

BSC RESEARCH

Head of research

Tran Thang Long
longtt@bsc.com.vn

Contributor

Bui Nguyen Khoa
khoabn@bsc.com.vn
Tel: +84 4 3935 2722, ext 108

New capital flows, P-Notes?

Excluding the value of put-through trading from VIC, foreign investors bought more than 1,200 billion in the first three weeks in 04 / 2016. In the context that the capital flow of foreign funds and ETF funds fairly remained calm after the Fed raised interest rates, recent capital inflows are said to be P-Notes, which are managed by foreign investment banks operating in Vietnam. Active buying of foreign investors focusing on larger BCs are putting positive impact on the Indices' movement. VN-Index was up strongly, continuously reaching new highs and approaching the psychological mark of 600 points.

P-Notes (Participatory Notes) is a type of derivative financial instruments, which are issued for foreign investors by the investment organizations operating in emerging stock markets. Based on a portfolio of stocks (usually blue chips, good liquidity, market representative) holding, financial institutions operating in that market will issue P-Notes to foreigners who do not want to engage or do not have direct access to investments in that market.

P-Notes in Vietnam in 2009 & 2010

P-Notes has appeared in Vietnam for a long time, however, it only gained the attention of the market since the second half of 2009 and 2010. After the strongly unstable long-short activities, bought 1,796 billion in 7/2009 and sold 2.081 billion in 9/2010, the net purchase of foreign cash flow was pretty stable and kept unchanged in 2010. This cash flow has contributed to record levels of net buying by foreign investors at more than 15,250 billion in 2010.

Preliminary comments on P-Notes inflows

Although there are still many uncertainties about P-Notes inflows, the return of it into Vietnam stock market in the context that capital inflows from existing foreign investment channels (open funds, closed-end funds and ETF) is considered a good signal to money flow.

However, market forecasting activity in the short term is difficult due to the fact that unlike index fund, it is difficult to determine the scale and time of the transaction of P-Notes. Moreover, investors should be aware that this kind of inflows may be poured in the market as well as withdrawn aggressively.

Participatory Notes (P-Notes)

(Participatory Notes) is a type of derivative financial instruments issued only for foreign investors by the investment organization in emerging stock markets.

Method of implementation: Based on a holding portfolio (usually the large-caps, high liquidity), financial institutions operating in that market will be released P -Notes for foreign investors who do not want to work or do not have direct investing assessment into that market. P-Notes' management fee is usually less than 1%. Depending on the risk level, the market will have different fees. Foreign funds in Vietnam are usually charged from 1.5-2.5%. Capital flows from P-Notes are usually short-term, and there are advantages and disadvantages:

- **Advantages:** P-Notes is a type of derivative instruments but almost no characteristics of other ones such as swap, options and futures, so risk from unfavorable changes is not very big. On the other hand, the promotion of P-Notes of issuers will indirectly promote the stock market securities to the world. In addition, because the P-Notes is easy to sell, raising funds through P-Notes become easier, meaning that the capital increase for the stock market. Capital flows from P-Notes is elusive and short-term, but it can impact positively on market liquidity, by P-Notes often "packaged" the blue-chips.
- **Disadvantages:** Large trading activities of foreigners through P-Notes is the potential risk to the market. Management activities require caution and flexible to avoid major shock to the market (Investing activity in P-Notes in India has occurred since 1992 and not to be governed for more than a decade. By 2006, the proportion of capital raised from the issuance of P-Notes on the total disbursed investment capital on the stock market rose from 40% to 52%, which indicates over USD 22 billion in Indian stock market had no owners. Concerned about this information, the Indian Stock Exchange Commission announced several measures to restrict P-Notes, which created strong shock and SENSEX index declined by 9%). There are also concerns about that the non-transparency of information will encourage money laundering.

Investment activities of P – Notes in Vietnam

P - Notes has appeared in Vietnam for a long time , however, these activities attracted the attention of the market in the second half of 2009 and 2010. In Vietnam, the present, there are many large banks participated to issue P - Notes as Citigroup , Deutsche Bank , HSBC , Merrill Lynch , Standard Chartered ...

