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Equitisation and stock-market development

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Part III:

The Vietnamese Stock Market

Chapter 7

Overview of the Vietnamese Stock-Market

7.1. Introduction

The Vietnamese stock market, formally known as the Securities Trading Centre (STC), located in Ho Chi Minh City, was launched on July 28th 2000. At the opening trading session, only two individual stocks with a total market capitalisation of VND 444,000 million (about USD 27.95 million)¹⁵ were traded on the market. Over five years of operation (at the end of 2005), the number of listed companies have increased to 32 with a total market capitalisation of VND 6,337,478 million (USD 398.96 million)¹⁶. Although the market has significantly grown over the period, it is still rather thin.

The aim of this chapter is to describe the Vietnamese stock market with special emphases on organisation, operation, and performance of the market during the period from its opening date to December 31st, 2005. The remainder of this chapter is organised as follows. Section 7.2 provides an overall description of the organisation and operation of the stock market. Section 7.3 focuses on principles of the VNINDEX (the Vietnamese stock market price index) calculation and maintenance. Section 7.4 summarises performance of the market over the period from July 28th, 2000 to December 31st, 2005. Finally, conclusions of the chapter are given in section 7.5.

7.2. Organisation and operation of the stock market

This section briefly introduces the organisation and operation of the stock market in Vietnam. Specifically, the Section focuses on regulations regarding some organisations involved in the market and how the market works.

¹⁵ Exchange rate on December 31st 2005: 1 USD = 15,885 VND

¹⁶ Market capitalisation is calculated based on closing price of stocks on December 31st, 2005.

The State Securities Commission (SSC)

The State Securities Commission, officially established in November 1996, is responsible for the organisation, development and supervision of the country's securities market. Before February 2004, the SSC had operated as an organ directly belonging to the Prime Minister. During this period, the SSC could not well regulate the market due to some structural weaknesses. Consequently, the Prime Minister decided, on February 19th 2004, to hand over the task of managing the SSC to the Ministry of Finance. The Government hopes that the transfer would help to improve the performance of the market, which has not been performing well since its establishment in July 2000¹⁷.

Under the new model of operation, the main functions of the SSC are as follows (according to the Decree 90/2003/ND-CP issued by the Government on August 12th 2003):

- issuing, implementing and enforcing regulations and guidelines related to securities and securities markets;
- organising and managing stock trading centres in Vietnam;
- licensing for securities companies, securities advisers, securities investment funds, and securities depositaries & custodians; and
- training specialised personnel for the securities industry.

Regarding the organisational structure, the SSC is divided into eight departments: Securities Market Development, Securities Issuance Management, Securities Business Management, Legal Affairs, supervision and Enforcement, Planning and Finance, International Cooperation, Human Resource, and four centres: Ho Chi Minh City (HCMC) Stock Trading Centre, Hanoi Stock Trading Centre¹⁸, Securities Information Technology Centre, and Centre for Securities Research and Training.

The Securities Trading Centre (STC)

The Securities Trading Centre is an organisation under the control of the SSC. Its operating expenses are partly covered by the government budget. The STC assumes responsibilities of organising, executing and supervising securities trading activities on the Centre. Specifically, according to the Decree

¹⁷ By setting up a mechanism to ask SOEs, when being equitised, listing on the market, the Ministry of Finance will help bring more commodities (shares) to the market while the SSC, with its former function, could not ask the SOEs to list their stocks on the market. Moreover, it is expected that the Ministry of Finance, as the organ specializing in drawing up macro financial policies, is able to promulgate more suitable legal documents to ensure the substantial development of the market.

¹⁸ Hanoi Securities Trading Centre, which focuses on the listing of small and medium-sized enterprises, was opened on March 8th, 2005. However, a few companies have registered to list their stocks on the Centre.

144/2003/ND-CP issued by the Government on November 28th 2003, responsibilities and rights of the STC include the followings:

- organising, managing and supervising the trading of listed securities;
- managing the securities trading system;
- managing and supervising the listing of securities;
- managing and supervising the information disclosure activities of listed companies;
- managing and supervising activities of the members of the Securities Trading Centre;
- organising, managing and conducting the market information disclosure.

Securities companies

By regulation, securities companies can be established in either joint-stock or limited liability ones. Moreover, the main businesses of the securities companies could consist of brokerage, owned-trading¹⁹, securities investment portfolio management²⁰, underwriting, and financial and securities investment advisory. Securities companies, which are licensed by the SSC as brokers or dealers, are eligible to register as members of the STC. Importantly, only members of the STC have been permitted to trade securities through the trading system of the STC. In order to receive a securities business license, one has to fulfil some requirements:

- having a business plan that is in line with the objectives of socio-economic development and growth of the securities industry;
- having adequate technical facilities for securities businesses;
- having a minimum levels of legal capital as prescribed for each type of securities businesses as follows:

- brokerage: VND 3 billion;
- owned-trading: VND 12 billion;
- securities investment portfolio management: VND 3 billion;
- underwriting: VND 22 billion;
- financial and securities investment advisory: VND 3 billion.

If a securities company wants to apply for a license of various securities businesses, the required legal capital level must be a cumulative amount of minimum legal capital required for each type of a licensed business. For instance, if a company expects to be licensed all types of securities business, it must have at least VND 43 billion.

¹⁹ Owned-trading is defined as buying and selling activities of securities for the securities companies' own account.

²⁰ Securities investment portfolio management is one of businesses of the securities companies which is specialized in managing clients' funds by buying, selling and holding securities in accordance with their orders.

