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BM|华语

Vietnam Outlook 2024: A rapid growing economy that investors shouldn't overlook

Vietnam, located in Southeast Asia, is a vibrant and rapidly developing country with a rich history and diverse culture. Given its rapid growth, we expect the Vietnamese economy to register positive growth amid healthy recovery on global demand and the supportive monetary policy.

FUND
United Vietnam Equities Fund - MYR Hedged
-2.80%
1-Mth Return

FUND
United Vietnam Equities Fund - USD
-6.79%
1-Mth Return

BATS VNM
VanEck Vietnam ETF
USD 11.86 ▼ -0.08%
Last Done

Key Points

- We expect the central bank of Vietnam to maintain its accommodative stance to further support the plummeted real estate sector.
- Stock market reformation will gradually bring Vietnamese equities into the eyes of global investors.
- With an upside potential of 30.40% by 2025, accompanied by a dividend yield of 3.26%, we would assign a star rating of 3.0 Stars "Attractive" to the nation.
- Vietnam is one of the fastest-growing economies in the region and a popular destination for foreign investment, especially for manufacturing, technology, and tourism sector given the "China +1" strategy.

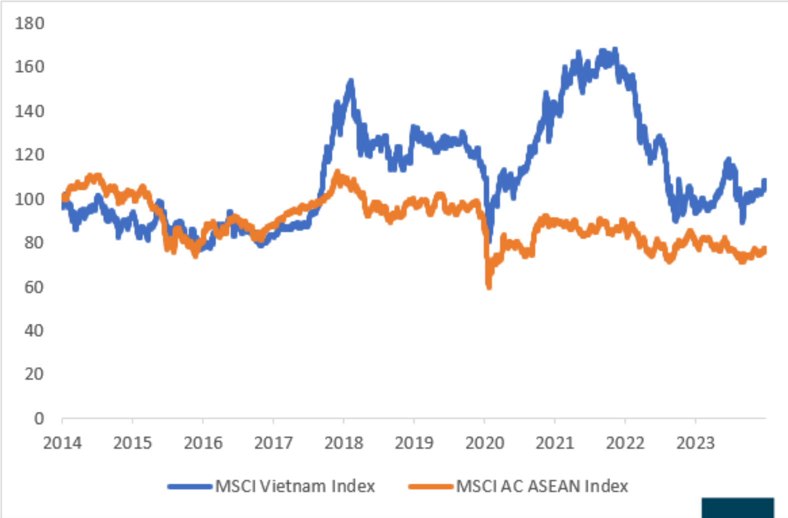
- Along the years, the key areas that has contributed to Vietnam’s stellar growth are exports, FDIs and government spending on infrastructure and these factors are expected to continue be the growth drivers.

Vietnam, located in Southeast Asia, is a vibrant and rapidly developing country with a rich history and diverse culture.

The country has experienced remarkable economic growth since the early 1990s when it implemented economic reforms known as "Đổi Mới" (Renovation). The economy has transitioned from a centrally planned to a socialist-oriented market economy. Along with the robust economic growth, Vietnamese equities, as measured by the MSCI Vietnam Index, also experienced stellar returns, gaining more than 8.02% (Total Return) in the past 10 years. Today, Vietnam is one of the fastest-growing economies in the region and a popular destination for foreign investment, especially for manufacturing, technology, and tourism sector given the “China +1” strategy.

However, 2023 was a collar roaster ride for Vietnamese equities. While external factors have been dragging the country’s growth, internal issues such as power shortages which affected the realization of foreign direct investment was one of the key factors that contributed to the slow growth in 2023.

Figure 1: MSCI Vietnam outperformed ASEAN Index in the past 10 years



Source: Bloomberg Finance L.P., iFAST compilations. Data as of 27th February 2024.

Moving into 2024, we expect Vietnamese economy to register positive growth amid healthy recovery on global demand and the supportive monetary policy. Moreover, we are seeing the previous headwinds for Vietnamese equity likely to dissipate as the largest constituent of the MSCI Vietnam Index, the real estate sector may see brighter days ahead with more support from the government. Nevertheless, the long-term growth drivers for the Vietnamese economy remain intact, as the nation has a pool of large and young workforce, continue to favor by FDIs and undergoing stock market reform.

