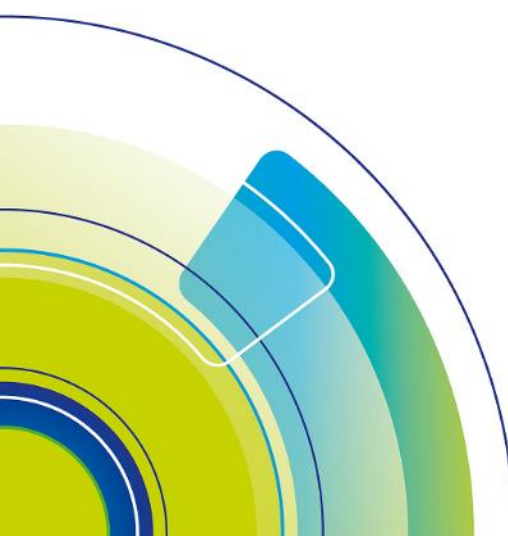


## Vietnam stock market upgrading prospect

September 26, 2024

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## A MAJOR LEAP TOWARD EMERGING MARKET STATUS

**The elimination of the 100% pre-funded trading requirement for foreign investors marks a pivotal step in Vietnam's journey to being upgraded to FTSE's Secondary Emerging Market status.** On September 18, 2024, the State Securities Commission of Vietnam issued Circular 68/2024/TT-BTC, effective November 2, 2024, laying the legal foundation for non-pre-funded trading for foreign institutional investors. Yet, we believe it remains premature to expect an upgrade in FTSE Russell's upcoming announcement on October 8, 2024. Securities firms will need time to build their processes and implement the new products before FTSE can survey market participants and assess whether to elevate Vietnam's stock market status. We anticipate that Vietnam could be added to FTSE's Secondary Emerging Market by the March 2025 review at the earliest.

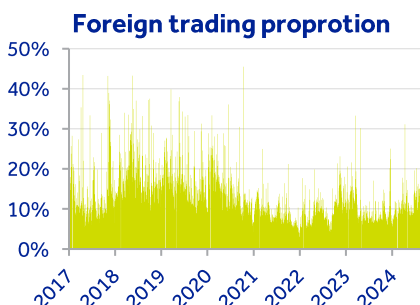
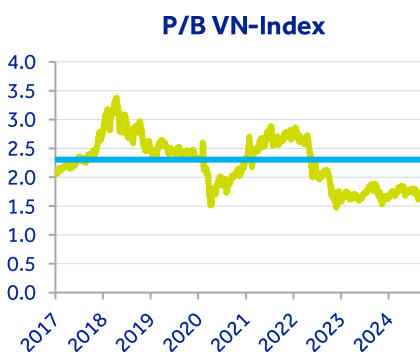
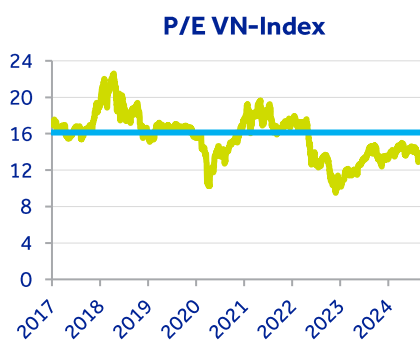
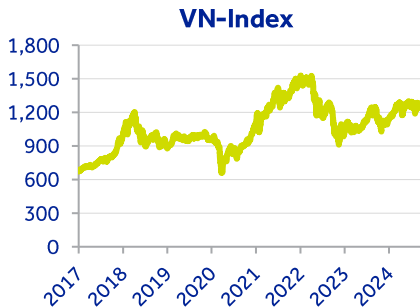
Achieving Emerging Market status would signify a monumental milestone for Vietnam's stock market to be recognized as accessible to global investors. Vietnamese stocks are projected to comprise approximately 0.7-0.9% of FTSE's Secondary Emerging Markets index, potentially attracting USD500-600 million inflow from ETFs tracking the index, not mention inflows from active funds.