- having its Director, Vice-Director, and its practitioners qualified for being granted the securities practitioner certificate by the SSC;
- the underwriting license is only granted to securities companies if they have the business license of owned-dealing.

As of December 31st 2005, 13 securities companies have been licensed with a total registered capital of VND 605,750 million (USD 38.47 millions)²¹. Of these, nine companies have capital of VND 43,000 million (USD 2.73 million) or more and have conducted all kinds of securities business in the market. Additionally, three of them, Saigon Securities Incorporation, Hai Phong Securities Joint Stock Company and Eastern Asia Bank Securities Company, have capital ranging from 20,000 to VND 22,000 million. The smallest securities company in terms of capital is Mekong Securities Joint Stock Company with a capital of only VND 6,000 million.

All four largest state-owned commercial banks (Bank for Investment & Development of Vietnam, Industry and Commerce Bank of Vietnam, Bank for Agriculture and Rural Development, Bank for Foreign Trade of Vietnam) and Vietnam's largest State-owned Insurance Company (Bao Viet Insurance Company) have established their wholly owned subsidiaries. The Bank for Investment and Development of Vietnam and the Bank for Agriculture and Rural Development Securities Company are the largest ones with chartered capital of VND 100,000 million each.

Furthermore, the Asia Commercial Bank Securities Company and Thang Long Securities Company are wholly-owned subsidiaries of joint stock banks, Asia Commercial Bank and Military Bank respectively while First Securities Company is a joint-stock company whose major shareholders include Becamex (a local state-owned enterprise) and several business partners. Finally, Saigon Securities Incorporation is a privately-owned joint stock company founded by Vietnam's Pan Pacific and Saigon Business Consultancy. Saigon Securities Incorporation is considered the most 'internationally minded' of the securities companies. At the end of 2003, it reported that its share of order-matching turnover on the STC is 23.2 percent, some percentage points ahead of Bao Viet Securities Company.

Listing requirements

To ensure the credibility and integrity of the securities trading centre, the Government has placed special emphasis on the overall quality of listed companies by issuing the criteria and regulations for listing. A company must comply with all of the listing requirements prior to obtaining a listing license. Specifically, according to Decree 144/2003/ND-CP, a company has to fulfil

²¹ For more information related to securities companies, see Appendix 7.1 at the end of this chapter.

some qualifications if it wishes to list its stocks on the STC. The qualifications for listing are as follows:

- being a joint-stock company with a minimum capital of VND 5 billion (USD 0.32 million);
- having profits in the last two consecutive years before the year of applying for listing;
- having the commitment made by members of the firm's Board of Directors, Board of Management, and Board of supervisors to hold at least 50 percent of their shares for three years from the date of listing;
- having at least 50 outside investors, holding at least 20 percent of the firm's equity, as for joint-stock company having share capital of VND 100 billions or more, a rate of 15 percent is applied.

Applicants for admission to listing are required to submit some documents to the SSC, including financial statements approved by accepted auditing organisation, management structure, the firm's charter, and prospectus containing information similar to that required by Securities Industry Regulators in developed countries. Within 45 days from the date of receiving a full and complete set of application documents, the SSC will grant the listing license for the firm.

Before April 15th 2003, foreign-invested companies are not permitted to establish as joint stock companies, so they are ineligible to apply for admission to listing on the STC. Recently, the Ministry of Planning and Investment has conducted a pilot scheme that converts foreign-invested companies into joint stock companies for listing. The qualifying criteria for listing of foreign-invested joint stock companies are mostly equivalent to those applicable to local joint stock companies. At the end of 2004, 20 foreign-invested companies have applied for conversion into joint stock companies.

The stock-market listing procedure

According to Decree No. 48/1998/ND-CP issued on July 11th, 1998, the listed procedure that has applied for equitised companies consists of five steps as follow:

Step 1: Organising the Board of directors' meeting

- Comparing the company's current conditions with listing requirements and passing the policy for listing in the case the requirements to be fulfilled;
- Determining main issues that need to be brought for discussing at the earliest shareholders' meeting and arranging a date for such meeting.

Step 2: Organising the shareholders' meeting

- Calling for a vote on whether the company should register its shares for listing on the stock market;
- Making necessary decisions to ensure that the company's common shares can be issued and freely traded on the market in accordance with Decree No. 48/1998/ND-CP:
 - At least 20 percent of its equity will be offered to more than 100 outside investors;
 - No restrictions will be applied for transferring common shares.
- Settling issues related to stocks:
 - classifying current stocks into categories as follows: buy-on-credit shares, members of the Board of Directors' shares, non-transferable shares and transferable shares;
 - splitting down shares to ensure that they have the same par value of VND 10,000 as required by the stock market.
- Passing the resolution of the shareholders' meeting on all issues as mentioned.

Step 3: Preparing for listing on the stock market

- Preparing the company's audited financial statements
- Estimating the company's valuation;
- Estimating the market price of its stocks as initially listed;
- Preparing application documents (if necessary, financial and legal advisors could be hired to deal with these works)
- Having the Board of directors' approval for the listing plan and application documents.

Step 4: Submitting the application documents to the State Securities Commission for listing

After having all completed application documents as required, the company can submit them to the State Securities Commission for verification. Then, within 45 days from the date of receiving a full and complete set of application documents, the State Securities Commission will inform the company the results of its registration for listing (acceptance of refusion).

