

Performance summary 31 October 2019

	USD	GBP
NAV per share:	5.09	3.93
Change (Month-on-month):	2.2%	-2.7%
Total NAV (million):	935.6	723.0
Share price:	4.21	3.25
Market cap (million):	774.0	598.1
Premium/(discount):	-17.3%	-17.3%

GBP/USD exchange rate as 30 September 2019: 1.23

GBP/USD exchange rate as 31 October 2019: 1.29

Source: Reuters

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	1.1	-3.2	28.9	48.0
Share price (USD)	-1.2	-0.4	37.9	57.5
VN Index (USD terms)	0.8	9.9	42.2	52.3
MSCI Emerging market	0.5	9.0	15.1	2.6
MSCI Vietnam	-0.7	9.0	48.8	35.5

Annual performance history (% change)

	CY	2019	2018	2017	2016	2015	2014
NAV per share (USD)		-0.9	-9.0	32.1	25.5	1.2	8.4
VN Index (USD terms)		11.8	-11.2	48.4	13.4	0.9	6.6

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	10.7	Construction materials
Khang Dien House (KDH)	10.0	Real estate & construction
Airports Corporation of Vietnam (ACV)	8.1	Infrastructure
Phu Nhuan Jewelry (PNJ)	7.2	Consumer discretionary
Vinamilk (VNM)	6.3	Food & beverage
Eximbank (EIB)	4.6	Financial services
Quang Ngai Sugar (QNS)	3.1	Food & beverage
Orient Commercial Bank (OCB)	2.7	Financial services
Coteccons (CTD)	2.0	Real estate & construction
PetroVietnam Technical Services	1.6	Mining, Oil and Gas
Total	56.4	

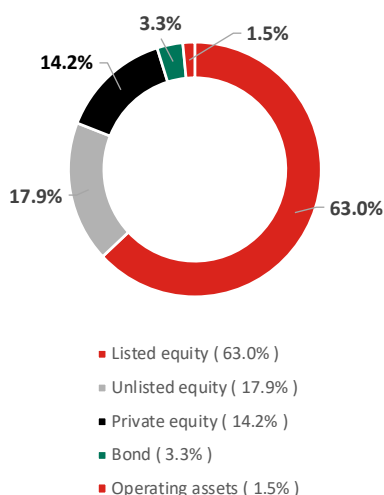
*Capital market equities

October: Decent Q3 earnings results help market overcome psychological barrier

VOF's NAV per share increased 2.2% over the month, while the VN Index ended the month up only 0.2% and a point away from the all-important 1,000 point psychological barrier. Having spent the last few months moving sideways and failing to break through, in early November at the time of writing, the Index is now comfortably above this level as the market received a boost from a several share buyback announcements from Index heavy weights such as Vinhomes and VinCom Retail as well as generally positive third quarter results from most sectors, most notably the banking sector which saw a 45% y-o-y increase in net profit for the quarter. Overall, Q3 results from companies that have reported, have showed net profit increasing 19% y-o-y, a significant pick up from H1 (+4% y-o-y), resulting in a year-to-date increase of 11% y-o-y. We highlight the performance of several of our large holdings below.

