

Problems with Foreign-Owned Value of Stock Market

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1. How much is the foreign – wned value of the stock market?

There is a topical question now: How much is foreign investment in the stock market? The answer depends on estimating methods and only some co-operation between the Ministry of Finance, the State Securities Commission and two stock trading centers in HCMC and Hà Nội can give an accurate answer. Even in developed countries, it's always difficult to answer such a question because there is almost no restraint on foreign indirect investment. In Vietnam, information about foreign ownership of the whole market and each company as well could be acquired because of restraints on this ownership. It's hard to know how much money is spent on what stocks at a given time, but we can learn about the value of stock held by foreign investors in the two trading centers at any given time.

We have chosen a time at random, at the end of June 19, 2007, and got data from websites of the Hà Nội Stock Trading Center and the Bulletin, number 111, issued by the HCMC Stock Trading Center on June 19, 2007. The exchange rate of the VND to the dollar is based on the average rate offered by the Operation Center of the Bank for Foreign Trade publicized on its website.

The difference between total room and current room publicized on the HCMC Stock Trading Center Bulletin reflects the quantity of stock held by foreign investors. The value of this amount of stocks equals the closing prices multiplied by the amount of stocks they hold.

The website of the Hà Nội Center supplies data about legal capital and capitalization of each company. If a company issues all of its shares registered, the number of shares in circulation can be obtained by dividing the legal capital by 10,000. We can know the total room of each company because foreign investors are allowed to hold 49% of the any company, and 30% of a bank, at most. The Hà Nội website supplies updated current room, which allows us to calculate the number of shares they hold.

This study is limited to companies listed in the HCMC Center and their shares are registered for trade in the Hà Nội Center. Thus, it doesn't deal with purchase or sale by foreign investors of un-

listed shares and bonds. Within this limit, the study produces the following results.

a. *Value of listed companies held by foreign investors*

The Table 1 shows the difference in foreign ownership of companies listed in HCMC Center. The upper part of the table comprises 14 companies where the foreign ownership is bigger than VND1,000 billion while the lower part includes companies that fail to attract foreign investors because of various reasons.

Table 1: Value of companies listed in the HCMC Center held by foreign investors on June 19, 2007

Class	Company	Capitalization (VND1,000)	Foreign investment (VND1,000)
High-est foreign ownership	VNM	32,425,998,950	14,254,264,856
	FPT	27,911,895,264	8,281,004,301
	STB	15,043,772,232	4,513,131,166
	REE	9,104,401,692	4,461,156,829
	GMD	6,734,363,275	3,455,724,535
	SAM	6,177,505,620	3,026,977,754
	KDC	7,199,649,600	2,844,984,240
	PPC	21,127,600,000	2,363,529,108
	VSH	8,312,500,000	1,908,217,168
	PVD	11,220,000,000	1,835,341,200
	ITA	8,460,000,000	1,669,018,410
	TDH	3,156,449,380	1,607,689,614
	BMP	2,730,946,400	1,337,560,056
	CII	2,100,000,000	1,029,000,000
Lowest foreign ownership	VGP	213,676,100	1,356,839
	DIC	127,680,000	1,253,658
	BTC	36,214,465	1,145,164
	NSC	189,000,000	896,490
	VTB	469,000,000	835,490
	TMC	187,182,220	644,590
	LGC	110,000,000	501,600
	VTG	94,800,000	433,710
	VIS	480,000,000	421,920
	HBD	59,865,000	136,890
Total value of the market		214,859,525,761	61,992,935,983
In the USD		13,336,200,469	3,847,863,943
As % of the total			28.85%

Source: Bulletin of the HCMC Stock Trading Center, No 111, June 20, 2007 and author's calculations

In the whole market, if the VNMVF1 and PRUBF1 funds are not taken into account, on June 19, 2007, foreign investors held some VND62,000

Table 2: Foreign-owned value of companies registered for trade in Hà Nội Center on June 19, 2007

