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Vietnam Back to Winning Ways After January Hiccup: Taking Stock

By Moxy Ying and Nguyen Kieu Giang

(Bloomberg) -- Stocks in Vietnam are surging again, making the nation's key equity index this month's top performer among national benchmarks in Asia.

The VN Index is up more than 11% so far in February, rebounding from its losses last month, during which it sank 6.7% in a single session on Jan. 28 in its worst slump in two decades. The gauge outperformed the MSCI Asia Pacific Index by more than five percentage points last week, the most in five years.



The sharp rebound has seen Vietnam's benchmark easily wipe out all of January's losses, which came amid a fresh coronavirus outbreak and tightened movement curbs. The gauge had rallied in each of the previous five months. Among the drivers for February's comeback are the government's successful virus-control measures and prospects for earnings growth.

"Vietnam has managed previous waves (of the outbreak) very effectively and the situation seems under control," said Ruchir Desai, a fund manager at Asia Frontier Capital Ltd. in Hong Kong, adding that analysts' expectations of a strong recovery in earnings growth this year have also buoyed investor sentiment.

Desai said he expected the rally to continue because the macroeconomic drivers behind the country's growth -- an increase in exports, foreign direct investment and domestic consumption -- remain "in place."

January's dramatic market sell-off didn't put a brake on analysts upgrades. In fact, analysts have consistently increased their estimates for earnings gains in Vietnam since mid-2020, and their forecasts are 29% higher than

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they were -- outpacing increases for the benchmark MSCI Asia Pacific index, according to data compiled by Bloomberg.



Although the VN Index's price-to-earnings ratio of 14.7 times is a bit above its five-year average of 14.4 times, Vietnamese shares are becoming "increasingly cheaper" when compared with bonds, because the country is experiencing a rare bout of deflation, according to Jefferies Financial Group Inc.'s strategists including Sean Darby.

"The 'hiccup' in Vietnam's equity performance in early January has been almost forgotten," the Jefferies team wrote in a note on Monday. "We remain bullish."

India, China and Vietnam Top 2021 Growth Outlook for Asia: Chart

Vietnam is also benefiting as the continued U.S.-China trade war forces companies to diversify their supply chains out of its larger Asian neighbor. Vietnam's economy expanded by 2.9% in 2020 and its gross domestic product is expected to rise 7.6% this year, according to the median forecast of economists surveyed by Bloomberg.

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