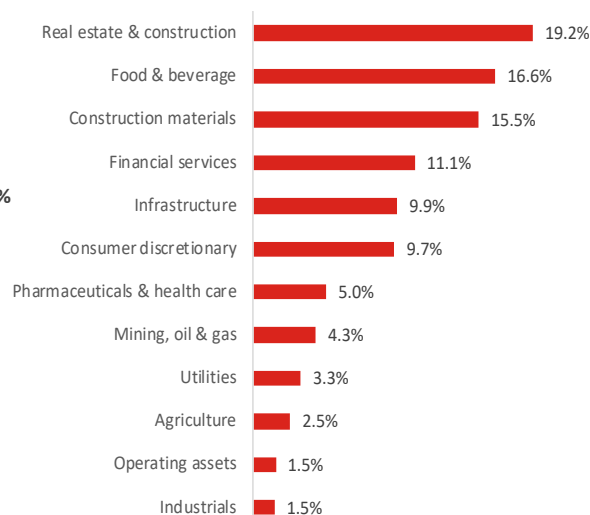
- Hoa Phat Group (HOSE: HPG, -0.7% m-o-m)**, reported Q3 profit of USD75 million (-27% y-o-y), in line with consensus given Q3 is traditionally a low season for construction activity. In 9M19, HPG generated USD241 million in profit (-18% y-o-y), fulfilling 84% of their annual guidance. Amidst a slowdown in overall market demand, HPG continues to extend its lead with 25% market share, through strong regional demand which has helped drive sales volume up by 13% y-o-y. A resumption in iron ore production from key global miners has stabilised the commodity price, which has come off its July high of USD120/ton to USD70-80/ton. This bodes well for HPG as it continues to pursue a competitive pricing strategy for construction steel. Over the long term we expect HPG to be the only steel producer able to capture future domestic demand growth and market share thanks to the company's formidable competitive advantage including operational efficiency, reputation, and scale which will ramp-up with new capacity from the launch of the Dung Quat Steel Complex in 2020. HPG currently has a third party consensus target price of approximately 30% higher than the current market price including the most recent revision by a large brokerage firm to VND34,800 per share (54% upside) over the next twelve months on the back of increased market share in Vietnam's southern market and gross margin improvements. HPG is trading at 8.5x TTM P/E and 5.3x TTM EV/ EBITDA and remains the largest holding in the portfolio (10.7% NAV).
- Khang Dien House (HOSE: KDH, +2.7% m-o-m)** released strong Q3 results, with net profit of USD17.1 million, up 76% y-o-y and above market expectations. In 9M19, net profit increased 26% y-o-y to USD22 million, fulfilling 57% of the company's target. KDH's robust earnings were due to the booking of a project in HCMC at a very high gross margin of 68%. In addition, due to a lack of new supply in the market and strong demand, the take-up rate of some of KDH's new projects was very high during the initial launch events. KDH is trading at a trailing P/E of 15.8x and P/B of 1.9x.
- Airports Corporation of Vietnam (UPCoM: ACV, +3.9% m-o-m)** reported 3Q19 net profit of USD94 million (18% y-o-y), better than market consensus. For 9M19 the company reported profits of USD254 million, which represented 19% y-o-y growth and meets 90% guidance. In Q3, ACV provided services for 26.5 million passengers (7.1 million international and 19.4 million domestic), up 11% y-o-y, thanks to the strong growth of South Korean visitors and the return of Chinese visitors. ACV is trading at 25x 2019E EPS and 17.3x 2019 EV/EBITDA.
- Phu Nhuan Jewelry (HOSE: PNJ, +3.6% m-o-m)** reported a good Q3, with profit of USD8.8 million (+17% y-o-y), above expectations. For 9M2019, PNJ earnings reached USD34.5 million, +16% and fulfilling 68% of the company's earnings guidance. Retail gold jewelry sales increased 13% in Q3 (1H: +11%) with SSSG of 10% and seven new stores. The company is confident that it will achieve its 2019 target of opening 40 new stores (9M: 23 stores) and earnings growth of 23%. PNJ is trading at T12M P/E of 17.7 and T12M EV/EBITDA 14.2.
- In contrast, **Vinamilk (HOSE: VNM, +0.2% m-o-m)** announced Q3 earnings of USD115 million (+5% y-o-y), below expectations. In 9M2019, VNM earnings reached USD360 million (+6% y-o-y), achieving 80% of the company's profit guidance. Both domestic and export sales growth slowed during the quarter, increasing just 1% y-o-y whilst gross margin declined 100 bps to 47% due to higher milk powder costs. VNM is trading at a T12M P/E of 23x and T12M EV/EBITDA of 15.1.