Class	Company	Capitalization (VND1,000)	Foreign investment (VND1,000)
Highest foreign ownership	ACB	16,456,696,538	4,937,008,961
	BVS	6,270,000,000	1,484,339,736
	SSI	8,390,000,000	1,076,879,992
	BCC	3,465,000,000	395,585,152
	MPC	3,462,000,000	313,461,020
Lowest foreign ownership	DTC	15,500,000	9,300
	NST	100,161,000	7,180
	BHV	22,680,000	2,520
	STC	158,112,000	-
	VTB	31,000,000	-
Total value of the market (VND1,000)		68.763.341.820	10.498.737.069
In the USD		4.268.098.927	651.650.243
As % of the total			15,27%

billion (or US\$3.848 billion) out of the capitalized value of VND215,000 billion (or US\$13.336 billion) equaling 28.85% of the total value of the market.

In the Hà Nội market, there are only three companies where the foreign-owned value is bigger than VND1,000 billion. Regarding the capitalized value, the HCMC market is 3.12 times bigger than the Hà Nội one and the foreign-owned value in HCMC market is 5.9 times bigger than that in the Hà Nội market. Foreign investors hold only 15.27% of the value of the Hà Nội market.

The capitalized value of the Hà Nội market amounted to US\$4.268 billion and the foreign ownership was US\$652 million. Thus, the foreign-owned investment in the two centers was US\$4.5 billion, much higher than the estimate by mass media, not to mention foreign indirect investment in unlisted companies and bonds. Taking the two centers as a whole, foreign investors controlled 25.56% of the market.

b. Proportion of foreign ownership in companies listed and registered for trade

Table 3 shows the amount of shares held by foreign investors in the HCMC Center. There are 15 companies where foreign investors hold up to 40%, and in seven of which they have bought all of the room allowed. Meanwhile, there are 10 companies where foreign ownership is less than 1%. Generally they hold 23.8% of the total number of shares, or 53% of the quantity allowed for foreign ownership.

In the Hà Nội Center, there are still large rooms for foreign investors. There are only two companies where the foreign ownership topped the 40% mark

Table 3: Foreign ownership in companies listed in HCMC on June 19, 2007

	Company	Shares held by foreign investors	As % of the total
Highest foreign ownership	REE	28,057,590	49.00%
	SAM	18,345,320	49.00%
	CII	14,700,000	49.00%
	AGF	3,864,913	49.00%
	GMD	22,294,997	49.00%
	TDH	8,329,998	49.00%
	BMP	6,824,286	48.98%
	GIL	2,227,680	48.96%
	TYA	2,364,850	48.95%
	IFS	2,804,206	48.94%
	BT6	4,885,487	48.85%
	TMS	2,515,029	47.54%
	VFMVF1	22,104,080	44.21%
	VNM	77,050,080	43.96%
	TS4	1,236,230	41.21%
Lowest foreign ownership	NSC	14,230	0.47%
	VTB	18,300	0.46%
	LGC	4,560	0.46%
	VID	35,550	0.42%
	CLC	34,166	0.34%
	TMC	8,830	0.33%
	HMC	44,830	0.28%
	HBD	3,510	0.23%
	VTB	12,470	0.18%
	VIS	8,790	0.09%
Average (excluding state ownership)			16.89%
Total shares and certificates in circulation		2,055,252,358	
Foreign-owned shares and certificates		489,084,145	
As % of the total		23.80%	

Source: Bulletin of the HCMC Stock Trading Center, No 111, June 20, 2007 and author's calculations

and two companies where foreign investors bought all the quantity allowed. At the other end, five companies could only sell no more than 1,500 shares to foreign investors. Thus, foreign investors held only some 12% of shares registered for trade in the Hà Nội Center.

Taking the two centers as a whole, foreign investors are holding 589 million shares, or 20.32% of the total shares issued on the two centers.

