

FTSE upgrade prospect

High potentialities in the next year

Le Anh Tung
 Market Strategist
 tungla@kbsec.com.vn

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Vietnam should be upgraded to Second Emerging Market in September 2020E

Investors can expect strong capital inflows to Vietnam

- The upgrade is likely to boost Vietnam's access to large funds allocated according to the FTSE Emerging Index, including Vanguard FTSE Emerging Market ETF – the largest emerging market ETF in the world. Therefore, although the weight of Vietnamese stocks in the EM Index is forecast to stay low, it will still generate a huge cash flow into Vietnam stock market.
- The disbursed cash flow of foreign investors usually gains sharply when the FTSE upgrade is announced, as in Qatar stock market in 2015 (Figure 1).
- However, a lag could exist between the withdrawal of investment funds of frontier markets from Vietnam stock market and the disbursement of those in EMs. In addition, active cash flows could be volatile around the upgrade. Some active funds are often poured into Vietnam to catch up the upgrade event, and then may take profits when the market is officially upgraded.

The most positive phase may only happen before the upgrade

- For example, Romania market, which has climbed roughly 38% since the early this year, before it was upgraded to Secondary Emerging Market in September 2019. Nonetheless, investors should note that the stock index could correct after the upgrade comes into effect, as in the case of the UAE and Qatar – where stock indices declined 5% and 20% respectively after the upgrade.

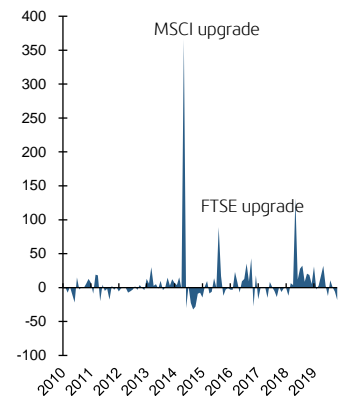
Vietnam stock market should have many positive changes

- Market liquidity should be improved considerably after the upgrade (as in Qatar – Figure 2). As a result, Vietnam will have better absorption rates for large investment capitals.
- The upgrade also helps to raise the consistency of regulations and standards between Vietnam stock market and international markets, thereby building up confidence for foreign investors to participate in trading more. In addition, the FTSE upgrade may also enhance regulatory agencies to keep promoting market reform and upgrading.

However, investors should focus more on external factors

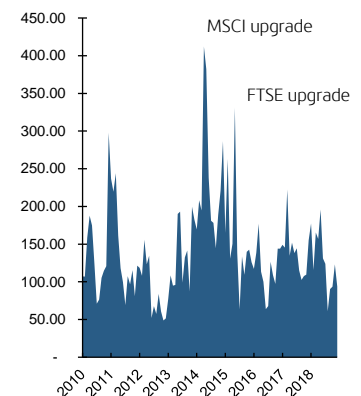
- The impact of these factor on emerging markets could be clearer compared to frontier markets.

Figure 1. Foreign capital inflows in Qatar stock market (USD mil.)



Source: Bloomberg, KB Securities Vietnam

Figure 2. Trading volume in Qatar stock market (Mil. Shares)



Source: Bloomberg, KB Securities Vietnam

Problems and solutions for Vietnam to be upgraded next year

Vietnam is currently in the Frontier market group, and was added to the FTSE Russell's Watchlist for future upwards to Secondary Emerging Market in September 2018.

The clearing & settlement mechanism remained as a barrier to Vietnam's current upgrade

We believe that Vietnam could solve the technical issues soon

However, after one year of review, Vietnam only met 7/9 criteria of FTSE (Appendix 2).

- The criterion of *Settlement - rare incidence of failed trades* was not evaluated. We believe that this is not a big issue, simply due to the low supply of information from the SSC.
- The criterion of *Clearing & Settlement T+2/T+3* slid from Pass to Restricted.