VOF portfolio by asset class**



** Excluding cash & others:
Cash: 8.6% of NAV
Payables & receivables: -2.0% of NAV

VOF portfolio allocation by sector**



Macroeconomic Commentary

Vietnam's CPI inflation rate increased from 2% year-on-year (y-o-y) in September to 2.2% in October, driven by an increase in food price inflation from 1.8% y-o-y to 2.7%, which was in-turn driven by a circa 8% month-on-month increase in retail pork prices due to the unfolding African Swine Fever (ASF) outbreak in Vietnam. As we have mentioned in the past few monthly reports, the ASF outbreak in Vietnam has lagged China's outbreak by about six months. China has seen food price inflation of circa 11% due to wholesale pork prices that have increased 100% y-o-y. Accordingly, we believe it is inevitable that Vietnam's CPI inflation will continue to increase into early-2020.

The growth of Vietnam's real retail sales, which is an accurate proxy for consumption (65%/GDP), nudged up from 9.2% y-o-y in 9M19 to 9.4% in 10M19, driven by a 55% y-o-y surge in Chinese tourist arrivals. Approximately one-third of Vietnam's total tourist arrivals come from China, and we estimate that tourists contribute over 10% of Vietnam's total retail sales.

The other major driver of Vietnam's GDP growth in 2019 is manufacturing (20%/GDP), which grew 10.8% in 10M19, a modest slowdown from the 12.7% rate in 10M18. This was partly due to global smartphone sales declining about 5% y-o-y this year due to the "peak smartphone" phenomenon; smartphones account for an estimated 10% of Vietnam's manufacturing output.

This slowdown in smartphone sales, coupled with a general slowdown in the global economy led to a drop of Vietnam's purchasing managers index (PMI) survey reading from 50.5 in September to '50' in October, breaking a near four-year streak of remaining above the '50' expansion-contraction threshold.

That said, Vietnam's industrial base continued to be supported by a 7% y-o-y increase in FDI disbursements to USD16 billion in 10M19. Newly registered FDI fell 15% y-o-y to USD29.1 billion, but this drop was attributable to the unusually high USD10.4 billion worth of FDI the country attracted in the month of June 2018, including a massive USD4.1 billion real estate project in Hanoi.

In contrast to that drop, Chinese registered FDI surged by 200% to USD3.2 billion in 10M19, which is attributable to an attempt by companies to circumvent US tariffs on imports from China. Another consequence of the trade war was a 27% y-o-y surge in Vietnam's exports to the US, and a concurrent 36% surge in Vietnam's trade surplus with the US to USD38 billion. This surge in exports to the US helped drive 8.3% y-o-y export growth in 10M19. Meanwhile, Vietnam's trade surplus reached approximately USD9 billion in 10M19, according to official data from Vietnam Customs.

The value of the VN Dong was unchanged during the month and has appreciated 0.3% YTD (unofficial rate). The currency has been supported by continued positive macroeconomics as well as the government's announcement that the State Bank of Vietnam has increased its FX reserves by about USD14 billion this year to USD73 billion, or well over three months' worth of imports.

Finally, interbank interest rates in Vietnam's banking system hovered around 2% for most of the month, which helped drive a circa 40 basis points (bps) decline in 10-year Vietnam Government Bond yields to 3.7%. However, the interest rates that smaller commercial banks pay to depositors edged up by about 20 bps during the month, driven by the impending introduction of stricter Asset Liability Mismatch (ALM) macro-prudential regulations. Many smaller banks pay interest rates of over 8% on one-year time deposits, or circa 5% real interest rates (i.e., inflation adjusted), which presents a credible alternative to the stock market investment for savers and which helps explain why the VN-Index ended the month nearly unchanged.

Other matters

VinaCapital held its annual investor conference in Hanoi toward the beginning of the month, and we were pleased to see a number of our investors there. The fund's presentation at the conference may be accessed [here](#).

