

Market Insights

P-Notes capital flow - Lesson from history

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Net Buy of Foreign Investors during the period 2009-2010

As reported in [the last Market Insight](#), we have mentioned the fact that P-Notes and ETF funds have operated in Vietnam for a long time, however, they only caught attention from the market recently. From late 2009 to 2010, Foreign Investors held net buy position for 15 months in row with trading value amounting to VND 18 000 billion in total. In order to assess the activities of P-notes and ETF, we have summarize the net purchase of foreign investors in 2010, which was the first time that the term P-notes and ETF spreaded in Vietnam market.

Assessment on foreign capital inflows

Compared with the report we published 10 days ago, foreign capital has lifted VN-Index over 600 pts, close to the strong resistant area 615-620.

Tracking buying-in activities of foreign investors, we continue to maintain a positive view on P-notes capital flows, however, its effect on the market rally is diminishing due to domestic investors' cautious view and short-term pressure from taking profit. Some assessments on foreign capital inflows into the market:

- During 2 periods that P-notes engaged strongly, Foreign Investors held a significant long position on large-cap stocks, especially on banking and oil and gas stocks.
- Foreign net buy amounted to only about 3% - 5% of the whole market, and the net accumulated net buying trading was not large enough to cause strong market volatility occurs when capital was withdrawn. Moreover, withdrawal mechanism of P-Notes also didn't happen as fast as the ETFs, which can impose negative effects on the market.
- Foreign investors tend to withdraw capital from regional countries after 2 months of net buying (March and April). Will this inflow end soon, following the common trend in region? It is difficult to answer this question because there are no effective tools to forecast the buying-in activity of P-Notes.

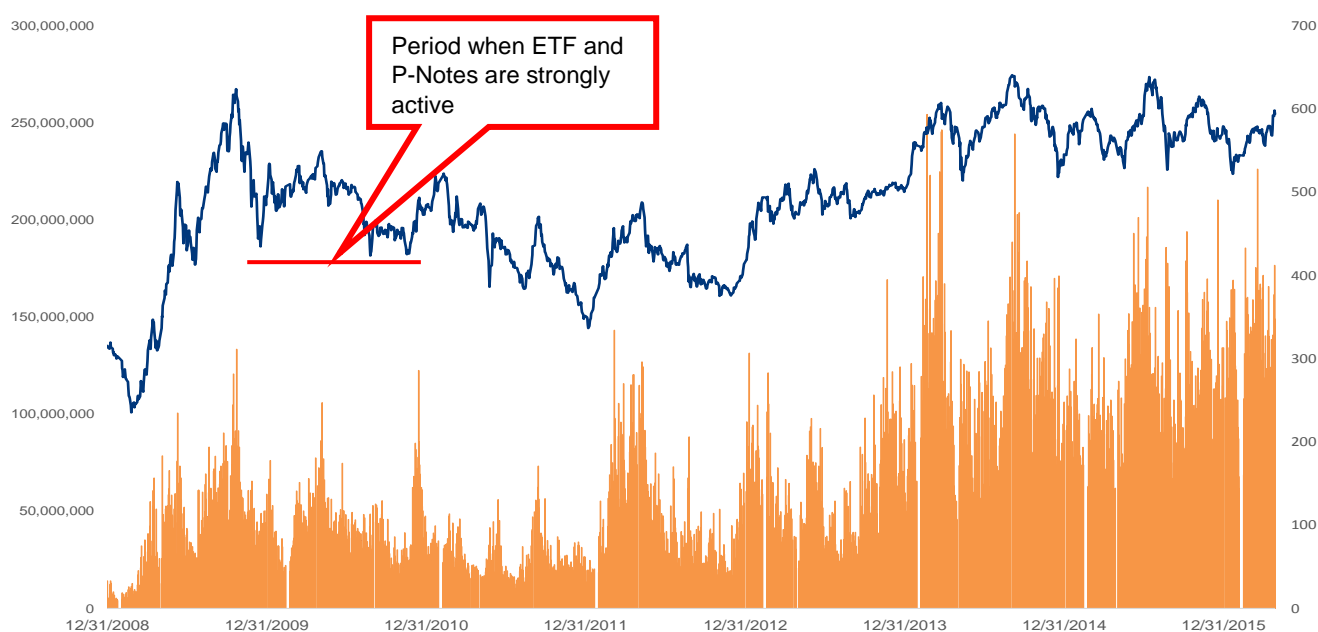
Foreigners are holding net buy position on shares of BCs that support VN-Index to create a new peak for the year, and to test the historical peaks in 2015 at 615 and 638 pts. If net buying activity persists, the VN-Index will rise in suspicion and many investors will feel unhappy because their portfolios don't consist of BCs.

