VinaCapital Vietnam Opportunity Fund (AIM: VOF)

VinaCapital

Investment Manager's monthly update 31 October 2015

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 31 October 2015, VOF's net asset value was USD689.2 million, or USD3.18 per share, representing a 1.8% increase from the net asset value per share at 30 September 2015. During the month, the capital markets component of VOF's portfolio gained 6.7% while the VN Index increased 8.8% in USD terms thanks to strong rallies from Vinamilk (VNM), Vietcombank (VCB) and BaoViet Holding (BVH).

During the same period, the MSCI Asia ex-Japan index and MSCI Emerging Markets index increased by 7.9% and 7.0% respectively. Trading value on both of Vietnam's bourses increased 35% to USD2.1 billion in October while the combined market capitalisation was USD60.1 billion (September: USD55.4 billion). The VN Index traded on a trailing P/E of 11.8x and P/B of 1.8x according to Bloomberg.

The VN Index had its best year-to-date performance in October, rising over 8%, with index heavyweights VNM, VCB and BVH contributing to over half of the monthly gain. VNM alone rose 18% during the month, as stronger than expected third quarter and year-to-date profit results, up 55% and 35% respectively, surprised to the upside. The share price was boosted by unconfirmed rumours that the Government was planning to sell its c.45% stake in the company, albeit at an unknown date. Further, on 2 November, a media report surfaced claiming that Vinamilk's second largest shareholder, Fraser & Neave (c.11% stake) had offered to buy the whole of the Government's stake in the company for USD4 billion, implying a 43% premium to the then current market price. Though later denied by F&N, VNM stock continued to rally, as the market seemed to believe there is at least a real intention on the part of the largest foreign shareholder to take over VNM, even if not necessarily at the mentioned valuation. We believe that VNM will look to reduce their foreign ownership restrictions at some point in order for the Government to sell their stake to a foreign strategic buyer, not unlike F&N, at a premium valuation. In all, the various positive catalysts were powerful enough to move the stock in excess of 20% in just over a month, lifting the VN Index along with it. With VNM being our largest investment (13.9% of NAV) this contributed significantly to our NAV increase for the month.

VCB and BVH were up 11% and 31% respectively in October due to strong net foreign buying including USD6 million for BVH and USD3 million for VCB. This is almost half of all the net foreign buying in the month on the Ho Chi Minh Stock Exchange, excluding Military Commercial Joint Stock Bank (MBB). However, in contrast to VNM, profit growth was less impressive as nine month profit for VCB grew 12% while BVH profit was flat (-1% y-o-y). MBB demonstrated the impact that the foreign ownership limit can have on Vietnamese equities, as the company opened its foreign room via a private placement to a domestic party and increased availability of shares, a move that resulted in USD29 million of net foreign buying in one day. VinaCapital recently published a report on foreign ownership in Vietnam and the country's ongoing privatisation efforts, which can be found here.

Meanwhile, in our OTC portfolio, Quang Ngai Sugar (QNS), a leading food and beverage company which dominates market share for soybean milk products, has recently reported a 20% increase in revenues compared to a year ago, as their new factory in Bac Ninh province reached full capacity during Q3 2015. If QNS maintains this rate of growth into Q4 2015, expected revenues for 2015 could exceed USD360 million with profits forecast to grow by 50% compared to 2014. Furthermore, once their soymilk factory just outside of Ho Chi Minh City in Binh Duong province is complete and operational in Q4 2016, we should expect significant growth in capacity and revenues.

Globally, a December rate hike from the Fed is on the cards again and the USD has strengthened considerably as a result. This could have a negative impact on global markets, including Vietnam. However, VOF continues to invest in leading companies focused on Vietnam's domestic growth, with a medium to long term view in order to overcome any short term volatility that could arise from such events.

Finally, on 27 October 2015 VOF held its Extraordinary General Meeting, during which shareholders approved resolutions for VOF to change its domicile from the Cayman Islands to Guernsey, a move that clears the way for VOF to move to a premier listing on the London Stock Exchange's Main Market.

