

Vietnam – Further to Run?

- Vietnam's stock market has surged by almost 50% in 2017 to-date on the back of a combination of supporting factors, including:
 - Healthy economic growth of c.6.5%, supported by positive demographics and an emerging middle class;
 - Strong FDI as Vietnam is increasingly recognised as an attractive manufacturing hub reflecting labour costs less than half the level in China;
 - Improved trading liquidity as a result of a relaxation of Foreign Ownership Limits (FOLs) and the government's privatisation programme.

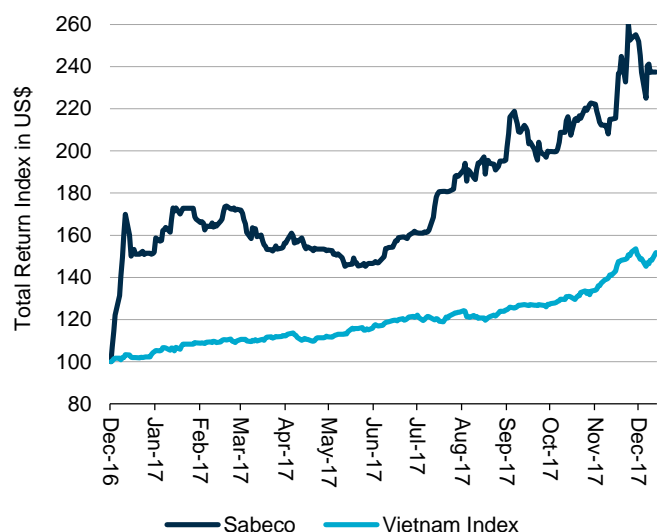
Sabeco Sale Positive for Market Sentiment

- As a result of this year's rally, the valuation argument for Vietnam is no longer as compelling, with the VN Index trading on a historic PE multiple of 18.3x. Unsurprisingly, some commentators have suggested that the market has run too far and is due a correction. One potential trigger for the bears had been the government's sale of a 53.59% stake in Saigon Beer Alcohol Beverage Corp (Sabeco), the country's largest brewer. There were concerns that the auction, scheduled to take place today, would fail to attract sufficient interest due to the price (48x earnings) equivalent to a total sale valuation of c.\$5bn, despite attracting the attention of a number of global companies, including Anheuser-Busch InBev and Asahi Group. Sabeco controls 43% of Vietnam's beer market (via brands such as 333).
- Strategic investors seeking a stake of more than 25% needed to inform the authorities a week ago, but the only expression of interest came from Vietnam Beverage Company, a wholly owned subsidiary of Vietnam F&B Alliance Investment which is 49% owned by Thai Beverage (ThaiBev). ThaiBev, controlled by Charoen Sirivadhanabhakdi, is one of Asia's largest beverage companies, and is listed on the Singapore SE with a market cap of US\$18bn. Sabeco's foreign ownership is limited to 49%, but foreign entities, including Heineken, already own close to 10% of the share capital. This suggested that overseas bidders would be restricted in bidding for a minority stake of up to 39%. Over the weekend, however, Vietnam's Ministry of Industry and Trade announced that ThaiBev is entitled to seek a 51% interest, albeit indirectly. In effect, the government is treating Vietnam Beverage as a domestic company despite the substantial backing from ThaiBev.
- The likely success of Vietnam's largest privatisation has been positive for market sentiment, resulting in a 2.5% rally in the VN Index today. It illustrates that the government remains committed to its privatisation programme which involves both new listings and the sale of stakes in existing quoted companies.

Jardine Matheson Subsidiary has Built 10% stake in Vinamilk

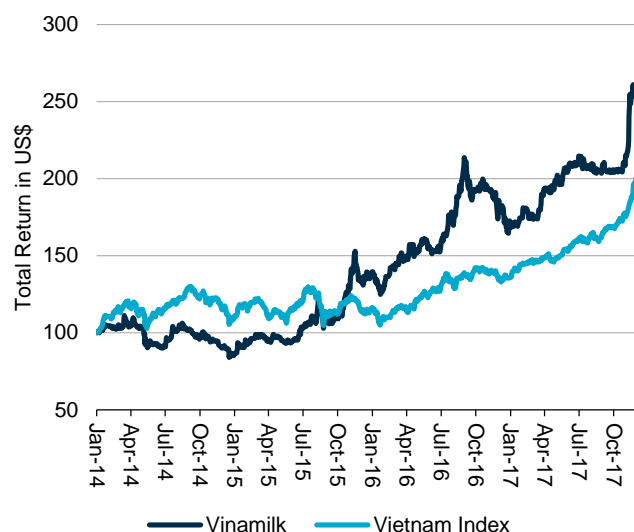
- In mid-November, the government's sale of a 3.3% stake in Vinamilk, Vietnam's largest company by market cap, saw significant interest from investors, with the position acquired by Jardine Cycle & Carriage, a Singapore-listed stock which is part of the Jardine Matheson group. The company has subsequently increased its stake via secondary purchases and is now holds a stake of c.10%, with 36% still held by the government and 18.7% by Fraser and Neave, a Singapore listed food company which is a subsidiary of ThaiBev. Last year, Vinamilk removed its foreign ownership limit and its price has risen 68% in 2017 Ytd (in US\$) helped by interest from overseas investors.