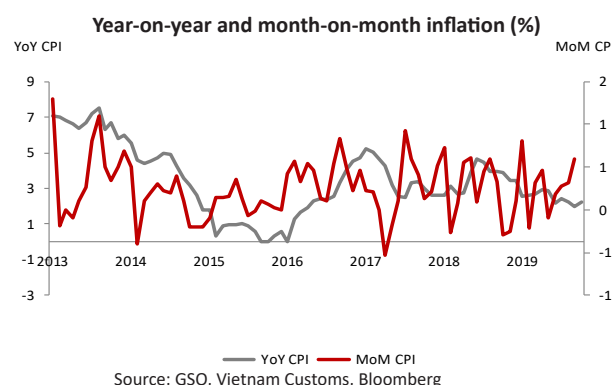
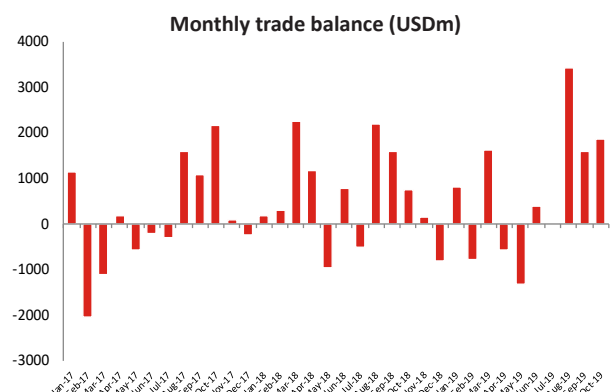
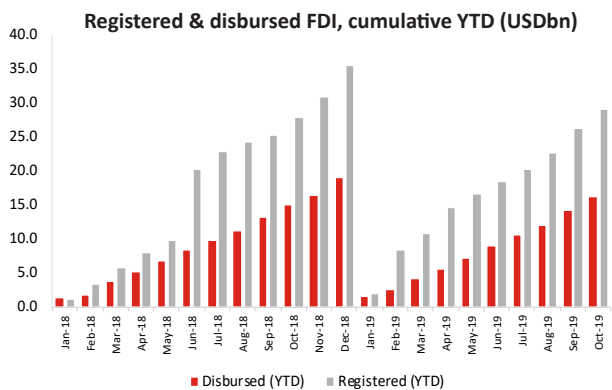
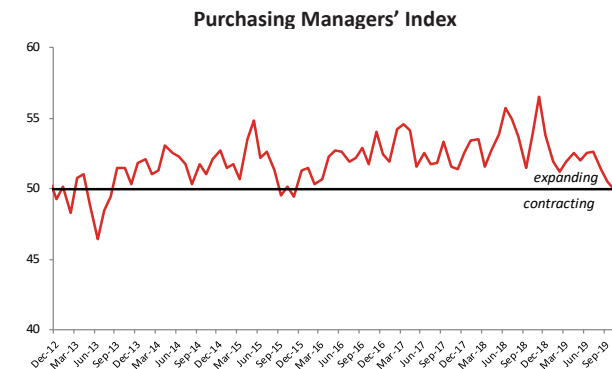
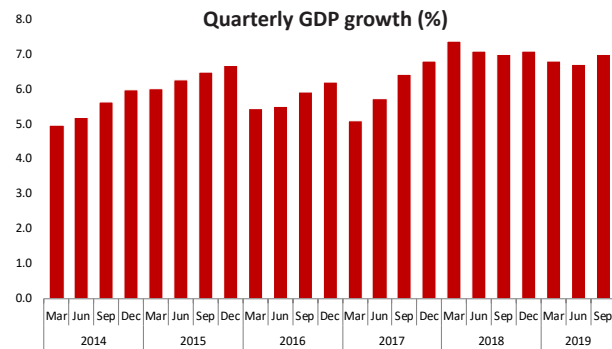
On 24 October 2019, the Board announced the payment of a dividend of 5.5 US cents per share, payable on or around 27 November 2019. More information may be found [here](#).

