

MSCI 2020 MARKET CLASSIFICATION REVIEW – PATIENCE IS A VIRTUE

15 April 2020

- MSCI postpones upgrading the MSCI Kuwait Indexes to Emerging Markets until Nov 2020 due to COVID-19 pandemic.
- Vietnam has to wait until Nov 2020 to become the largest constituent in the MSCI Frontier Markets Index, instead of May.

MSCI postpones upgrading the MSCI Kuwait Indexes to Emerging Markets until Nov 2020 due to the COVID-19's impact

On 8 Apr, MSCI Inc., a leading provider of research-based indexes and analytics, 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). In the notification, MSCI emphasized that MSCI Kuwait Indexes continued to meet all the requirements for upgrading to Emerging Markets. MSCI decided to postpone the implementation date of the MSCI Kuwait Indexes reclassification as it recognised the difficulties of international institutional investors in all the preparation work required ahead of the implementation amid the COVID-19 pandemic. Specifically, the investors have informed that they experienced difficulties in the process of opening accounts required to trade Kuwaiti stocks as a result of COVID-19 preventive measures, therefore they would not be able to implement the reclassification of Kuwait Indexes during the May 2020 SAIR. MSCI recognises that the upgrade postponement is necessary to ensure that it is well-prepared and carried out smoothly for both international institutional investors and local stakeholders.

Therefore, Vietnam has to wait until Nov 2020 to become the largest constituent in the MSCI Frontier Markets Index

In our Market Strategy report released in Jan 2020, we said that Vietnam was expected to increase its proportion and become the largest constituent of the MSCI Frontier Markets Index after the May 2020 SAIR. However, due to the postponement of the MSCI Kuwait Indexes reclassification, Vietnam needs to wait until the Nov 2020 SAIR to become the largest part of 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 15.4% and 11.1% now, per MSCI estimates.

Vietnam is unlikely to be shortlisted for a possible lift from a frontier market to an emerging one in 2020

Based on MSCI guide, Vietnam meets all quantitative criteria for inclusion, but falls short on qualitative measures, as listed below:

- (1) lack of information disclosure in English;
- (2) the limited openness of the market to foreign investors and their equal treatment (foreign ownership limitation);
- (3) 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;
- (4) lack of an independent securities clearing centre; and
- (5) other criteria for trading, securities transfer and derivative products.

We think that Vietnam's stock market needs at least one year before being included in the "shortlist", and another one to two years to be officially upgraded to emerging markets status.

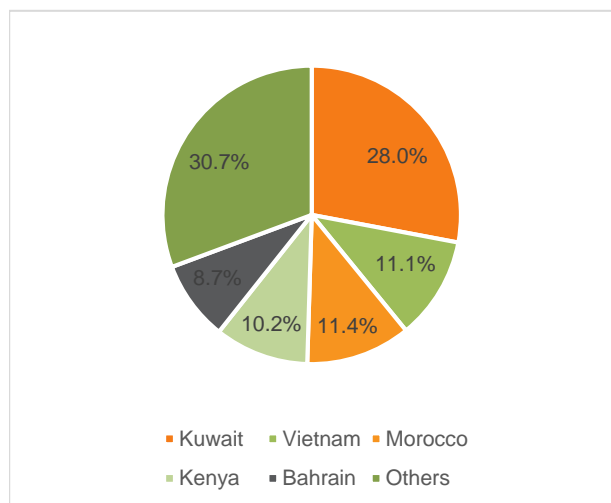
Analyst(s):



Hinh Dinh

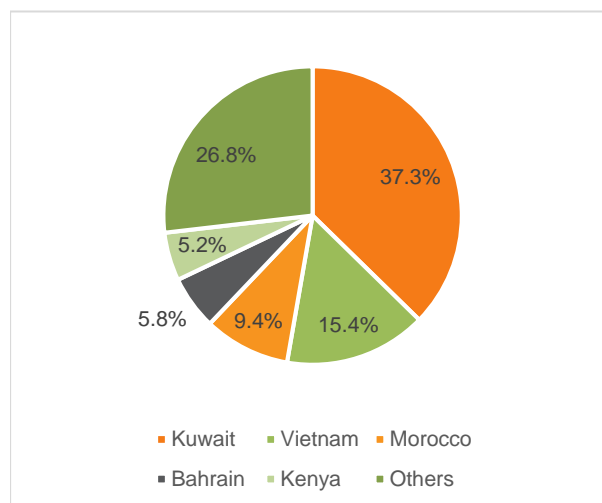
hinh.dinh@vndirect.com.vn

Figure 1: Proportion in the MSCI Frontier Markets 100 Index by country (as at 31 Mar 2020)



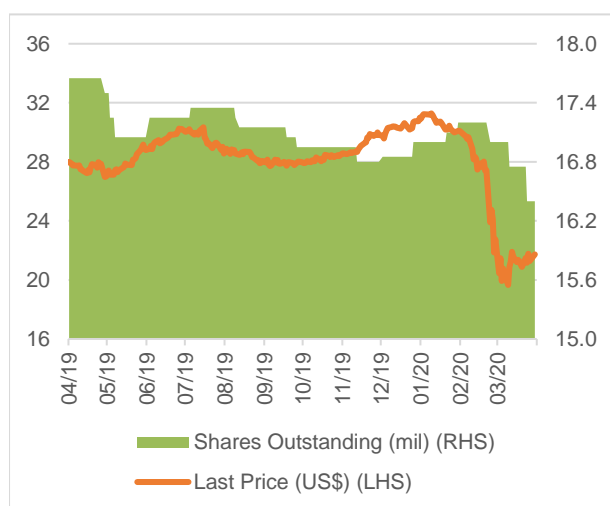
Source: MSCI Frontier Markets 100 Index

Figure 2: Proportion in the MSCI Frontier Markets Index by country (as at 31 Mar 2020)



