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Vietnam Growth Lures Investors But Equity Supply Is Limited

By JAMES HOOKWAY
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Increasing numbers of foreign equity investors are struggling to gain exposure to Vietnam's fast-growing economy -- and that is spurring ideas on how to get it.

Demand for Vietnamese equity exceeds the limited supply. So investment companies and analysts are creating funds and suggesting that foreigners invest in companies that do significant business in Vietnam but are listed elsewhere.

After several years of slow but steady progress, Vietnam has been generating some buzz. Last month Vietnam's top leaders excused themselves from the ruling Communist Party's congress to shake hands and be photographed with a pillar of the capitalist world, Bill Gates. The **Microsoft** chairman was in the country to put in a good word for Vietnam's high-technology aspirations. It was a potent piece of public relations, following closely on the heels of **Intel**'s decision earlier in the year to build a $300 million semiconductor plant there. Indeed, Mr. Gates was given a rock star's reception in Hanoi.

Since then, the U.S. has agreed on a trade deal with Vietnam that opens the way for Hanoi to enter the World Trade Organization -- marking a move that will further open the Vietnamese economy, which grew 8.4% last year and is expected to grow more than 8% this year.

The problem for investors hoping to piggyback on Vietnam's expansion is that the country's capital market is tiny and too prone to speculative flurries to provide attractive, reliable returns. The Vietnam Stock Exchange index, for instance, comprises just 36 stocks with a combined market capitalization of about $1.8 billion. The index has almost doubled since February -- showing a symptom, analysts say, of a lot of money chasing too few assets.

"There's no doubt that Vietnam is a compelling story. But the question is how to get some exposure without being sucked into a bubble," says a U.K.-based fund manager.

Foreign money tends to be invested in funds managed by local specialists such as Dragon Capital, VinaCapital Investment Management, PXP Capital and Mekong Capital. In the short term, that trend looks set to continue. VinaCapital, for one, is opening a new technology-oriented fund to enable foreign investors to get some exposure to that potentially lucrative slice of the economy.

Louis Nguyen, managing director of VinaCapital's technology practice in Ho Chi Minh City, says the goal is to invest in Internet and technology companies that under Vietnamese law, multinational players such as **eBay** or **Yahoo** will need to form a partnership with to set up in the country. He hopes to raise $20 million to $50 million for the fund but may increase the figure if there is demand.

"Two thirds of the fund is subscribed already, so we are pretty pleased with that," Mr. Nguyen says.

While VinaCapital's approach owes a partial debt to speculation on Vietnam's growth, **Merrill Lynch** believes it has come up with an alternative: investing in a basket of stocks with strong exposure to Vietnam's boom but traded on overseas markets -- including companies as diverse as Malaysian budget airline AirAsia, Singapore-listed consumer-goods and property company **Fraser & Neave** and South Korea's SK Telecom, which owns 27.5% of Vietnamese mobile-phone network S-Fone.

"These probably represent a much less volatile, and more diversified, way to build exposure while we await the process of more profound capital market development," Merrill Lynch strategist Spencer White wrote in a research report this month.

For example, F&N, as the Singapore company is known, has wide exposure to Vietnam, including property developments and a joint venture with **Heineken**, **Asia Pacific Breweries**. About 50% of Asia Pacific Breweries' earnings before interest and tax come from Indochina, mostly Vietnam.

The brewer accounts for around 35% of F&N's profit, according to Merrill Lynch. It says that growth in Vietnam in the company's Tiger and Heineken brands has partially offset falling demand in Singapore and Malaysia.

The turning point for Vietnam's own fledgling market might come when one of the nation's companies lists on a foreign market. The Vietnam Bank for Foreign Trade, or Vietcombank, is most likely to be the first mover. It is preparing to list on the local market in the next few months, and that is due to be followed by a foreign listing, most likely in Hong Kong or Singapore.

"Not only will it give investors a major offshore route for gaining exposure to the growth in Vietnam, but perhaps more significantly, it would act as an important driver to improved standards of financial disclosure for the market as a whole," Merrill Lynch said in its report.

Other state-owned enterprises could soon follow, including the Bank of Investment & Development of Vietnam, phone companies Vinaphone and Mobifone, and Bao Viet Insurance Co. The Vietnam Association of Financial Investors estimates that the inclusion of these companies on the Vietnam stock market, plus Vietcombank, would take total market capitalization to $15 billion from today's $1.8 billion -- nudging the country further onto the radar screens of regional indexes such as those run by **Morgan Stanley** Capital International Inc.

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