

Market Strategy

17 Sep 2020

ETF MONITOR

Vietnam likely to become the largest constituent in the MSCI FM Index

- Vietnam likely to become the largest constituent in the MSCI Frontier Markets Index in Nov 2020 Semi-Annual Index Review.
- Vietnam’s stock market could be added to Watchlist for reclassification from Frontier Market (FM) status to Emerging Market status in May 2021.
- Vietnam’s stock market inclusion in the FTSE Secondary Emerging Market Index could be announced in Sep 2021.

Vietnam likely to become the largest constituent in the MSCI Frontier Markets Index

On 8 Apr, MSCI Inc., a leading provider of research-based indexes, announced to postpone the implementation of the reclassification of the MSCI Kuwait Indexes to Emerging Markets until the Nov 2020 Semi-Annual Index Review (SAIR). Therefore, Vietnam’s market has to wait until Nov 2020 to become the largest constituent in the MSCI Frontier Markets Index. Following the reclassification, Vietnam’s weight in the MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index could be raised to 25.2% and 30%, respectively, from 17.2% and 12.2% as at 31 Aug 2020, per MSCI estimates.

Vietnam could enjoy investment inflows of about US\$120m from funds that track MSCI Frontier Markets Indexes

Vietnam will be the biggest beneficiary thanks to its large weighting in the MSCI Frontier Markets Index and the MSCI Frontier Markets 100 Index. Based on the current data, we expect Vietnam’s stock market to enjoy investment inflows worth about US\$120m from funds that trade in the MSCI Frontier Markets Index and the MSCI Frontier Markets 100 Index (we assume the net asset value of those funds remains stable at the current level). The size of investment inflows might be even greater, up to about US\$200-210m, if we take into consideration active funds. This inflow will help increase market liquidity and strengthen investors’ enthusiasm.

Figure 1: List of funds tracking MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index (as at 14 Sep 2020)

Fund	Assets under management (US\$m)	Benchmark
Schroder International Selection Fund Frontier Market Equity	429	MSCI Frontier Markets Index
Templeton Frontier Markets Fund	374	MSCI Frontier Markets Index
Magna new frontiers fund	321	MSCI Frontier Markets Index
iShares MSCI Frontier 100 ETF	377	MSCI Frontier Markets 100 Index
T.RowePrice Frontier Markets Equity Fund	116	MSCI Frontier Markets Index
Morgan Stanley Institutional Fund, Inc. Frontier Markets Portfolio	64	MSCI Frontier Markets Index
Coeli SICAV I Coeli Frontier Markets	114	MSCI Frontier Markets Index
Harding loevner frontier emerging markets portfolio	205	MSCI Frontier Emerging Index
East Capital Global Frontier Markets	183	MSCI Frontier Markets Index
Total	2.182	

Source: Funds’ websites & documentaries

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Large caps could be the biggest beneficiaries

We expect foreign capital inflows will continue to focus on existing Vietnam's large-cap stocks in the MSCI Frontier Markets Index and the MSCI Frontier Markets 100 Index, including VNM, VIC, VHM, MSN, VRE, HPG and VCB.

Figure 2: List of Vietnam's stocks in the iShares MSCI Frontier 100 ETF (as at 14 Sep 2020)

Ticker	Weight (%)	Share price (US\$)	Shares	Market value (US\$)
VNM	2,0	5,3	1.441.670	7.701.016
VIC	1,9	3,9	1.820.580	7.156.319
VHM	1,5	3,4	1.735.150	5.817.275
HPG	1,1	1,1	3.870.846	4.083.629
VCB	0,8	3,6	894.510	3.176.483
MSN	0,7	2,4	1.072.650	2.545.554
VRE	0,5	1,2	1.626.720	1.993.392
VJC	0,5	4,6	374.080	1.707.700
NVL	0,4	2,7	565.820	1.535.644
SAB	0,3	8,1	154.480	1.253.117
HDB	0,2	1,3	710.310	930.182
BID	0,2	1,8	402.880	703.163
GEX	0,2	1,1	643.570	701.163
SHB	0,2	0,6	1.075.200	677.335
SSI	0,2	0,7	935.830	635.974
PLX	0,2	2,1	267.320	573.257
STB	0,1	0,5	1.140.380	548.638
GAS	0,1	3,1	168.050	520.624
VGC	0,1	0,9	524.040	490.666
POW	0,1	0,4	1.136.960	490.576
TCH	0,1	0,9	442.690	402.081
SBT	0,1	0,6	652.290	396.845
VHC	0,1	1,8	211.010	374.202
PVS	0,1	0,5	609.998	323.739
KBC	0,1	0,6	531.300	316.359
BVH	0,1	2,1	140.380	288.622

