VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | 31 March 2020

Performance summary — 31 March 2020

	USD	GBP
NAV per share:	3.95	3.19
Change (Month-on-month):	-16.0%	-13.3%
Total NAV (million):	708.0	571.0
Share price:	3.30	2.66
Market cap (million):	590.8	476.5
Premium/(discount):	-16.5%	-16.5%

GBP/USD exchange rate as 29 February 2020: 1.28
GBP/USD exchange rate as 31 March 2020: 1.24
Source: Bloomberg

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	-21.8	-24.6	-13.1	23.5
Share price (USD)	-25.9	-24.2	-6.6	36.6
VN Index (USD terms)	-32.4	-33.6	-11.7	9.3
MSCI Emerging market	-23.9	-19.8	-11.5	-12.9
MSCI Vietnam	-29.8	-33.8	-3.1	0.7

Annual performance history (% change)

CY	2020	2019	2018	2017	2016	2015
NAV per share (USD)	-21.8	-1.6	-9.0	32.1	25.5	1.2
VN Index (USD terms)	-32.4	7.7	-11.2	48.4	13.4	0.9

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	10.3	Construction materials
Khang Dien House (KDH)	8.1	Real estate & construction
Vinamilk (VNM)	5.7	Food & beverage
Airports Corporation of Vietnam (ACV)	5.5	Infrastructure
Eximbank (EIB)	5.4	Financial services
Phu Nhuan Jewelry (PNJ)	5.3	Consumer discretionary
Quang Ngai Sugar (QNS)	3.1	Food & beverage
Orient Commercial Bank (OCB)	2.7	Financial services
FPT Corporation (FPT)	2.4	Industrials
Coteccons (CTD)	1.5	Real estate & construction
Total	**50.1**	

*Capital market equities

"Beware the Ides of March," the soothsayer warned Julius Caesar

March 2020 will be long remembered. As the global pandemic claimed more lives and even more livelihoods, almost one-third of the world's population remained in mandated self-isolation. Both commodity and equity markets experienced wild swings, with the S&P 500 Index at one-point free-falling 29% from its mid-February peak and giving up almost three years of gains, while oil prices posted their worst month and quarter on record, falling 54% and 66%, respectively. As one market commentator described it, a "record-breaking, neck-breaking, nerve-rattling, immensely messy and chaotic volatility".

By mid-March the US Federal Reserve cut its benchmark rate to almost zero in an effort to save the US economy from the fallout of the coronavirus (COVID-19) outbreak, which along with a suite of other measures, are aimed at providing sufficient liquidity for financial institutions as well as the whole economy, making borrowing costs as low as possible and keeping the financial markets stable. The Fed's latest move is part of coordinated actions made by several central banks around the world to minimise the negative impact of the COVID-19 pandemic on the global economy. Since the beginning of February, more than 30 central banks across the world, including the State Bank of Vietnam (SBV), have cut their benchmark rates and eased monetary policy in order to provide sufficient liquidity and stabilise financial markets. However, these loosening monetary policies are unlikely to reverse the slowdown of the global economy in this first half of 2020. Our commentary on Vietnam's macroeconomy that follows this update should be read in conjunction with several reports that we have published in recent weeks:

- VinaCapital: COVID19 Economic Impact on Vietnam
- VinaCapital: Comments on VND Depreciation
- VinaCapital: The Return of Animal Spirits

By 31 March, the VN Index closed at 662.5 points (a decline of-24.9% month-on-month and-31.1% year-to-date) marked by a higher daily trading value of USD135 million versus USD129 million in February. Foreign investors have been persistent net sellers of Vietnam, net selling USD331 million in March versus USD135 million in February. This was by far the worst monthly foreign sell-off in Vietnam's market history, with February now delegated to the second worst month. Year-to-date net foreign selling amounted to USD376 million in 1Q20 versus USD151 million in 4Q19. ETF selling contributed USD70 million for the month, a sharp turnaround from February's half-hearted buying of USD7 million.

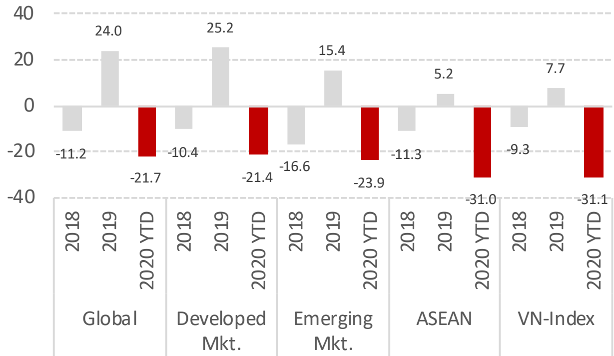
Foreign flows: Vietnam vs regional peers

FOREIGN FLOWS	($US bn)	($US mn)	($US mn)
	Market Cap	1M	YTD
Vietnam	98	-331	-376
Total EM ASEAN	1,026	-4,415	-6,789
Philippines	131	-303	-646
Indonesia	325	-375	-713
Malaysia	201	-1,288	-1,790
Thailand	369	-2,450	-3,639
Flow/Mkt Cap (%)			
Vietnam		-0.34	-0.38
EM ASEAN		-0.43	-0.66

Source: Bloomberg, CEIC, VinaCapital Research, as at 31 March 2020.