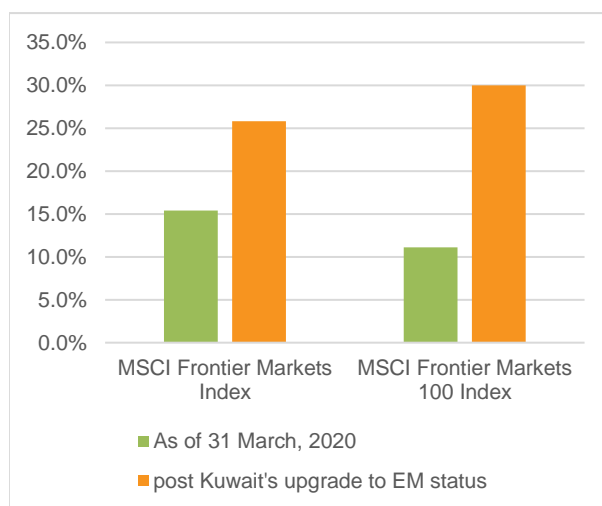
Source: MSCI Frontier Markets Index

Figure 3: Price and shares outstanding of the Ishares MSCI Frontier 100 ETF



Source: Ishares MSCI Frontier 100 ETF

Figure 4: Estimation of Vietnam's stock weight on MSCI Frontier Market 100 Index and MSCI Frontier Market Index



Source: MSCI Frontier Markets Index

The size of investment inflow to Vietnam's stock market could be smaller than we had previously expected due to COVID-19's impact

Following the COVID-19 outbreak, international investors have reduced their exposure to high-risk assets, triggering the outflow from funds tracking the MSCI Frontier Markets Index (Figure 5). According to our calculation, the total net asset value of those funds tracking the MSCI Frontier Markets Index and the MSCI Frontier Markets 100 Index reaches US\$1,915m on 9 Apr 2020, down 37% since 10 Dec 2019. Following this, the size of investment inflow to Vietnam's stock market after the Kuwait Indexes' official upgrade to Emerging Markets could be smaller than we had earlier expected. Based on the current data, we expect that Vietnam's stock market could attract an investment inflow of US\$120m (from US\$200m previously expected) 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 remain stable at the current level).

Figure 5: List of funds tracking MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index

Fund	Net assets (as at 10 Dec 2019)	Net assets (as at 9 April 2020)	% change	Benchmark
Schroder International Selection Fund Frontier Market Equity	921	659	-28.4%	MSCI Frontier Markets Index
iShares MSCI Frontier 100 ETF	499	364	-27.0%	MSCI Frontier Markets 100 Index
Magna new frontiers fund	585	309	-47.2%	MSCI Frontier Markets Index
Harding loevner frontier emerging markets portfolio	291	189	-34.9%	MSCI Frontier Markets Index
Coeli SICAV I Coeli Frontier Markets	215	127	-41.1%	MSCI Frontier Markets Index
T.RowePrice Frontier Markets Equity Fund	232	116	-49.8%	MSCI Frontier Markets Index
East Capital Global Frontier Markets	127	91	-28.0%	MSCI Frontier Markets Index
Morgan Stanley Institutional Fund, Inc. Frontier Markets Portfolio	147	60	-59.5%	MSCI Frontier Markets Index
Total	3,017	1,915	-36.5%	

Source: Funds' websites & documentaries

Large caps could be the biggest beneficiaries

Vietnamese stocks currently in the MSCI Frontier Markets Index and the MSCI Frontier Markets 100 Index will be net bought by funds which track the above indexes after Kuwait's upgrade to Emerging Market status, especially the large caps such as VIC, VNM, VHM, HPG, VCB, MSN and VRE.

Figure 6: List of Vietnam's stocks in the iShares MSCI Frontier 100 ETF (as at 9 Apr 2020)

Ticker	Weight (%)	Share price (US\$)	Shares	Market Value (US\$)
VIC	2.68	4.0	2,438,838	9,744,985
VNM	2.03	4.2	1,760,338	7,408,011
VHM	1.97	3.0	2,411,225	7,174,740
HPG	0.84	0.8	3,847,012	3,057,986
VCB	0.83	2.9	1,049,725	3,011,963
MSN	0.81	2.5	1,179,950	2,954,264
VRE	0.70	1.0	2,681,747	2,564,901
VJC	0.55	4.2	478,310	2,012,867
NVL	0.42	2.2	687,939	1,520,630
SAB	0.30	5.9	188,010	1,102,885
BID	0.25	1.6	553,650	893,136
STB	0.14	0.4	1,262,329	497,956
SSI	0.13	0.6	769,940	469,655
GAS	0.13	2.7	175,890	468,791
POW	0.13	0.4	1,287,370	467,339
TCH	0.12	0.9	506,580	442,517
VGC	0.12	0.7	636,940	435,908
GEX	0.12	0.6	686,821	433,551
HDB	0.12	0.9	480,760	422,006
PLX	0.10	1.6	227,910	372,019
SBT	0.10	0.6	627,948	360,353
KBC	0.10	0.5	702,300	356,748
PVS	0.09	0.5	624,898	316,101
VHC	0.08	1.1	267,520	303,625
BVH	0.06	2.0	110,750	225,031
VCI	0.06	0.7	335,890	219,881
PVD	0.06	0.4	541,600	210,424
ROS	0.02	0.2	372,092	63,268

Source: iShares MSCI Frontier 100 ETF

DISCLAIMER

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

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.

Hien Tran Khanh – Deputy Head of Research

Email: hien.trankhanh@vndirect.com.vn

Hinh Dinh – Senior Analyst

Email: hinh.dinh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>