Economic growth is likely to persist given the backdrop of exports recovery, influx of FDIs

In recent years, Vietnam has taken the baton from China and benefited from supply chain relocations, strong foreign direct investment, and political stability. Having witnessed robust growth momentum of approximately 8% after the global pandemic in 2022, the fastest annual pace since 1997. This has resulted in the country outpacing the world and other ASEAN countries in real GDP growth.

Along the years, the key areas that has contributed to Vietnam's stellar growth are exports, FDIs and government spending on infrastructure.

The backbone of economic growth. Exports has been increasingly prominent, from contributing about 57% of GDP in 2000 to close to 94% of GDP in 2022 (Figure 2). in 2023, Vietnam's economy expanded 5.05%, missing forecast of 6.5% as the key component of Vietnam's GDP, exports which represent around 90% of the nation's GDP have been showing less than expected growth. While external factors significantly contribute to slower growth, problems with electricity supply also contributed to the slow growth in foreign direct investment (FDI) realisations, further affecting growth.

In fact, Vietnam, among a few Asian economies has outperformed China in their export sectors over the past 5 years (Figure 3). Moving forward, we expect the positive momentum of exports growth in 2H23 to spur into 2024, driving the exports recovery for Vietnam.

Figure 2: Exports growth has been the driving economy growth

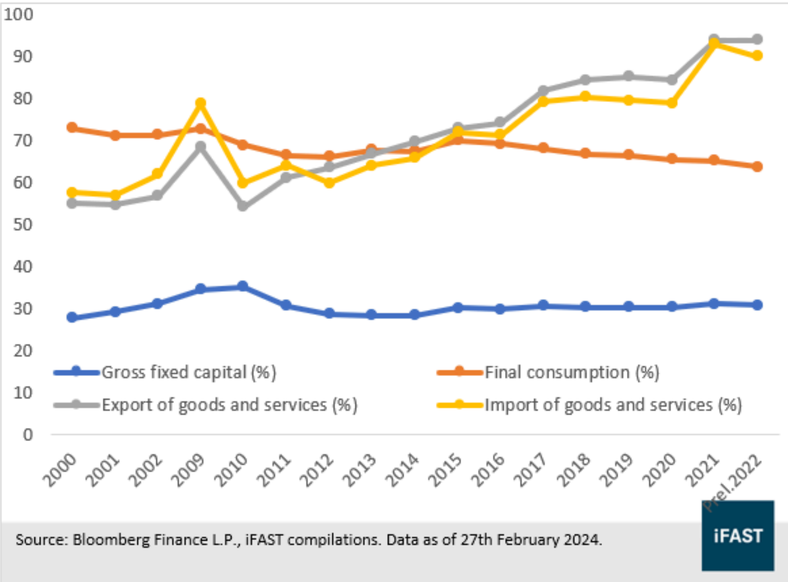
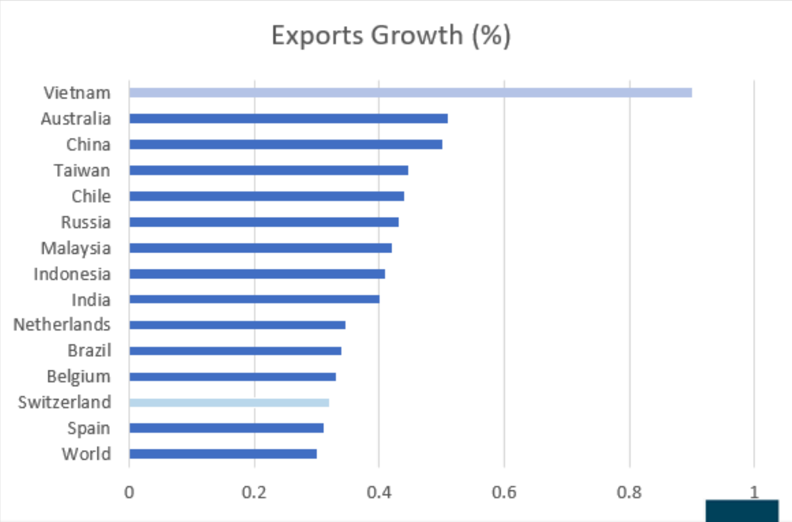