Step 5: Registration for listing at the Securities Trading Centre

After receiving the approval for listing from the State Securities Commission, the company has to implement some works as follows:

- Disclosing its information as required by the government;
- Preparing its prospectus and publicly disclosing at the headquarters and all of its branches;

- Submitting the application documents for listing to the Securities Trading Centre.
- Listing the company's shares on the Centre.

Listed firms' information disclosure

Listed companies are required to disclose publicly all information that is important for investors' investment decisions. The STC has implemented a full disclosure policy, allowing investors to receive accurate, adequate and timely information in order to ensure market transparency and integrity. Practically, the information disclosure is conducted through the mass media or the Bulletin of the STC. Listed firms' information, which is obligated to disclose can be classified into two groups: regular and irregular information.

Regular information includes quarterly, semi-annual, and annual financial statements. By regulation, within 10 days from the date of completing annual financial statements, listed companies have to disclose publicly their audited financial information on three consecutive issues of a national newspaper or a local newspaper at the place where the head office of a listed company is located or on the Bulletin of the STC. For the quarterly and semi-annual financial statements, listed companies have to disclose them within five days from the date of completion on the Bulletin of the STC.

Irregular information consists of any information related to events that happen irregularly and should affect investors' decisions. The listed companies are required to disclose information within 24 hours from the occurrence of any of the following events:

- having significant changes in conditions for its business activities;
- suffering from a loss equivalent to or more than 10 percent of its equity;
- the listed company, its member(s) of the Board of Directors, member(s) of the Board of Management, Board of supervisors, and Chief Accountant being prosecuted by the legal authority, being convicted by a court concerning operations of the company; and violating tax laws as stated by the tax authority;
- having changes in business strategy and scope;
- having decisions on expanding its business activities, an investment worth 10 percent or more of another company's equity, or buying or selling fixed assets worth 10 percent or more of its equity;
- falling into bankruptcy situation, making a decision on corporate merge, acquisition, split, and dissolution;
- signing a loan agreement or issuing bonds, which is worth 30 percent or more of its equity;
- changing the Chairperson of the Board of Directors, or more than one-third of the members of the Board of Directors, or Director (General Director);
- approving of the resolutions of shareholders' meeting;

- having other events that may considerably affect the share price or investors' benefits;
- share split, additional issuance to increase its registered capital
- issuing bonus shares or issuing shares for paying dividends, which is worth more than 10 percent of the equity;
- applying for de-listing.

Trading on the STC

According to the government regulations regarding to the stock market, all listed securities are required to be traded via the Securities Trading Centre (Article 31, the Decree 144/2003/ND-CP). Moreover, all securities listed on the STC are denominated in Vietnamese Dong (VND) with a standardised par value for each of VND 10,000. For the first period from July 28th, 2000 to March 1st 2002, trading session had been conducted on Monday, Wednesday and Friday, from 8.00 am to 10.00 am. From the beginning of January 2001, the trading sessions were shortened to one hour; from 9.00 am to 10.00 am. It is important to note here that as from March 1st 2002, the market has traded daily with two order matching sessions at 9.20 am and 10.30 am. Specifically, at the STC securities transactions are executed through the fully-computerised trading system, namely Automatic Order Matching and Put Through trading.

Automatic Order Matching Trading

The STC's outstanding trading feature is its Automatic Order Matching, which performs the order matching process according to price then time priority, without human intervention. Specifically, after securities brokerage companies electronically send buy or sell orders from their offices to the STC's mainframe computer, the system automatically executes an order queuing process and arranges the orders according to a price then time priority. This procedure means that orders are first grouped by price, with the best price (highest price for buying and lowest price for selling) taking precedence. Then, within each price group, orders are arranged according to time.

In this system, the trading price of a given stock is determined at a specified time (recently at 9.20 am and 10.30 am daily) and at the certain price, which generates the greatest trading volumes of the stock. In case of having two or more price levels that create the same greatest trading volumes, the closest price of the latest trading session's closing price is chosen as the trading price.

The principles of order matching process are illustrated through the following example. Suppose we have buying and selling orders information of stock A at a given trading session as follow:

Table 7.1: Illustrated information of buying and selling orders of stock A

Price (VND)	Number of selling shares	Number of buying shares
20,000	3,000	85,000
20,100	8,000	55,000
20,200	16,000	35,000
20,300	26,000	20,000
20,400	43,000	8,000

Based on the Table, it can be seen that the trading volume will be maximized (20,000 shares) at the price level of VND 20,300. Therefore, the trading price of the session is determined at this level. At the trading price of VND 20,300, the number of selling shares exceeds the amount of buying ones, so all buying orders are fulfilled. Regarding selling orders, however, only those with the offer price lower than VND 20,300 (16,000 shares) and a part of orders at the price of 20,300 (the rest 4,000 shares) are conducted. Suppose that there are three selling orders at the price of VND 20,300, but different time as follow:

Table 7.2: Selling orders at the price of VND 20,300

Selling order	Time	Price	No. of shares
Order 1	10.02	20,300	1,000
Order 2	10.03	20,300	2,000
Order 3	10.04	20,300	7,000

As mentioned above, within each price group, orders are arranged according to time, so order 1 and order 2 in Table 7.2 are fully fulfilled and order 3 is partly conducted (only 1,000 shares of 7,000 shares).

Put Through Trading

Put Through trading is a method for securities trading on the STC that allows brokers to deal directly with each other, either on behalf of their clients or for themselves. The dealing price is negotiated between the two brokers and hence, the executed price may not be the same as that of securities traded in the market on that day. Following the conclusion of negotiations and trading, dealers are

required to send details of the negotiation results to the STC's mainframe for recording purposes.

