoi Beer, and divestments of Vinamilk. These major offerings will be a great incentive for large institutional investors, who previously stayed away from Vietnam due to the market's small size.

New financial services, ranging from the derivatives to intra-day trading, will also keep traders' interest stimulated. However, foreign investors still call for improvements on corporate governance, financial reporting, and information disclosure.

Can you share Indochina Capital's strategy to capitalise on these opportunities?

In Vietnam, Indochina Capital has been best known for real estate projects. But since 2004, we've also managed a portfolio of, on average, $25 million in Vietnamese stocks. We've outperformed the VN-Index in 11 out of the last 13 years.

As long-term investors, Indochina Capital targets companies with good management, healthy financials, sustainable earnings, and compelling valuations. Our annualised return since inception is 17.3 per cent, and since 2012, it is 26.9 per cent.

Our main competitive advantage is that our separate managed accounts offer customised portfolios for each investor. This structure is favoured by high-net worth individuals and family offices, as they have the option to get involved in the decision-making process.■