Net purchase activities of Foreign Investors in Vietnam during 2009-2010

As in the previous analysis, we have mentioned that P-Notes and ETF Funds have operated in Vietnam for a long time, however, they have just begun to attract the attention of the market. Thanks to P-note and ETFs, investors can participate in Vietnam stock market through funds without being subject to many regulations. From late 2009 to 2010, foreign investors were net buyers for 15 consecutive months with a total size of nearly VND 18,000 billion. In the context that strong domestic cash flows were withdrawn from the market during the period of post interest rate subsidy of \$ 1 billion, these capital flows played a very important role to help stabilize markets in 2010. In addition to cash flow from active investment fund, cash flows from ETF and, especially, P-note have contributed significantly to net buy during this period of net buying.

In order to have the correct assessment on the evolution of ETF and P-notes, we have summarized the statistical activities of foreign investors buying period in 2010; this is the first period that the terms P-Notes and ETF spread in Vietnam stock market. This period was quite bad for Vietnam stock market because of potentially sharp correction after a strong increase in 2009 (index rose from the bottom of 235 days on 24/2 to the top of 624 days on 22/10).

Chart 1: VN-Index movement from 2009 till now



Stocks that attracted strong foreign capital in 2010

Without this strong cash flow, VN-Index would have fallen quite deeply. The difference between VN-Index (-2%) and HN-Index (-32%) in 2010 has proved it. This cash flow contributed for the more than VND 15,250 billion record net buying of Foreign Investors in 2010. Foreign Investors' trading value / market trading value rose from 19.3% market to 21.9%, while net-buying value / market value increased from 0.8% to 4%.

Table 01: Top 20 stocks that are bought the most by Foreigner Investors¹

HSX			HNX		
Ticker	Net buy in 2010	± Price 2010	Ticker	Net buy in 2010	± Price 2010
HAG	1,690.0	5.4%	PVX	277.8	27.9%
VIC	1,658.7	84.2%	PVS	183.8	-8.4%
BVH	1,096.1	129.1%	VCG	165.5	-33.5%
KBC	957.1	-12.1%	KLS	146.8	-17.3%
FPT	773.0	8.8%	PVI	92.9	-13.9%
HPG	734.8	-0.8%	VNR	76.8	13.6%
VNM	673.4	14.7%	NTP	74.1	-4.7%
OGC	624.5	-11.4%	VND	65.7	2.6%
DIG	570.8	-45.7%	SDT	56.7	13.6%
SJS	521.8	-22.6%	BVS	29.5	-26.3%
DPM	518.2	20.3%	WSS	25.0	-48.5%
VCB	517.8	-7.8%	VNC	18.6	-2.7%
PVD	500.4	-21.5%	SHS	17.9	-17.3%
HSG	399.6	-43.3%	SHB	15.1	-34.1%
MSN	381.2	119.3%	SDH	13.1	4.0%
SSI	360.3	-24.2%	EID	11.0	-26.6%
CTD	311.2	8.9%	RCL	10.7	21.0%
PVF	290.3	N/A	VCS	10.2	-33.5%
EIB	259.0	-14.2%	PGS	10.0	78.4%
CTG	232.6	-6.1%	VGS	9.5	-51.9%
VN-Index		-2.0%	HNX-Index		-32.1%

Nguồn: BSC

The ETF funds also boosted trading activity in 2010, increased the scale of VNM ETF to \$ 139.4 million, equivalent to approximately VND 2.718 billion while the ETF FTSE VN increased scale to \$ 15.3 million, equivalent to VND 298.1 billion. 2 ETFs contributed VND 2 billion in total of VND 15 252 billion of foreign net buy in 2010. Thus, most of the remaining net purchase value came from P-note investments. In the context of strong withdrawn of domestic capitals during the period of post interest rate subsidy of \$ 1 billion, this capital flow played a very important role to help stabilize the market during 2010.

Aforementioned inflow in 2010 exhibited the following characteristics:

- Mainly focused on large caps which had a strong influence on the index at that time such as HAG, VIC, BVH, FPT, HPG, VNM, SJS, DPM, VCB, PVD, SSI, MSN.
- Focused only on the HSX, trading value of stocks were bought net the most on HNX are only equivalent to the value of the lowest net bought stocks in the top 20 HSX stocks (this is also the reason that HNX-Index fell sharply in comparison to VN-Index).

¹ Note Stocks in bold were in the list of top 20 net buy from foreign investors in 2010

Table 02: Stocks with the largest weight in the ETF and ETF FTSE VNM VN 31/12/2010²

Ticker	Weight in portfolio	Value (Million USD)	Ticker	Weight in portfolio	Value (Million USD)
HAG	11.9%	40.6	BVH	10.1%	26.6
VIC	10.9%	37.4	DPM	6.2%	16.2
DPM	7.6%	25.9	CTG	5.8%	15.1
FPT	6.4%	21.8	VCB	5.1%	13.4
HPG	6.0%	20.4	HAG	4.9%	13.0
PVD	5.8%	20.0	KBC	4.5%	11.9
VCB	5.8%	19.9	OGC	4.0%	10.4
KBC	5.1%	17.4	PVX	3.6%	9.3
BVH	3.9%	13.4	PVD	3.5%	9.1
PVF	3.8%	13.2	PVF	3.3%	8.6
Total	67.5%	230.1	VCG	3.1%	8.2
Total portfolio	100.0%	340.8	ITA	2.7%	7.1
			HPG	2.3%	6.1
			PPC	2.2%	5.8
			KLS	2.1%	5.6
			Total	63.3%	166.3
			<i>Offshore owner</i>	28.6%	95.3
			Total portfolio	100.0%	282.8