**Eight Vietnamese stocks are virtually certain to be included in FTSE's Secondary Emerging Market index:** VCB, GAS, VHM, VIC, HPG, VNM, MSN, and SSI. Additionally, we see that many other promising stocks could join the list if they meet thresholds for investable market capitalization, remaining foreign ownership limits, and liquidity at the time of index review.

**Securities firms with a largest institutional trading market share are expected to benefit:** including SSI, HCM and VCI, from increased brokerage fees as foreign institutional capital flows into the Vietnamese market. However, we estimate that the fee income from these transactions will not have a significant impact on the current profit levels of these firms.

Regarding the criteria that Vietnam has yet to meet for an upgrade to MSCI's Emerging Market status or FTSE's Advanced Emerging Market, we believe that addressing these issues will require more time. These challenges include reducing foreign ownership restrictions, having a developed foreign exchange market, ensuring equal access to information, fair treatment of minority shareholders, and establishing a central counterparty clearing house. The implementation of English disclosures in a roadmap from 2025-2028 is a promising start, but significant hurdles remain regarding foreign ownership and foreign exchange regulations.

In the longer term, if Vietnam secures an upgrade to MSCI's Emerging Market and FTSE's Advanced Emerging Market status, it could unlock more inflows. The World Bank estimates that, if it ascends to EmergingMarket status, Vietnam's stock market could attract up to USD25 billion of new inflows in by 2030.



## An upgrade is essential for Vietnam

Presently, Vietnam is classified as a Frontier Market by both FTSE Russell and MSCI, the world's two largest index providers. Since September 2018, Vietnam has been on FTSE's watchlist for Secondary Emerging Market status, although it has yet to appear on MSCI's Emerging Market watchlist. FTSE distinguishes between two tiers of emerging markets – Secondary and Advanced – whereas MSCI operates a single Emerging Market category, which adheres to the stringent criteria of FTSE's Advanced Emerging Market classification.

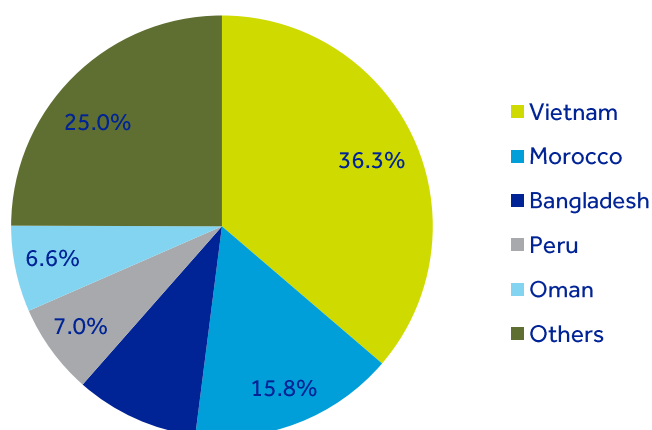
FTSE Russell	MSCI
Frontier Market	Frontier Market
Secondary Emerging Market	Emerging Market
Advanced Emerging Market	
Developed Market	Developed Market

Source: FTSE Russell, MSCI

The market classifications by FTSE and MSCI serve as key benchmarks for assessing a country's economic standing and stock market in the eyes of international investors, profoundly influencing global reference indices.

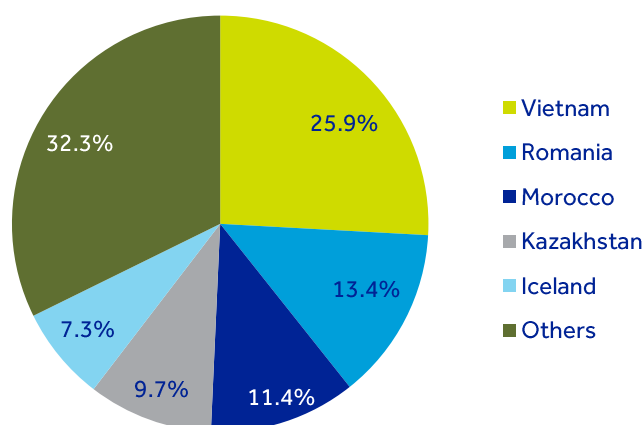
In terms of weight, Vietnam's stock market has notably outgrown the Frontier Market category, with a disproportionately large share compared to other nations in this group. As of August 30, 2024, Vietnamese stocks accounted for 36.3% of FTSE's Frontier Market index and 25.9% of MSCI's equivalent index.

