

# VinaCapital Vietnam Opportunity Fund (AIM: VOF)



Investment Manager's monthly update 30 September 2014

## Fund background

VinaCapital Vietnam Opportunity Fund (VOF) is a closed-end fund trading on the AIM Market of the London Stock Exchange.

ISIN: KYG9361Y1026  
Bloomberg: VOF LN  
Reuters: VOF.L

## Investment objective

Medium to long-term capital gains with some recurring income and short-term profit taking. Primary investment focus areas are: privately negotiated equity investments; undervalued/distressed assets; privatization of state-owned enterprises; real estate; and private placements into listed and OTC-traded companies.

[Click here for VOF's website.](#)

## Fund managing director

Andy Ho

## Investment manager

VOF is managed by VinaCapital Investment Management Ltd (VCIM) and requires investment approvals from a six member internal Investment Committee.

[More information about VCIM is available here.](#)

## Manager's comment

As at 30 September 2014, VOF's net asset value was USD823.1 million, or USD3.49 per share, representing a 0.7 percent decrease from a net asset value per share of USD3.51 as at 31 August 2014. During the month, the capital markets component of VOF's portfolio, decreased 1.7 percent, outperforming the VN Index which decreased 6.1 percent in USD terms underpinned by a 13.4 percent decrease in PetroVietnam GAS (GAS) shares, which has the heaviest weighting on the VN Index. VOF investee companies Phu Nhuan Jewellery (PNJ), DIC Group (DIG) and Da Nang Rubber Company (DRC) outperformed the market having increased 12.6, 12.1, and 6.1 percent, respectively.

On 26 September 2014, VOF announced that the Company finalized the Share Purchase Agreement ("SPA") to divest its stake in An Giang Plant Protection JSC (AGPP), to Standard Chartered Private Equity after completing all required conditions precedent. VOF sold its 23.6 percent stake in AGPP for USD63.1 million in cash or VND85,000 per share, representing an IRR of 23.7 percent over a period of five years. The value of this transaction represented a premium of 22.0 percent over the 31 May 2014 net asset value, the last recorded value, prior to receiving an offer for the shares.

## Capital markets

The VN Index reached its near-term peak of 640 at the beginning of September, before gradually declining to close the month at 598.8. The MSCI Asia ex-Japan and MSCI Emerging Markets indices decreased by 6.0 and 7.6 percent, respectively. Trading value and volume on Vietnam's stock exchanges was USD3.6 billion on 4.7 billion shares, an increase of 37.5 percent in terms of value while volume increased by 32.2 percent compared to the previous month. The combined market capitalization for both of Vietnam's bourses was USD57.4 billion compared to USD60.2 billion a month ago. The VN Index traded on a trailing P/E of 15.0x and P/B of 2.0x according to Bloomberg.

Foreign investors were net sellers of Vietnamese equities in September, accounting for a net selling of USD40.5 million. Some of the most acquired companies in September were PetroVietnam Drilling (PVD), FLC Group JSC (FLC), Pha Lai Thermal Power (PPC), Kinh Do Corporation (KDC) and Becamex Infrastructure Development (IJC) while companies such as Vincom Group (VIC), Gemadept Corporation (GMD), PetroVietnam Gas (GAS), Phu My Fertiliser (DPM) and Tan Tao Investment Industry Corporation (ITA) were among the most divested.

## Performance summary

30 September 2014

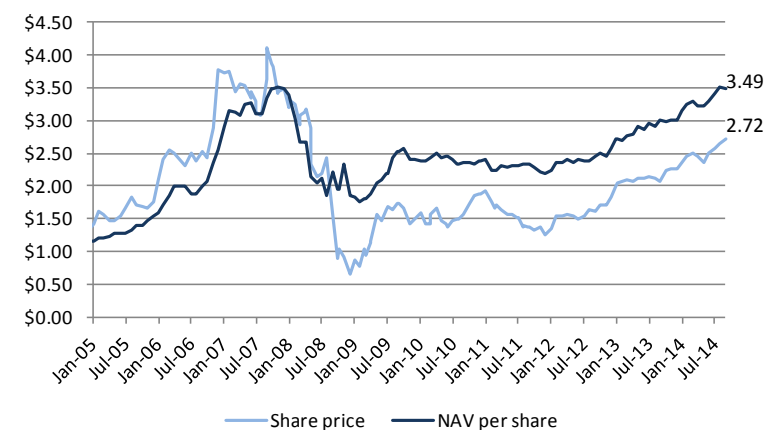
NAV per share (USD):	3.49
Change (Month-on-month)	-0.7%
Total NAV (USD 'm):	823.1
Share price (USD):	2.72
Market cap (USD 'm):	640.3
Premium/(discount)	-22.2%

## Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	6.1	16.2	50.0	37.7
Share price (USD)	8.5	31.8	97.5	56.0

## Annual performance history (% change)

	CY	2014	2013	2012	2011	2010
NAV per share (USD)		16.1	15.0	17.4	-7.6	-1.6
VN Index (USD terms)		18.0	20.4	18.9	-25.6	-7.2



## Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's gross domestic product (GDP) growth reached 6.2 percent in the third quarter of 2014, bringing year-to-date 2014 GDP growth to 5.6 percent. We are starting to see some positive effects from the lowering of the corporate income tax rate from 25 to 22 percent at the beginning of the year. The government continues to support its target of 5.8 percent GDP growth for 2014.

Vietnam's month-on-month consumer price index (CPI) increased 0.4 percent in September, bringing the year-on-year inflation rate to 3.6 percent. Price changes were driven by an increase in education costs (6.8 percent), due to the beginning for the school year. Petroleum prices fell 1.9 percent during the month, reflecting several price cuts over the past several weeks.

FDI disbursements, an important capital inflow and major source of support for the VND, reached USD8.9 billion as of September 2014, up 3.2 percent over the same period last year, while new FDI commitments over the same period fell 17.8 percent behind last year's record, albeit the comparison is skewed as several large commitments were signed late in 2013 for major projects like Samsung's mobile phone and electronics factories.

Year-to-date to September 2014, South Korea remains the highest contributor to FDI with USD3.6 billion registered, followed by Hong Kong, Japan and Singapore. Samsung has the largest investment project registered in 2014 at USD1.0 billion, followed by Dai An Vietnam-Canadian International Hospital worth USD225.0 million and Texhong Hai Ha Industrial Park from China worth USD215.0 million. To date, Samsung has a total registered investment capital of USD8.0 billion for the manufacturing of mobile phones and electronic devices and produces 120 million smart phones, or 30 percent of their worldwide sales, from factories located in Vietnam.

In the coming months leading to the end of 2014 and into 2015, we believe the economy will remain stable and resilient, enough to overcome tensions such as those experienced with China in May and June of 2014. After a short period of heightened tensions, China related anxieties have subsided especially after the oil-rig removal one month ahead of schedule. The visit to China by a high-ranking Vietnamese official also contributed to a normalization of relations. The economic effects have been muted as major indicators such as bilateral trading, investment flows, and state to state contacts, have remained uninterrupted. Latest figures showed that trade flows between the two countries have remained on track and stayed on a par with 2013. Chinese investments in Trans-Pacific Partnership related industries such as fabrics and textiles have shown no signs of being scaled back. We believe the bilateral economic and financial relationships between Vietnam and China are of mutual benefit and sustainable going forward.

## Fixed income

The primary bond market witnessed weaker demand during September, with a total of just USD600 million worth of government and government-backed bonds issued, representing a decline of 42.2 percent from August (USD1.04 billion). New bond issues were limited in September and no bonds were offered with less than a five year tenor, given the government has achieved 81 percent of its annual target. The secondary bond market rebounded from last month with trading volume increasing 29.1 percent to USD2.88 billion worth of bonds transacted. Secondary government bond yields continued their decline, falling between 32 and 96 basis points across the yield curve.

