Min-Hwa Hu Kupfer, chair of Vietnam Holding, tells Annabelle Williams how to beat the benchmark in one of the best performing frontier markets of 2014.

Vietnam’s stand-out performance among frontier markets has not gone unnoticed this year. With the MSCI Frontier Market index gaining 19% to 5 August, compared to just 2.2% from the MSCI World, the MSCI Vietnam’s own rise year-to-date has also been an impressive 13.78%.

There are now 700 companies listed on the country’s two markets, the Hanoi Stock Exchange and Ho Chi Minh City Stock Exchange, and a further 200 companies are waiting in the wings to list.

The universe may be broadening, but the benchmarks only reflect a strikingly small segment of the market. The MSCI Vietnam index has just 12 constituents, which cover 85% of the equity in the market. The challenge for an investment manager is constructing a portfolio which reflects the range of opportunities in the market, but also avoiding concentration in stocks which are too small.

Vietnam Holding, which has returned 108% over five years to 1 August, compared to just 10% from the Hanoi Stock Exchange, is one trust trying to strike a balance.
**Privatisation drive**

Vietnam entered the World Trade Organisation in 2007 and this has provided an ongoing impetus to privatise and improve transparency of the old state-owned enterprises (SOEs), explained Min-Hwa Hu Kupfer, chairwoman of Vietnam Holding.

Unsurprisingly, former SOEs still account for “a big chunk” of the business community. “The WTO context is important because there is the potential for them to privatise more SOEs, as you cannot have monopolies,” she explained.

The government also has another incentive to sell off SOEs. It is in need of capital to develop infrastructure projects which can then help with economic growth.

“Privatisation is the most obvious way of increasing its capital without raising taxes… The government’s agenda with regards to privatisation has been very strong,” Kupfer said.

There are plans to privatise some 400 companies in the next couple of years, a target which Kupfer described as “very unrealistic”. Nevertheless, the positive trend is there. “Even if they privatise a quarter of that, there will still be 100 new companies on the market,” she said.

**More than consumption**

As with most emerging market equity funds, consumption and urbanisation are two areas investors choose to focus on for stock picking. But less typical is a focus on agriculture. Kupfer said investors focusing solely on the consumption theme are missing a trick.

She explained: “These are the main growth drivers for [the market] and we have found ample opportunity in these areas. Vietnam has been a huge success on the agricultural front. When I first went there 20 years ago, it was importing everything, including rice. Now it is a huge producer of rice, and coffee too.”

A value screen is overlaid on this process, which forces diversification from the few stocks which make up benchmarks, such as the MSCI Vietnam index. Avoiding crowded trades also means funds are able to survive falls in value when tourist investors pull out from well-known stocks.

“The problem with mobile phone companies or Vietnamese airlines is any investor will look at these stocks because they are so obvious,” Kupfer said.

As the market deepens and matures, managers should increasingly widen the range of companies they buy, diversifying away from the obvious and overpriced.

**Social screening**

An interesting twist is the incorporation of an environmental and social governance (ESG) screen. The chief reason for this is that Kupfer believes companies which make the effort to adhere to positive governance policies tend to be better managed businesses overall.
Kupfer admits half of her investors do not care whether the companies are ESG compliant or not. But the performance of the trust does demonstrate that, in Vietnam, there is a correlation between good governance and quality businesses.

**Seeds of change**

Despite the fund trimming its agricultural exposure from 35% to 15%, as crop prices are poor at the moment, one area which does remain attractive is seed producers. Businesses such as Vietnam National Seed Corporation and Southern Seed Joint Stock Company are behind the agricultural revolution Vietnam has enjoyed in the last decade.

Another favourite is construction company Hoa Phat Group, an example of a more dynamic former SOE.

“It is not run as one would expect a former SOE to be. It is run by a bunch of young entrepreneurs that began a steel distribution company and gradually came to produce steel,” she explained.

These are the kinds of modern forward-looking companies which are fuelling Vietnam’s markets, and should help the country channel its abundant resources and young population into a booming economy.

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**Vietnam Holdings top 10 holdings**

- Hua Giang Pharma
- Hoa Phat Group
- PetroVietnam Drilling
- Traphaco
- Vinamilk
- Binh Minh Plastic
- Viconship
- Hung Vuong Corporation
- Danang Rubber
- FPT Corporation

*Source: VNH. As at 30 June 2014*

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**Frontier markets vital statistics**

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<thead>
<tr>
<th></th>
<th>Vietnam All-Share</th>
<th>Philippines</th>
<th>Indonesia</th>
<th>India</th>
<th>Thailand</th>
<th>Malaysia</th>
<th>China</th>
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<tbody>
<tr>
<td><strong>P/E trailing</strong></td>
<td>11.9</td>
<td>21.6</td>
<td>21.5</td>
<td>18.0</td>
<td>17.5</td>
<td>16.3</td>
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<tr>
<td><strong>Price to book</strong></td>
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<td>3.0</td>
<td>2.2</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Dividend yield</strong></td>
<td>3.9</td>
<td>2.2</td>
<td>2.1</td>
<td>1.5</td>
<td>3.1</td>
<td>3.0</td>
<td>3.1</td>
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