Figure 3: Asian countries' exports are growing above the world average

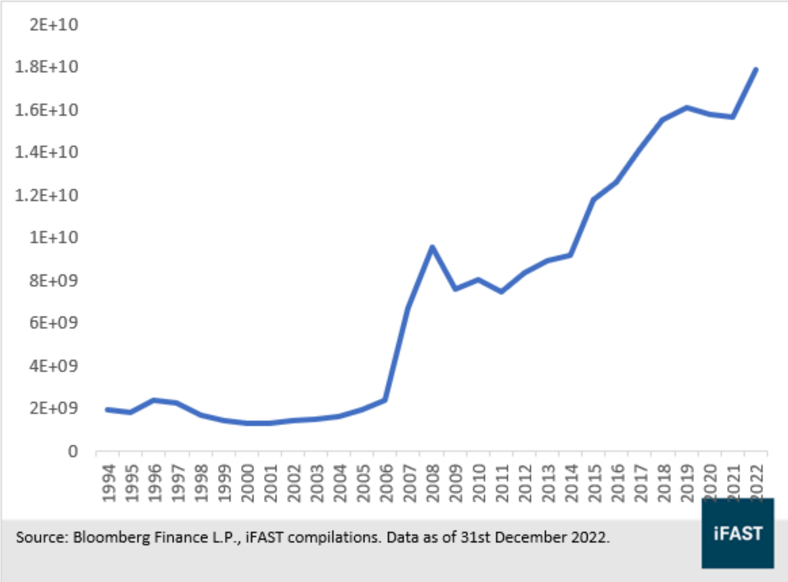


Source: Bloomberg Finance L.P., iFAST compilations. Data as of 27th February 2024.

Vietnam continues to be favoured by FDIs. In recent years, Vietnam has been the home for foreign direct investments within the ASEAN region. The shift in global manufacturing supply chains to the ASEAN region, with Vietnam expected to be one of the main winners, benefiting from its relatively cheaper manufacturing costs and its large labour force. In the first half of 2023, some big names have announced plans to increase their presence in Vietnam, such as the Chinese display manufacturer BOE, the US semiconductor producer Marvell Technology, and the global tech giant, Apple.

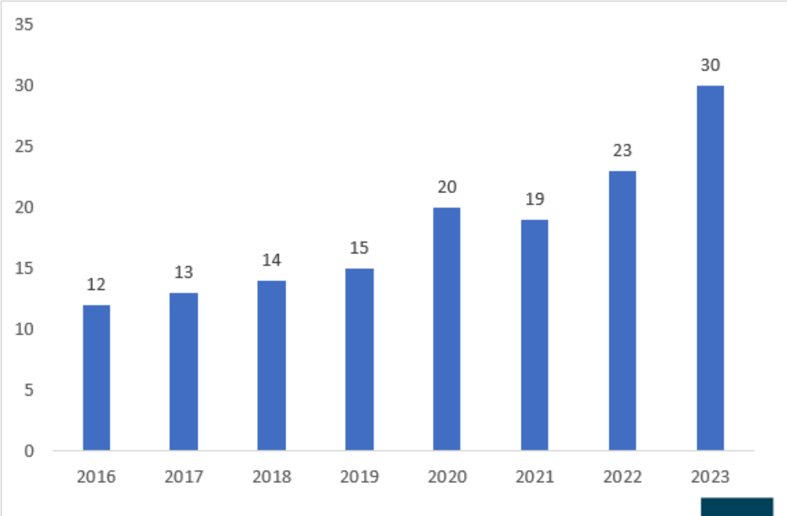
Meanwhile, the visit of US President Joe Biden and the upgrading of US–Vietnam relations to a level equal to that with China encouraged ‘friend shoring’ of FDI and technology transfers.

