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Investing In Vietnam How To Capitalize On The Socialist-Oriented Market's Economic Reforms

By Leon Wilfran

Vietnam, a socialist republic most often associated with the war that took place in the 60s and 70s, is now one of Southeast Asia's fastest-growing economies and the focus of ambitious investors looking for high-growth markets.

In the decades following the war, Vietnam progressed from a poor country to the lower-middle income nation it is today. As it stands, the middle class represents 40% of the

population, a number that is set to increase to 90% over the next 10 years.

Demographically, Vietnam is in a golden period of population structure, meaning that more than 60% of its population is of working age (between 15 and 55). The shape of a country's age pyramid is one of the most

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important indicators in determining its long-term success and one of the reasons people are calling Vietnam the next China. Other reasons for the moniker include its cheap labor force and the relocation of manufacturing and other labor-intensive industries from China to Vietnam.

Aside from its people, Vietnam has some other vital assets. The land is rich in natural resources such as precious metals, rare earth elements, coal, oil, and gas, among others. Furthermore, its strategic geographic location affords it easy access to one of the busiest shipping routes in the world.

The government has been doing its part to aid development, putting in place numerous reforms and amendments that resulted in Vietnam climbing the ease-of-doing-business rankings to 68th place in 2017. Incorporating a business is an easy process as are reporting taxes and financials. Moreover, the regulations were structured to invite foreign direct investment (FDI), one of the main reasons for the recent GDP boost.

To further cement its future, Vietnam joined several trade associations, both regional and domestic, and has signed trade agreements with both the United States and the EU. These developments have resulted in MSCI to consider promoting the country from a frontier to emerging market. This promotion would allow many funds to include Vietnamese stocks in their portfolios and could push the local stock market even higher.

Funds

If you're looking for exposure to Vietnam's growing economy, the easiest and fastest way to gain access is to buy an exchange-traded fund (ETF) focusing on Vietnam. VanEck Vectors Vietnam and FTSE Vietnam are the two most popular and most liquid choices.

The problem with these ETFs is that they've each had somewhat lackluster performances and don't seem to be replicating the Vietnamese economy as well as they should be. Compared to the VN Index, which tracks the 304 largest stocks on the Ho Chi Minh City Stock Exchange, the two ETFs look like they're trying to replicate a different country. I suggest you avoid them.

Instead, I recommend you look at VinaCapital Opportunity Fund (VOF) and Dragon Capital Group's funds. VOF is by far the best-performing fund with a five-year annual average return of 25%. It has an experienced local team behind it, which focuses on private business and state-owned enterprises (SOEs) before they go public.

Dragon Capital is Vietnam's longest established independent asset manager and offers several funds, the most popular being Vietnam Enterprise Investments Limited (VEIL), which has a similar focus as VOF. You can trade both on the London Stock Exchange (LSE).

Another way to access Vietnam's economy is by looking for foreign companies that hold most of their assets there or receive most of their revenues from Vietnam. If you look at VanEck Vectors Vietnam ETF's holdings, you should be able to find several multinational candidates.

Soco International (LSE) and Donaco International (Sydney Stock Exchange) are two stocks worth mentioning because they operate in prospective business sectors. Vietnam has the second-largest oil and gas reserves in Southeast Asia, which is why I like Soco, an oil and gas exploration and production company.

Donaco, on the other hand, is engaged in operating leisure and entertainment businesses as well as casinos. The tourism industry has a long way to go in Vietnam, and casinos only recently became legal. Unfortunately, both stocks are currently on a downtrend, though I would still pay attention to them and look out for a possible reversal.

I've mentioned several products listed on stock exchanges outside the States. If you're an American, the easiest way to access these stock exchanges is to open an account with an electronic brokerage firm, also called an online trading platform, which offers access to international markets.

They are perfectly safe to use and are fully regulated by the Securities and Exchange Commission (SEC). [Interactive Brokers](#) is the most popular option and has the broadest selection of products. More importantly, it has access to all the stocks and funds I've mentioned so far.

Investing In The Vietnamese Stock Market

Those looking to get more directly involved with opportunities offered by the Vietnamese stock market should consider opening a brokerage account in Vietnam. There are quite a few out there, but to mitigate risk and get the best service in English, I would suggest you go with one of the bigger firms.