Sabeco - Performance since Listing



Source: Bloomberg

Vinamilk - Performance since Jan-2014



Source: Bloomberg

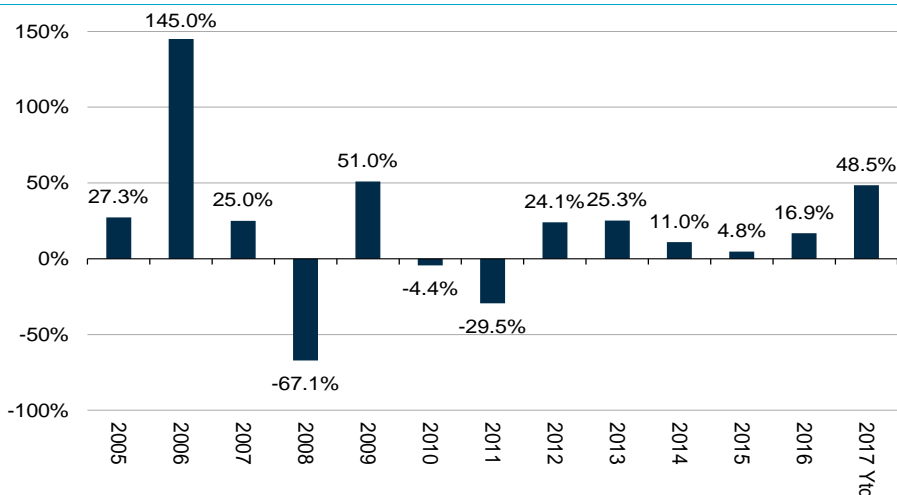
Further Privatisations and Government Sales Expected

- Some recent auctions of government holdings have fallen flat due to high prices, including Ladophar (pharmaceuticals) and Vinaconex (construction). However, Sabeco's success paves the way for further sales of government stakes in quoted companies, including Habeco (the second largest brewer) and FPT Corp (technology). In addition, the pipeline for privatisations of state-owned enterprises (SOEs) remains strong, including Binh Son Refining (petrochemicals), Bacamex (industrial parks) and PV Power (power). The market has also been buoyed over the past year or so by a number of private sector listings, including Cotecons (construction), Novaland (property development), Vietjet (airline), VP Bank (banking and consumer finance) and Vincom Retail (shopping malls).

Too Late to Join the Party?

- The surge in Vietnam's stockmarket inevitably brings comparisons with 2005-07 when the market rose almost three-fold, leading to a flood of interest from overseas investors and the launch of numerous closed-end Vietnam funds. This proved costly for investors late in the cycle, as the market fell slumped, despite a brief credit-induced rally in 2009, and premiums of up to 20% on closed-end funds turned to discounts of 50% or more.

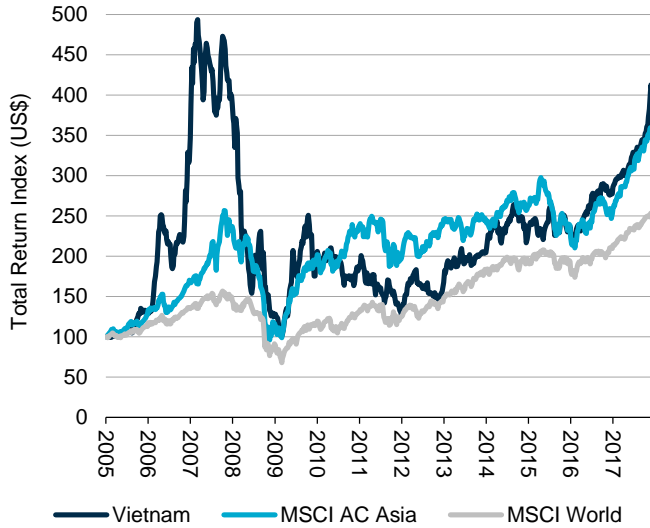
Vietnam SE - Performance by Calendar Year (total return in US\$)