Settlement is centrally conducted through the STC using the Bank of Investment and Development of Vietnam (BIDV), a state-owned commercial bank.

Securities transactions on the STC could be halted if they fall in any of the following cases:

- unusual changes in price and trading volume;
- share split or merger;
- serious violations of information disclosure requirements;
- the listed company suffering from loss in two consecutive years;
- other cases deemed necessary to protect investors' interests or to ensure stable operations of the market.

Price limits

In order to prevent excessive changes in individual stock prices at a given trading session and to foster an orderly market, the SSC has regulated the daily price limits for all stocks listed on Ho Chi Minh Securities Trading Centre. The price limits, which bound the daily stock price movements, are determined on the basis of the previous day's closing prices and limit rates. It is observed that the limit rates have changed several times since the establishment of the stock market. Indeed, the limit rate was initially set at 2 percent during the period from July 28th, 2000 to July 31st, 2002, except the short period from June 13th, 2001 to October 8th, 2001 the rate was 7 percent. Then, the rate was adjusted to 3 percent for the period between August 1st, 2002 and December 31st, 2002, and to 5 percent over the period from January 2nd, 2003 onwards.

Foreign participation

Foreign investors (institutions and individuals) can buy or sell shares on the STC through securities companies. However, their ownership (aggregation ownership of all foreign investors) in a listed firm is limited to 30 percent of the firm's equity. In addition, foreign investors who wish to participate on the STC are required to register through a licensed custodian who holds securities on behalf of foreign investors. Currently, three foreign banks (the Hong Kong and Shanghai Banking Corporation, Deutsche Bank AG and Standard Chartered Bank) have licensed by the SSC to provide custodian services for foreign investors. Once registered, a securities transaction code is issued to the foreign investor who may then open a trading account with one or more of the thirteen securities companies for trading securities on the STC.

Moreover, foreign securities business institutions are allowed to buy shares of the Vietnamese securities and/or investment fund management companies, or contribute capital to establish a newly joint-venture securities and/or investment

fund management companies with Vietnamese partners. However, the proportion of capital contribution by foreign partners in a joint-venture is not more than 49 percent of the firms' chartered capital.

7.3. The Vietnamese stock market index (VNINDEX)

The VNINDEX is a composite index calculated from prices of all common stocks traded on the STC. Specifically, it is a market capitalisation weighted price index which compares the current market value of all listed common shares to the value on the base date of July 28th, 2000 when the first session was traded on the market. The market Index was primarily set at 100 points, and it is calculated for the following days by the following formula:

$$\text{VNINDEX} = \frac{\text{CMC}}{\text{BMC}} \times 100 = \frac{\sum P_{it} \times Q_{it}}{\sum P_{i0} \times Q_{it}} \times 100 \quad (1)$$

where:

- CMC: Current total market capitalisation of all listed common shares;
- BMC: Base date total market capitalisation of all listed common shares;
- P_{it} : Closing market price of common share i at trading session t ;
- Q_{it} : Number of outstanding common share i at trading session t ;
- P_{i0} : Closing market price of common share i at the base date (July 28, 2000).

In practice, the daily calculation of the VNINDEX is computed by dividing the total market capitalisation of all listed common shares by a number called the "Index Divisor". By itself, the Divisor is an arbitrary number. However, in the context of the calculation of the VNINDEX, it is the only link to the original base date value of the Index. The Divisor keeps the Index comparable over time and is the manipulation point for all Index maintenance adjustments²².

Index maintenance includes monitoring and completing the adjustments for company additions and deletions on the STC (share changes, stock splits, and stock dividends). Some corporate actions, such as stock splits and stock dividends, require simple changes in the common shares outstanding and the stock prices of the companies in the Index. Other corporate actions, such as share issuances, change the market value of the Index and require an Index Divisor adjustment as well.

To prevent the value of the Index from changing due to corporate actions, all corporate actions, which affect the market value of the Index, require a Divisor

²² For more detail about VN-Index calculation and maintenance, see Appendix 7.2 at the end of this chapter.

adjustment. By adjusting the Index Divisor for the change in market value, the value of the Index remains constant. This helps to keep the value of the Index accurate as a barometer of stock market performance and ensures that the movement of the Index does not reflect the corporate actions of the companies in the Index.

7.4. The performance of the Vietnamese Stock Market

As mentioned in the first section, the Vietnamese stock market was launched on July 28th 2000 with just two firms listed, Refrigeration Electrical Engineering Joint Stock Company (REE), and Saigon Cable and Telecommunication Material Joint Stock Company (SACOM). The market's growth by number of listed companies so far has been rather slow. In fact, at the end of 2000, merely five joint stock companies were listed, and joined by only five more in 2001. The year of 2002 was recorded as the most successful year of the STC, but just a further 10 companies to be listed. By end-2005, a total of 32 joint stock companies have been given permission to float their shares on the STC²³. Especially, all of listed firms (except North Kinh Do Food Joint-stock Company and Kinh Do Corporation) are former SOEs that were previously restructured by equitisation. Of these, 20 companies, accounting for 62.5 percent, are operational in the manufacturing sector, and the rest are in the trading and services sector.

