Vietnam Investment Review

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Stock Valuations remain attractive

Hong Kong-based Asia Frontier Capital (AFC) has seen its AFC Vietnam Fund and AFC Asia Frontier Fund generate good returns in a situation where key regional indices lost ground. Andreas Vogelsanger, AFC Vietnam Fund CEO, talked with VIR's Duc Luan about the fund's performance and market prospects.

Both Vietnamese stock exchanges have retreated since early November. How did your funds perform?

In November, AFC Asia Frontier Fund lost a negligible 0.1 per cent in net asset value (NAV), whereas AFC Vietnam Fund returned 2.5 per cent. The performance was relatively strong given the retreat of several key benchmarks. The VN-Index dropped 5.7 per cent while the HNX-Index lost 0.7 per cent in November. The MSCI Frontier Markets Asia Index also slid 4.7 per cent while the MSCI Emerging Markets Index shed 1.1 per cent.

In the year to date, our funds have earned a return of 24 per cent and 31.7 per cent respectively. The AFC Vietnam Fund has provided a 34.8 per cent return since its inception in December 2013 while the AFC Asia Frontier Fund returned 40.7 per cent since its launch in March 2012.

Foreign investors have been net sellers on both Vietnamese exchanges for several consecutive months. Have your funds followed the crowd?

November set a new record for monthly inflows into the AFC Asia Frontier Fund and AFC Vietnam Fund and our combined assets under management stands now at around US$25 million. We expect this trend to continue, since increasing numbers of people are starting to be aware of the fantastic opportunities there exists in frontier markets, especially in the Vietnamese market. Over the past five months, both AFC Vietnam Fund and AFC Asia Frontier Fund increased their exposure to Vietnam.

Could you give some information about your portfolios?

In the AFC Asia Frontier Fund, Vietnamese stocks now have the highest weighting with 21.7 per cent. Meanwhile, AFC Vietnam Fund invests only in Vietnam. Its portfolio at the end of November included 70 stocks holding 3.1 per cent in cash. The sectors with the largest allocation of assets were consumer goods (34.6 per cent) and industrials (22.4 per cent). AFC Vietnam Fund's strongest positions in November were SMT (5.1 per cent), FLC (2.8 per cent), SPM (2.3 per cent), PDN (2.1 per cent) and VNT (2.1 per cent). its weighted average trailing P/E ratio was 7.36 times, the weighted average P/B ratio was 1.1 times and the average dividend yield was 5.84 per cent.

With such a relatively attractive dividend yield, it seems that investing in Vietnam for dividends only is happy enough?

Yes, our average dividend yield is quite attractive, but our aim is to achieve long-term capital appreciation for investors by capturing value in growth companies; especially in the small to medium-sized company segment. In other words, the dividend yield is not the only criteria when we are selecting the companies which we want to invest in and all dividends earned by the fund are also reinvested.

How attractive are small caps versus large caps?

Currently, small caps trade at around 50 per cent discount to large caps. We believe that this gap will narrow over the next few years and small caps will trade from currently "undervalued" to "neutral" and eventually to "overvalued". Once this happens it will be surely the time when we will switch from small caps into large caps, since they become attractive again.

Regarding the market, what were the reasons behind the bearish November?

Overall the market sentiment was pretty poor, partly due to a newly introduced margin loan regulation which limited brokers to provide cash advances for the purchase of shares. Jitters over lower oil prices added fuel to the fire.

Are you worried about lower oil prices, because of their effect on the national budget?

According to a recent research report from ANZ, Vietnam's economy will be virtually unaffected by falling oil prices. But we do think the recent sell-off was partly triggered by the falling oil price and the overall bearish market sentiment due to the sharp correction in PV Gas (GAS) with 14.2 per cent the largest market cap stock in Vietnam and PV Drilling (PVD) with 2.1 per cent another major index weight.

Our funds have much less exposure to energy-related stocks at present and also historically, the correction which impacted many oil and gas counters did not affect our funds' performance. The funds are not under-weight energy stocks because we predicted the oil price collapse, but because we have a preference to invest in consumer or consumption-related stocks.

What is your evaluation of Vietnamese stocks given the recent drop?

The current valuation in Vietnam compared to other markets is still attractive, but there are more and more people arguing that the Vietnamese stock market is no longer cheap. With a P/E ratio of around 14 times and barely EPS growth for 2014 – in stark contrast to our 70 stocks in AFC Vietnam Fund – this certainly seems to be correct at first sight.

The recent popular sectors, especially for foreigners are energy, real estate and food, which are weighted with a total of just over 50 per cent of the index. If you however would exclude these three sectors, then a very different picture appears: Suddenly the valuation of 14 times would drop to 11 times, compared to an average of about 7 times in our portfolio.

How do you think about the Vietnamese stock market in 2015?

Negotiations for the TPP and EU free trade agreements are at advanced stages and their signing in the coming weeks or months could provide a nice catalyst for a flourishing stock market next year. Inflation expectations for 2014 are now, due to the sharp fall in oil prices, at only 3 per cent and the economic growth in 2015 should continue to accelerate above 6 per cent.