Source: Bloomberg

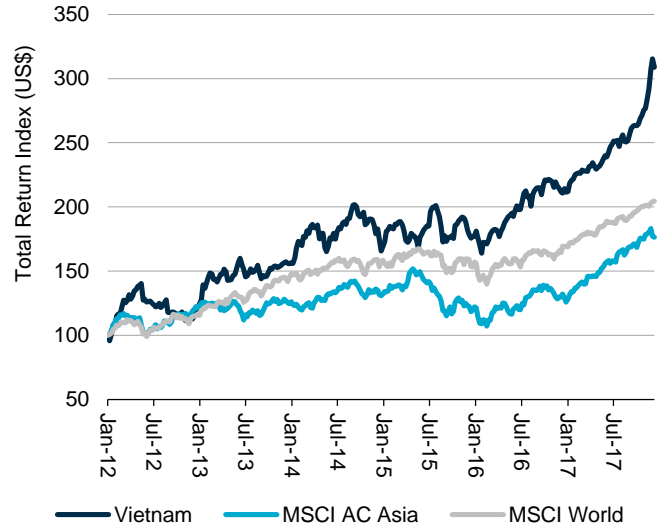
- There is little doubt that the market has come a long way, as the Vietnam Index is up by 195% (24.2% pa) over the past five years, significantly outperforming both the MSCI World (+125%, 16.3% pa) or the MSCI Asia ex Japan (+79%, 12.4% pa), based on total return in US\$ to Friday's close.

Vietnam Stock Market since 2005



Source: Datastream, Bloomberg

Vietnam Stock Market since 2012



Source: Datastream, Bloomberg

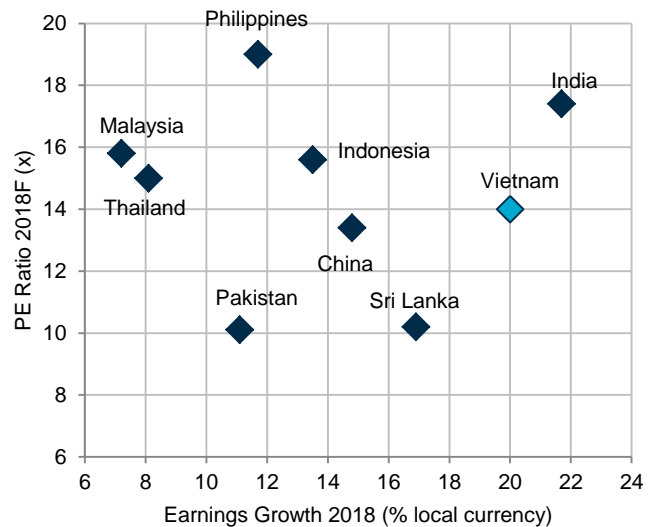
- At the start of 2012, the Vietnam stock market traded on a P/E ratio of under 10x, and was at a material discount to both its history and regional peers. Since then, there has been a significant rerating and the historic PE ratio is currently 18.3x historic earnings, above its long term average. However, the prospects for earnings growth remain strong at c.20% in 2018, according to Dragon Capital, resulting in a forward PE for 2018 of less than 15x. On this basis, Vietnam does not look expensive relative to its regional peers.