[Viet Capital Securities](#), [VNDIRECT](#), [ACB Securities](#), and [Ho Chi Minh City Securities](#) are all reputable companies and have experience working with foreigners, so you should be in safe hands. Give all four a call all four to see which company suits you best.

Once you pin down the brokerage you want to work with, you will have to provide them with the usual personal documents as well as power of attorney, FATCA, and other tax forms if you are a U.S. citizen. On top of that, you will have to fill out an application for securities trading code, which serves as an investor's ID.

The final thing you must do is open a bank account. The brokerage will assist

you in this matter, but you can easily do it on your own. All banks in Vietnam take foreign clients—no special documents needed. Also, Vietnam is not part of the Automatic Exchange of Information (AEOI), in case that's important to you.

The local bank that is widely regarded as the best, with the best customer service for foreigners, is Vietcombank. I don't recommend using other banks as many foreigners—myself included—have had bad experiences. Citibank and HSBC are two international banks that are equally fine to use. Most importantly, be patient, and make sure you are fully understood.

Stock Recommendations

I've analyzed 60 blue chip companies listed on the Ho Chi Minh Stock Exchange and Hanoi Stock Exchange and came up with a few shares that you should consider. I chose them based on their financial and technical indicators and whether they are active in a prospective industry.

I preferred blue chips because they are less risky and because they hold a dominant position in the market. In addition, all the big companies in Vietnam have close ties with the government, which further secures their dominance. The market share that they hold could be very attractive for any foreign companies looking to enter the market through acquisitions, which would drive the prices up.

FPT Corporation (FPT) is the first such company. It is the largest information-technology company in Vietnam and is well-positioned to take advantage of increasing numbers of internet subscribers. Its core business sectors are telecommunications, IT services, technology product retailing, and even education.

Gemadept Corporation (GMD) is a company active in port operation and logistics. The logistics sector is still undeveloped in Vietnam, and companies are struggling to satisfy the increasing international as well as domestic demand.

Refrigeration Electrical Engineering Corporation (REE) is another interesting pick. The company is a leading mechanical and electrical engineering contractor in Vietnam with a portfolio consisting of everything from airports to hospitals and hotels. It also manufactures and sells its own air-conditioner systems under the brand Reetech.

Finally, two spinoff companies of PetroVietnam are worth your interest. The first one is a PetroVietnam Gas (GAS), whose primary activity is oil and gas refining and marketing. The second one is PetroVietnam Southern Gas (PGS), which is involved in trading of liquefied petroleum gas (LPG).

Most investors have been avoiding the oil and gas sector recently and with good reason. However, I like it because Vietnam has vast oil and gas resources that are

still untapped. To limit exposure to this sector, I suggest treating the two stocks as one in proportion to others in your portfolio.

Divestments

Equitization has been the focus of the Vietnam government over the last couple of years, a trend that's planned to continue throughout 2018.

The process of equitization involves privatizing state-owned enterprises (SOEs) into joint-stock companies, reducing the state's share and influence on them, which results in improved efficiency and management of the companies in question.

The government intends to use the money raised from divestments to reduce public debt and finance infrastructure projects. This not only ensures continued high GDP growth but also creates the opportunity to grab shares at a discount or participate in one of the initial public offerings (IPOs). Remember: The companies I suggest are blue chips with solid fundamentals, ones operating in prospective industries.

If you're looking to enter the aviation market, here's an excellent opportunity. Vietnam Airports Corporation (ACV) is planning to sell 20% of its state stake in the coming year. Vietnam recorded increases of over 25% in international arrivals... add to that a growing number of domestic flights and the continued expansion of all the major airports and you've got a winner.

If you prefer to get involved with airline companies specifically, pay close attention to Vietnam Airlines (VNA), as it's planning to reduce state ownership by 35%.

Song Da Corporation, Vietnam's leading infrastructure company, is planning an IPO in 2019. They are the primary contractor for most hydropower projects in the country and are additionally involved in the installation of power transmission lines and power substations. To meet future energy demands, Vietnam is planning to double its hydropower output by 2030, meaning this company can expect steady revenues over the same period.

Another play worth considering is Petrolimex. The company operates several businesses, but the most impressive is involved in retail fuel distribution and holds about half of the market share. The government plans to sell an additional 24.86% stake in 2018.

