

# VinaCapital Vietnam Opportunity Fund (AIM: VOF)

Investment Manager's monthly update 30 September 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 30 September 2015, VOF's net asset value was USD678.5 million, or USD3.12 per share, representing a 0.2% increase from the net asset value per share at 31 August 2015. During the month, the capital markets component of VOF's portfolio gained 0.8% while the VN Index decreased 0.4% in USD terms as the weak performance of overweight sector likes oil and gas continue to weigh on the local index.

While the VN Index finished down 0.4% in September (in USD terms), the MSCI Asia ex-Japan index and MSCI Emerging Markets index decreased by 2.0% and 3.3% respectively as other ASEAN markets fared less well than Vietnam. Trading value on both Vietnam's bourses reduced 23.4% to USD1.6 billion on flat volumes, while the combined market capitalization was USD54.9 billion (August: USD55.0 billion). The VN Index traded on a trailing P/E of 10.9x and P/B of 1.7x according to Bloomberg.

The market eagerly anticipated further guidance from the government concerning foreign ownership limits, but disappointingly no such announcements were made in September, leaving the market to struggle for direction, with foreigners being net sellers. The recovery after last month's volatility and "Black Monday" could not be sustained, and the VN Index ended the month down fractionally.

During the month, there was an interesting story regarding the two Vietnam-focused ETFs, Van Eck and FTSE DB VN Tracker, which simultaneously announced that bank stock BIDV (BID) was to be included into their portfolios, only for them to announce a few days later that it was to be excluded. The stock having been bid up mostly by local retail investors in anticipation of this inclusion, rising some 14% in two days, promptly fell in exactly the same fashion. Though both ETFs would not say, it appears that they miscalculated the free float available of BID after it merged with another bank (MHB bank). Both ETFs were likely to have suffered some losses from having bought some BID shares at a high price and then divesting those exact same shares. It seems this is the first time that the ETFs had calculated incorrectly and perhaps may not be the last. This just goes to show – if one is going to have exposure to Vietnam, one needs to be active or buy into a fund that is actively managed.

In another market development, Japan Vietnam Medical Instruments (JVC) lost more than 75% of its market value in recent months as a result of its CEO/Chairman being arrested for breaking several laws, making this one of the most high-profile corporate governance disasters in recent years. JVC engages in the sales and distribution, maintenance, and repair of medical imaging equipment in Vietnam. At one time, it held a 40% market share in the diagnostic imaging device sector. The company had reported very strong sales and profit growth over the past 3 years and also more than doubled its equity by issuing shares to overseas strategic investors, including several of Vietnam's largest funds. The Chairman was arrested and charged with "deceiving customers", which, according to sources were related to JVC selling old, used or out-dated medical equipment as "new" equipment to State-owned hospitals. Through our previous investment experience in the healthcare sector, we were aware of weak corporate governance and reputational issues being flagged with this company and thus turned down the opportunity to invest in 2014 and again in 2015. The stock, which traded at over VND20,000 per share in June 2015, has since dropped to below VND5,000 per share.

Finally, VinaCapital held its annual investor conference from the 14 to 16 October, which was well attended by over 80 existing and potential investors. We presented an overview of the current environment as well as an update on both performance and our direction for the next twelve months. The presentation can be found on our website [here](#).

## Performance summary

30 September 2015

NAV per share (USD):	3.12
Change (Month-on-month)	0.2%
Total NAV (USDm):	678.5
Share price (USD):	2.36
Market cap (USDm):	512.4
Premium/(discount)	-24.5%

## Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-2.6	-10.5	27.4	32.0
Share price (USD)	-5.7	-13.1	45.1	50.8
VN Index (USD terms)	-8.0	-11.3	33.2	7.5

## Annual performance history (% change)

	CY 2015	2014	2013	2012	2011	2010
NAV per share (USD)	-4.7	9.0	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	-1.8	6.6	20.4	18.9	-25.6	-7.2



## Macroeconomic update

The most significant economic headline actually came just after month end when it was announced that the twelve signatory nations to the Trans-Pacific Partnership (TPP) had, after over a decade of negotiation, reached a consensus as to the terms of agreement. Our full commentary on the TPP can be viewed on our website [here](#).

