

## MSCI 2019 MARKET CLASSIFICATION REVIEW: VIETNAM IS EXPECTED TO INCREASE ITS WEIGHT IN THE MSCI FRONTIER MARKETS INDEX

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Hinh Dinh

[hinh.dinh@vndirect.com.vn](mailto:hinh.dinh@vndirect.com.vn)

On 13 May 2019, Morgan Stanley Capital Investment (MSCI) will announce the results of annual market classification review, which officially takes effect on 29 May 2019.

**Vietnam is unlikely to be added to shortlist for a possible lift from a frontier market to an emerging one**

Based on MSCI guide, while Vietnam meets most quantitative criteria for inclusion, it fall short mainly on qualitative measures, which could be listed as below:

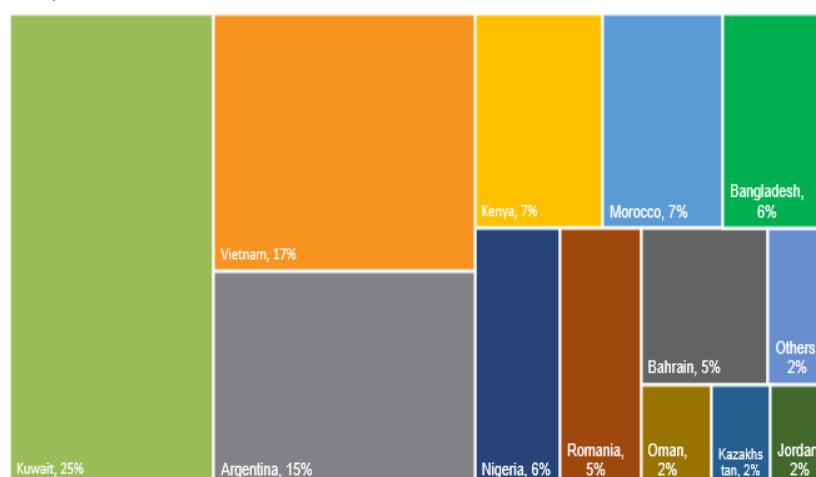
- (1) lack of information disclosure in English;
- (2) the limited openness of the market to foreign investors and their equal treatment (foreign ownership limitation),
- (3) lack of an offshore currency market makes it difficult for foreign investors to convert their holdings from Vietnam Dong to other foreign currencies while the onshore currency market remains limited,
- (4) lack of 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 another year before inclusion in the "shortlist" and more than one to two years to be officially upgraded to emerging markets status.

**However, the Vietnam stock market still benefits even though remaining as a frontier market**

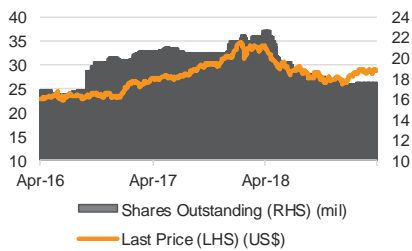
**Vietnam's stock market will gain more share in the MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index if Argentina is officially upgraded to "emerging markets status".** As announced by MSCI in June 2018, Argentina will be upgraded to "emerging markets status". Meanwhile, Kuwait will be added to the "shortlist for a potential reclassification from frontier markets to emerging markets status" from June 2019. Following this, the proportion of Vietnam in the MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index could be raised by 3% from 16-17% currently.

Figure 1: Proportion in MSCI Frontier Markets 100 Index by country (as of April 11, 2019)



Source: MSCI Frontier Markets 100 Index ETF

Figure 2: Price and shares outstanding of the iShares MSCI Frontier 100 ETF (2016-2019)



Source: Bloomberg

Figure 3: List of funds tracking MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index

Fund	Assets under management (US\$m)	Benchmark
Schroder International Selection Fund Frontier Market Equity	1,343	MSCI Frontier Markets Index
Templeton Frontier Markets Fund	628	MSCI Frontier Markets Index
Magna new frontiers fund	596	MSCI Frontier Markets Index
iShares MSCI Frontier 100 ETF	510	MSCI Frontier Markets 100 Index
T.RowePrice Frontier Markets Equity Fund	276	MSCI Frontier Markets Index
Morgan Stanley Institutional Fund, Inc. Frontier Markets Portfolio	231	MSCI Frontier Markets Index
Coeli SICAV I Coeli Frontier Markets	181	MSCI Frontier Markets Index
<b>Total</b>	<b>3,765</b>	

Source: Funds' websites & documentaries

**According to our calculations, there could be US\$66m from these above funds redistributing into Vietnam's stock market if Argentina is officially upgraded to emerging markets status.** Currently, these funds are allocating about US\$493m into Vietnam's stock market, US\$671m in Kuwait stocks and US\$501m in Argentina stocks. If Argentina is upgraded to emerging markets status, almost all US\$501m could be re-allocated from Argentina to the remaining frontier markets. Vietnam is one of the markets that will reap significant benefit due to a large weighting in the MSCI Frontier Markets Index and the MSCI Frontier Markets 100 Index.