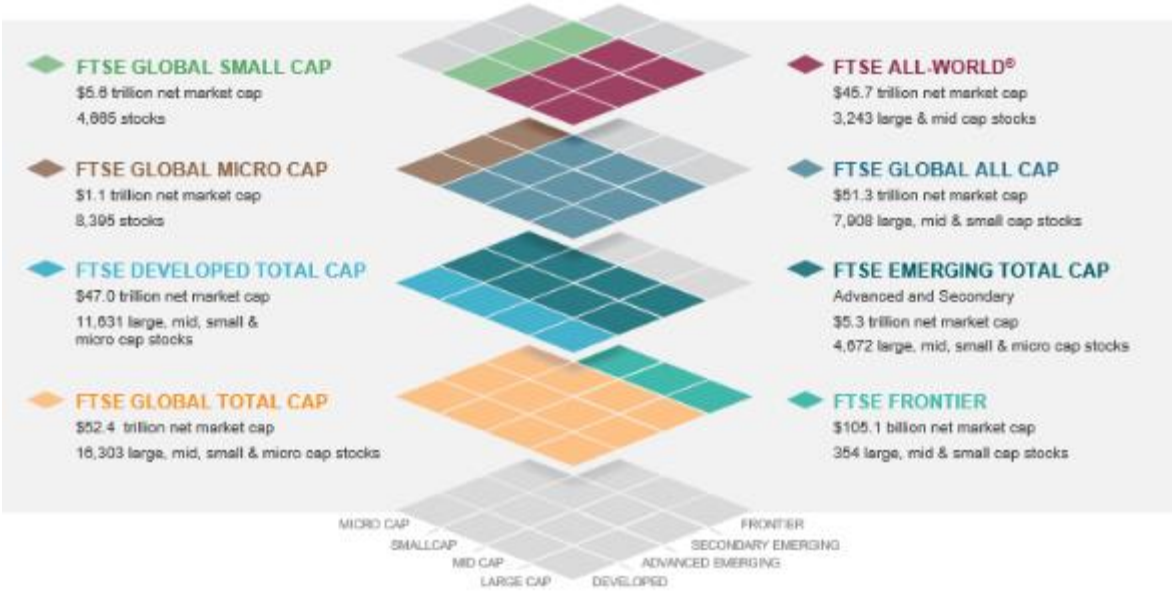
In general, Vietnam's payment activities are still based on the method of pre-funding. According to FTSE Russell, Vietnam needs to follow international practices in terms of Delivery vs Payment, by just checking the balance on the T+2 and then transferring the stocks and doing the payment, instead of checking the account and deducting money on the T+0 as at present.

The legal basis of Vietnam (according to Circular 203/2015/TT-BTC) has given a green light for institutional investors (with accounts at a depository bank). They only need a payment guarantee/confirmation from the bank to transact business immediately. However, in fact, the benefits from the banks are still limited, which undermined the implementation of the Circular.

We realize that some securities companies have actively provided guarantee/payment services with foreign organizations and initially recorded some promising achievements.

We think that one year will be enough for Vietnam to solve the prevailing payment issues with foreign institutional investors. However, for individual investors, we expect that if the guarantee issue cannot be solved, at least, the bank should only block money at the time of buying securities and then deduct money on T+2 later (when the securities return to the account). However, this may still be a risk that partially obstructs the review of FTSE.

Appendix 1. FTSE benchmark



Source: FTSE, KB Securities Vietnam

Appendix 2. Vietnam & FTSE criteria as at September 2019

CRITERIA	SEC EMG WATCH	Vietnam	FRONTIER WATCH
World Bank GNI Per Capita Rating, 2018		Lower Middle	
Credit Worthiness		Speculative	
Market and Regulatory Environment			
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	Pass	X
Fair and non-prejudicial treatment of minority shareholders		Restricted	
No or selective incidence of foreign ownership restrictions		Restricted	
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	Pass	X
Developed equity market		Restricted	
Developed foreign exchange market		Restricted	
No or simple registration process for foreign investors		Restricted	
Custody and Settlement			
Settlement – Rare incidence of failed trades	X	N/A	X
Custody–Sufficient competition to ensure high quality custodian services	X	Pass	
Clearing & Settlement – T+2 / T+ 3	X	T+2	X
Settlement – Free delivery available		Not Met	
Custody – Omnibus and segregated account facilities available to international investors		Restricted	
Dealing Landscape			
Brokerage – Sufficient competition to ensure high quality broker services	X	Pass	
Liquidity – Sufficient broad market liquidity to support sizeable global investment	X	Pass	
Transaction costs – implicit and explicit costs to be reasonable and competitive	X	Pass	
Stock Lending is permitted		Restricted	
Short sales permitted		Not Met	
Off-exchange transactions permitted		Not Met	
Efficient trading mechanism		Restricted	
Transparency – market depth information / visibility and timely trade reporting process	X	Pass	X
Derivatives			
Developed Derivatives Market		Restricted	

Source: FTSE, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Le Thanh Cong

conglt@kbsec.com.vn

Financials Analyst – Nguyen Thi Thu Huyen

huyenntt@kbsec.com.vn

Equity (Ho Chi Minh)

Head of Equity Research (Ho Chi Minh) – Harrison Kim

harrison.kim@kbf.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

dungdpp@kbsec.com.vn

Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh

danhnt@kbsec.com.vn

Oil & Gas & Chemicals Analyst – Nguyen Vinh

vinhn@kbsec.com.vn

Research Marketing

Korea Marketing Analyst – Seon Yeong Shin

shin.sy@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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