The slow pace in progress of the STC in term of the number of listed companies could result from the following reasons. First, the main reason could be that most of joint stock companies are not willing to disclose their financial information once their shares are listed. They fear that when the financial information is publicly disclosure, their competitors can exploit the information. Consequently, their business can be suffered. Second, many companies have not realised benefits of listing on the stock market yet. They think that the benefits of listing they can get are less than the risk they have to face. Finally, the slowness of equitisation programme and related policies could be a reason that affects on the development of the STC. In addition, many equitised firms are small in term of capital, so they do not meet the capital requirement by the STC for listing²⁴.

Table 7.3 shows key data related to the STC for the period covering the opening year (2000) through to December 31st, 2005. During this period, with the government's considerable effort in development of the stock market, the market capitalisation has increased significantly and continuously, but the market has been rather thin. Indeed, the market capitalisation had increased from

²³ For more information about listed firms, see Appendix 7.3 at the end of this chapter.

²⁴ Before the year of 2004, a minimum required capital of listed companies had been VND 10 billions. As of 2004, it is only VND 5 billions.

VND 444,000 million (USD 27.95 million) at the first trading session (July 28th, 2000) to VND 2,650,197 million (USD 166.84 million) at year-end 2002, and to VND 6,337,478 million (USD 398.96 million) on December 31st, 2005. Moreover, the data in Table 7.3 reveal that the market capitalisation on GDP ratio has been negligible although it has been fairly improved year by year. Specifically, this ratio increases to 0.55 percent in 2004 from 0.24 percent in 2000.

Table 7.3: Key indicators for the STC over the period of 2000-2005

Indicators	2000	2001	2002	2003	2004	2005
No. of listed companies	5	10	20	23	26	32
Market capitalisation (bil. VND)	1,048.76	1,661.10	2,650.20	2,514.29	3,945.31	6,337.48
Market capitalisation on GDP (%)	0.24	0.34	0.49	0.42	0.55	na
Yearly trading value (bil. VND)	91.40	925.38	762.77	422.50	1,692.99	3,275.83
Trading value on GDP (%)	0.02	0.19	0.14	0.07	0.24	na
Average daily trading value (bil. VND)	1.39	6.13	3.23	1.71	6.80	13.12
VNINDEX	206.83	235.40	183.33	166.94	239.29	307.50
Percentage change in VN-INDEX (%)	-	+ 13.8	- 22.1	- 8.9	+ 43.3	+ 28.5

Source: Own calculation on the basis of data obtained from Bank for Investment & Development of Vietnam Securities Company's website, www.bsc.com.vn.

Note: All figures are collected at the end of each year.

na: not available

The thin market is also reflected by the fact that trading value on the STC has been tiny. During the first year of trading, the average daily trading value on the STC is only VND 1,385 millions (USD 0.09 million). The average daily trading value increases significantly in 2001 to the value of VND 6,128 million (USD 0.39 million). However, it remarkably declines in two consecutive following years (2002 and 2003). Specifically, the average daily trading value has a decrease about 47 percent each year for the period of 2002-2003. Then, the average daily trading has quickly recovered. Indeed, the average daily trading value reaches VND 6.80 billion in 2004 and VND 13.12 billion in 2005.

Another indicator to refer to the thinness of the STC is trading value on GDP ratio. This ratio has been negligible, and continuously declined over the period

of 2000-2003. Indeed, it decreases from 0.20 percent in 2000 to 0.07 percent in 2003. Small total market capitalisation and commensurately small trading volumes make the Vietnamese stock market as the smallest one in the Southeast Asian region.

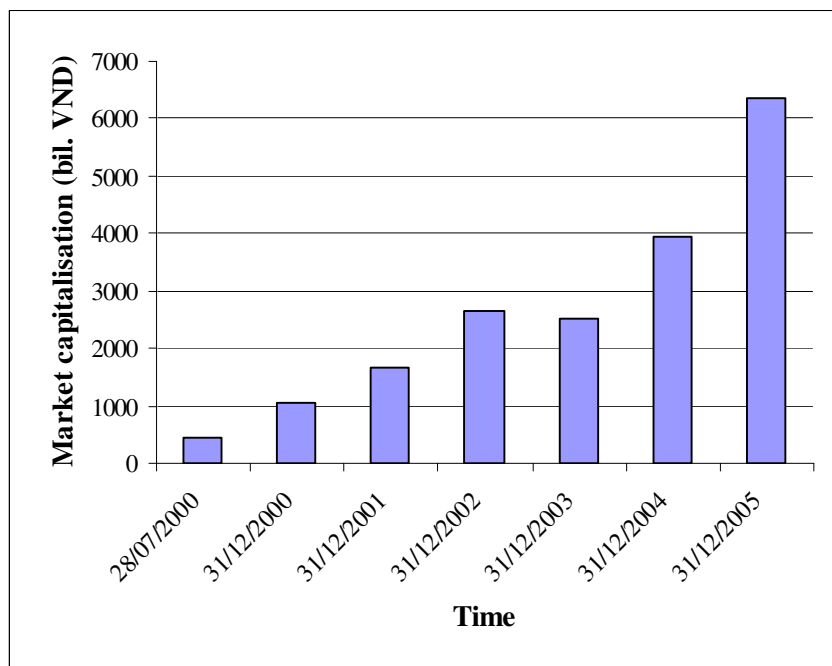


Figure 7.1: Market capitalisation of the STC for the period from July 28th, 2000 to December 31st, 2005

During the year following the STC's opening, the prices of all listed shares moved up daily. Consequently, the VNINDEX considerably and continuously increased, moving from an initial base level of 100 to the record level of 571.04 on June 25th, 2001. The main reason to explain for the stock price's steep ascent is the existence of an acute imbalance between supply and demand for shares²⁵. Since then, however, with the government's great effort in creating commodities for the market by stimulating joint stock companies to list their stocks on the STC, the market index has fairly declined. In fact, the VNINDEX has slipped down continuously from the top of 571.04 to the bottom of 130.9 on October 24th 2003. After falling to the bottom, the VNINDEX has recovered and kept fairly stable at the level above 200 since January 2004. As of December 30th 2005, the VN-Index achieved the level of 307.50 points. The trend of VNINDEX changes over the period from opening date to December 30th 2005 is graphically presented in Figure 7.2.