Assuming ratification, the short term impact of the TPP will likely be twofold. First, the agreement is undoubtedly having a positive influence on investor sentiment towards Vietnam with a promising outlook for equities, as foreign funds are expected to increase their allocations to Vietnam. Secondly, companies will benefit directly from the tariff cuts/reductions on over 18,000 goods. This point is of particular importance when considering the relationship between the U.S. and Vietnam, as the U.S. accounts for 20% of Vietnam's total exports.

The medium to long term impact of the TPP is likely to see Vietnam's GDP growth accelerate by 1-2% p.a., will strengthen exports, and will positively influence the trade balance and help maintain a stable VND. Overall, the agreement reinforces Vietnam's position among the most open economies in Asia as recent data shows that the openness ratio (defined as the sum of export and import to GDP) for Vietnam has reached 160%, the highest among ASEAN nations.

TPP news aside, the Nikkei Vietnam Purchasing Managers Index (PMI) fell below 50, to 49.5, for the first time in over two years indicating a small contraction in manufacturing for the month. However, the economy grew 0.2% in the September quarter, taking year-to-date GDP growth to 6.5%, the highest in five years. Year-on-year GDP growth is now running at 6.8%, up from 6.1% in the June quarter. Vietnam's growth is expected to accelerate through the second half of 2015, underpinned by construction, export-oriented manufacturing and strong foreign direct investment (FDI) inflows. The trade deficit grew to USD4 billion during September with FDI companies contributing a surplus of USD7.8 billion while local companies ran a deficit of USD11.8 billion.

Inflation hit 0.4% year-to-date which took year-on-year inflation to 0.0%. Our view is that inflation is likely being driven by administered prices rather than market forces as factors such as education, electricity, gasoline and medical costs are regulated. Having inflation under control is vital to the stability of the economy but current rates represent a lack of pricing power amongst businesses, which can act as a disincentive to invest in growth. It would be encouraging to see inflation increase over time to between 3% and 5% to assist in stimulating the growth of the domestic economy.

On the currency front the US Federal Reserve decided to keep its rates unchanged at its September review and thus the pressure on the VND has been somewhat alleviated. The State Bank of Vietnam (SBV) also recently announced additional measures to support the local currency by reducing retail USD deposit interest rates from 0.75% p.a. to 0.25% p.a. and restricting companies from buying forward USD contracts to pay for goods and services in advance of the delivery dates of those goods. The VND has subsequently firmed up around 1% since end of August, but it remains to be seen if it can remain stable in the coming months. This stability is important to the country's foreign exchange reserves as there have been unconfirmed reports that the central bank has spent a sizeable portion of their reserves (in the range of USD billions) to defend the currency year-to-date.

Finally, the appetite for longer term commercial bonds remained weak keeping yields flat at the long end while the short end was largely stabilised by investors seeking a safe haven from currency risk. Banks continued to lend into the domestic market with credit growth increasing to 10.2% year-to-date, indicating confidence in Vietnam's economic recovery, but also meaning the State Treasury missed its Q3 issuance targets and is likely to come under pressure to increase its yields or diversify its offerings to products such as zero-coupon bonds.

## Macroeconomic indicators

	2014	Sep-15	2015 YTD	Year-on-year
GDP growth <sup>1</sup>	6.0%		6.5%	6.81%
Inflation (%YOY)	1.8%	-0.2%	0.4%	0.0%
FDI commitments (USDbn)	20.2	3.8	17.2	53.4%
FDI disbursements (USDbn)	12.4	1.2	9.7	8.4%
Imports (USDbn)	148.0	14.3	124.6	15.9%
Exports (USDbn)	150.0	14.2	120.7	9.6%
Trade surplus/(deficit) (USDbn)	2.0	(0.1)	(3.9)	
Exchange rate (USD/VND) <sup>2</sup>	21,450	22,510	-4.9%	
Bank deposit rate (VND)	6.0%	5.0%	-100bps	