Figure 4: Foreign Direct Investments into Vietnam



Laying down groundworks. As the Chinese idiom goes "build roads first before getting rich", the government has been making substantial investments to improve the country's transportation network, from building airports, seaports to railways, roads and highways. In 2022, the government has disbursed state budget worth USD 23 billion on infrastructure spending, equivalent to 6% of the GDP, see Figure 5. The country's public and private investment in infrastructure has reached 5.7% of GDP in recent years, the highest in Southeast Asia and the second highest in Asia after China. These investments have yielded significant benefits for the economy, enabling businesses to transport goods and people more efficiently, reducing costs and increasing competitiveness.

Figure 5: Government Infrastructure spending (USD Bil)

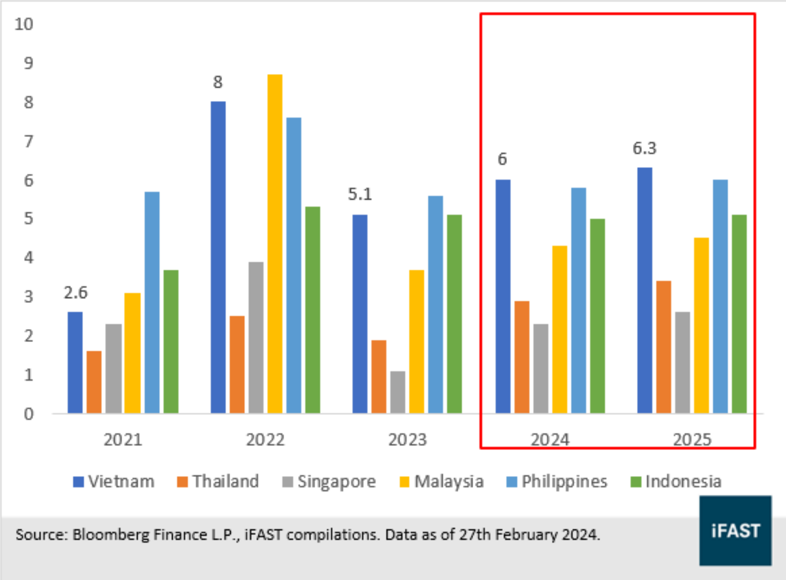


Source: Bloomberg Finance L.P., iFAST compilations. Data as of 27th February 2024.

In addition to that, the long-term growth potential for Vietnam stems from its demographic landscape. Vietnam is a country with a young and healthy population distribution. Currently, the largest age group consists of people between 30-34, meaning that the country is already enjoying the benefits of having a large available labor force. Additionally, people aged 0-4 make up a significant portion of the population, which is expected to contribute to the nation's workforce in the future. This means that Vietnam as an economy has a high potential production capacity, leaving room for businesses and consumer spending to grow.

Moving forward into 2024, growth for the economy is projected to be 6%-6.5%. Though global economic growth is expected to moderate in 2024, we believed the stronger growth in Vietnam will be driven by both exports and FDIs. The lower base in 2023 and realization of FDIs would set the stage of stronger exports growth in 2024. Meanwhile, the strengthening of ties between the US and Vietnam in 2023 is also expected to lead to more FDIs from US and stronger trade relationships between both countries.

Figure 6: Vietnam growth expected to lead ASEAN peers



Supportive monetary policy to support economy growth

Vietnam's central bank, the State Bank of Vietnam (SBV), was among the few countries that cut its policy rates while other central banks were raising their rates. This is in the effort to boost economic growth which was weighed by weak global demand and public investment stalled amid an intensified anti-graft crackdown.