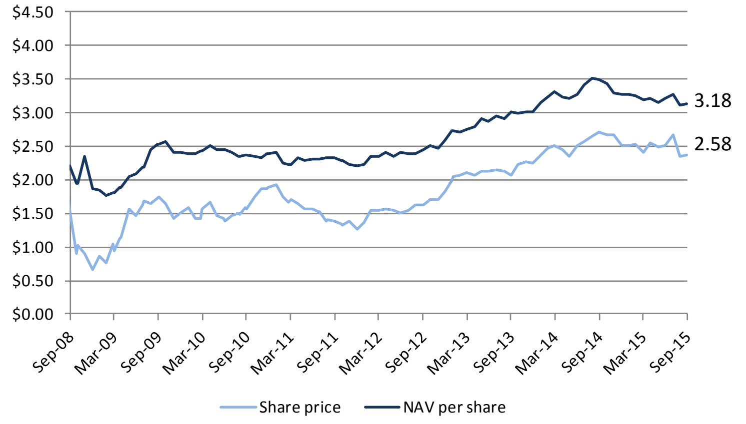
Performance summary	31 October 2015
NAV per share (USD):	3.18
Change (Month-on-month)	1.8%
Total NAV (USDm):	689.2
Share price (USD):	2.58
Market cap (USDm):	559.2
Premium/(discount)	-18.9%

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-2.7	-7.5	27.1	35.5
Share price (USD)	-3.4	-3.4	51.3	48.3
VN Index (USD terms)	-4.3	-3.5	46.3	17.5

Annual performance history (% change)

CY	2015	2014	2013	2012	2011	2010
NAV per share (USD)	-3.0	9.0	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	6.9	6.6	20.4	18.9	-25.6	-7.2



Macroeconomic update

Vietnam has proven to be uniquely resilient to the economic slowdown affecting the ASEAN region; October's economic data indicates that after a short period of volatility, Vietnam is showing signs of regaining its stability as manufacturing expanded again and consumer confidence rose.

The Nikkei Vietnam Purchasing Managers Index (PMI) recovered to expansionary territory in October, hitting 50.1 after last month's decline to 49.5. This modest growth is despite China's ongoing slowdown, as its PMI (49.8) remained flat for the third consecutive month. Vietnam also outperformed the regional average in this regard, surpassing Taiwan (47.8), South Korea (49.2) and Malaysia (48.1).

Growth in both exports and imports fell by 2.4% and 3.0% respectively; as a result, Vietnam's domestic sector has had to pick up the slack in maintaining GDP growth, with HSBC raising their annual target to 6.7% from 6.5%. The ANZ-Roy Morgan Vietnam Consumer Confidence Index for October saw consumer sentiment increase to 141.1, exceeding the average score of 135.9. This is a refreshing sight following two months of underwhelming figures. Overall, the results show strengthening income within domestic households, reflected in an increase of 10.7% in retail sales for the month. This growth was no doubt assisted by inflation remaining at 0.0% year-on-year in October. Also encouraging is that banks are continuing to lend, with market estimates putting credit growth at 17% by year end, above the government's target of 13-15%.

Positive news emerged for equity markets in October, as the government announced that it will divest all of its shares in ten key businesses held by the State Capital Investment Corporation, including premier names like Vinamilk and FPT Corp. While the announcement largely lacked details, these divestments could bring as much as USD4 billion back to a government that has been hamstrung by an inability to meet bond issuance targets. In addition, with a debt to GDP ratio expected to reach its upper limit (65%) in 2016, seeking other sources of capital is a prudent move.

While the domestic market has given some reasons for optimism through the month, concerns do remain. The trade deficit rose to USD4.1 billion in October with the FDI sector providing an export surplus of USD13 billion, while the domestic sector continued to lag behind. Issues with the balance of trade can once again be attributed in part to Vietnam's relationship with China, which accounts for 20% of Vietnam's imports and 10% of its exports.

On the currency front, the VND has remained relatively stable. Immediately after the October month end China repriced the CNY up 0.54%, although with far less impact regionally than the dramatic depreciation of August, and so did not require a response from the State Bank of Vietnam as it did in August.