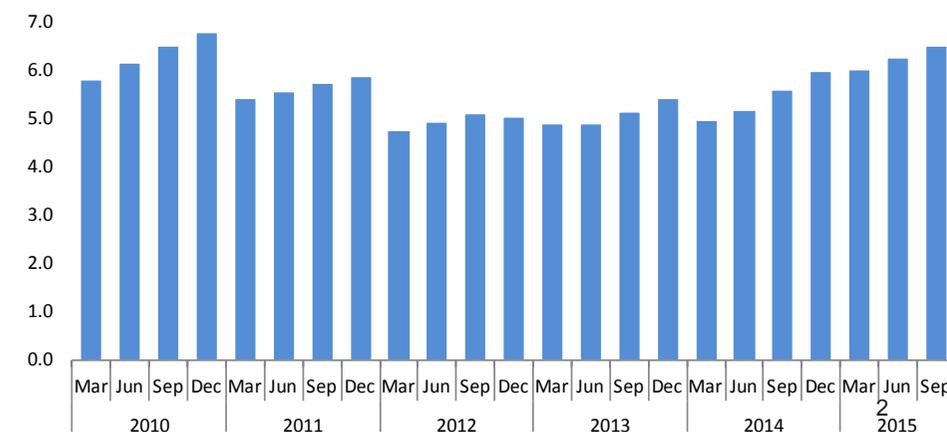
Sources: GSO, Vietnam Customs, SBV, VCB | 1. Annualized rate, updated quarterly 2. (-) Denotes a devaluation in the currency, Vietcombank ask rate

## Government bond yields (%)

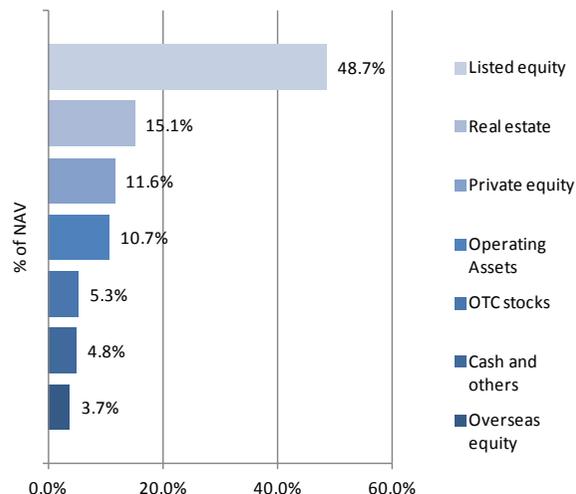
	1yr	2yr	3yr	5yr
31-Aug-15	5.20	5.55	5.95	6.75
30-Sep-15	5.15	5.50	6.10	6.90

Source: Bloomberg

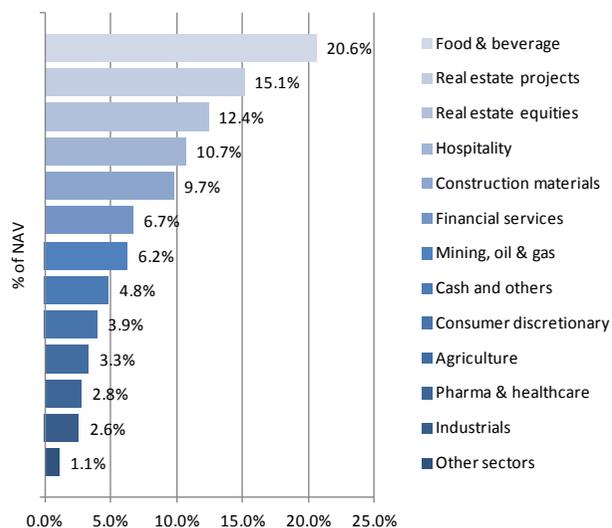
## Year-on-year and quarter-on-quarter GDP (%)