As far as we understand the operation of the P- Notes through the first foreign banks operating in Vietnam following characteristics:

- The Bank will give the money to build the portfolio , the shares were bought in the majority of VN30 (high liquidity , good operating company , representative for the market) and then these investments converted into the investment certificates P - Notes. Each unit P - Notes are represented for 1 unit of net assets (NAV) of the basis portfolio.
- Foreign investors who bought P - Notes can receive dividends and price differences like a conventional fund certificates , otherwise, they can be purchased at any time as negotiable . Hold

P- Notes, investors participate indirectly in the Vietnam stock market without incurring any obligation in terms of administrative procedures , nor to publicize information about themselves (the managing agency only through active monitoring of investment portfolio base released by the Bank implemented P- Notes). International investors can switch portfolio from Vietnam stock market to other markets quickly through freely traded .

- The Investment Bank (Units issued P- Notes) just made up and down the scale of the basic portfolio increase or decrease the P - Notes in circulation , these banks also has done as intermediaries to perform transactions P - Notes. Investment banks also pledged to repay the investment based on the current trading price of P - Notes when investors withdraw capital .
- The size of the investment and issue P- Notes are dependent on investment banking strategy , market growth potential , and the demand for investors to buy P -notes . The scale of investment will therefore increase or decrease based on the above factors .

P-Notes which are not new phenomena that these activities have participated in the Vietnam market for a long time. The market capital flows prompted much about this at the time of second half of 2009. At this point, the strong investment flows after the crisis created panic psychological concerns about the instability of the money, that will create will create negative fluctuations to the market. However, the fact prove that after the turbulence rhythm of trading, buy 1,796 billion in 7/2009 and sold 2.081 billion in 9/2010, This net purchase of foreign cash flow is stable and lasting for 2010. This cash flow has contributed to record levels of net buying by foreign investors than 15,250 billion in 2010. The trading value of foreign investors / market value from 19.3 % to rise from 21.9 %, while net buying value / market value increased from 0.8 % to 4 %.In the context of strong domestic cash flow withdrawn from the market post- stimulus period of interest rate support of \$ 1 billion, the capital flows play a very important role to help stabilize the market during 2010.

According to market information are untested suppose that activities of foreign investors buying now come mainly from P –notes, the activities are managed by investment banks such as Morgan, Citibank , Standard Chartered and Norges Bank , and cash flows are from Hong Kong and China .

Preliminary comments on inflows of P - Notes

Buying activity in the form of P - Notes is more than 1,200 billion, foreigners were net buyers in this 3 weeks and this can not accurate statistical and verification. Still active net buyers of foreign investors in this time has contributed significantly to the recovery of the market . A few comments on the current cash flow :

- Activity of foreign investors buying focusing on BCs group is strongly increasing effect on the index . VN - Index was up strongly ,new highs and approaching the psychological mark of 600 points .
- The risk of strong decrease is not being significantly when the activity of net buy of foreign is only about 3 % - 5 % of the market , and the accumulate state of net buyers is not large to create market volatility when the market occurs active withdrawal.
- The market forecast activity in the short term is difficult due to inflows P- Notes is not publicly available and very difficult to determine the scale and time of the transaction . On the other hand, the present, foreign investors can use many different tools to reach Vietnam stock market as



quickly as investments in open-end funds , closed-end funds and ETFs to be listed overseas . The foreigners were promoted through P - Notes channel at present that is still questions without the appropriately answers