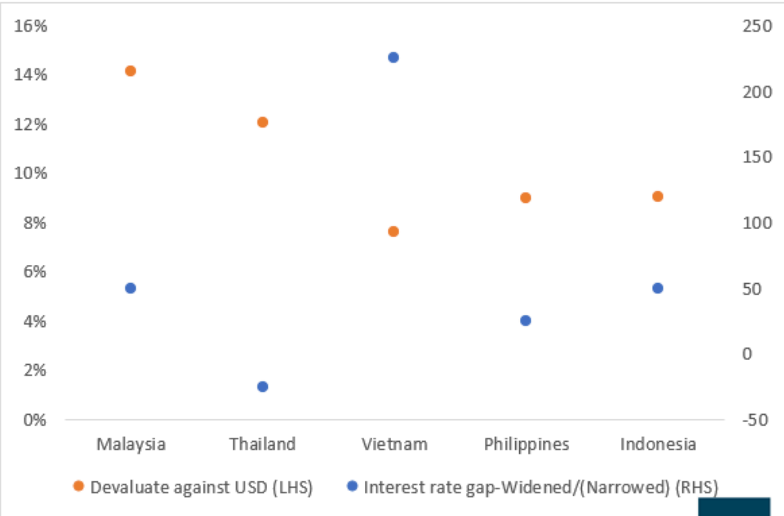
As a result, the central bank of Vietnam has cut its policy rates four times in 2023, reducing its refinance rate and discount rate by an accumulated 150bps each to spur economic growth from 6% to 4.5%. Nevertheless, overall credit growth for 2023 is likely to remain below the government's target of 14% as the figure showed for end-November was 8.2% due to slowdown in global economic growth and the property scandal which involves billions of funds has impacted home buyers' confidence as well as foreign investor sentiment.

Entering 2024, we expect the central bank of Vietnam to maintain its accommodative stance to further support the plummeted real estate sector. Meanwhile, the inflation outlook for Vietnam is positive, likely to remain within the central bank's target range of 4.0% to 4.5%. With the benchmark interest rate standing at 4.5% (50bps higher than its historical lowest point of 4.0%) or lower, it will be supportive of local equities, as when borrowing costs lower, there will be more liquidity in the market and business activities tend to increase.

Vietnam's currency also appeared to be stable compared to its regional peers. Despite one of the most aggressive reductions in policy rates among its peers, the Vietnamese Dong is able to avoid a drastic devaluation. As shown in figure 5, the USD appreciated against the Vietnamese Dong by 7.6% in the past 2 years which is lowest among its regional peers despite the fact that the gap between the policy rates widened the most against the greenback among peers for the same period. This is thanks to the abundant foreign exchange reserves that the nation has, a surplus trade balance, FDIs and a recovery in the tourism industry.

Entering 2024, we think that these factors supporting the local currency will remain, which would offset the negative impact of the wide interest rate gap against the USD. Given the resiliency of the local currency, we expect this to attract foreign investors into the economy.

Figure 7: Vietnamese Dong outperform peers despite widest interest rate gap

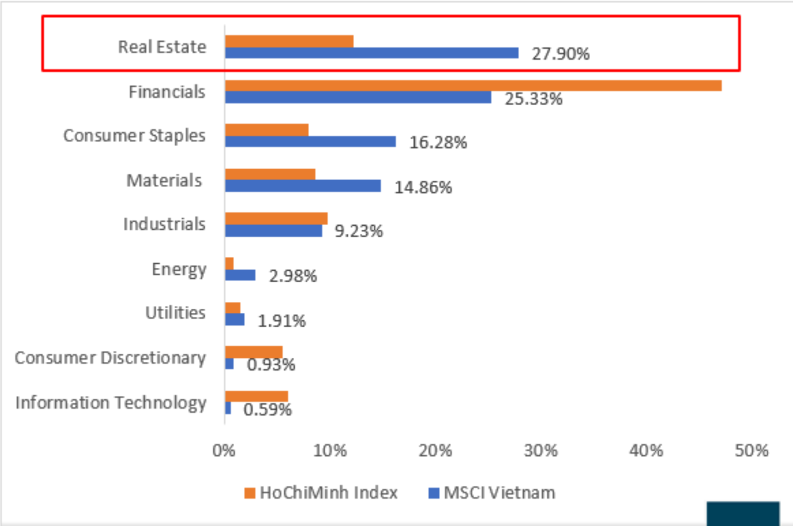


Source: Bloomberg Finance L.P., iFAST compilations. Data as of 27th February 2024.

