

**Market strategy**

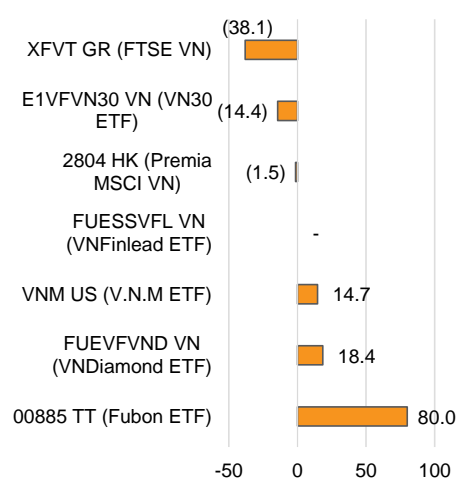
20 Jul 2021

**ETF MONITOR**

**How new rules will change the VN DIAMOND**

- The Ho Chi Minh Stock Exchange (HOSE) has made revision on VN DIAMOND index criteria of listing period, market capitalization, liquidity and foreign ownership limit which will be effective since this Oct 2021.
- We estimate that CTD and TCM may be excluded from VNDiamond index due to this index rule change and weight of EIB, VIB, MWG and PNJ will likely be reduced due to their low liquidity ratio.

Figure 1: 3 months fund flow into ETFs as at 16 Jul 21 (US\$m)

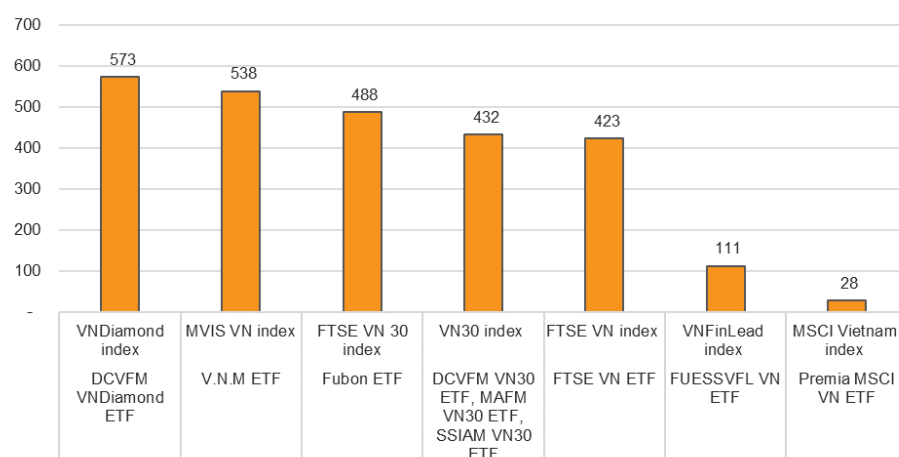


Source: VND RESEARCH, Bloomberg

**VN DIAMOND is the largest index in term of fund-tracking NAV**

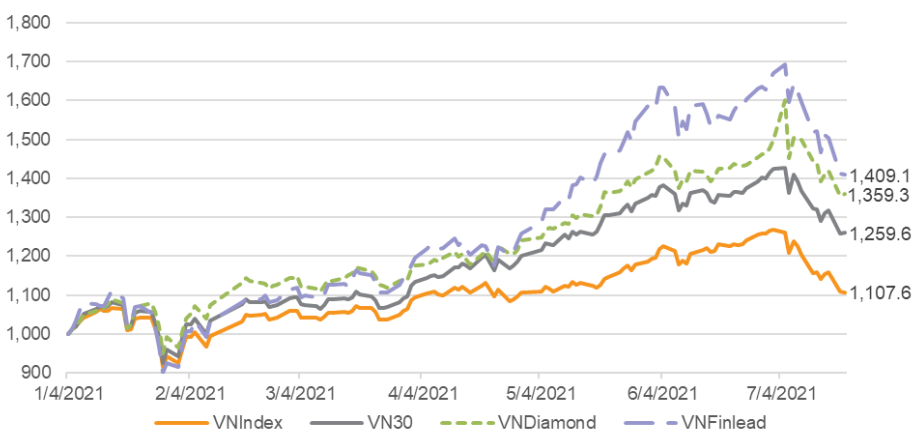
VNDiamond ETF, tracks on VN Diamond index, has recorded an impressive growth of 149.1% ytd in net asset value (NAV) to US\$573mn, to the largest ETF so far. Besides, VN Diamond index has surged 35.9% ytd, outperforming than that of VN Index (10.7%) and VN30 Index (25.9%).

