

01/19/2021 17:34:18 [BN] Bloomberg News

Stocks in Vietnam Look to Earnings, Flows as Rally Stumbles (2)

- VN Index tumbled as much as 6.3% Tuesday on profit taking
- Gauge was among world's top equity benchmarks until Monday

By Nguyen Kieu Giang and Matt Turner

(Bloomberg) -- A resilient economy and frenzied buying by retail investors catapulted Vietnam's stock gauge into the league of the world's top performers. Now, there are signs of profit-taking as investors assess a potential rebound in earnings and a return of foreign inflows.

The VN Index sank as much as 6.3% on Tuesday, before ending 5.1% lower to post its biggest loss since July 27. Market watchers attributed the move to cashing out by individual investors. The selloff came after the gauge had surged more than 80% from its March 2020 low through Monday, making Vietnam one of the most overbought markets globally.

Stocks rallied strongly in 2020 and this year "primarily because of retail investors, who all took margin loans, so some kind of correction was due," said Ruchir Desai, a fund manager at Asia Frontier Capital Ltd. in Hong Kong.



Vietnam has been relatively unscathed by the pandemic, having recorded fewer than 1,600 cases. The Southeast Asian nation has also benefited as a venue for an alternative supply chain during the U.S.–China trade conflict. Its economy expanded 2.9% in 2020, and gross domestic product is expected to jump 7.6% this year, according to the median forecast of economists surveyed by Bloomberg.

Tuesday's losses trimmed the VN Index's year-to-date gain to 2.5%, wiping out its lead over the wider MSCI Asia

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Pacific Index, which is now up more than 5%.

Here are some charts that show what's at play for Vietnam's stocks:

Broad Rally

Nearly 95% of the VN Index's member stocks traded above their 200-day moving averages before Tuesday's selloff, the strongest breadth since 2009, according to data compiled by Bloomberg.

Retail investors have been the driving force in the market, as foreign funds dumped a record \$876 million of the nation's shares in 2020 and have sold another net \$168 million this year.



"We still expect foreign investors to come back to buy Vietnamese stocks," Nguyen Anh Duc, head of institutional sales at SSI Securities Corp., said Monday, forecasting inflows of over \$250 million in 2021.

The trigger for that possible return is MSCI Inc.'s upgrade of Kuwait to emerging-market status, which is seen leading to a bigger proportion for Vietnam's stocks in the MSCI Frontier Markets Index.

Pricey, or Not?

The VN Index's relative-strength index slumped below 55 on Tuesday. It had risen far above 70 -- a reading that signals to some investors that a pullback could be ahead -- to levels not seen since December 2017.

The market could face a technical correction after its recent strong rally, Ta Thanh Binh, head of market development department at the State Securities Commission, had told reporters in Hanoi earlier Tuesday.

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Future Profits

Yet, with profits expected to improve and given Tuesday's rout, Vietnam's gauge is cheaper on a price-to-earnings basis than several other Asian equity benchmarks, which are trading at all-time high valuations or close to them.

Earnings-per-share for companies on the VN Index are forecast to jump more than 20% in 2021, after sliding almost 7% in 2020, data compiled by Bloomberg show. This means that at 14.9 times 12-month forward profits, the gauge is still a fair distance away from the more-than-20 times record valuation it reached in 2018.

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Tuesday’s correction is not a reflection of the “solid fundamentals” of the economy or of the longer term prospects for Vietnam, said Desai of Asia Frontier Capital.

“Longer term, Vietnam remains one of the standout stories worldwide due to its ability to attract global manufacturing, access to multiple free–trade agreements and increasing domestic consumption supported by political stability,” he said.

(Updates with closing prices.)

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