



Vietnam: on a path to progress

Notes from the road

For Professional Investors Only | Marketing Communication

Emerging Markets
Equity team

Published July 2023

“The country is becoming a new manufacturing hub, attracting increasing amounts of foreign investment from global companies such as Apple, Samsung, and Intel.”

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 networks¹, 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 years². 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 2025⁴. Our site visit with the country’s largest developer showed us the shift towards distinctive townships in Vietnam, equipped with hospitals and schools⁵. 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 lows⁶. 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.

Author

Ashna Yarashi-Shah, CFA

Portfolio Manager, Emerging Markets Equity



Ashna is a portfolio manager on the Emerging Markets Equity team at RBC BlueBay (RBC Global Asset Management's business outside North America). Prior to joining the firm in 2017 as an emerging markets equity product specialist, she had worked in equity sales at a large global financial institution, covering the Asia Pacific region. During her time there, Ashna was also a member of the content development team for the European, and Europe, Middle East and Africa (EMEA) regions. She began her career in the investment industry in 2012.

This document is a marketing communication and it may be produced and issued by the following entities: in the European Economic Area (EEA), by BlueBay Funds Management Company S.A. (BBFM S.A.), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany, Italy, Spain and Netherlands the BBFM S.A is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In the United Kingdom (UK) by RBC Global Asset Management (UK) Limited (RBC GAM UK), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts at the registered office of the Swiss representative or at the registered office or place of residence of the investor shall have jurisdiction pertaining to claims in connection with the offering and/or advertising of shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), the Packaged Retail and Insurance-based Investment Products - Key Information Documents (PRIIPs KID), where applicable, the Articles of Incorporation and any other document required, such as the Annual and Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Asia, by RBC Global Asset Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong. In Australia, RBC GAM UK is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, by RBC Global Asset Management Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. RBC GAM UK is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permits RBC GAM UK to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. In the United States, by RBC Global Asset Management (U.S.) Inc. (“RBC GAM-US”), an SEC registered investment adviser. The entities noted above are collectively referred to as “RBC BlueBay” within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of RBC BlueBay by the respective licensing or registering authorities. Not all products, services or investments described herein are available in all jurisdictions and some are available on a limited basis only, due to local regulatory and legal requirements.

This document is intended only for “Professional Clients” and “Eligible Counterparties” (as defined by the Markets in Financial Instruments Directive (“MiFID”) or the FCA); or in Switzerland for “Qualified Investors”, as defined in Article 10 of the Swiss Collective Investment Schemes Act and its implementing ordinance, or in the US by “Accredited Investors” (as defined in the Securities Act of 1933) or “Qualified Purchasers” (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer.

Unless otherwise stated, all data has been sourced by RBC BlueBay. To the best of RBC BlueBay’s knowledge and belief this document is true and accurate at the date hereof. RBC BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. Opinions and estimates constitute our judgment and are subject to change without notice. RBC BlueBay does not provide investment or other advice and nothing in this document constitutes any advice, nor should be interpreted as such. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product in any jurisdiction and is for information purposes only.

No part of this document may be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose in any manner without the prior written permission of RBC BlueBay. Copyright 2023 © RBC BlueBay. RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited and RBC Global Asset Management (Asia) Limited, which are separate, but affiliated corporate entities. ® / Registered trademark(s) of Royal Bank of Canada and BlueBay Asset Management (Services) Ltd. Used under licence. BlueBay Funds Management Company S.A., registered office 4, Boulevard Royal L-2449 Luxembourg, company registered in Luxembourg number B88445. RBC Global Asset Management (UK) Limited, registered office 100 Bishopsgate, London EC2N 4AA, registered in England and Wales number 03647343. All rights reserved.

Published July 2023

GUKM/23/194/JUL24/A



RBC BlueBay
Asset Management