## Macroeconomic indicators

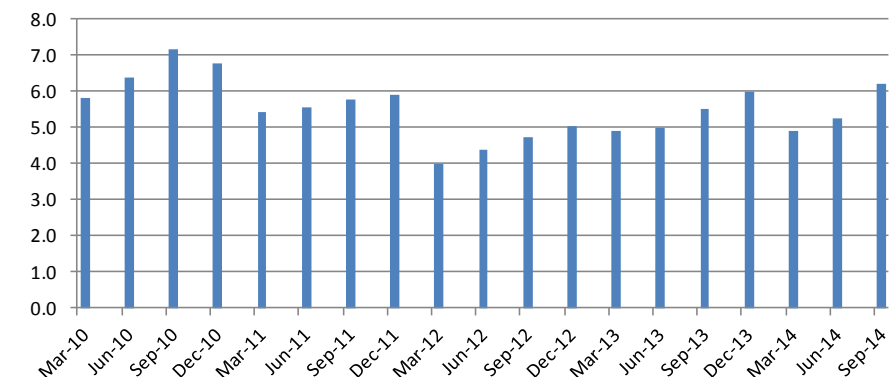
	2013	Sep-14	2014 YTD	Year-on-year
GDP growth <sup>1</sup>	5.4%	6.2%	5.6%	
Inflation	6.0%	0.4%	2.2%	3.6%
FDI (USDbn)	21.6	0.4	7.6	-17.80%
Imports (USDbn)	131.3	13.0	107.2	11.1%
Exports (USDbn) <sup>2</sup>	132.2	12.4	109.6	14.1%
Trade surplus/(deficit)	0.9	-0.6	2.4	
Exchange rate (USD/VND) <sup>3</sup>	21,115	21,245	-0.6%	
Bank deposit rate (VND)	7.5%	6.5%	-100 bps	

Sources: GSO, SBV, VCB | 1. Annualized rate, updated quarterly 2. Includes gold 3. (-) Denotes a devaluation in the currency, Vietcombank ask rate

## Government bond yields (%)

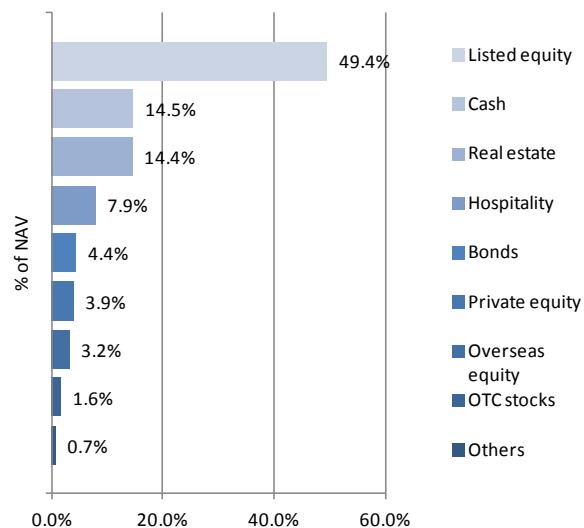
	1yr	2yr	3yr	5yr
August-14	4.65	5.11	5.43	6.42
September-14	4.33	4.67	4.92	5.46

## Quarterly GDP growth (%)

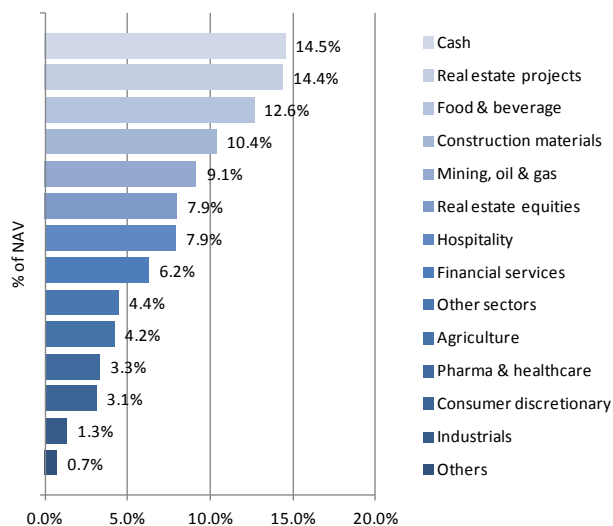


■ Quarterly GDP growth (%)