Figure 4: Total stock value of funds tracking the MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index by top three countries (US\$m)

Fund	Total value of Kuwait's stocks	Total value of Vietnam's stocks	Total value of Argentina's stocks
Schroder International Selection Fund Frontier Market Equity (1)	267	113	236
<i>Proportion of the fund's total assets under management</i>	<i>20%</i>	<i>8%</i>	<i>18%</i>
Templeton Frontier Markets Fund (2)	64	59	50
<i>Proportion of the fund's total assets under management</i>	<i>10%</i>	<i>9%</i>	<i>8%</i>
Magna new frontiers fund (3)	100	127	36
<i>Proportion of the fund's total assets under management</i>	<i>17%</i>	<i>21%</i>	<i>6%</i>
iShares MSCI Frontier 100 ETF (4)	127	89	74
<i>Proportion of the fund's total assets under management</i>	<i>25%</i>	<i>17%</i>	<i>15%</i>
T.RowePrice Frontier Markets Equity Fund (5)	56	44	36
<i>Proportion of the fund's total assets under management</i>	<i>20%</i>	<i>16%</i>	<i>13%</i>
Morgan Stanley Institutional Fund, Inc. Frontier Markets Portfolio (6)	45	35	42
<i>Proportion of the fund's total assets under management</i>	<i>19%</i>	<i>15%</i>	<i>18%</i>
Coeli SICAV I Coeli Frontier Markets (7)	11	27	27
<i>Proportion of the fund's total assets under management</i>	<i>6%</i>	<i>15%</i>	<i>15%</i>
<b>Total stock value of all funds (1)+(2)+(3)+(4)+(5)+(6)+(7)</b>	<b>672</b>	<b>493</b>	<b>501</b>
<i>Proportion of total funds' total assets under management</i>	<i>18%</i>	<i>13%</i>	<i>13%</i>

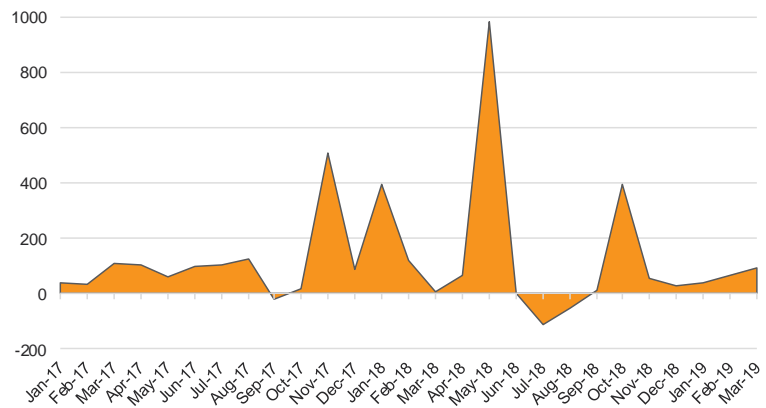
Source: Funds' websites & documentaries

### Large caps could be the biggest beneficiaries

These funds tracking the MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index are expected to buy Vietnam large-cap stocks currently in these indexes' portfolios such as VNM, VIC, VHM, VCB, SAB, MSN, HPG and GAS. Foreign cash flow that continues coming into Vietnam's stock market will remain an important

pillar for the market in the context of lack of supportive information in 2Q2019. This inflow will help increase market liquidity as well as strengthen investors' enthusiasm. In addition, the amount of money flowing to Vietnam could be even greater because the above US\$66m only counts funds tracking the MSCI Frontier Markets Index and MSCI Frontier Markets 100 Index without considering other funds including active funds, passive funds tracking other benchmarks like MSCI Frontier Emerging Markets Index or S&P/BNP Mellon New Frontier Index.

**Figure 5: Monthly net buy/sell value by foreigners on Vietnam's stock market (US\$m)**



Source: VNDIRECT

**Figure 6: List of Vietnam's stocks in the IShares MSCI Frontier 100 ETF (as of April 8, 2019)**

Ticker	Weight (%)	Share price (US\$)	Shares	Market Value (US\$)
VNM	3.6	6.0	3,059,818	18,333,716
VIC	3.5	5.0	3,507,398	17,583,481
VHM	2.3	4.0	2,947,095	11,712,919
MSN	1.5	3.8	2,044,800	7,765,454
VRE	1.3	1.6	4,130,317	6,409,527
HPG	1.3	1.4	4,602,330	6,368,291
VCB	0.7	2.9	1,278,365	3,719,621
SAB	0.6	10.6	282,230	2,992,805
NVL	0.5	2.4	1,007,509	2,423,390
SSI	0.3	1.2	1,364,560	1,629,343
STB	0.3	0.5	2,539,289	1,335,402
GAS	0.2	4.4	269,210	1,172,068
BID	0.2	1.5	759,500	1,139,324
ROS	0.2	1.4	634,042	873,231
PVS	0.2	0.9	884,898	808,666
TCH	0.2	1.0	789,650	798,211
BVH	0.1	4.1	176,570	717,743
SBT	0.1	0.8	882,688	694,401
DPM	0.1	0.8	820,620	680,946
KBC	0.1	0.6	1,072,180	677,088
VCI	0.1	1.6	293,310	480,453

Source: IShares MSCI Frontier 100 ETF

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<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

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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.

#### Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

#### Hien Tran Khanh – Deputy Head of Research

Email: [hien.trankhanh@vndirect.com.vn](mailto:hien.trankhanh@vndirect.com.vn)

#### Hinh Dinh – Analyst

Email: [hinh.dinh@vndirect.com.vn](mailto: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](mailto:research@vndirect.com.vn)

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