Vietnam Index - Historic PE over the Long Term



Source: Bloomberg

2018 Forward PE Ratio for Asian Markets

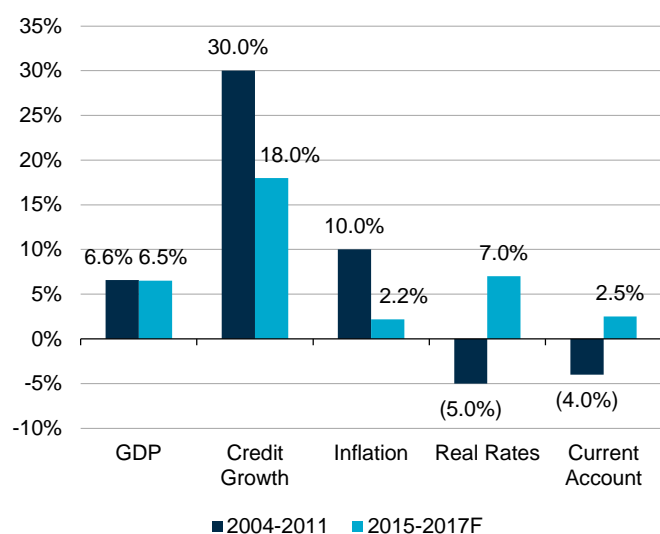


Source: Dragon Capital as at 30 Nov 2017

Economy in Good Shape

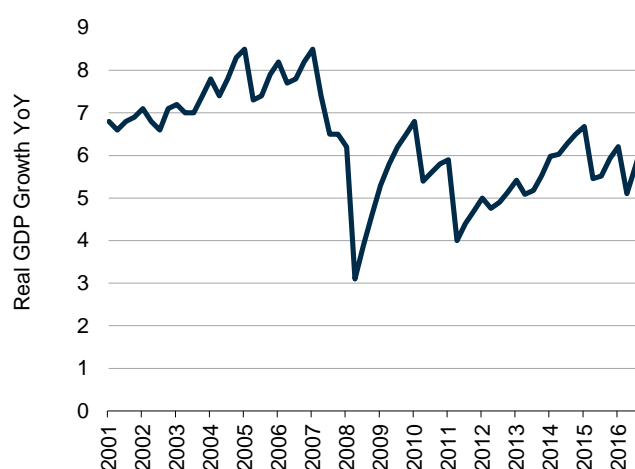
- The country's economy appears well placed to maintain a healthy pace of growth in the next few years, supported by its young, growing workforce reflecting its population of 95m with a median age of 30. The left-hand chart below illustrates that this growth is now far more balanced than in the past, with modest inflation (currently 2.6% year-on-year) and a trade surplus, resulting in currency stability versus the US\$. Foreign direct investment is expected remain strong, as Vietnam is rapidly becoming a favoured manufacturing base in the region, moving up the value chain from traditional industries such as textiles to electronics. In addition, it has an emerging middle class which is driving growth in domestic demand for goods and services. The country benefits from political/ religious stability and the government is committed to opening up the economy.

Economic Growth is Far More Balanced



Source: Numis Securities Research

Vietnam Economic Growth



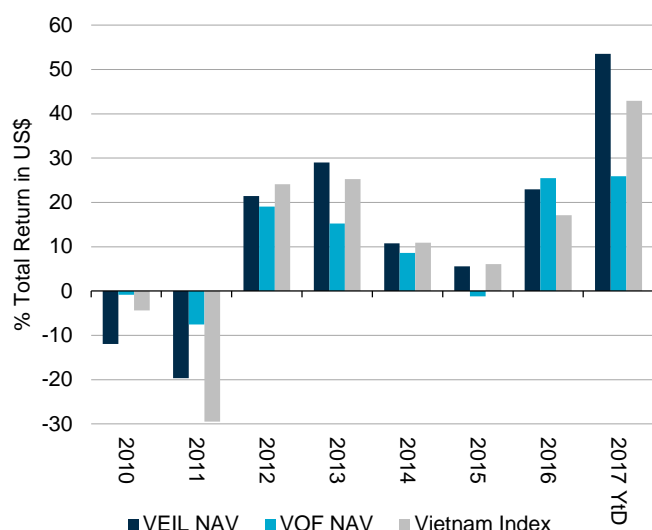
Source: Bloomberg

Vietnam Closed-End Funds are Attractively Valued

- Whilst it is becoming easier to invest directly in Vietnam, the stock market is still immature. Furthermore, FOLs and limited free floats can make it difficult to build a balanced portfolio. There are two ETFs, with combined assets of \$623m, but these have performed poorly, lagging well behind the Vietnam Index. In addition, the open-ended funds investing in Vietnam are small and many charge high fees. The universe of closed-end funds focused on Vietnamese equities has shrunk markedly in recent years, leaving just three funds. One sign that we are not in "bubble" territory is that these funds can still be purchased on attractive double-digit discounts.
 - Vietnam Enterprise Investments (\$1.48bn assets, 14.5% discount)**, managed by Dragon Capital, invests primarily in quoted equities through a bottom-up stock-picking approach. Up to 15% of the portfolio can be invested in OTC-traded, pre-listed assets in order to exploit SOE privatisations. VEIL has 44 holdings with an active share of 65%. The fund moved its listing from OTC to the Main Market of the London SE in mid-2016.
 - VinaCapital Vietnam Opportunity (\$1.03bn assets, 19.8% discount)**, managed by VinaCapital, has a broader multi-asset mandate, including equities, OTC stocks, private equity, and real estate. This provides exposure to parts of the economy that cannot be readily accessed via listed stocks. VOF's Listed Equity portfolio (c.65% of assets) has consistently added value, through a high conviction portfolio of around 20 quoted investments. In addition, there have been a number of profitable realisations from the Private Equity/OTC portfolio. In early 2016, the fund moved its listing from AIM to the Main Market of the London SE and its domicile from the Cayman Islands to Guernsey.