Country weights in FTSE Frontier



Source: FTSE Russell

Country weights in MSCI Frontier



Source: MSCI

In June 2024, BlackRock, one of the largest investment management firms in the world, announced it would close its iShares MSCI Frontier and Select EM ETF by March 31, 2025. This ETF specializes in investments across frontier and emerging markets, with a total net asset value (NAV) exceeding USD400 million, including around USD120 million in Vietnamese stocks. While the withdrawal of investment is not substantially large, it signals that frontier markets are losing favor among international investors.

Vietnam's stock market must swiftly transition from frontier to larger, more prominent markets – a goal that regulators are actively pursuing.

## Vietnam's stock market has already met the required conditions for market size and liquidity

Though each institution applies its own assessment criteria, they generally focus on the following factors:

- (1) Economic Development;
- (2) Size and Liquidity;
- (3) Market Accessibility (for foreign investors), including:
  - Openness to foreign ownership;
  - Ease of capital inflows / outflows;
  - Efficiency of the operational framework;
  - Stability of the institutional framework.

For the **(1) Economic Development** criteria, Vietnam currently falls into the “Lower Middle Income” category based on per capita GNI, with a “Speculative” credit rating. However, for the Emerging Market classification of both FTSE and MSCI, there is no requirement above this level and Vietnam only need to improve these ratings for the Developed Market status in the distant future.

For the **(2) Size and Liquidity** criteria, we find that the size of Vietnam's stock market is qualified to be included in the Emerging Market. Specifically, the conditions to be included in the Secondary Emerging Market list include:

- A minimum of 05 stocks must pass the FTSE Emerging All Cap Index (Large, Medium, and Small Caps) screen, with at least 03 stocks meeting the FTSE Emerging (Large and Medium Caps) screen.
- The total investable market capitalization of eligible stocks should exceed 0.1% of the FTSE Emerging All Cap Index, equating to at least \$8 billion.

Currently, we see that Vietnam almost certainly has at least 08 stocks (VCB, GAS, VHM, VIC, HPG, VNM, MSN, SSI) that meet the conditions (free-float ratio of over 5%, remaining foreign room over 20% of total foreign room, daily liquidity over 0.05% of the number of outstanding free-float shares) with a total investable capitalization of over USD16 billion. In addition, we also see that there are many other potential stocks that can be added to the index with an additional total investable capitalization of USD20 billion. Thus, if upgraded, we estimate that Vietnam's weight in the Secondary Emerging Markets basket will be around 0.7-0.9% with a total investable capitalization of USD35-40 billion.

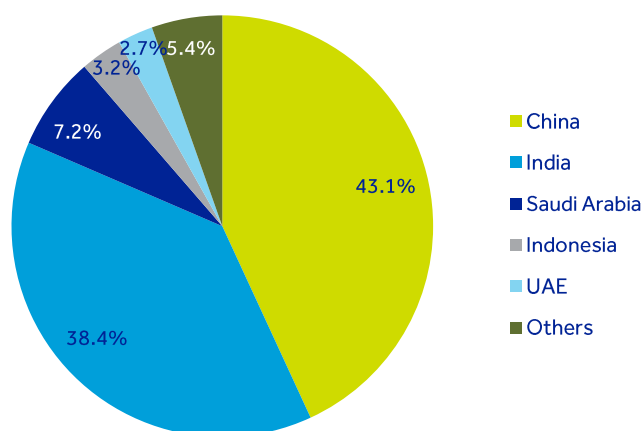
Though Vietnam's weighting might seem modest (compared to market giants like China and India of 43.1% and 38.4%, respectively), being classified as an emerging market would significantly elevate Vietnam's status and appeal to international investors. This could potentially attract substantial inflows from actively managed foreign funds.