2. Common trend among foreign investors: more purchase and less sale

In the HCMC Center, out of 83 months, from August 2000 to June 2007, there are only three months in which foreign investors sell more and buy less. For every 100 shares they buy over 14 and sell some four ones. In the seventh year in particular, they

Table 4: Foreign ownership of stocks traded in Hà Nội on June 19, 2007

	Company	Shares held by foreign investors	As %
With big foreign ownership	TKU	8,031,612	49.0%
	GHA	5,731,607	44.4%
	TLC	3,092,800	31.0%
	ACB	33,001,397	30.0%
	BVS	3,551,052	23.7%
	NBC	1,248,300	20.8%
	SSI	6,417,640	12.8%
	BBS	503,580	12.6%
	BCC	10,274,939	11.4%
	NTP	1,655,421	11.3%
With small foreign ownership	BHV	100	0.0%
	VFR	1,500	0.0%
	NST	200	0.0%
	STC	-	0.0%
	VTs	-	0.0%
Average (excluding state ownership)			4.10%
Total shares in circulation		841,841,120	
Foreign-owned shares		99,739,106	
As % of the total		11.85%	

Source: <http://www.hastc.org.vn> and author's calculations

bought 119 million shares making the total number of shares they owned amount to 489 million ones. This means that they owned some 326 million shares before they were listed. In other words, some two third of shares they held had been bought

Table 5: Changes in foreign ownership of shares in 2000-2007

Year	Average proportion of foreign ownership to the market		Changes in foreign ownership	
	Purchase	Sale	1,000 shares	VND million
1	0.5%	0.0%	69.60	6,859.10
2	7.0%	2.1%	1,729.80	52,847.78
3	7.9%	0.5%	1,769.83	49,765.07
4	23.8%	3.2%	11,925.81	403,431.34
5	16.5%	3.7%	4,609.68	159,043.32
6	18.6%	5.8%	24,433.01	1,651,693.75
7 (up to June, 2007)	26.3%	11.1%	119,102.66	16,146,243.45
Average	14.4%	3.8%		
Total				18,469,883.81

Source: <http://www.vse.org.vn> and author's calculations

before listing, or more exactly, at the time of equitization. The Table 5 also shows that they spent over VND18,000 billion (over US\$1 billion) on shares after they were listed.

3. Some remarks

- In both centers, the foreign ownership in terms of quantity (23.8% and 11.9%) is rather low in comparison with the ownership in terms of value (28.9% and 15.3%). This means that foreign investors pay more attention to large -scale and trust-worthy companies.

- The relation between the capitalized value of the company and part of capital held by foreign investors. In HCMC, the coefficient of those two values is +0.303. With 109 companies and funds participating in the market, this coefficient is big enough (t-stat = 3.29) to ensure a direct proportion between the company size and foreign participation. In Hà Nội, the coefficient is even bigger: +0.430 (t-stat = 4.345). This means that foreign investors prefer companies with big capitalized values.

- Studying relations between profit ratio, inflation rate and foreign ownership in HCMC within two months, we remark that there was a reverse proportion of foreign ownership proportion to the risk of company shares in June 2007 because the coefficient of correlation between those two variables was -0.403 (t-stat = 4.549). Meanwhile, there was no clear relation between the ownership proportion and past profit ratio (the coefficient stay around +0.046). Conclusion is that foreign investors, when deciding on investment, worry about risks involved in the local market (which is two times higher than the international average) and pay no much attention to profit generated by the inflation risk. In other words, they are taking a long view.

4. Conclusion

Without taking into account the OTC and bond markets, foreign investors are holding some US\$4.5 billion worth of shares in the two centers. They tend to put money in the HCMC market because assets in this center are six times bigger than ones in Hà Nội. Some recent surveys show that foreign investors pay more attention to companies with big capitalized value and low degrees of risk, instead of the profit ratio generated by the inflation risk.

At the macroeconomic level, there are three questions: (1) Is it an open market when foreign investors hold one fourth of the total value of shares? (2) If their role is so important, when will restraints on their ownership be removed? and (3) Is it necessary to list shares in foreign markets when foreign investors have bought all of what are allowed for them?■

Reference:

1. <http://www.ssc.gov.vn>
2. <http://www.vse.org.vn>
3. <http://www.hastc.org.vn>
4. <http://www.vcb.com.vn/vn/tygia/chinhhanh/vcbbrn1.asp>