Source: iShares MSCI Frontier 100 ETF

We expect Vietnam's stock market to get official upgrade to Emerging Market (EM) status in the next two to three years

Vietnam maintains its status in the latest MSCI and FTSE reviews

Morgan Stanley Capital International (MSCI) in its annual market classification review in May 2020 kept Vietnam's stock market at Frontier Market status; it was not added to the shortlist of markets that have potential to be upgraded from Frontier Market to Emerging Market.

According to MSCI's published results, Vietnam meets all quantitative criteria for inclusion, but falls short on qualitative measures, as listed below:

- The market's limited openness to foreign investors and equal treatment for them (foreign ownership limitation).
- Lack of information (corporate news and reports, or government regulations) disclosure in English.

- Lack of an offshore currency market makes it difficult for foreign investors to convert their holdings from the Vietnamese Dong to other foreign currencies while the onshore currency market remains limited.
- Vietnam does not meet other criteria for trading, securities transfer and derivative products.

Vietnam's stock market also failed to be officially upgraded to a Secondary Emerging Market status by FTSE at its annual market classification review in Mar 2020. Vietnam continues to fail some qualitative measures, as listed below:

- The "Settlement Cycle (DvP)" criterion is currently rated as "Restricted", due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution.
- Since the market does not experience failed trades by default, the "Settlement – Rare incidence of failed trades" criterion is unrated.
- The registration process for foreign investors is still complicated.

We believe that there are two main bottlenecks that need to be addressed in order to upgrade Vietnam's stock market to the Emerging Market status both in the MSCI Emerging Market Index and the FTSE Secondary Emerging Market Index, including foreign ownership limit (FOL) level and the Clearing and Settlement criterion (especially pre-funding issues).

Vietnam is making efforts to remove foreign room bottlenecks

The new Securities Law, amendments to the Law on Enterprises and the Law on Investment have been approved by Vietnam's National Assembly and they will be effective on 1 Jan 2021. We expect that changes brought by these laws will contribute to removing the FOL bottleneck. The current law sets the FOL of public companies involving in non-conditional business lines at 49%, but the limit can be expanded to 100% with shareholders' vote and authorised permit. However, so far only 39 listed companies have their FOL officially relaxed due to the relatively complicated procedures to obtain the easing. The new law addresses this bottleneck by automatically imposing a 100% FOL in public companies, unless the international treaties to which Vietnam is a member of or specialised laws have lower specific provisions. Note that some conditional business lines still have a stricter limit, e.g. banking has 30% FOL.

Under the new Law of Enterprise, the definition of securities includes depository receipt (DR) and the provisions on non-voting depository receipt (NVDR) have been specified. This is good news for businesses with FOL that has not been lifted because they operate in conditional business lines. Accordingly, foreign investors will receive unlimited ownership of NVDR in those businesses. The changes should attract more foreign capital into Vietnam's stock market.

Besides, the launch of several ETFs in Vietnam in 1H20, especially the VFMVN DIAMOND ETF, which consists of some notable Vietnamese stocks that have no foreign ownership room left, could provide new way for foreigners to invest in Vietnamese stocks which have run out of foreign ownership room, and attract more foreign indirect capital flow into the country's stock market.

Vietnam also tries to remove bottleneck from Clearing and Settlement

Vietnam is cooperating with South Korean partners to upgrade the securities trading system, which is expected to be completed in 2021. Vietnam also plans to establish the central counterparty clearing house (CCP) (under Vietnam's Stock Exchange), which is expected to solve pre-funding issues that both FTSE and MSCI have considered a bottleneck in upgrading Vietnam's stock market to Emerging Markets status. The new trading system also helps Vietnam

conduct daily trading and sell pending stocks,... thus further boosting the foreign inflows.

We expect Vietnam’s stock market to get officially upgraded to MSCI Emerging Market (EM) Index in May 2023

In our best case scenario, if the new trading system could be launched in 1H21F, we expect that Vietnam’s stock market could be added to Watchlist for reclassification from Frontier Market status to Emerging Market status at MSCI’s Annual Market Classification Review in May 2021. Then, the inclusion of Vietnam in the MSCI Emerging Markets Index in the May 2022 annual review could be announced for official implementation in Jun 2023.