However, for the criteria group **(3) Market Accessibility** (for foreign investors), Vietnam has not yet satisfied all the criteria to be upgraded to Secondary Emerging Market.

	FTSE Emerging			FTSE Advanced Emerging			FTSE Secondary Emerging		
Country/Market	No. of Cons	Net MCap (USDm)	Wgt %	No. of Cons	Net MCap (USDm)	Wgt %	No. of Cons	Net MCap (USDm)	Wgt %
Brazil	81	385,790	5.18	81	385,790	14.00	-	-	-
Chile	21	41,684	0.56	-	-	-	21	41,684	0.89
China	1,234	2,022,054	27.16	-	-	-	1,234	2,022,054	43.12
Colombia	3	8,003	0.11	-	-	-	3	8,003	0.17
Czech Rep.	4	10,446	0.14	4	10,446	0.38	-	-	-
Egypt	3	4,443	0.06	-	-	-	3	4,443	0.09
Greece	28	46,364	0.62	28	46,364	1.68	-	-	-
Hungary	4	20,764	0.28	4	20,764	0.75	-	-	-
Iceland	11	8,053	0.11	-	-	-	11	8,053	0.17
India	230	1,799,049	24.16	-	-	-	230	1,799,049	38.36
Indonesia	42	150,479	2.02	-	-	-	42	150,479	3.21
Kuwait	8	59,633	0.80	-	-	-	8	59,633	1.27
Malaysia	39	153,823	2.07	39	153,823	5.58	-	-	-
Mexico	38	174,705	2.35	38	174,705	6.34	-	-	-
Pakistan	1	307	0.00	-	-	-	1	307	0.01
Philippines	24	53,776	0.72	-	-	-	24	53,776	1.15
Qatar	17	66,732	0.90	-	-	-	17	66,732	1.42
Romania	7	12,045	0.16	-	-	-	7	12,045	0.26
Saudi Arabia	62	336,107	4.51	-	-	-	62	336,107	7.17
South Africa	40	256,582	3.45	40	256,582	9.31	-	-	-
Taiwan	122	1,472,732	19.78	122	1,472,732	53.44	-	-	-
Thailand	50	146,902	1.97	50	146,902	5.33	-	-	-
Turkiye	111	87,805	1.18	111	87,805	3.19	-	-	-
UAE	32	127,376	1.71	-	-	-	32	127,376	2.72
<b>Totals</b>	<b>2,212</b>	<b>7,445,654</b>	<b>100</b>	<b>517</b>	<b>2,755,913</b>	<b>100</b>	<b>1,695</b>	<b>4,689,741</b>	<b>100</b>

Source: FTSE, as of 30-Aug-2024

Country weights in FTSE Secondary Emerging



Source: FTSE, as of 30-Aug-2024

## Eliminating the 100% pre-funding requirement for foreign transactions is critical for FTSE to upgrade Vietnam's classification

Table of market ranking criteria of stock markets of some countries as announced by FTSE.