Assessment on foreign investment flows

Compared with the report we released 10 days ago, foreign capital inflows (with the presence of P-Notes) pushed the VN-Index above 600 points, close to the strong resistant are at 615-620 pts. Foreign Investors are buying BCs to support VN-Index to establish a new price peak for the year, and to test the old 2015 historical peak area at 615 and 638 respectively. However, it can be seen that the fact that Foreign Investors have held long position recently makes market forecast in the short term difficult. Overall market risk assessment is high, the possibility of reversal is growing rapidly when the index increased fast but liquidity declined, along with strong reliable supportive information is waited for. If buying activity persists, the VN-Index will rise in suspicion and many investors will stay unhappy because their portfolios don't consist of BCs.

Tracking activity of foreign net buying, we continue to maintain a positive view on capital flows, P-note, but it should be noted that its effects on the market rally is decreasing because domestic investors are keeping a cautious view while short-term profit-taking pressure is growing and waiting for more supportive information.

- **The positive point:** Activity of foreign net-buying amounted to only about 3% - 5% of the whole market, and the net accumulated buying-in trading was not large enough to cause strong market volatility occurs when capital was withdrawn. Moreover, withdrawal mechanism of P-Notes also didn't happen as fast as the ETFs, which can impose negative effects on the market.

² Note Stocks in bold are in portfolio of both 2 ETF

• **The negative point:** Foreign Investors tend to withdraw capital from regional countries after 2 months of net buying (March and April). Will this inflow end soon, following the common trend in region? It is difficult to answer this question because there are no effective tools to forecast the buying-in activity of P-Notes.

Investors should consider stocks that are large in scale, still have room for Foreign Investors and are fundamentally attractive in valuation (please refer to the reports of the BSC). For Investors who are interested in the activities of foreign investors, of the 20 shares bought by Foreign Investors, net purchases were similar in 15 stocks in 2 phases (2010 and April 2016).

• Finance stocks were bought strongly, 5/6 of banks listed on HSX (VCB, BID, MBB, CTG, STB) have been bought from 4/2016 till now, compared to 4/5 of banks listed (VCB, CTG, EIB and OGC) were purchased in 2010; moreover, shares of SSI, BVH insurance have also been bought.

• Many stocks which had great influence on the index in 2010 were no longer strongly bought net by Foreign Investors, including: the group which can no longer maintain large capitalization scale (HAG, KBC, OGC); no longer have room (VNM, FPT) and were delisted (PVF). Instead, net buying activity focused on the newly listed stocks which have a great impact on the index such as GAS and BID.

• The list of net buying on HNX also focused on Banking, Oil and Securities Firms, which are 3 groups that constitute large proportion of the index.

Table 03: Top 20 stocks that have been bought the most by Foreign Investors from 4/2016 - now³

HSX			HNX		
Ticker	Net buy 4/2016 – now	± Price April till now	Ticker	Net buy 4/2016 - now	± Price April till now
SSI	405.1	-3.3%	PVS	130.2	11.1%
GAS	305.9	28.0%	SCR	53.0	1.1%
MBB	244.2	5.6%	SHB	45.1	0.0%
VCB	223.2	17.1%	NET	30.3	11.0%
CII	195.2	9.3%	VND	27.8	5.4%
BID	146.3	12.0%	BVS	16.4	5.6%
BVH	144.0	20.0%	SHS	14.1	1.5%
CTG	124.0	7.9%	SHN	13.8	-1.8%
PVT	89.1	12.6%	IVS	13.4	7.9%
DRC	75.6	7.6%	VGS	13.3	25.0%
PVD	69.4	4.2%	PLC	12.1	-8.9%
FPT	49.6	0.6%	VCS	11.2	-1.1%
FLC	34.3	0.0%	NTP	6.0	0.1%
STB	34.0	6.8%	VCG	5.7	2.9%
DQC	30.7	11.6%	DBC	5.1	12.4%
HHS	27.8	-1.2%	KLF	4.8	-11.1%
KDC	25.5	11.9%	SD9	4.6	-3.2%
LIX	24.0	6.8%	PVC	4.4	-3.7%
TTF	22.9	24.6%	KLS	4.1	33.3%
EVE	22.0	17.6%	CVT	3.9	15.7%
VN-Index		9.0%	HNX-Index		2.5%

³ Note Stocks in bold were in the list of top 20 net buy from foreign investors in 2010

Disclosure

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