Short term turbulence within the stock market might come to an end

The short term turbulence faced by Vietnamese equities may come to an end. Vietnam's anti-graft campaign, which has been under way since 2016 has recently gained momentum after authorities in the Communist-ruled country cracked down on several high-profile fraud and corruption cases involving top corporate executives and high-ranking state officials last year. The latest round of investigations revealed fraud involving a combined $12.8 billion, or 3.2% of the economy. This has spread fears across the investment universe, dampening investors' confidence in Vietnamese equities as the real estate sector plays an ever-important role in the Vietnam stock market, as per figure 8.

Figure 8: Real Estate sector plays significant role in Vietnam stock market



Source: Bloomberg Finance L.P., iFAST compilations. Data as of 29th February 2024.

With such significant weightage in the Vietnam stock market, in addition to having close ties with another major constituent of the index, the financials sector, the hit in investor sentiment had a negative impact on the broader Vietnamese stock market. As such, foreign investors are withdrawing their investments from Vietnam, resulting in a net outflow for 2023.

Supportive government policy to restore confidence- We believed that we might be seeing the light at the end of the tunnel. Vietnam's amended 2024 Land Law will be a game changer in restoring investor confidence. With a focus on modernizing land management practices and promoting fairness, the amended law aims to foster sustainable socio-economic development in the country. Some of the major changes are as follows:

Elimination of the land price framework- New legislation establishes an annual land price list to better align land prices with current market conditions, thereby ensuring that valuations accurately reflect evolving market trends.

Changes in land rent payments- Allow to opt for annual land rent payments. This flexibility aims to accommodate the needs of land users.

In essence, the amended law represents a concerted effort from the government to modernize land management practices in Vietnam and promote fairness and efficiency in land transactions. Though investors may still be concerned that further investigations may uncover an even greater amount of fraud, we believe that foreign investors may regain confidence with more transparency and framework stored in Vietnam's real estate sector. In fact, foreign investors poured funds into the region in January, of which real estate took the lead with over 1.27 billion USD, making up 53.9% of the total, a sign that FDIs are returning.

Armour up for Vietnam's stock market

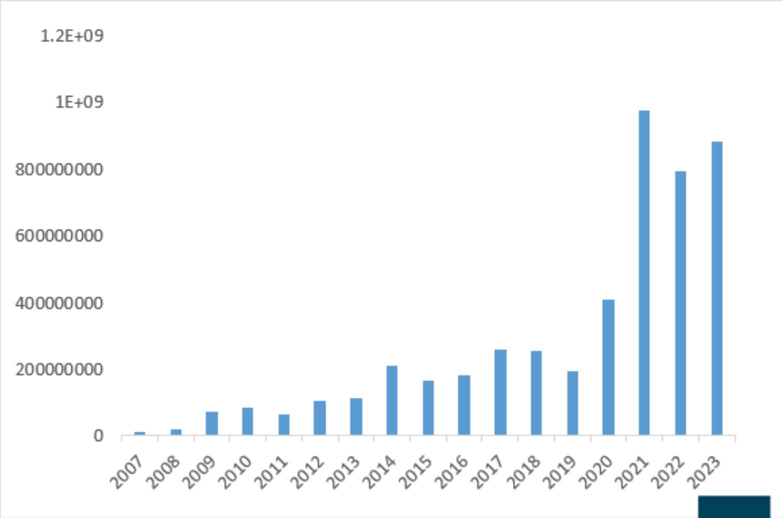
In the past, the existing trading system in Vietnam was old, lack of innovation and did not support many features such as short selling. In recent years, enhancing the local stock market has been the government's focus. Vietnam's market liquidity has also been improving over the last few years with average daily trading volume rising exponentially.

Currently, the Vietnamese government is speeding up the implementation of the KRX trading system to facilitate the deployment of new products and solutions to the Vietnamese stock market and ensure the smooth operation of the market continuously and effectively.