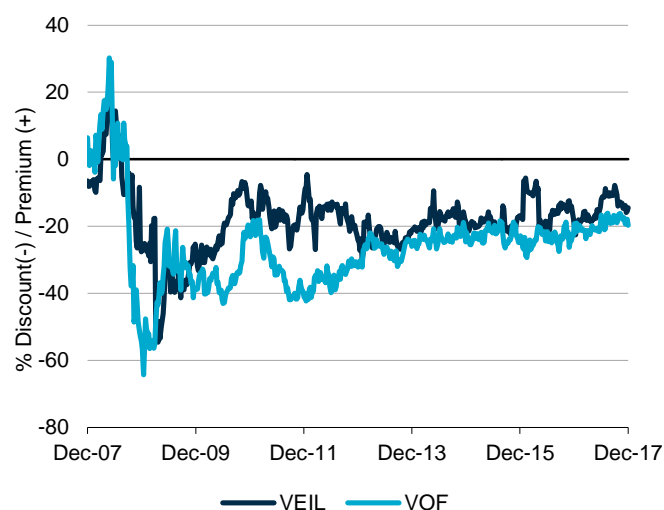
- **Vietnam Holding (\$212m assets, 13.1% discount)** is far smaller than the peers and is traded on AIM. It is differentiated from the peers by having a higher weighting in mid-cap stocks (typically under \$300m market cap) and by an ESG (environmental, social and corporate governance) overlay. Performance this year has been disappointing, with the NAV up 13.5%, reflecting a lack of exposure to the larger cap and recently privatised stocks that have driven the market, as well as dilution from the exercise of warrants in June. There have been significant changes in the company's Board in recent months, although Vu Quang Think in HCM City remains responsible for stock selection.
- In our view, VOF and VEIL are the obvious choices for investors seeking exposure to Vietnam. Both funds are traded on the Main Market of the London SE and benefit from experienced, locally based management teams, with portfolios focused on domestic consumption and infrastructure growth. As part of the change in listing last year, both funds are now quoted and traded in Sterling, rather than US Dollars, in order to become eligible for inclusion in the FTSE All Share Index. However, both funds continue to report financial statements in US Dollars and publish NAVs in both currencies. The funds do not hedge their currency exposure, and so the change in listing currency has no impact on investor returns. As a result, we compare performance in US\$.

