

Global Equity Strategy

Vietnam: An ASEAN Outperformer

Key Takeaway

At a time when the fundamentals in Indonesia and Thailand are deteriorating, Vietnam's are turning brighter. November inflation grew at a soft 0.34% m-m or 5.78% y-y while industrial production rose from 5.4% to 5.7% y-y.

Vietnam's Achilles Heel - the preliminary trade deficit - appears to be recovering with the YTD deficit at only US\$ 96 million (excluding gold) after a trade surplus of US\$ 450 million in November and the deficit forecast to move into a surplus by the end of 2013.

Equally, FDI remains healthy with the total reaching US\$9.6 billion disbursed for the first ten months of the year. 70% of registered FDI went to the manufacturing for the year up to October. GDP in the first nine months of the year grew at 5.14%, slightly above the 4.90% experienced in 1H. Vietnam is enjoying stable growth with lower inflation helped by an increase in manufacturing contribution from foreign owned firms. In contrast, India and Indonesia have found GDP failing while inflation has been rebounding. We initiated with a bullish view on Vietnam on August 5th, 2013 and highlighted the attractiveness of close-end funds which are still trading on an average discount to NAV of 24.8%.

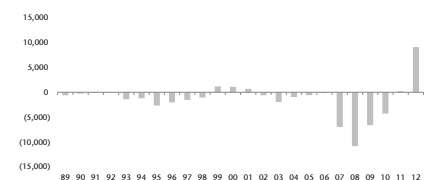
The economy is forecast to grow at around 5.5% in 2014 with inflation running a little higher at over 6%. This is probably 'the optimum' speed for economic growth and if the inflation rate cools further there may be some room for rates to fall. Real interest rates have been positive for some time.

While Vietnam appears to be getting its economic house in order, there are still many challenges confronting policy makers in 2014. Firstly, politics will come once again to the forefront as the backlash against the Communist Party grows. Reformists are vying for top positions within the party alongside the conservative old guard. Secondly, there is still a considerable overhang of debt within the banking system that needs to be resolved.

The good news is that in November, Vietnam Asset Management Company (VAMC) acquired around US\$118 million of bad debt from Vietnam Bank for Agriculture & Rural Development, the country's largest lender by assets. This was VAMC's inaugural transaction. VAMC commenced operations in July with registered capital of US\$24m. Lenders with bad debt ratios of 3% or more will be required to sell NPLS to VAMC.

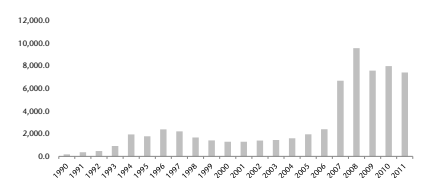
After initially rallying during the early part of the year, the equity index has been range-bound in both US\$ and Vietnamese Dong terms. On a relative basis, the index has outperformed most emerging markets this year in US\$ terms. We expect the market to outperform its regional peers in 2014.

Vietnam Current Account Balance (US\$ mn, BoP)



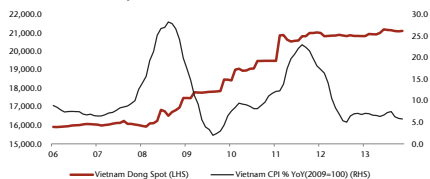
Source: IMF, World Bank, CEIC, Jefferies

Vietnam Foreign Direct Investment, Net Inflows (US\$ mn, BoP)



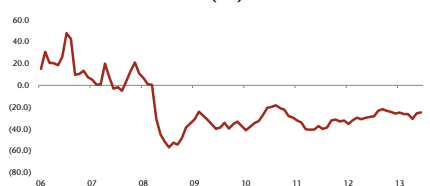
Source: World Bank, Jefferies

Vietnam Currency vs. Inflation Rate (%)



Source: Bloomberg, Jefferies

Vietnam Closed End Funds Average Price Premium to NAV (%)



Source: Bloomberg, Jefferies

Note: we aggregate a selection of Vietnam closed end funds and display the average discount/premium to NAV over time; value is weighted by the latest available fund value under management

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			Count	Percent
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Global

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