CRITERIA	DEV	ADV EM	SEC EM	FRONTIER	Vietnam (Frontier)	China (Sec EM)	India (Sec EM)	Indonesia (Sec EM)	Philippines (Sec EM)
<b>GNI per capita</b>	High	Lower Middle	<b>Lower Middle</b>	Not require	Lower Middle	Upper Middle	Lower Middle	Lower Middle	Lower Middle
<b>Credit Worthiness</b>	Investment	Speculative	<b>Speculative</b>	Speculative	Speculative	Investment	Investment	Investment	Investment
<b>Market and Regulatory Environment</b>									
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	X	<b>X</b>	X	Pass	Pass	Pass	Pass	Pass
Fair and non-prejudicial treatment of minority shareholders	X	X			Restricted	Not Met	Restricted	Restricted	Restricted
No or selective incidence of foreign ownership restrictions	X	X			Restricted	Not Met	Restricted	Pass	Restricted
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	X	<b>X</b>	X	Pass	Pass	Pass	Pass	Pass
No or simple registration process for foreign investors	X	X			Restricted	Pass	Not Met	Pass	Pass
<b>Foreign Exchange Market</b>									
Developed foreign exchange market	X	X			Restricted	Not Met	Not Met	Restricted	Restricted
<b>Equity Market</b>									
Brokerage - Sufficient competition to ensure high quality broker services	X	X	<b>X</b>		Pass	Pass	Pass	Pass	Pass
Transaction costs - implicit and explicit costs to be reasonable and competitive	X	X	<b>X</b>		Pass	Pass	Pass	Pass	Not Met
Tax - imposition of taxes to be reasonable and comparable between domestic and non-domestic investors	X	X			Pass	Pass	Not Met	Pass	Pass
Stock Lending is permitted	X				Restricted	Not Met	Restricted	Restricted	Restricted
Short sales permitted	X				Not Met	Not Met	Restricted	Restricted	Restricted
Developed Derivatives Market	X				Restricted	Not Met	Restricted	Not Met	Not Met
Off-exchange transactions permitted	X				Not Met	Not Met	Not Met	Pass	Pass



Efficient trading mechanism	X	X			Restricted	Restricted	Restricted	Pass	Pass
Transparency - market depth information / visibility and timely trade reporting process	X	X	X	X	Pass	Pass	Pass	Pass	Pass
<b>Clearing, Settlement and Custody</b>									
Settlement - costs associated with failed trades	X	X	X	X	Restricted	Restricted	Restricted	Not Met	Pass
Settlement Cycle (DvP)	X	X	X	X	T+2	T+0/T+1	T+1	T+2	T+2
Central Securities Depository	X	X	X		Pass	Pass	Pass	Pass	Pass
Central Counterparty Clearing House (Equities)	X	X			Not Met	Pass	Pass	Pass	Pass
Settlement - Free delivery available	X				Not Met	Not Met	Not Met	Restricted	Restricted
Custody - Sufficient competition to ensure high quality custodian services	X	X	X		Pass	Pass	Pass	Pass	Pass
Account structure operating at the Custodian level (securities and cash)	X				Not Met	Restricted	Not Met	Restricted	Restricted

Source: FTSE, Mar 2024

In FTSE's September 2023 report, Vietnam was noted to have not met the "DvP" (Delivery versus Payment) criterion, as local brokers still conduct a pre-trading check to ensure the sufficient funds prior to trade execution, leading to an absence of failed transactions by default and an unrated "Costs associated with failed trade" criterion.

Other areas for improvement mentioned by FTSE include:

- Simplifying registration process for foreign investors and
- Facilitating trading between non-domestic investors in stocks that have reached their foreign ownership limits.

However, we observe that these criteria are not part of the requirements for Secondary Emerging Market status. We understand that improving these criteria may be aimed at upgrading to Advanced Emerging Market in the future. The removal of the 100% pre-funding requirement before trading is the key condition for FTSE to consider upgrading Vietnam's stock market to Secondary Emerging Market status. Compared to other countries, it is evident that market classification criteria are somewhat relative, and it is not necessary to meet all criteria to be classified into a corresponding market. The specific issues that need to be addressed will depend on FTSE's assessment, based on feedback from market participants.

On September 18, 2024, the State Securities Commission issued Circular 68/2024/TT-BTC, amending Circular 120/2020/TT-BTC about securities trading regulations. Specifically, securities investors are only allowed to place orders to buy securities when they have enough money in their securities trading account, except for the following transactions:

- Margin transactions, and
- **Transactions without requirement of 100% deposit applied for foreign institutional investors.**

Foreign institutional investors must have adequate funds by the time depository members confirm the transaction with the Vietnam Securities Depository (VSD). In the event of insufficient funds, the securities company (which offers non-prefunded services) must cover the shortfall. In case of insolvency, the securities company will be subject to penalties. Therefore, in terms of risk management to meet the needs of customers for short-term transactions, securities companies need to ensure sufficient capital to correct transaction errors in proprietary accounts in case foreign institutional investors are short of money on the payment date.