## Portfolio by sector



## Portfolio by sector



## Top ten holdings

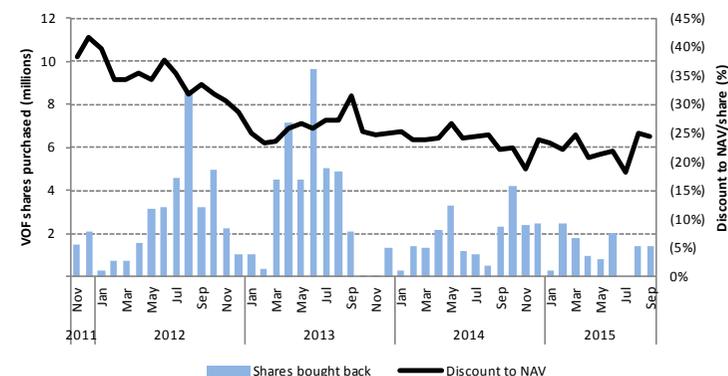
Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	11.8	Food & beverage	Leading dairy company with dominant market share.
Sofitel Legend Metropole Hotel Hanoi	9.3	Hospitality projects	One of Vietnam's premium hotels.
Hoa Phat Group (HPG)	7.9	Construction Materials	Largest steel manufacturer in Vietnam.
International Dairy Product (IDP)	5.3	Food & beverage	One of the top five dairy company with potential growth.
Eximbank (EIB)	4.8	Financial services	One of Vietnam's top ten commercial banks.
Khang Dien House (KDH)	3.7	Real estate projects	Leading property developer with strong asset base strategically located in District 9, HCMC.
Petrovietnam Technical Services Corporation (PVS)	3.4	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Century 21	3.1	Real estate projects	HCM City residential development.
VinaLand Ltd (AIM: VNL)	2.9	Real estate projects	VCIM-managed Vietnam real estate fund.
PetroVietNam Drilling and Well Services JSC (PVD)	2.8	Mining, oil & gas	Leading drilling contractor in South East Asia.
<b>Total</b>	<b>55.2</b>		

## Share buyback commentary

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

During the month, VOF bought back 1.4 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 USD220.7 million overall repurchasing 107.5 million shares which have been cancelled, the total voting rights in the Company are now 217,137,612. The total number of shares acquired since November 2011 represents 33.1% of the Company's 324,610,259 ordinary shares in issue.



## 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

### Contact

Jonathon Trewavas  
Investor Relations/ Communications  
ir@vinacapital.com  
+848-3821-9930  
www.vinacapital.com

Brokers  
Edmond de Rothschild Securities  
+44 (0)20 7845 5960  
funds@lcf.co.uk

Numis Securities  
+44 (0)20 7260 1327  
funds@numis.com

## Important Information

This document, and the material contained therein, is not intended as an offer or solicitation for the subscription, purchase or sale of securities in VinaCapital Vietnam Opportunity Fund Limited, VinaLand Limited or Vietnam Infrastructure Limited (each a "Company"). Any investment in any of the Companies must be based solely on the Admission Document of that Company or other offering document issued from time to time by that Company, in accordance with applicable laws.

The material in this document is not intended to provide, and should not be relied on for accounting, regulatory, insurance, legal, tax or other type of advice or investment recommendations. Potential investors are advised to independently review and/or obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investment in any of the Companies and legal, regulatory, financial, tax and accounting aspects in relation to their particular circumstances.

The securities of the Companies have not been and will not be registered under any securities laws of the United States of America nor any of its territories or possessions or areas subject to its jurisdiction and, absent an exemption, may not be offered for sale or sold to nationals or residents thereof.

No undertaking, representation, warranty or other assurance, express or implied, is given by or on behalf of the Companies or VinaCapital Investment Management Ltd or its affiliates and any of their respective directors, officers, partners, employees, agents or advisers or any other person as to the accuracy or completeness of the information or opinions contained in this document and no responsibility or liability is accepted by any of them for any such information or opinions or for any errors, omissions, misstatements, negligence or otherwise.

No warranty is given, in whole or in part, regarding the performance of any of the Companies. There is no guarantee that investment objectives of any of the three Companies will be achieved. Potential investors should be aware that past performance may not necessarily be repeated in the future. The price of shares and the income from them may fluctuate upwards or downwards and cannot be guaranteed.

This document is intended for the use of the addressee and recipient only and should not be relied upon by any persons and may not be reproduced, redistributed, passed on or published, in whole or in part, for any purposes, without the prior written consent of VinaCapital Investment Management Ltd.

## 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.