²⁵ As of June 25th 2001, only 6 joint stock companies with the total capital of VND 360,044 millions (USD 22.87 millions) listed their stock on the STC.

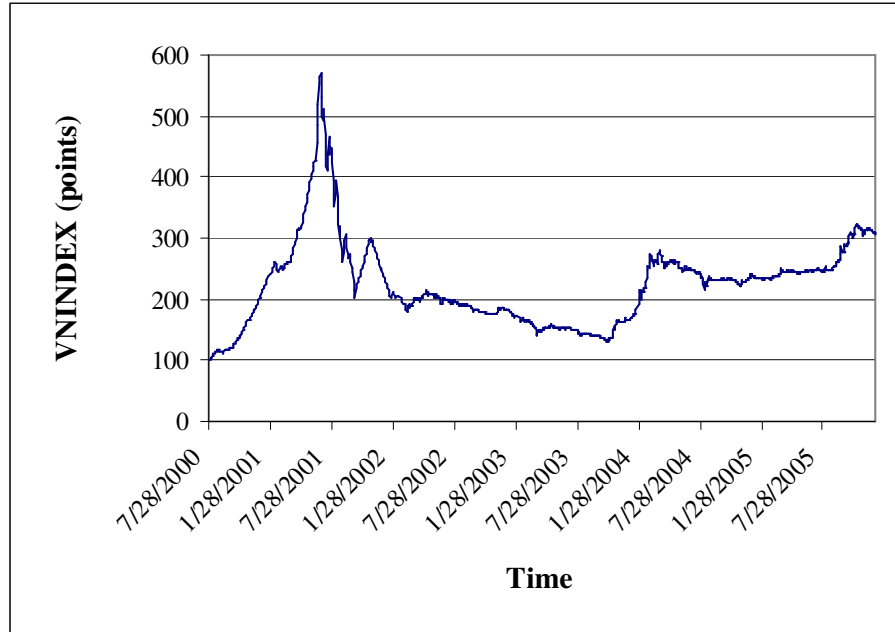


Figure 7.2: VNINDEX changes over the period from July 28th, 2000 to December 31st, 2005

7.5. Comparison of performance between non-listed equitised firms and listed equitised firms

This section provides briefly a comparison of performance between non-listed equitised firms and listed equitised firms for the period from 2002 to 2003. It is noted here that all performance measures are averaged over the period in question. The comparison is summarised in Table 7.4.

Regarding the profitability measures, Table 7.4 shows that listed equitised firms outperform non-listed ones in term of IBTS. Conversely, they underperform non-listed equitised firms in terms of IBTA and IBTE. In addition, it is found from the table that income efficiency of listed equitised firms surpasses that of non-listed equitised firms for the period of 2002-2003. On the other hand, non-listed equitised firms' sales efficiency exceeds listed equitised firms'. Moreover, listed equitised firms' size, measured by real sales and a number of employees, is bigger than non-listed equitised firms'. Specifically, real sales and a number of employees of the former group are VND 187,235 million and 892 employees comparing to VND 123,878 million and 447 employees of the later group respectively. Finally, listed equitised firms have lower debt ratio than non-listed equitised firms. However, all the differences in mean between two groups are statistically insignificant, except the difference in the number of employees.

Table 7.4: Comparison of performance between non-listed equitised firms and listed equitised firms for the period of 2002-2003

Measures	Non-listed equitised firms		Listed equitised firms		Difference in mean between two groups	Z-Statistic for difference in mean between two groups
	N	Mean	N	Mean		
Profitability						
IBTA	79	0.1175	18	0.1153	-0.0022	0.08
IBTS	79	0.0753	18	0.0907	0.0154	0.87
IBTE	79	0.2359	18	0.2220	-0.0139	0.33
Operating efficiency						
Sales efficiency (mil VND)	77	578.4	17	352.5	-225.9	0.77
Income efficiency (mil VND)	77	22.9	17	47.3	24.4	1.45
Real sales (mil. VND)	79	123,878	18	187,235	63,357	1.38
Leverage						
Total debts/total assets	79	0.5173	18	0.4673	-0.0500	0.85
Number of employees	77	447	17	892	445	2.20 ^b

^b: Significant at the 5% level.

7.6. Conclusion

This chapter provides an overall description of the stock market in Vietnam. To be launched on July 28th 2000, the stock market has been supervised by the SSC, an organ belonging to the Ministry of Finance. As of December 31st 2004, 13 securities and 26 listed companies have joined the market. Practically, trading sessions had initially been conducted on Monday, Wednesday and Friday, but as from March 1st 2002, the market has traded daily with two order matching sessions. In addition, at the STC securities transactions are conducted through the fully-computerized trading system, namely Automatic Order Matching and Put Through trading. Especially, foreign investors (institutions and individuals) have been allowed trading on the STC through the securities companies. However, their ownership (aggregation ownership of all foreign investors) in a listed firm is limited at the maximum of 30 percent of the firm's equity.