Fitch maintained its rating for Vietnam and all classes of long-term debt at BB- in October. Fitch assessed the current account balance, at 0.8% of GDP, for FY15 as low compared to recent years. This is due in a large part to a jump in imports, and could require Vietnam to use 20% of its gross reserves to support the Dong. In the long run, Fitch concluded that the outlook for Vietnam is positive thanks to increasing stability to be brought on by participation in the Trans-Pacific Partnership (TPP), stability that will surely help the country's efforts in issuing sovereign bonds next year.

Overall, the Vietnamese economy showed signs of strength in October, despite negative influences from external markets. While, this can be attributed to a continued resurgence within the country's domestic sector, we have yet to see how long the domestic market can support reduced competitiveness of non-FDI exports. As such, we may see ongoing pressure on domestic trade and manufacturing through to the end of 2015. In the long run however, the positive forces, namely FDI, several free trade agreements including the TPP, and the ongoing process of state-owned enterprise reforms, will position Vietnam to be better able to withstand the current challenges facing global markets.

Macroeconomic indicators

	2014	Oct-15	2015 YTD	Year-on-year
GDP growth[1]	6.0%		6.5%	6.81%
Inflation (%YOY)	1.8%	0.1%	0.5%	0.0%
FDI commitments (USDbn)	20.2	2.1	19.3	40.8%
FDI disbursements (USDbn)	12.4	2.2	11.8	16.3%
Imports (USDbn)	148.0	14.5	138.7	14.1%
Exports (USDbn)	150.0	14.4	134.6	8.8%
Trade surplus/(deficit) (USDbn)	2.0	(0.1)	(4.1)	
Exchange rate (USD/VND)[2]	21,450	22,360	-4.2%	
Bank deposit rate (VND)	6.0%	5.0%	-100bps	

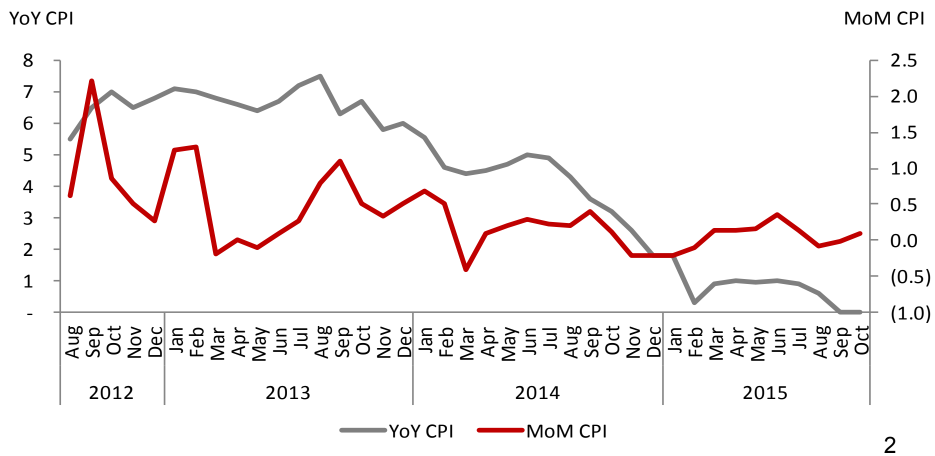
Sources: GSO, Vietnam Customs, SBV, VCB | 1. Annualized rate, updated quarterly 2. (-) Denotes a devaluation in the currency, Vietcombank ask rate

Government bond yields (%)

	1yr	2yr	3yr	5yr
30-Sep-15	5.15	5.50	6.10	6.90
30-Oct-15	5.10	5.40	6.00	6.75

Source: Bloomberg

Year-on-year and month-on-month inflation (%)



