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Aberdeen Standard Investments

Letter from Vietnam

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Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

“A hungry consumer market awaits Vietnamese and foreign companies”

Nick Robinson
Senior Investment Manager, Equities - EMEA

View from Above

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Heydays of doi moi

Vietnam is enjoying its day in the sun. The economy is in rude health, with growth at its highest level in a decade. Core inflation remains low and its external balances are improving.

Manufacturing has been the star under the doi moi policy that started 32 years ago. Resembling parts of Russia's perestroika and China's economic liberalisation (改革开放), Vietnam is shifting from a centrally-planned economy to a market-oriented one while keeping its political structure largely intact.

It has been integrating itself more deeply with the global economy and is growing in importance in major international supply chains. Made-in-Vietnam smartphones, textiles and electronics are increasingly making their way to the US, Europe, China and the rest of Asia.

Demographics also played its part. Vietnam has a domestic market of 95 million, with half its population under the age of 35 and a large workforce upbeat about their future. Incomes are rising, the growing middle class is spending and a hungry consumer market awaits Vietnamese and foreign companies.

At a pivotal juncture

The clutter of motorbikes, hoardings and construction sites was all around me during a recent visit to Ho Chi Minh City, my first to Vietnam. And I experienced the typical sights and sounds of daily life - severe traffic congestion. Currently, a driver can take nearly two hours to tame a 12-kilometre gridlock in the city.

But I was unshaken by the bumpy roads in Vietnam. Instead, I'm seeing a virtuous cycle take root. As long as the government continues to open up markets and industries, maximising market-based financing, including 'equitisation', or privatisation in local parlance, this will engender interest from foreign investors.

And change is evident everywhere, most significantly, the stock market. Nearly 20 years ago, there were only two listed companies, with a market capitalisation of 986 billion dong (US$43 million in current value). Now, the domestic securities market has reached US$191 billion in total value, equivalent to 95% of 2016's GDP[A].

Alongside strengthening macroeconomic fundamentals, the sizzling market has also benefited from the 'equitisation' process. Last year, foreign investors bought US$1.5 billion of Vietnamese shares.

Admittedly, for those looking to invest, the market isn't as cheap as before. However, when stacked against Vietnam's attractive longer-term economic prospects and earnings potential of companies, valuations still appear to have plenty of room for upside.

[A] 'Vietnam's securities market may get emerging status', NhanDan online, 16/04/2018.

Investment Insights

A pioneering moment

We have recently been increasing exposure to Vietnamese companies in our frontier strategy.

Vietnam's government has confirmed its intention to continue promoting the private economy while recognising the importance of private companies to economic development. In our view, regulatory trends are also moving in the right direction, with gradual relaxation of foreign ownership rules for companies and a new securities law, given the government's overarching aim for Vietnam to reach emerging market status by 2021. Amid the favourable conditions, formal retail is relatively undeveloped and I'm keeping a close eye on this sector.

The hungry consumer

Urban Vietnam is emerging into a fast-growing society. Domestic demand is accelerating for products spanning real estate, food and beverages, and telecommunications services.

Food preferences of the Vietnamese are evolving as disposable incomes rise. Vietnam's food and beverage sector is forecast to grow 16% through to 2019[B]. What is significant in this growth is the rise in consumer sophistication, alongside the demand for healthier products. A bright spot for this trend is the dairy industry. On average, a Vietnamese consumes 15kg of dairy products a year, compared with neighbouring Thailand (34kg) and China (26kg)[C].

Dairy industry pioneer Vietnam Dairy Products (Vinamilk) is innovating to tap accelerating market growth. Vinamilk's range spans infant cereals and liquid and powdered milk to nutritional products for the elderly. Its business is supported by dairy factories, cow farms, an efficient distribution network and entrenched supplier relationships.

Seeking new growth streams, Vinamilk has launched organic milk to better-than-expected demand and will expand its organic cow farms. It has also started to sell branded coconut water; a drink proving popular with locals.

Diversified consumer conglomerate Masan Group, with its portfolio of consumer brands, is a market leader in some core categories, including seasoning, convenience foods and coffee. It also invests in beer, processed foods and liquid beverages. In addition, it has interests in domestic animal feed; in tungsten production; and a consumer franchise bank.

Masan is recovering from a tough 2017. But underlying demand remains robust. And Masan has the marketing and distribution know-how to develop its brands and acquire new ones. Of the brands in development, beer is the most exciting.

[B] 'Vietnam sees flourishing food and beverage industry', Vietnamnet Bridge, 16/04/2018.
[C] Vinamilk's corporate presentation, Q4 2017.

Consumer dynamism

With retail sales rising 10.9% to 2017's record US$130 billion[D], Vietnam's middle class is unleashing its spending power. I see room for growth given the low penetration of organised retail.

Vietnam makes one of every 10 smartphones produced across the world[E]. Domestically, there are nearly 120 million mobile phone subscribers[F]. The segment is reporting good growth. And it remains a key short-term driver of growth and profits for electronics retail giant Mobile World (MWG), which is moving aggressively into grocery.

MWG continues to grow its consumer electronics business on its thegioididong.com and dienmayxanh.com platforms, where its multi-channel capability and engineer network pit it well against rival online retailers. For the Bach Hoa Xanh grocery business, MWG has 350 stores and plans to add up to 10,000 country-wide within five years. MWG's approach reflects its focus on organised retail as a big long-term opportunity, especially as the sector remains underdeveloped.

And tapping into the increased demand in retail space is domestic mall giant Vincom Retail. Vincom has a 60% market share in Ho Chi Minh City and Hanoi. Its leasing revenues are accelerating and it also earns income from selling shop houses linked to its developments. Still, Vincom's ability to attract and retain tenants will depend on how successfully it converts foot traffic into sales as competition intensifies.

Overall, investing in any emerging market is not without its risks. For now, we're riding on the wave of Vietnam's economic boom.

[D] 'Vietnam retail sales hit record US$129billion', InsideRetail Asia, 11/01/2018.
[E] 'Vietnam's manufacturing miracle: lessons for developing countries', Brookings Institution, 17/04/2018.
[F] 'Vietnam phone exports to China skyrockets in Q1', Xinhua, 17/04/2018.

"Food preferences of the Vietnamese are evolving as disposable incomes rise."

The value of an investment is not guaranteed and can go down as well as up. An investor may get back less than they invested.

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