With the government's great effort, the market has fairly grown in terms of number of listed companies and market capitalisation during its operation period. However, the market has rather been thin with only 26 listed firms with the total market capitalisation of about USD 250.58 millions. On the basis of the market characteristics described in this chapter, it is expected that the

Vietnamese stock market is not efficient, even in the lowest level (the weak form). Tests of the weak form efficiency for the market are conducted in the following chapter.

Appendix 7.1: Securities companies in Vietnam

Name of companies	Capital (VND bil.)	Ownership	Trading on the STC since	Estimated market share* in Jan 04 (%)
Bao Viet Securities Co.	43	100% owned by Bao Viet Insurance; a state-owned insurance company.	Jul. 28, 00	21.1
Bank for Investment & Development of Vietnam Securities Co.	100	100% owned by Bank for Investment & Development of Vietnam; a state-owned bank	Jul. 28, 00	12.4
Asia Commercial Bank Securities Co.	43	100% owned by Asia Commercial Bank, a joint stock bank	Jul. 28, 00	14.4
Thang Long Securities Co.	43	100% owned by Military Bank, a joint stock bank	Jul. 28, 00	5.4
First Securities Co.	43	Privately owned joint stock company	Jul. 28, 00	5.5
Saigon Securities Incorporation	20	Privately owned joint stock company	Jul. 28, 00	23.2
Industry Commerce Bank Securities Co.	55	100% owned by Industry Commerce Bank, a state-owned bank	Nov. 16, 00	7.5
Bank for Agriculture & Rural Development Securities Co.	100	100% owned by Bank for Agriculture & Rural Development, a state-owned bank	Nov. 05, 01	2.5
Vietcombank Securities Co.	60	100% owned by Bank for Foreign Trade of Vietnam; a state-owned bank	Jun. 21, 02	5.7
Mekong Securities Co.	6	Institutions: 30% Individuals: 70%	Apr. 02, 03	0.5
Ho Chi Minh Securities Co.	50	State: 28.8% Institutions: 57.2% Individuals: 14.0%	May 02, 03	1.7
Eastern Asia Bank Securities Co.	21	100% owned by Eastern Asia Commercial Joint Stock Bank	Sep. 15, 04	n/a
Hai Phong Securities Joint Stock Co.	21.75	State: 46% Others: 52%	Oct. 29, 03	n/a

Source: Dragon Capital Group's website, www.dragoncapital.com

** Market shares are calculated based on order matching transactions.*

Appendix 7.2: An illustrated example of VN-Index calculation and maintenance

This appendix illustrates how the VN-Index is calculated and maintained over time by closely examining a simple example as follow. The example is based on trading information of the first some sessions on the STC.

Table: 7.5: Trading information of the first some sessions on the STC

Kind of share	No. of outstanding shares (mil.)	Closing price (VND 1,000)				
		28/07/00	31/07/00	02/08/00	04/08/00	07/08/00
REE	15.000	16.0	16.3	16.6	16.9	17.2
SAM	12.000	17.0	17.2	17.5	17.8	18.1
HAP	1.008	-	-	-	16.0	16.3
TMS	2.200	-	-	-	14.0	14.0

Source: Bank for Investment & Development of Vietnam Securities Company's website, www.bsc.com.vn.

In the first three sessions, only two kinds of share were listed (REE and SAM) on the market. As mentioned already, the VN-Index was set at 100 points on the base date, Jul. 28 2000. Applying formula (1) the VN-Index of Jul. 31st 2000 and Aug. 2nd 2000 are simply computed as follows:

$$\text{VN-Index (Jul. 31}^{\text{st}}) = \frac{16.3 \times 15 + 17.2 \times 12}{16.0 \times 15 + 17.0 \times 12} \times 100 = 101.55 \text{ points}$$

$$\text{VN-Index (Aug. 2}^{\text{nd}}) = \frac{16.6 \times 15 + 17.5 \times 12}{16.0 \times 15 + 17.0 \times 12} \times 100 = 103.38 \text{ points}$$

On Aug. 4th 2000, there are two new companies were listed on the STC (HAP and TMS). However, shares of these companies are not included in calculation the VN-Index for this date because changes in share price of these companies did not exist yet. Therefore, the VN-Index of Aug. 4th 2000 is determined as:

$$\text{VN-Index (Aug. 4}^{\text{th}}) = \frac{16.9 \times 15 + 17.8 \times 12}{16.0 \times 15 + 17.0 \times 12} \times 100 = 105.20 \text{ points}$$

However, after Aug. 4th 2000, the two new listed shares have to be included in the Index calculation. To prevent the value of the Index from changing due to new companies listed, a Divisor adjustment (new Divisor) is required. The new Divisor is calculated by the following formula:

$$D_1 = \frac{V_1}{V_1 - AV} \times D_0 = \frac{V_1}{V_0} \times D_0$$

where:

- D_1 : A new Divisor (adjusted Divisor);
- D_0 ($\sum P_{i0} \times Q_{it}$): The base (last) Divisor;
- V_1 : Total market capitalisation of all kinds of listed share at the time new shares added;
- AV (adjustment value): Market capitalisation of new shares at the time new shares added.
- V_0 : Market capitalisation of old listed shares at the time new shares added.