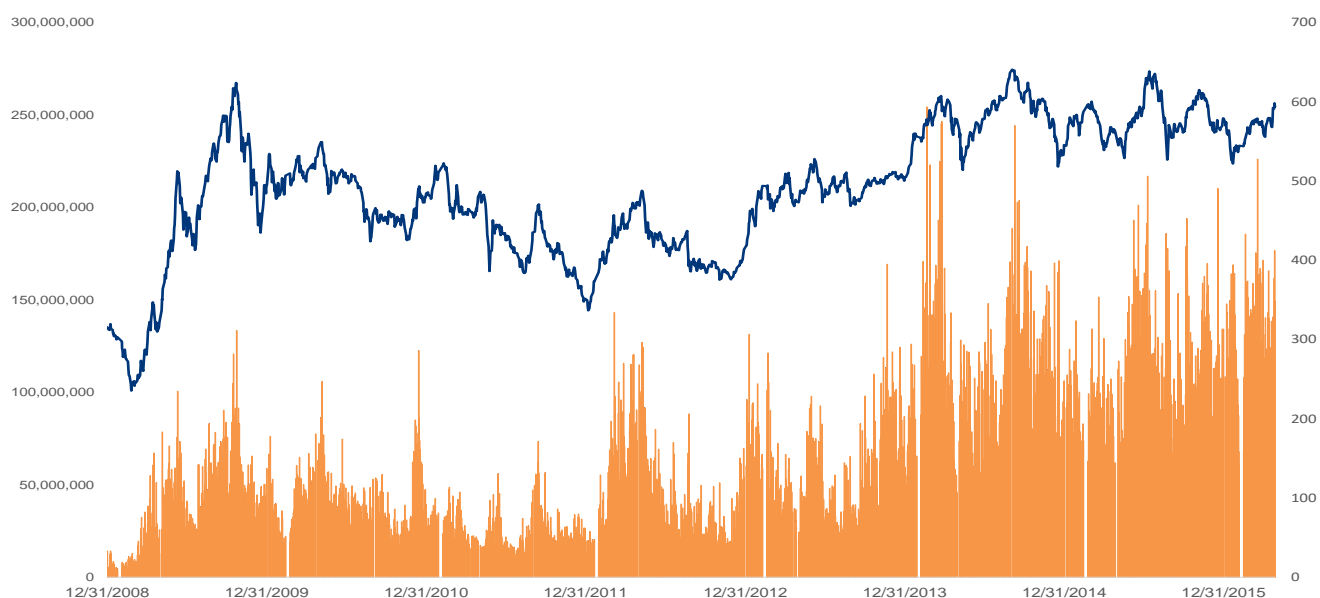
Although there are still many uncertainties about capital flows P- Notes, the return of this capital inflow in Vietnam's stock market in the context of capital inflows from foreign investment channels (open-end funds, closed-end funds and ETF) signs of saturation that is still seen as a very positive signal to the cash flows and market liquidity.

Table 01: Net trading value of foreigners in 2009 & 2010 in Vietnam

Month	2009			2010		
	Net buying value	% foreign trading value/total trading value	% foreign net value/total trading value	Net buying value	% foreign trading value/total trading value	% foreign net value/total trading value
1	81.4	35.4%	2.5%	567.2	13.0%	1.4%
2	-132.9	32.9%	-3.8%	836.4	29.6%	4.7%
3	153.8	23.5%	1.8%	635.4	11.7%	1.3%
4	-104.8	18.3%	-0.6%	2312.7	16.5%	5.1%
5	667.9	16.4%	2.2%	1130.2	12.4%	2.7%
6	-103.7	15.1%	-0.2%	1401.3	21.7%	4.1%
7	1796.9	21.8%	6.2%	554.9	15.9%	2.3%
8	620.7	13.8%	1.3%	850.6	19.1%	3.4%
9	-2081.9	14.6%	-3.0%	1160.7	20.0%	4.8%
10	371.5	10.1%	0.4%	1527.6	31.3%	9.0%
11	943.4	12.3%	1.8%	1357.4	43.7%	8.0%
12	1112.3	18.0%	2.7%	2918.3	27.8%	7.1%
Total	3,324.6	19.3%	0.8%	15252.7	21.9%	4.0%

Source: BCS Research

Chart 1: VN-Index performance since 2009



Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84 4 3935 2722
Fax: +84 4 2220 0669

BSC Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, HCMC
Tel: +84 8 3821 8885
Fax: +84 8 3821 8510

Website: <http://www.bsc.com.vn>
Facebook: www.facebook.com/BIDVSecurities
Bloomberg: BSCV <GO>