Performance of VEIL and VOF by Calendar Year



Source: Bloomberg, Company & Numis Securities Research

VEIL & VOF - Discount History over 10 years

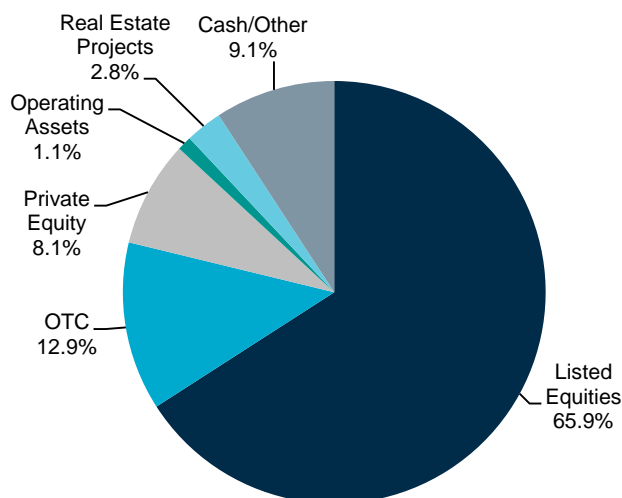


Source: Bloomberg, Morningstar

VEIL Provides Actively Managed Exposure to the Stock Market

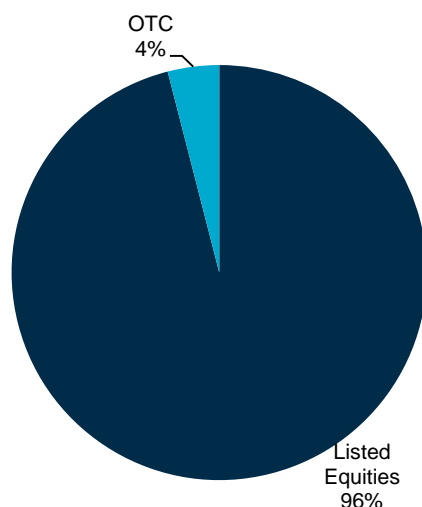
- We believe VEIL is well placed to match or outperform the VN Index through core holdings of quality large cap stocks, combined with added value through SOE privatisations and pre-IPOs. Until mid-2016, the fund was OTC traded, with wide spreads and little transparency. In our view, a move to the Main Market of the London SE has made VEIL far more attractive, and it is now a FTSE 250 constituent. In addition, VEIL's portfolio concentration has been significantly reduced in recent years resulting in a more attractive risk profile, in our view (at the start of 2012 almost 60% of its portfolio was represented by three stocks, Vinamilk, Masan and ACB).
- VEIL's performance has been strong in 2017, with the NAV rising 53.5% in the first 11 months of the year, versus 47.2% for the VN Index. This has been driven by a recovery in the banking and real estate sectors, as well as Mobile World (+71% Ytd) and its participation in IPOs and private placements. The fund has an expense ratio of c.2.3%. The base fee is 2.0% of net assets, but this falls to 1.75% pa for net assets between US\$1.25-1.5bn, and to 1.50% pa for net assets above US\$1.5bn (a performance fee was removed at the end of 2015).

VOF - Portfolio by Asset Class



Source: Company data as at 30 November 2017

VEIL - Portfolio by Asset Class



Note: UPCoM stocks included under listed equities. Source: Company data

VOF Offers Broad Exposure to the Domestic Economy

- We regard VOF as an attractive way to gain exposure to the domestic growth story in Vietnam and the multi-asset mandate will continue to provide a clear differentiation from open-ended funds and ETFs. Short term performance may lag in a rising equity market, as has been the case in 2017 to-date, with NAV growth of 24.3% in the first 11 months. The Capital Markets portfolio of listed holdings has performed well, but returns have been impacted by a high cash weighting and exposure to unlisted. Exposure to Real Estate development projects had been a drag on performance in previous years but this weighting has fallen to just 3.4%, following a number of profitable exits.
- The management team, led by Andy Ho, has been seeking to recycle capital from quoted investments into unlisted stocks or private placements where they believe that valuations are more attractive. Private investments held by VOF include International Dairy Products (a dairy company) and An Cuong Wood Working (laminates for offices/kitchens). The pace of Private Equity transactions has picked up recently, with investments including \$11m in the Orient Commercial Bank in October, as well as \$11m in FPT Digital Retail (mobile phone distributor) and \$11m in Tascoa (toll road operator and real estate developer) in August. The current pipeline for private equity investment is reported to be strong, with nearly \$200m of opportunities in companies operating across a range of sectors focused on domestic growth including healthcare, media/entertainment, infrastructure, materials, industrials/logistics, and transportation. VOF's PE holdings are typically pre-IPO investments or growth capital, and the managers are typically looking to invest on a three-to-four year time horizon.
- We believe that VOF is well placed to outperform over the longer term and should also have lower NAV volatility than the market or its peers. In addition, we believe that there is scope for a significant narrowing of the fund's discount to NAV, which is supported by an active share buyback policy and the recent introduction of a semi-annual dividend of 2.0% of NAV per annum, equivalent to a yield of 2.4%. The fund had an expense ratio of 1.9% in FY2017 (with an additional 2.7% for the incentive fee).

Largest Holdings

- VOF and VEIL have some commonality of holdings with a number of stocks featuring in the top 10 of both funds, namely Vinamilk, Khang Dien House, Hoa Phat Group, Vietjet Air and Airports Corporation of Vietnam (listed on UPCoM). Both are significantly underweight (or have no exposure to) some large index stocks such as Sabeco, Vingroup or BIDV.