Figure 2: Total ETF's NAV tracked on Indexes (data as at 16/7/2021)



SOURCES: VND RESEARCH, Bloomberg, ETF's website

Figure 3: Performance of VNDiamond, VNFinlead, VNIndex and VN30 in 2021 (Rebased to 1000 at 4/1/2021)



SOURCES: VND RESEARCH

**Analyst(s):**



**Bach Phan Nhu**

[bach.phannhu@vndirect.com.vn](mailto:bach.phannhu@vndirect.com.vn)

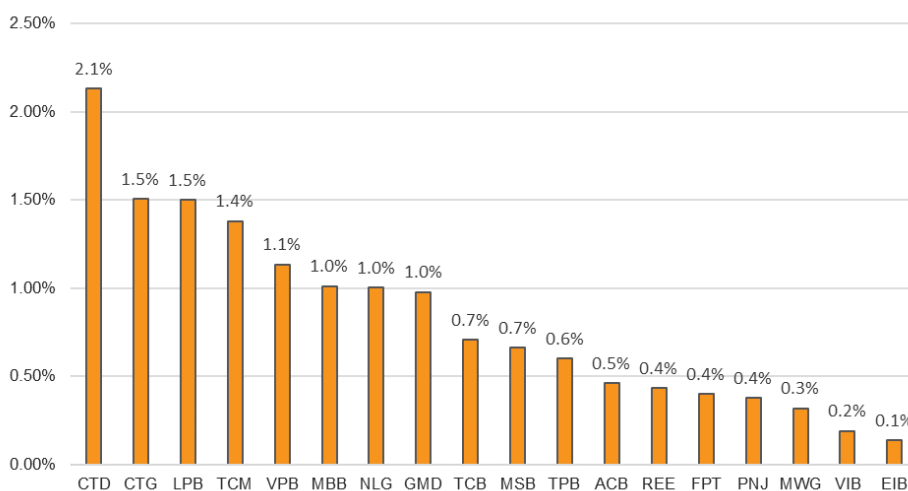
### How the new rules will change the securities basket of VN DIAMOND index ?

The Ho Chi Minh Stock Exchange (HOSE) has announced some changes in VNDiamond index rule on 15 Jun 2021 and is expected to take effect in Oct 2021 review period. In our view, the new rules will tighten some criteria of listing time, capitalization, liquidity and foreign ownership limit in order to enhance the quality of index.

According to our estimation basing on new rules, some stocks will be affected by new rules as following:

- New rule requires eligible stock of VNDiamond must have freefloat adjusted market capitalization larger than VND2,000bn, this mean **CTD** and **TCM** may be excluded from VNDiamond index if they cannot maintain freefloat adjusted market capitalization greater than VND2,000bn in the next review period.
- New rule applies liquidity ratio into index calculation, this mean stocks with lower liquidity ratio will be reduced its weight in VNDiamond index. Based on data in Jun 2021, the weight of **EIB**, **VIB**, **MWG** and **PNJ** will likely be reduced due to their current low liquidity ratio.
- New rule also tightens the VNDiamond's FOL ratio screen, leads to stocks with foreign ownership limit set by company will have less chance to enter VNDiamond. For example, **SHB** and **BVB** are planning to lower their foreign room limit to 10% and 5% respectively and targeted to move to HOSE in future. Even though these stocks always maintain full room, they will also not be eligible to enter VNDiamond.

**Figure 4: Liquidity ratio of VNDiamond stock (data as at Jun 2021) - Lower liquidity stock will be reducing their weight in VNDiamond index**