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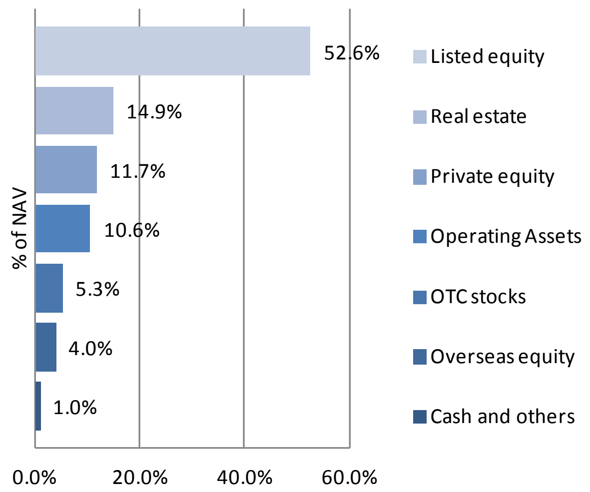
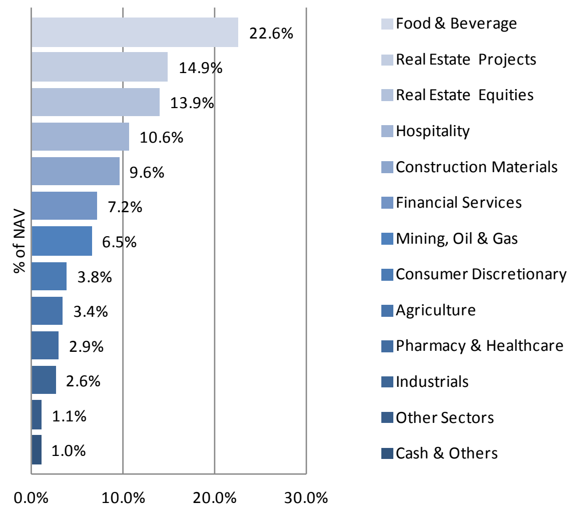
Portfolio by asset class



Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	13.9	Food & beverage	Leading dairy company with dominant market share.
Sofitel Legend Metropole Hotel Hanoi	9.0	Hospitality	One of Vietnam's premium hotels.
Hoa Phat Group (HPG)	7.8	Construction Materials	Largest steel manufacturer in Vietnam.
International Dairy Product (IDP)	5.2	Food & beverage	A top dairy company with good potential growth.
Khang Dien House (KDH)	4.8	Real estate	One of the leading real estate developers in HCMC.
Eximbank (EIB)	4.7	Financial services	One of Vietnam's top ten commercial banks.
Century 21	3.9	Real estate projects	HCM City residential development.
Petrovietnam Technical Services Corporation (PVS)	3.5	Oil & gas	Leading oil and gas technical service provider in Vietnam.
VinaLand Ltd (AIM: VNL)	3.2	Real estate projects	VinaCapital-managed Vietnam real estate fund.
PetroVietNam Drilling and Well Services JSC (PVD)	3.0	Oil & gas	Leading drilling contractor in South East Asia.
Total	59.0		

Portfolio by sector

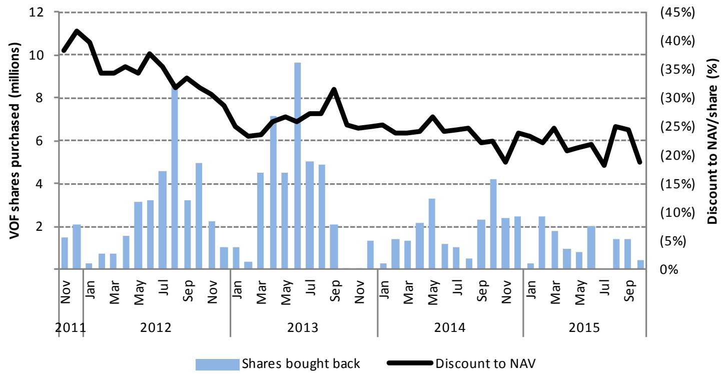


Share buyback commentary

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

During the month, VOF bought back 0.7 million 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 USD222.6 million overall repurchasing 108.2 million shares which have been cancelled, the total voting rights in the Company are now 216,402,612. The total number of shares acquired since November 2011 represents 33.3% of the Company's 324,610,259 ordinary shares in issue.



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Board of Directors

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

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

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: Standard Chartered Bank Vietnam

Custodian and Administrator: Northern Trust International Fund Administration Services (Guernsey) Limited

Registrar and Transfer Agency: Computershare Investor Services

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% 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% of the increase in the NAV of each pool during the year over a hurdle of 8%. The total amount of incentive fees paid in any one year is capped at 1.5% 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%), Cambodia, Laos, and southern China.