Last but not least are two telecommunication picks: MobiFone and Vietnam Posts and Telecommunications Group (VNPT). Mobifone used to be part of VNPT but they separated in 2015. Following the separation was a failed IPO that was rescheduled for this year. Over the last five years, MobiFone increased its market share to 30% and is currently the second-largest telecom operator in the country. It surpassed Vinaphone, a subsidiary of VNPT. VNPT, which also provides other



telecom-related services, plans to hold its IPO in 2019.

Real Estate

Vietnam has experienced a real estate boom in recent years, which is why this market might tempt you. I would caution against buying into it, however, unless you are looking at a long-time horizon (five years and above) or if you are looking for a place to live. The market has become oversupplied with prices booming beyond reasonable levels. I wouldn't go so far as to say that the market will implode, but I do expect prices to stagnate for a few years as the market slowly absorbs the oversupply.

If you do plan to invest in Vietnam's real estate, I would suggest you start by looking at the most liquid market, Ho Chi Minh City. Pay close attention to the new metro system, which plans to come online in 2020, and the properties situated nearby.

Vietnam's bureaucracy and judicial system are far from being the most robust, and foreigners have been scammed out of their money with real estate investing. That is why I would only buy from a reputable international real estate developer. They have experience working with international clients and, on top of that, have a reputation to maintain. Companies like Colliers International, CapitalLand, CBRE, and Keppel Land all have extensive portfolios in Vietnam for you to examine.

Moreover, I would pay close attention to the quality of the construction. I had a chance to look at a good number of apartments, and I quickly realized that low costs and speed were the norms for construction companies, not quality and reliable materials. Make sure you calculate this into the equation. Again, international developers tend to do a better job in this industry.

Risks Of Investing In Vietnam

So far, I've covered the opportunities that Vietnam offers, but it's important to recognize not all is sunshine and rainbows. Investing involves risk, and the risks become much greater when you're considering a country that's developing as fast as Vietnam.

First off, I have some doubts about the government's ability to maintain the current high GDP growth. Vietnam has been increasing its debt substantially over the last years to back the targeted GDP numbers, and this is not a growth model

that can be supported in the long run. Moreover, such credit practices can deter FDI, another crucial driver of GDP. The final factor behind GDP growth is exports. They will decline if the world economy slows down or if one of the leading trading partners experiences a financial crisis.

Speaking of gloom and doom, a lot of famous investors have been declaring that the global stock markets are in a bubble. It certainly looks like it at first glance, with the Standard & Poor's 500 index pulling off the second-longest bull run in U.S. history. Then again, with the amount of money that the central banks printed, it's anyone's guess what the real values in the markets are.

The final macroeconomic issue you should pay attention to is Vietnam's relationship with China. Both claim rights to the disputed and mineral-rich territory in the South China Sea. A lesser-known fact is that China, through its dams, also controls the water supply of the Mekong River and the Mekong Delta, Vietnam's most productive agriculture region.

On a micro level, labor productivity and work ethic have been the cause of many headaches for anyone doing business in the country. The labor force is unskilled and needs a lot of training. Moreover, work ethic is an almost nonexistent term among the Vietnamese. As an insider's tip, I would suggest you try to work exclusively with women. They are far more dependable and hardworking than the men.

The single biggest risk, however—and one Vietnam is notorious for—is how to get your money out of the country. I know several people who have struggled with this, and my bank certainly doesn't allow wiring money out. Nonetheless, I do use the bank's credit card to make international withdrawals, for online shopping and PayPal, and I can withdraw U.S. dollars at the branch, which is enough for me.

I know people who have used Western Union, but their transaction fees are ludicrous. Because of such difficulties, I wouldn't dare to hold more than US\$30,000 in Vietnam. Of course, you also have an option to holiday in Vietnam and spend the money there, taking out US\$9,999 in cash every time you visit.

Vietnam has come a long way since the 70s, and anyone that frequents the country can tell you how fast it is changing. The government is successfully improving infrastructure and the business environment, and this is spurring an entrepreneurial revolution. Small businesses are the backbone of any economy, and as long as the macro factors don't deteriorate, I see the country turbocharging its GDP to become a true 21st-century economy. **SI**

Leon Wilfan is a freelance writer and a location independent entrepreneur. He worked 7 years in a real estate investing firm before completing an MBA degree specializing in finance at WU Vienna, one of the top business schools in Europe. Hunting for new opportunities, in 2016 Leon moved to the fastest growing region in the world, Southeast Asia. Now he lives as a digital nomad, moving from country to country, constantly on the prowl for new and more efficient ways to optimize his worldwide income.