VOF - Largest Investments

Investment	Ticker	%	Industry
Hoa Phat Group	HPG	12.5	Steel manufacturer
Vinamilk	VNM	11.2	Dairy products
Airports Corporation of Vietnam #	ACV	7.4	Airports
Khang Dien House	KDH	7.3	Property developer
Phu Nhuan Jewelry	PNJ	5.9	Jewellery maker & retailer
Vietjet Air	VJC	4.6	Airline
Quang Ngai Sugar #	QNS	3.5	Sugar refining
Coteccons	CTD	3.2	Construction
Eximbank	EIB	3.2	Bank
Viglacera	VGC	2.4	Construction materials
Top 10		61.2	

UPCoM investments. Source: Company data as at 30 November 2017

VEIL - Largest Investments

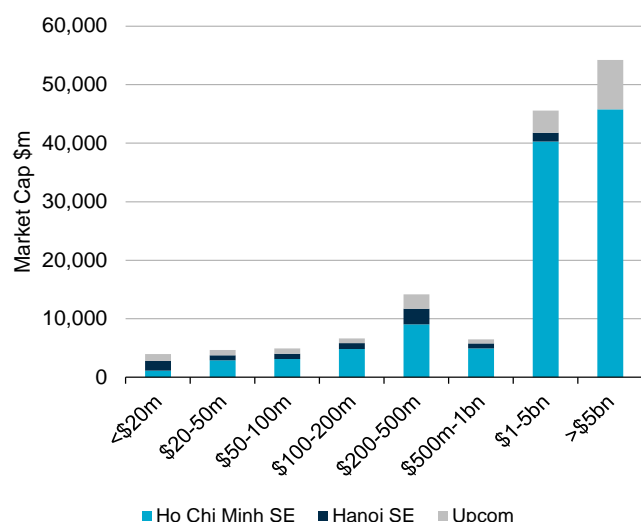
Investment	Ticker	%	Industry
Mobile World	MWG	9.4	Mobile retailer
Vinamilk	VNM	7.1	Dairy products
Military Bank	MBB	6.5	Bank
Asia Commercial Bank	ACB	6.5	Bank
Khang Dien House	KDH	5.1	Property developer
FPT Corp	FPT	5.1	Technology
Airports Corporation of Vietnam #	ACV	4.1	Airports
PV Gas	GAS	4.0	Oil & gas
Hoa Phat Group	HPG	3.6	Steel
Vietjet Air	VJC	3.4	Airline
Top 10		54.8	

UPCoM investments. Source: Company data as at 30 November 2017

Background – The Vietnam Stock Market

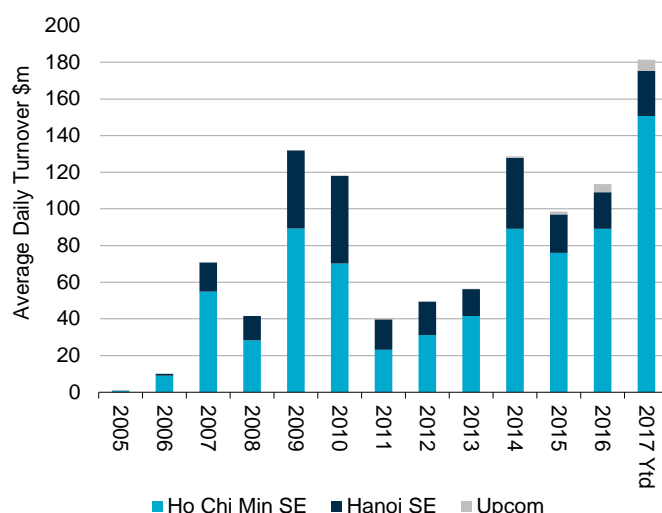
- Vietnam has two main stock exchanges, the Ho Chi Minh City SE (HOSE) and the Hanoi SE (HNX), both state-owned. The combined market capitalisation of the exchanges is currently \$68bn, of which 90% is represented by the HOSE. There are 695 quoted companies in total, with over half by number listed on the HNX which has evolved to focus primarily on small cap stocks (as well as bonds and OTC stocks).
- The most widely used measure of performance for Vietnamese equities is the Vietnam Index, which represents the market cap weight return for stocks listed on the HOSE. This is the most widely accepted stockmarket index in Vietnam, but it is not a fully investable index due to the combination of Foreign Ownership Limits and limited free floats. For instance, PetroVietnam Gas has a market cap of \$7.3bn and makes up 6.7% of the Vietnam Index, but has a freefloat of just 3.5% (it represented as much as 20% of the index in mid-2014).

Market Value of Vietnam Exchanges



Source: Bloomberg

Vietnam Stock Market - Turnover



Source: Numis Securities Research, Bloomberg

- UPCoM (Unlisted Public Company Market) is a junior exchange run by the Hanoi SE for public companies that are not yet listed. It was launched in June 2009 with 10 initial companies and for many years it had a relatively low profile. However, over the past few years there has been considerable pressure by the government to force equitised SOEs to gain a listing. This has led to rapid growth in the size of UPCoM which now includes over 650 stocks, with a total market cap of c.\$26.7bn. UPCoM is effectively a buffer for public companies before their official listing on one of the main exchanges. There is electronic matching of trades on UPCoM and the index is tracked by Bloomberg. The largest UPCoM traded stocks include ACV (\$8.2bn), Vietnam Airlines (\$1.9bn) and Masan Consumer (\$1.7bn).

