

## Investors uneasy in volatile Vietnam

[Print](#)

By Tim Johnston

Published: November 25 2008 22:30 | Last updated: November 25 2008 22:30

As a wary group of international investors gathered this month in a hotel in Vietnam to listen to a pitch from a local fund manager, the public address system played the theme tune from the film *Mission: Impossible*.

The organisers said the choice of music was not intentional, but it was appropriate nonetheless. "There are a lot of distressed sellers and not many buyers, it's not easy," says Hiroshi Funaki, head of research at LCF Rothschild in London.

Almost all emerging markets have suffered from the fallout, but Vietnam has been particularly hard-hit because the international crisis has coincided with the bursting of a domestic asset bubble.

The Ho Chi Minh City stock exchange, trading at about 1,000 last December, closed on Tuesday at 320.33.

Inflation, although starting to cool slightly, is still above 26 per cent and observers expect exports to the country's leading markets in the US and Europe to slow. Over the past few years, the country has established itself as a highly competitive low-cost producer.

Vietnam-based analysts even argue that the current turmoil could present opportunities – as hard-pressed consumers in the West move downmarket to save money, this is going to increase demand for the cheap garments, footwear and electronics that the country produces.

Agricultural exports – Vietnam is the world's second-largest rice exporter and a leading player in the coffee and seafood markets – will also provide some protection.

But the country's manufacturers are walking a fine line. They are overwhelmingly high-volume, low-margin producers and it will not take a big demand slowdown to push them into the red.

The country's advocates among fund managers argue Vietnam's headline economic figures give an unduly pessimistic picture.

They say the consumer price index is overweighted towards food items, meaning that recent spikes in commodity prices have had a disproportionate effect on headline inflation.

They add that weakness in the markets says more about previous overvaluation and external factors beyond Vietnam's control than any inherent weakness in the economy.

But that has done little to reassure the markets. Worries about the country's economic fundamentals have been amplified by the flight to safety – net sales by foreigners in the last two months alone are put at about \$370m, equivalent to more than 30 per cent of foreign investments not locked in closed-end funds.

Many investors who might have been expected to hold tight through the downward phase of the cycle have been selling to raise cash to cover their exposure elsewhere.

The nascent Vietnam fund industry has some protection: almost all the vehicles are closed-end, limiting their exposure to redemptions and there is little leverage to put them at the mercy of the credit markets.

But Sung Jun Ly, chairman of Golden Bridge, a Korean firm that raised \$60m for two Vietnamese funds that are invested mainly in listed companies, says capital controls, coupled with the fact that most foreign funds are closed-end, have provided “artificial” support for the Vietnamese market, in spite of its slump.

Korea has been one of the biggest investors in Vietnam, with Mr Sung estimating about \$2bn of Korean investments since the end of 2006 – more than a third of the foreign investment in the Vietnamese stock market.

“Most Korean funds, including ours, are closed-end, maturing in three years or more, so they simply cannot be redeemed,” he says. “It has also simply no longer become possible to withdraw dollars from Vietnam.”

There is no immediate danger of bankruptcy but that has not stopped share prices going into freefall.

Almost all the investment funds in Vietnam are trading at substantial discounts to their net asset value.

Kevin Snowball, chief executive of PXP Vietnam Asset Management, says such problems are transitory and probably inevitable given the relative immaturity of the country’s markets. “Vietnam is a long-term play. The market is down by 60 per cent, but that was always going to happen; it happens in every emerging market,” Mr Snowball adds.

He is so confident that the problems are only a blip in Vietnam’s inexorable rise to prosperity that PXP has just announced plans to launch an open-ended \$200m fund to invest in the Ho Chi Minh stock exchange.

Vietnam’s government is doing its best to cushion the country from the crisis. It has cut this year’s growth target to 6.5 per cent from 8.5 per cent last year – it has already started to reduce interest rates and it has widened the trading band for the dong, allowing it to move lower.

But Vietnam is a relative newcomer to the complexities of fiscal and monetary policy and government intervention, such as the liquidity squeeze it initiated this year to tackle inflation, can be effective but heavy-handed.

“It’s like a rugby player on a ski slope,” says an observer. “A bit untidy to watch but they get there in the end.”

Additional reporting by Raphael Minder

[Copyright](#) The Financial Times Limited 2008