Specifically, Circular 68/2024/TT-BTC stipulates the limit for receiving orders to buy stocks with insufficient funds equal to:

- Total cash balance and the cash equivalent, including cash, bank deposits, government bonds, deposit certificates, available overdraft limit, bank-issued payment guarantee limit, pending self-trading proceeds, receivables from pre-sales proceeds and cash balance from foreign institutional investor's account; at the same time
- Not exceeding the difference between 2 times the shareholder's equity and outstanding margin loans.

Compared to the average purchase value of foreign investors of total market at about VND1,600 billion/session in since 2021, this is a relatively small figure compared to the scale and room for providing insufficient fund transaction limits of securities companies. Moreover, in reality, we see that the need for insufficient fund transactions does not occur frequently. Therefore, we assess that, in terms of capital, securities companies are now ready to meet the non-pre-funding transaction needs of foreign institutional investors.

FTSE is expected to release its market classification results on October 8, 2024. However, it may be premature to anticipate an upgrade for Vietnam in this review, given that Circular 68 takes effect on November 2, 2024, and securities companies will need time to establish and implement non-prefunded trading services, before FTSE surveyed market participants to decide whether to upgrade Vietnam's stock market or not.

We expect Vietnam to be placed on Secondary Emerging Market list by FTSE as early as March 2025. One year later, the upgrade could take effect, leading ETFs to start purchasing Vietnamese stocks.

## Beneficiary Stocks and Sectors

*First and most directly*, securities companies stand to benefit from increased trading fees as ETFs and actively managed funds pour capital into Vietnam following the FTSE upgrade. Specifically, we assess that the three securities companies with the largest institutional trading market share –SSI, HCM and VCI – stand to gain from these additional fees. We estimate that new inflow from ETFs when Vietnam is upgraded will generate a total of VND27 billion in brokerage fees annually, representing an increase of 0.2%, 0.8%, and 1.2% of 2023's pre-tax profits of SSI, HCM, and VCI, respectively. Overall, the transaction fees from ETFs are not significant compared to the current profitability of these companies. We expect more



from active funds, with larger NAVs and more frequent trading, will contribute larger to the profits of securities companies.

Though Vietnamese securities companies are financially equipped to offer non-prefunded trading services, doing so will necessitate more sophisticated risk management systems and increased capital to meet future foreign investor demand.

*Secondly*, the stocks are likely to be added to the portfolios of ETFs and actively managed funds that invested in emerging markets. We estimate that after about 01 year from the time Vietnam is included in the FTSE upgrade list, the upgrade will officially take effect and ETF index funds will start buying Vietnamese stocks. We estimate that Vietnam's weight in ETFs tracking the Secondary Emerging Market Index will be 0.7–0.9%, attracting around USD500–600 million in inflows from these funds.

There are 08 Vietnamese stocks that will almost certainly be added to the FTSE Secondary Emerging Markets index, including: **VCB, GAS, VHM, VIC, HPG, VNM, MSN, SSI** with the largest expected weighting. In addition, we see many other potential stocks that are also likely to be included in the index if they satisfy the conditions of investable market capitalization, remaining foreign ownership ratio and trading liquidity at the time of review.

In the longer term, if Vietnam is upgraded to Advanced Emerging Market by FTSE and Emerging Market by MSCI, it could attract even larger capital inflows. According to World Bank estimates, if upgraded, Vietnam's stock market could attract about USD25 billion in indirect investment by 2030.

*Lastly*, the influx of foreign capital would bolster Vietnam's macroeconomic conditions, reduce pressure on exchange rates, and provide greater flexibility for the State Bank of Vietnam in managing monetary policy.

## Looking Further?

We believe that Vietnam's goal will not only stop at entering the FTSE Secondary Emerging Market classification, but also aim for further goals such as FTSE Advanced Emerging Market and MSCI Emerging Market, and finally Developed Market.

