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Oil-Importing Frontier Markets Are Poised to Gain

After a dismal year for frontier stock markets, investors are finding pockets of opportunity

By Dan Keeler, Updated Dec. 4, 2015 7:50 p.m. ET



Vietnam's Ho Chi Minh Stock Exchange. Stocks in Vietnam could benefit from falling oil prices. *PHOTO: BRENT LEWIN/BLOOMBERG NEWS*

Frontier markets have been pummeled over the past year, but some investors are finding pockets of opportunity. Investors are betting that low oil prices, which helped drive the benchmark MSCI Frontier Markets Index down 19.4% over the past year through Friday, will boost many frontier stock markets by reducing costs and freeing consumers to spend more, which can help drive domestic economic growth.

Falling oil prices have been a factor in the index's decline because it is heavily weighted toward oil exporters such as Nigeria and Kuwait. Over the past year, Nigeria's All-Share Index is down 13% and Kuwait is off 11%. But many frontier markets, such as Pakistan and Vietnam, are net oil importers. Analysts and investors say they stand to benefit over the longer term as consumers, companies and governments find other ways to spend the money they are saving on fuel.

“Many of our investors are seeing the downturn as a buying opportunity,” said Asha Mehta, who manages Acadian Asset Management’s \$424 million Frontier Markets Equity Fund, which fell 8.7% for the year through Nov. 30, much less than the MSCI index. Ms. Mehta, who says her fund has had steady inflows over the past year, says Vietnam stands out among frontier economies for its relative ease for investors to buy and sell stocks with broad diversification across sectors.

Vietnam, whose economy has been growing between 5% and 7.5% a year for the past decade, according to the International Monetary Fund, also has been singled out by some analysts as the country that [should benefit most from the Trans-Pacific Partnership](#), which if ratified is expected to provide its exporters much greater access to the coveted U.S. market. The country’s Ho Chi Minh Stock Index is up almost 5% this year through Friday and more than 50% over the past three years. The biggest company in the index with a market capitalization of \$6.6 billion, Vietnam Dairy Products, is a longtime favorite among investors amid a strong growth outlook for dairy consumption in the country and the Asian region. Its shares are up 48% over the past year.

Growing consumer spending is a major focus for frontier investors, along with rapid population growth, an emerging middle class and the economic benefits of technological and infrastructure improvements. Research firm Capital Economics says there are signs that consumer spending in oil-importing emerging markets is accelerating. In emerging Asia excluding China, it expects growth in consumer spending to rise from the 3.9% annual average of the past decade to an average 4.7% a year from 2015 to 2020.

Even without the beneficial impact of lower fuel costs, frontier economies such as Bangladesh and Sri Lanka have been growing strongly. The International Monetary Fund forecasts that each will grow by 6.5% in 2015, while Egypt, Morocco and Pakistan will all exceed 4% growth in gross domestic product.

Pakistan, with a population of more than 180 million, a government focused on improving the business environment and heavy investment planned in infrastructure, is attracting fund managers’ attention despite a stock index that already has almost doubled in the past three years.

Alison Graham, chief investment officer of frontier hedge fund Voltan Capital Management, says the poor performance of the MSCI frontier index could be masking specific opportunities. “Excluding commodity exporters, frontier markets are not doing poorly at all,” she said.

Ms. Graham highlights Jamaica, a market in which she invested in 2014. Its stock-exchange index is up 97% over the past 12 months. “It might take a breather at some point, but it’s still inexpensive,” she said.

Some of the country’s biggest companies have been driving the gains, including National Commercial Bank, which has doubled over the past year, and Red Stripe brewer Desnoes & Geddes, which quadrupled on takeover news in October.

Fund managers say it will be some time before they see the sort of rapid gains they enjoyed in 2013, when [Morgan Stanley](#)’s institutional frontier fund, for example, rose more than 30%. Mark Mobius, executive chairman of the emerging-markets group at Franklin Templeton, which has \$1.6 billion under management in frontier markets, is circumspect: “I expect frontier markets generally to maintain a sideways trend in the short term,” he said. “Longer term, the prospects are good in view of the higher economic growth in most of the frontier-market countries.”