The 2019 Annual General Meeting (AGM) will be held on 5 December 2019 in Guernsey. The notice of AGM, proxy form, and annual financial statements may be found on the fund's [web site](#).

Macroeconomic indicators

	2018	Oct-19	2019 YTD	Y-O-Y
GDP growth ¹	7.1%			7.0%
Inflation (%)	3.5%			2.2%
FDI commitments (USDbn)	35.5	3.0	29.1	4.3%
FDI disbursements (USDbn)	19.1	2.0	16.2	7.4%
Imports (USDbn)	236.7	22.4	209.8	7.7%
Exports (USDbn)	243.5	24.2	218.8	8.3%
Trade surplus/(deficit) (USDbn)	6.8	1.9	9.0	
Exchange rate (USD/VND)	23,145	23,150	0.0%	

Sources: GSO, Vietnam Customs, MPI, VCB | 1. Annualised rate, updated quarterly



Source: GSO, Vietnam Customs, Bloomberg

Board of Directors		VinaCapital Investment Management Ltd	
VOF's Board of Directors is composed entirely of independent non-executive directors.			
Member	Role	Member	Role
Steven Bates	Non-executive Chairman	Don Lam	Group CEO
Thuy Dam	Non-executive Director	Brook Taylor	Group COO
Huw Evans	Non-executive Director	Andy Ho	Group CIO & Managing Director
Julian Healy	Non-executive Director	Duong Vuong	Deputy Managing Director, Capital Markets
Kathryn Matthews	Non-executive Director	Loan Dang	Deputy Managing Director, Private Equity

Fund information	
LEI	2138007UD8FBBVAX9469
ISIN	GG00BYXVT888
Bloomberg	VOF LN
Reuters	VOF.L

Fund summary	
Fund launch	30 September 2003
Term of fund	Five years subject to shareholder vote for liquidation (next vote to be held by December 2023)
Fund domicile	Guernsey
Legal form	Exempted company limited by shares
Investment manager	VinaCapital Investment Management Ltd, with sub-delegation to VinaCapital Fund Management JSC
Structure	Single class of ordinary shares trading on the Main Market of the London Stock Exchange plc
Auditor	PricewaterhouseCoopers (Guernsey)
Custodian	Standard Chartered Bank Vietnam
Custodian and Administrator	Aztec Financial Services (Guernsey) Limited
Registrar and Transfer Agency	Computershare Investor Services
Brokers	Numis Securities (Bloomberg: NUMIS)
Management and incentive fee	Commencing July 1, 2018: a tiered management fee structure has been introduced, with the following annual rates applied to net assets: <ul style="list-style-type: none"> - 1.50% of net assets, levied on the first USD500 million of net assets - 1.25% of net assets, levied on net assets between USD500 million and USD1,000 million - 1.00% of net assets, levied on net assets between USD1,000 million and USD1,500 million - 0.75% of net assets, levied on net assets between USD1,500 million and USD2,000 million - 0.50% of net assets, levied on net assets above USD2,000 million The incentive fee is 12.5% of any increase in NAV above an 8% per annum hurdle rate, with the cap on incentive fees paid out in any year at 1.5% of weighted average of month-end net assets. Excess fees are still carried forward, but can be clawed back if NAV declines after the year end. The Investment manager must use 25% of any incentive fee paid to buy VOF shares via open market purchases, subject to a minimum holding period.
Investment objective	Medium to long-term returns through investments either in Vietnam or in companies with a substantial majority of their assets, operations, revenues or income in, or derived from, Vietnam
Investment objective by geography	Investments will be in Vietnam or in companies with at least 75 per cent of their assets, operations, revenues or income in, or derived from, Vietnam at the time of investment

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