According to the information above, value of new Divisor (D_1) on Aug. 4th 2000 is:

$$D_1 = \frac{16.9 \times 15 + 17.8 \times 12 + 16.0 \times 1.008 + 14.0 \times 2.2}{16.9 \times 15 + 17.8 \times 12} \times 16.0 \times 15 + 17.0 \times 12$$
$$D_1 = 488,607$$

The VN-Index of Aug. 7th 2000 now is computed as the same way with the first some sessions as follow:

$$\text{VN-Index} = \frac{17.2 \times 15 + 18.1 \times 12 + 16.3 \times 1.008 + 14.0 \times 2.2}{488,607} \times 100 = 106.92 \text{ points}$$

The Index increases 1.72 points on Aug. 7th 2000 compared to the last session (Aug. 4th 2000). The increase is only resulted from increasing in share prices, not regarding to number of new shares listed.

Appendix 7.3: Listed companies on the STC (as of Dec. 31st, 2005)

No	Date of listing	Company	Code	Sector	No. of outstanding common shares	Share price at IPO (1,000 VND)	Share price at Dec. 31 st , 2005 (1,000 VND)
1	Jul. 28, 2000	Refrigeration Electrical Engineering Company	REE	Manufacture	15,000,000	16.0	34.4
2	Jul. 28, 2000	Cable and Telecommunications Material Company	SAM	Manufacture	12,000,000	17.0	47.0
3	Aug. 04, 2000	Hai Phong Paper Joint Stock Company	HAP	Manufacture	2,008,000	16.0	22.8
4	Aug. 04, 2000	Transimex Joint Stock Company	TMS	Transportation	3,300,000	14.0	43.4
5	Dec. 15, 2000	Long An Food Processing Export Company	LAF	Manufacture	1,930,082	17.0	20.3
6	Jul. 12, 2001	Saigon Hotel Corporation	SGH	Hotel	1,766,300	25.2	18.0
7	Oct. 18, 2001	Halong Canned Food Joint Stock Company	CAN	Manufacture	3,500,000	27.1	17.2
8	Nov. 26, 2001	Da Nang Plastics Joint Stock Company	DPC	Manufacture	1,587,280	35.0	12.2
9	Dec. 17, 2001	Bien Hoa Confectionery Company	BBC	Manufacture	5,600,000	27.0	21.9
10	Dec. 26, 2001	Saigon Beverages Joint Stock Company	TRI	Manufacture	3,790,300	29.0	28.0
11	Jan. 02, 2002	Binh Thanh Import-Export Production & Trade Joint Stock Company	GIL	Trade	1,700,000	38.0	32.0
12	Jan. 17, 2002	Binh Trieu Construction and Engineering Joint Stock Company	BTC	Manufacture	1,261,345	21.9	8.1
13	Apr. 11, 2002	Bim Son Packaging Company	BPC	Manufacture	3,800,000	25.0	16.2
14	Apr. 18, 2002	Chau Thoi Concrete Corporation	BT6	Construction	5,882,690	23.9	31.0
15	Apr. 22, 2002	General Forwarding & Agency Corporation	GMD	Transportation	20,000,000	42.5	69.5
16	May 02, 2002	An Giang Fisheries Import & Export Joint Stock Company	AGF	Manufacture	4,179,130	30.0	42.0

Appendix 7.3: Continued

17	May 09, 2002	Savimex Corporation	SAV	Manufacture	4,500,000	25.0	31.0
18	Aug. 29, 2002	Seafood Joint Stock Company No. 4	TS4	Manufacture	1,500,000	16.0	26.0
19	Aug. 19, 2002	Khanh Hoi Import Export Joint Stock Company	KHA	Trade	3,350,000	21.5	21.3
20	Dec. 18, 2002	Hanoi P&T Construction and Installation Joint Stock Company	HAS	Construction	1,200,000	21.5	32.8
21	Feb. 12, 2003	VTC Telecommunications Joint Stock Company	VTC	Manufacture	1,797,740	21.0	32.9
22	Nov. 04, 2003	Petroleum Mechanical Joint Stock Company	PMS	Manufacture	3,200,000	14.5	14.4
23	Mar. 15, 2004	Bach Tuyet Cotton Corporation	BBT	Manufacture	6,840,000	21.6	11.0
24	Apr. 14, 2004	Hoa An Joint Stock Company	DHA	Manufacture	3,500,000	38.5	43.0
25	Sep. 21, 2004	Saigon Fuel Joint Stock Company	SFC	Trade	1,700,000	22.8	28.5
26	Dec. 12, 2005	Kinh Do Corporation	KDC	Manufacture	25,000,000	59.0	54.0
27	Mar. 1, 2005	Southern Seed Joint-Stock Corporation	SSC	Agriculture	6,000,000	30.8	44.0
28	Mar. 21, 2005	HaNoi Maritime Holding Company	MHC	Transportation	6,705,640	19.0	23.3
29	Jul. 11, 2005	Phuong Nam Culture Joint-Stock Corporation	PNC	Trade	2,000,000	16.0	16.6
30	Jul. 20, 2005	Thien Nam Trading Import Export Corporation	TNA	Trade	1,300,000	30.0	31.0
31	Dec. 12, 2005	Kinh Do Corporation	KDC	Manufacture	25,000,000	59.0	54.0
32	Dec. 16, 2005	Nhi-Hiep Brike-Tile Joint Stock Company	NHC	Manufacture	1,336,061	23.0	24.5

Source: The State Securities Commission's website (www.ssc.gov.vn)