## Portfolio by sector



## Portfolio by sector



## Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	9.8	Food & beverage	Leading dairy company with dominant market share.
Hoa Phat Group (HPG)	8.4	Capital markets	Largest steel manufacturer.
Sofitel Legend Metropole Hotel Hanoi	7.9	Hospitality projects	Vietnam's top city-centre hotel.
Eximbank (EIB)	4.3	Financial services	One of the top ten commercial banks.
PetroVietNam Drilling and Well Services JSC (PVD)	4.0	Mining, oil & gas	Leading drilling contractor in South East Asia.
Petrovietnam Technical Services Corporation (PVS)	3.9	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Hau Giang Pharmaceuticals (DHG)	3.3	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
Century 21	2.9	Real estate projects	HCM City residential development.
VinaLand Ltd (AIM: VNL)	2.5	Real estate projects	VCIM-managed Vietnam real estate fund.
Danang Beach Resort	2.2	Real estate projects	Resort villas with sales underway.
<b>Total</b>	<b>49.2</b>		

## Share buyback commentary

The Board and Investment Manager remain fully committed to the ongoing share buyback programme.

During the month, VOF bought back 862,000 shares as part of the share buyback authority granted to the Company's Board of Directors.

Since the commencement of the programme, VOF has spent USD172.7 million overall repurchasing 88,773,031 shares which are held as treasury shares and have reduced the total voting rights in the Company to 235,837,228. The total number of shares acquired since November 2011 represents 27.35 percent of the Company's 324,610,259 ordinary shares in issue. As a result of the Company's share buyback programme, VOF has recorded USD0.42 in cumulative accretion, equating to a 13.5 percent benefit to VOF's net asset value per share.

## Board of Directors

VOF's Board of Directors is composed of a majority of independent non-executive directors.

Member	Role
Steven Bates	Non-executive Chairman (Independent)
Martin Adams	Non-executive Director (Independent)
Martin Glynn	Non-executive Director (Independent)
Michael G. Gray	Non-executive Director (Independent)
Thuy Dam	Non-executive Director (Independent)
Don Lam	Non-executive Director

## VinaCapital Investment Management Ltd (VCIM)

Member	Role
Don Lam	Chief Executive Officer
Brook Taylor	Chief Operating Officer
Andy Ho	Chief Investment Officer
Duong Vuong	Deputy Managing Director, Capital Markets
Dang P. Minh Loan	Deputy Managing Director, Private Equity

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## Fund summary

**Fund launch:** 30 September 2003

**Term of fund:** Five years subject to shareholder vote for liquidation (next vote to be held in 2018)

**Fund domicile:** Cayman Islands

**Legal form:** Exempted company limited by shares

**Investment manager:** VinaCapital Investment Management Ltd

**Structure:** Single class of ordinary shares trading on the AIM market of the London Stock Exchange plc.

**Auditor:** PricewaterhouseCoopers (Hong Kong)

**Nominated adviser:** Grant Thornton UK LLP

**Custodian and Administrator:** HSBC Trustee

**Brokers:** Edmond de Rothschild Securities (Bloomberg: LCFR), Numis Securities (Bloomberg: NUMI)

**Lawyers:** Wragge Lawrence Graham & Co (UK), Maples and Calder (Cayman Islands)

**Base and incentive fee:** Base fee of 1.5 percent of NAV. Incentive fees are based on two separate pools of investments: direct real estate and all other investments. The incentive fee paid equates to 15 percent of the increase in the NAV of each pool during the year over a hurdle of 8 percent. The total amount of incentive fees paid in any one year is capped at 1.5 percent of the pool's NAV.

**Investment objective:** Medium to long term capital gains with some recurring income and short term profit taking. Primary investment focus areas are: Privately negotiated equity investments; Undervalued/distressed assets; Privatization of state-owned enterprises; Real estate; and Private placements into listed and OTC-traded companies.

**Investment objective by geography:** Greater Indochina comprising: Vietnam (minimum of 70 percent), Cambodia, Laos, and southern China.