Aside from enabling non-prefunded trades for foreign institutional investors, Circular 68/2024/TT-BTC also mandates English-language disclosures on a phased schedule from 2025 to 2028. Of which:

- Large-scale public companies (Equity over VND120 billion) disclose periodic information in English from the beginning of 2025 and extraordinary information from the beginning of 2026;
- Other public companies disclose periodic information in English from the beginning of 2027 and extraordinary information from the beginning of 2028.

This will help remove one of the barriers for foreign investors when evaluating and participating in investing in the Vietnamese stock market, which is the ability to access information and improve the "Fair and non-prejudicial treatment of minority shareholders" criteria. However, the regulation on publishing Financial Statements according to IFRS standards still does not have a clear roadmap and in fact, implementing Financial Statements

according to IFRS standards will cause many small-scale listed companies to face many difficulties in terms of implementing resources as well as motivation to exercise.

Other key areas for improvement to achieve FTSE Advanced Emerging Market or MSCI Emerging Market status include:

- Developed foreign exchange market
- Stock lending is permitted
- Short-sales permitted
- Developed derivatives market
- Off-exchange transactions permitted
- Efficient trading mechanisms (between foreign investor in stocks that have reached foreign ownership limits)
- Central Counterparty Clearing House

Addressing these challenges will likely take more time, as they involve broader financial and national security issues. In addition to the State Securities Commission and the Ministry of Finance, support from other agencies such as the State Bank of Vietnam will be crucial, as well as guidance from the Government. We anticipate the earliest time for Vietnam to meet the criteria for upgrading to Advanced Emerging Market of FTSE as well as Emerging Market of MSCI will be the next 2-3 years.

CRITERIA THAT VIETNAM NEEDS TO IMPROVE	SECONDARY EMERGING MARKET	ADVANCED EMERGING MARKET	DEVELOPED MARKET
GNI per capita	Have met “Lower Middle” income		Need to improve to High income threshold (over USD14,000) from 4,180USD in 2023
Credit rating	Have met “Speculative” rating		Need to improve 1-2 levels to reach “Investment” rating
Fair and non-prejudicial treatment of minority shareholders	Not require	Circular 68/2024/TT-BTC roadmap for information disclosure in English from 2025-2028	
No or simple registration process for foreign investors	Not require	The State Bank of Vietnam is studying to supplement Circular No. 05/2014/TT-NHNN on guidance on opening and using indirect investment capital accounts	
No or selective incidence of foreign ownership restrictions	Not require	Regarding monetary security and need to amend the law	
Developed foreign exchange market	Not require		
Stock Lending is permitted	Not require		
Short sales permitted	Not require	Need to amend laws and upgrade trading systems	
Developed Derivatives Market	Not require		
Off-exchange transactions permitted	Not require		
Efficient trading mechanism	Not require		
Chi phí liên quan đến giao dịch thất bại	Circular 68/2024/TT-BTC allows non pre-funded transactions of foreign institutional investors		
Settlement Cycle (DvP)			
Central Counterparty Clearing House (Equities)	Not require	Need to build a Central Counterparty Clearing House	
Settlement - Free delivery available	Not require		Need to amend laws and upgrade trading systems
Account structure operating at the Custodian level (securities and cash)	Not require		Need to amend laws and upgrade trading systems

Source: ACBS

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<b>BUY</b>	: total stock returns (including dividend yield) over the next 12 months are forecast to be 20% or higher.
<b>OUTPERFORM</b>	: total stock returns (including dividend yield) over the next 12 months are forecast to be from 10 to 20%.
<b>NEUTRAL</b>	: total stock returns (including dividend yield) over the next 12 months are forecast to be between -10 and 10%.
<b>UNDERPERFORM</b>	: total stock returns (including dividend yield) over the next 12 months are forecast to be from -10 to -20%.
<b>SELL</b>	: total stock returns (including dividend yield) over the next 12 months are forecast to be -20% or lower.

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