- Turnover in the Vietnam equity market slumped during 2011, but picked up strongly in 2014 helped by IPOs of large companies such as Mobile World and PV Gas. In 2017, average daily turnover has risen helped by government sales of stakes in quoted stocks as well as the ongoing relaxation of Foreign Ownership Limits (FOLs). The largest 30 stocks listed in Vietnam are summarised below.

Vietnam - Largest Stocks

Company	Ticker	Sector	Market Cap \$m	Free Float	Exchange	Weight in VN Index	Dividend Yield %	US\$ Return 2017 Ytd
Vinamilk	VNM VM	Dairy Products	12,585	51%	HOSE	11.4	2.0	61.5
Sabeco	SAB VM	Beverages	8,728	10%	HOSE	7.9	1.0	56.8
Airports Corp of Vietnam	ACV VU	Airports	8,197	100%	UPCoM	-	0.7	83.2
Vingroup	VIC VM	Real Estate Developer	8,151	49%	HOSE	7.4	0.0	67.5
PV Gas	GAS VM	Oil & Gas	7,327	4%	HOSE	6.7	6.9	52.2
Vietcombank	VCB VM	Banks	7,285	23%	HOSE	6.6	1.7	32.9
Vincom Retail	VRE VM	Shopping Mall Developer	3,841	100%	HOSE	3.5	0.0	n/a
BIDV	BID VM	Banks	3,657	4%	HOSE	3.3	2.9	77.4
Vietinbank	CTG VM	Banks	3,589	16%	HOSE	3.3	6.4	57.7
Petrolimex	PLX VM	Oil & Gas	3,316	6%	HOSE	3.4	5.0	n/a
Masan Group	MSN VM	Holding Company	3,306	38%	HOSE	3.3	2.8	74.2
Faros Construction	ROS VM	Construction	2,850	27%	HOSE	2.6	0.0	31.6
Hoa Phat Group	HPG VM	Steel Manufacturer	2,784	59%	HOSE	2.5	0.0	55.2
Vietjet	VJC VM	Airlines	2,762	65%	HOSE	2.5	1.5	n/a
VP Bank	VPB VM	Banks	2,518	90%	HOSE	2.3	0.0	n/a
Military Bank	MBB VM	Banks	1,938	50%	HOSE	1.8	2.4	90.0
Vietnam Airlines	HU6 VU	Airlines	1,919	3%	UPCoM	-	1.6	n/a
Mobile World	MWG VM	Mobile Phone Retailer	1,787	73%	HOSE	1.6	0.6	71.0
Bao Viet Holdings	BVH VM	Insurance	1,707	29%	HOSE	1.5	1.8	(0.1)
Novaland	NVL VM	Real Estate Developer	1,697	30%	HOSE	1.5	0.0	3.2
Masan Consumer	MC3 VU	Food	1,656	100%	UPCoM	-	6.1	n/a
Asia Commercial Bank	ACB VH	Banks	1,484	93%	HNX	-	0.0	94.8
Habeco	BHN VM	Beverages	1,388	1%	HOSE	1.3	1.3	n/a
FPT Corp	FPT VM	Technology	1,320	71%	HOSE	1.2	3.5	54.2
Sacombank	STB VM	Banks	1,008	95%	HOSE	1.0	0.0	34.7
Vicostone	VCS VH	Tile Manufacturer	905	11%	HNX	-	0.6	170.4
Coteccons Construction	CTD VM	Construction	761	89%	HOSE	0.7	2.2	27.1
Exim Bank	EIB VM	Banks	679	76%	HOSE	0.6	0.0	39.8
DHG Pharmaceuticals	DHG VM	Pharmaceuticals	650	32%	HOSE	0.6	2.9	79.3
Phu Nhuan Jewelry	PNJ VM	Retail	623	64%	HOSE	0.6	1.4	101.1

Source: Numis Securities Research, Bloomberg as at 15 December 2017

* Denotes that this company is a corporate broking client of Numis Securities.

Note: all prices, NAVs and discounts as at close of business at 15 December 2017 unless otherwise stated.

The research analyst who prepared this report was Charles Cade.

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