Global Asset Management

Vietnam: on a path to progress

Notes from the road

Emerging Markets Equity team

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Landing in Ho Chi Minh City and then Hanoi on our recent trip, it was evident that the country’s infrastructure needs development. Like Jakarta five years ago, the traffic was terrible, and Hanoi is still in the process of gentrification. However, the country aims to spend USD30 billion in the next 3-5 years on modernising its highway and logistics networks[1], which are some of the key bottlenecks for improving FDI into the country.

Vietnam is expected to be ASEAN’s fastest growing economy, with around 9.7% per capita GDP growth over the coming years[2]. Vietnam and the rest of ASEAN have benefitted from shifts in global supply chains over the last few years, and the country is becoming a new manufacturing hub, attracting increasing amounts of foreign investment from global companies such as Apple, Samsung, and Intel. Supply chain relocations from China to Vietnam are still concentrated in low value-added production, such as final assembly, where Vietnam has a comparative advantage with its lower labour costs.

Asia Commercial Bank’s new offices in Ho Chi Minh City.

[1] Dragon Capital, July 2023.
[2] IMF, July 2023.

Some of the key topics of our conversations were difficulties faced by the country in the past year, driven by a deterioration in the property market, and a sudden shortage of liquidity due to anti-corruption crackdowns and regulatory reforms of the corporate bond market. This, combined with rapidly rising US rates, compelled the State Bank of Vietnam ("SBV") to raise rates at the same pace to maintain currency stability. Six months on, conversations suggest that the situation has significantly improved, following steps by the SBV to improve liquidity, and a sharp decline in interest rates helped by easing inflation pressures. Moreover, we understand that the SBV has taken a pragmatic approach to setting lending limits to curtail excessive loan growth, which has limited system-wide asset quality issues.

Our trip suggested a strong structural growth story in Vietnam, underpinned by a young demographic and rising income levels (it is estimated that 37 million people will enter the middle income class category)[3]. We expect this to support an extremely strong domestic consumption story over the next few years, with increasing amounts of modern retail penetration and formalisation.

Despite the issues seen recently in the real estate sector, we expect rising GDP per capita to provide structural support to extremely strong housing demand in the coming years. Affordability remains healthy, especially in the mid-tier categories, while housing supply remains tight on the back of a slower pace of licenses issued over the past 2-3 years. This means that there will be an unmet housing demand of one million homes by the end of 2025[4]. Our site visit with the country's largest developer showed us the shift towards distinctive townships in Vietnam, equipped with hospitals and schools[5]. Most surprisingly, each development came fully kitted out with electric vehicle chargers!

While the market has rebounded from its lows in November 2022, valuations for Vietnam appear very attractive, in terms of their price-to-earnings (P/E) ratios (12.5x in 2024), which are near 10-year lows[6]. The key issue for us, as international investors, remains the sticky foreign ownership limits in the country. Despite the presence of high-quality companies, these limits reduce the opportunity set to only a handful of businesses. Over the long term, we believe these issues will disappear. The problem is that Vietnam has been on the emerging markets index watchlist for many years, and despite implementing a self-established 2025 deadline to complete the reforms that would enable it to upgrade its status to "emerging markets", the risks of missing this deadline seem high. Our meetings from the ground suggest that these delays have been caused by infighting between state institutions, including settlements and companies' foreign ownership limits.

Looking over the longer term, we think that Vietnam will be an extremely interesting country in the region in which to invest, with multiple thematic drivers such as domestic consumption and financialisation.

(Top right) WinMart, a prominent grocery retail chain in Vietnam. (Top left) Vincom retail mall in Ho Chi Minh City.
(Bottom left) Vinhomes primary school, Ocean Park, Hanoi. (Centre) Pearl Island, Vinhomes Ocean Park, Hanoi.
(Bottom right) Laurence Bensafi, PM & Deputy Head of EM Equities, with the country's local electric car brand.

3 Dragon Capital, July 2023.
4 JPMorgan: Vinhomes: ASEAN's new residential champion, June 2023.
5 www.vinhomes.vn.
6 Bloomberg as of July 2023.

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