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Asian Trader
Foreign Investment

Bargain Hunting in Vietnam

by Elliot Wilson

VIETNAM'S ECONOMY AND CAPITAL MARKETS HAVE BECOME A FALLING star. After nearly doubling in value in the year ended March 21, 2007, the Ho Chi Minh Stock Exchange—HOSE, for short—plummeted 68% in the following 15 months, wiping out all its previous gains. Daily trading on the HOSE is down to $5 million from $100 million a year ago.

More disturbing, Vietnam's economy grew by just 6.5% in the first half of 2008—nominally impressive, yet its slowest growth rate in seven years. The inflation rate was 26.8% year-over-year in June, the sharpest increase since 1992, driven by—what else?—rising food and oil prices. Perhaps most worrying, the country's balance of payments in the first five months ballooned to $14.4 billion, or $2 billion more than the figure for all of 2007, mirroring Malaysia and Thailand more than a decade ago, prior to the Asian financial crisis.

A further concern is corporate earnings, expected to slump this year after several years of strong growth. Thomas Lanyi, director of the $100 million Azalea Fund, run by Ho Chi Minh City-based Mekong Capital, reckons most Vietnamese companies will suffer "huge losses" this year.

Is there any good news out there? Well, yes. Falling stock prices will benefit those looking to buy now, then profit from the next market upswing. A year ago, listed Vietnamese companies were changing hands at a generous 35-40 times earnings. By the end of last month, they were trading at just five to 10 times.

Tables: Asian Markets, page M41
Emerging Markets, barrons.com

That has led some investors to start cherry-picking stocks. One investment banker highlights **Tan Tao Industrial Park** (ticker: ITA. Vietnam), the nation's largest owner-manager of industrial parks. "They are a direct beneficiary of foreign direct investment into the country," he says. Other investors point to **Vinamilk** (VNM. Vietnam); the country's largest dairy producer is preparing to list 5% of the company's equity in Singapore in the fourth quarter. Another favorite: the nation's third-largest listed company, **Pha Lai Thermal Power** (PPC.Vietnam), with its own power distribution network and captive coal mine.

A simpler way to invest in Vietnam is through the numerous funds springing up domestically and run by firms such as Mekong Capital, Dragon Capital and VinaCapital, all based in Ho Chi Minh City. Mekong Capital is launching its new MEF III fund late this year, expecting to attract up to $500 million from the U.S., Europe, Asia and, increasingly, the Persian Gulf. It's focusing on classic private-equity investments, notably growth capital and buyouts. With Vietnam's central bank turning off the liquidity taps in order to further dampen red-hot economic growth, investors would benefit from one of the few institutions capable of making major capital investments.

And amid all the gloom, foreigners are clearly still attracted to a fast-growing $70 billion economy blessed with a relatively large population (86 million), a low median age (27) and rock-bottom unit labor costs. Foreign direct

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investment hit $31.6 billion in the first half of 2008, against $20 billion for all of 2007, suggesting that the prospects for one of Asia's fast-rising economies have not yet crashed and burned. ■

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