Regarding FTSE, Vietnam’s stock market inclusion in FTSE Secondary Emerging Market Index could be announced in Sep 2021

In our best case scenario, we expect that the announcement of the inclusion would come from the Sep 2021 annual country-reclassification.

Vietnam could attract US\$1.4bn to US\$1.9bn in foreign investment flow after getting upgrade to Emerging Market status

We estimate that if Vietnam's stock market is officially reclassified to MSCI Emerging Market status, the country could attract US\$1.4bn to US\$1.9bn worth of foreign investment flow, of which US\$779m to US\$1,339m would come from ETFs that trade in the MSCI Emerging Markets Index and the FTSE Emerging Market Index; and US\$670m to US\$891m from active funds that look for investment opportunities in emerging markets.

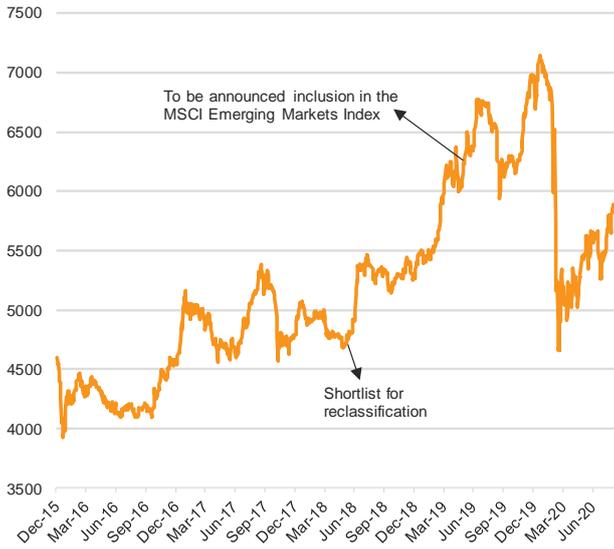
Figure 3: List of funds tracking MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index (as at 14 Sep 2020)

Index/Funds	Baseline scenario				Best case scenario			
	Vietnam's weights	ETFs (US\$ m)	Active funds (US\$ m)	Total (US\$ m)	Vietnam's weights	ETFs (US\$ m)	Active funds (US\$ m)	Total (US\$ m)
MSCI Emerging Market Index	0,33%	461	339	800	0,44%	620	456	1.077
FTSE Emerging Market Index	0,43%	318	331	649	0,56%	418	435	853
Total		779	670	1.449		1.039	891	1.929

Source: Funds' websites & documentaries

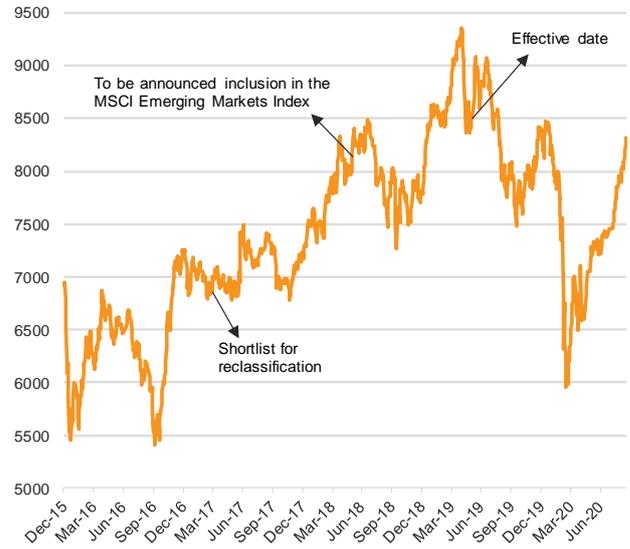
Stock market surges often occur after being shortlisted for upgrade to Emerging Market status and before announcement of inclusion in the MSCI Emerging Markets Index

Figure 4: Kuwait stock market (Dec 2015 - present)



Source: VNDIRECT RESEARCH

Figure 5: Saudi stock market (Dec 2015 - present)



Source: VNDIRECT RESEARCH

According to historical data, we see that the Kuwaiti stock market and the Saudi stock market surged dramatically during the period between addition to the Shortlist for upgrade to Emerging Market status and the announcement of their inclusion in the MSCI Emerging Markets Index, with increases ranging between 29% and 33%. In the period from the announcement of the inclusion in the MSCI Emerging Market Index to the official effective date, the Saudi stock market fluctuated stronger than the previous period, with a slight increase of 4.3% (More detail in Figure 4 and 5).

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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