When the KRX system is fully operational, Vietnamese bourses are expected to have many new competitive products, such as intraday trading, short selling, option contracts, or the application of the central counterparty clearing house mechanism.

Meanwhile, the shortening of settlement time for securities with the T+2 settlement cycle since 29th August 2022 is helping boost investment efficiency and enhance market liquidity. Moving forward, we expect such moves will gradually bring Vietnam's stock market more in line with international standards.

Figure 9: Average daily turnover spiked in recent years

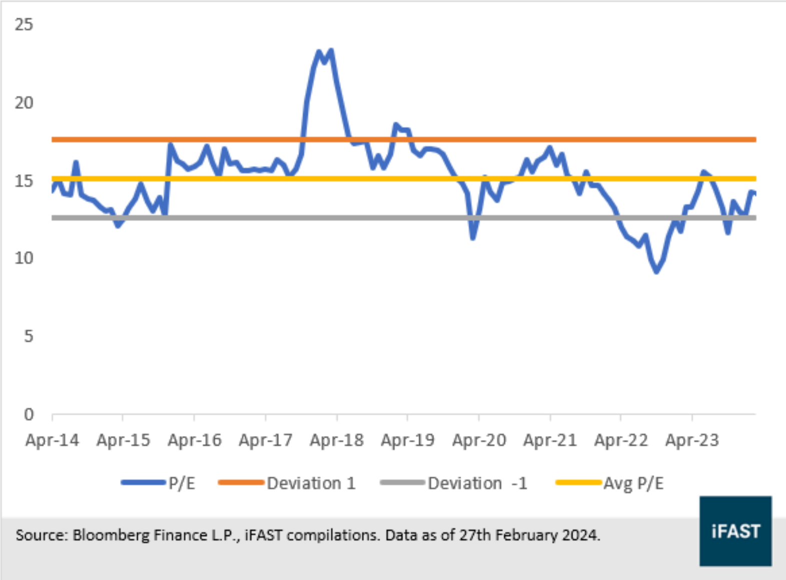


Source: Bloomberg Finance L.P., iFAST compilations. Data as of 27 March 2024.

Valuations

We believed that the influx of FDIs, robust economic growth, supportive monetary policy and supportive government policy would be supportive to Vietnamese equities, therefore we are positive about the Vietnam outlook for 2024. Valuations for Vietnamese equities currently hover around one standard deviation below the historical average (Figure 10).

Figure 10: MSCI Vietnam Index trading at one standard deviation below historical average



Valuation wise, we forecast the earnings for MSCI Vietnam Index to grow by 40.42% in 2024 and 27.91% in 2025. Based on our fair P/E estimate of 16, we arrived at an upside potential of 30.40% by 2025, accompanied by a dividend yield of 3.26%. Therefore, we would assign a star rating of 3.0 Stars "Attractive" to the nation.

Table 1: Valuation estimates

MSCI Vietnam Index	FY22	FY23	FY24E	FY25E
PE Ratio (X)	11.89	19.99	15.37	12.27
Expected Earnings Growth (YoY%)	-11.31%	-35.72 %	40.42%	27.91%
Earnings Per Share (EPS)	51.66	33.21	46.63	59.65
Projected Fair Price (based on a fair PE ratio of 16.0X)				954.4
Potential Upside				30.40%
Projected Dividend Yield (%)	2.10%	1.21%	2.82%	3.26%
Source: Bloomberg Finance L.P., iFAST Compilations. Data as of 29 March 2024.				

Key Challenges

Personal Finance

QnA Series: Principal Islamic Small Cap Opportunities Fund

By Jane Chia Jing Ying

Stocks

Micron: STACK on the AI tide through HBM

By Kevin Khaw Khai Sheng

Research

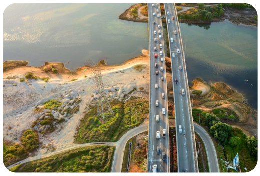
Look Beyond Income Distributions in Unit Trust Investment

By Jane Chia Jing Ying

Research

Johor: From close to closer

By Kevin Khaw Khai Sheng



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population and stock market reformation will propel the nation towards a greater