SOURCES: VND RESEARCH, Fiiipro

**Figure 5: VNDiamond's rule changes**

Criteria / Rules	Version 1.0 (2019)	Version 2.0 (Jun 21)	Impact assessment (based on VNDiamond in T7/21 and data as at Jun 21)
Listing time condition	There are at least <b>20 consecutive trading days</b> on HOSE up to the closing date of the index review period.	There are at least <b>3 months</b> on HOSE up to the closing date of the index review period.	Newly listed stocks from Jun 2021 will have to wait until the Apr 2022 review to be able to enter the VNDiamond basket if eligible.
Market capitalization condition	Minimum market capitalization of VND2,000bn	Minimum <b>freefloat adjusted</b> market capitalization of VND2,000bn	<b>CTD</b> and <b>TCM</b> may be excluded from VNDiamond in the next period if the freefloat adjusted market capitalization is less than VND2,000bn.
Liquidity conditions	The minimum daily trading value of <b>VND3bn</b> (for stock of VNDiamond in the previous period) or <b>VND5bn</b> (for stock not belonging to VNDiamond in the previous period) are eligible to be considered for VNDiamond.	The minimum daily trading value of <b>VND8bn</b> and the daily trading volume of <b>100k shares</b> (for stocks of VNDiamond in the previous period) or daily trading value of <b>VND10bn</b> and daily trading volume of <b>200k shares</b> (for stocks not belonging to VNDiamond in the previous period) are eligible to be considered for VNDiamond	Existing stocks still qualify. This is the criterion to improve the quality of constituents in VNDiamond.
FOL conditions	FOL ratio = Foreign ownership / Foreign ownership limit	FOL ratio = Foreign ownership / Foreign ownership limit <b>* For banking stocks: Foreign ownership limit = Max(Foreign ownership limit set by company, 20%)</b> <b>* For non-banking stocks with Foreign ownership limit &lt;= 49%: Foreign ownership limit = 49%</b> <b>* For non-banking stocks with Foreign ownership limit &gt;= 49%: Foreign ownership limit = 100%</b>	<b>* Stocks with Foreign ownership limit set by company will have less chance to enter VNDiamond due to Foreign ownership limit will only be at &gt;= 20%, 49% and 100%.</b> <b>* SHB and BVB</b> (if move to HOSE) are banks that adjust their Foreign ownership limit to only 10% and 5% will not be considered for VNDiamond even if they meet other criteria.
P/E conditions	Eligible stocks must have P/E in range of 0 to 3 times average P/E	<b>* Eligible stocks of VNDiamond in previous period must have P/E in range of 0 to 3 times the average P/E</b> <b>* Eligible stocks of non-VNDiamond in previous period must have P/E in range of 0 to 2 times the average P/E</b>	Existing stocks still qualify. This is the criterion to improve the quality of constituents in VNDiamond.
Selecting index basket criteria	The minimum number of stocks in the index basket is 10 and the maximum is 20. The minimum FOL of the stock of VNDiamond in the previous period was at least 90%.	The minimum number of stocks in the index basket is 10. The minimum FOL of the stock of VNDiamond in the previous period was at least 80%.	Removing the limit on the maximum number of stock of VNDiamond helps the index to be more diversified and more attractive stocks to be included in the index in the future.
Adjust the index calculation formula	Index = (price x number of shares x freefloat x capping ratio) / Divisor	Index = (price x number of shares x freefloat x capping ratio x <b>wFOL x wL</b> ) / Divisor <b>* Adding a FOL ratio weight to index calculation formula: wFOL, new stocks of VNDiamond will be subject to a lower wFOL weight limit.</b> <b>* Adding a liquidity ratio weight to index calculation formula: wL, stocks with low liquidity will have a lower wL.</b>	<b>* New stocks in VNDiamond basket will have lower weighted and have less impact on the index.</b> <b>* Stocks with low liquidity will have less impact on the index, such as EIB, VIB, MWG and PNJ.</b>
Adding more stocks to VNDiamond when there is an industry subject to the 40% weight limit threshold		Adding a condition when there is a 40% weight limit for an industry: if the number of stocks outside the industry subject to the 40% weight limit is less than 8 stocks, the stocks outside the industry will be added to make 8 stocks in index. Additional conditions when there is a 40% weight limit for 2 industries: if the number of stocks outside the industry subject to the 40% weight limit is less than 3 stocks, the stocks outside the industry will be added to make 3 stocks.	This is a criterion to help maintain the diversification of the industry portfolio in VNDiamond and help increase the quality of the index in the future.

Source: VNDIRECT RESEARCH, HOSE

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### RECOMMENDATION FRAMEWORK

#### Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Hien Tran Khanh – Head of Research

Email: [hien.trankhanh@vndirect.com.vn](mailto:hien.trankhanh@vndirect.com.vn)

#### Bach Phan Nhu – Analyst

Email: [bach.phannhu@vndirect.com.vn](mailto:bach.phannhu@vndirect.com.vn)

#### VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: [research@vndirect.com.vn](mailto:research@vndirect.com.vn)

Website: <https://vndirect.com.vn>