This has been part of a pattern of aggregate selling across frontier and emerging markets as active managers and passive index funds have withdrawn an unprecedented amount of money over the past two years as frontier equity markets have underperformed several developed markets; this matters to Vietnam as it represents 15% weighting in the MSCI Frontier Index. However, according to local research, this pace of foreign net selling "will eventually exhaust itself given the positive structural macro story that Vietnam presents," and that much of the decline in the VN Index over the quarter was due to price movements rather than actual selling, evidenced by stable foreign ownership levels in Vietnamese stocks which, in percentage terms, have not materially changed.

MSCI Index vs VN Index
(%, local terms)



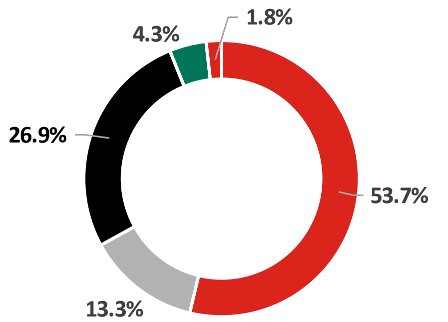
Source: Bloomberg, CEIC, VinaCapital Research, as at 31 March 2020

ASEAN index performance
(%, local terms)

	VN	ID	MY	PH	SG	TH
2015	6.1	-12.1	-3.9	-3.9	-14.3	-14.0
2016	14.8	15.3	-3.0	-1.6	-0.1	19.8
2017	48.0	20.0	9.4	25.1	18.1	13.7
2018	-9.3	-2.5	-5.9	-12.8	-9.8	-10.8
2019	7.7	1.7	-6.0	4.7	5.0	1.0
2020 YTD	-31.1	-27.9	-15.0	-31.9	-23.0	-28.7

Source: Bloomberg, CEIC, VinaCapital Research, as at 31 March 2020

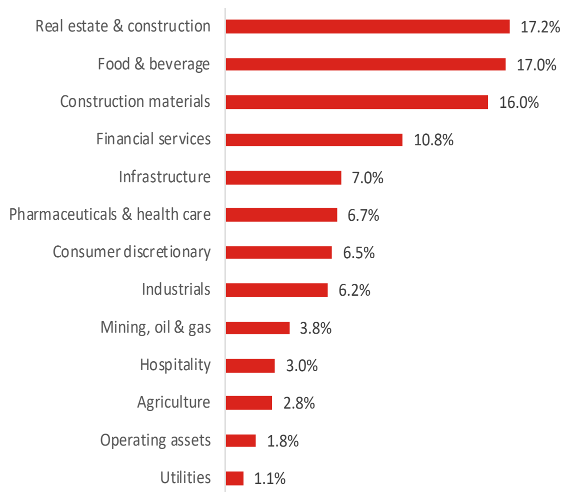
VOF portfolio by asset class**



- Listed equity (53.7%)
- Unlisted equity (13.3%)
- Private equity (26.9%)
- Bond (4.3%)
- Operating assets (1.8%)

*** Excluding cash & others:*
Cash: 5.0% of NAV
Payables & receivables: -0.5% of NAV

VOF portfolio allocation by sector**



Furthermore, there are significant downward revisions to GDP forecasts for the year, with Fitch and Standard Chartered Bank both forecasting 3.3% growth compared to 7% in 2019. Should weak first quarter results ensue over the coming weeks, we expect many Vietnamese companies will lower guidance on earnings targets, reduce or cut dividends, and possibly put off ESOP this year. Recent reports of several CEOs incurring margin calls (particularly in the construction and real estate industry) surfaced, with the bankruptcy rate potentially serving as an indicator for what may await.

Much of the index decline during March was attributable to declines in Vinhomes (VHM, –31.6%), Hoa Phat Group (HPG, –24.6%), Vietcombank (VCB, –24.8%), Vingroup (VIC, –20.9%), and Mobileworld (MWG, –44.7%). Foreign selling was focused on Masan (MSN, 0%), HPG, and the Vingroup of companies including VHM, VIC and Vincom Retail (VRE, –32.8%), while Phuc Hoa Rubber (PHR, –30.1%), and Vinamilk (VNM, –12.9%) saw buying activity. Index sector laggards in March were Consumer Discretionary (-27.2%), Financials (-25.8%), and Real Estate (-24.5%), while index sector laggards over the first quarter were Utilities (-31.9%), Consumer Discretionary (-31.6%), and Energy / Oil & Gas (-31.2%) against a wider VN Index decline of-31.1% in local terms for the first quarter.

Looking ahead, Vietnam is effectively trying to stabilise its rate of contagion and lift the movement restriction measures that are expected to end on 15 April; however, given this date is rapidly approaching, it is entirely possible that the Vietnamese government may extend further given other governments in the region have announced extensions until at least the end of April. Local businesses remain mostly closed, with those in the service sector suffering the most impact. It is essential that we understand how each city and province will begin to loosen restrictions to allow the service sector to restart commerce and evaluate the economic impact of such moves.

The support measures outlined by the government and State Bank are yet to work their way through the economy, and while there may be little room for additional monetary policy easing, the government has clearly expressed their desire to stimulate growth through fiscal policy. Specifically, infrastructure spending will be a key theme in the fiscal response during and after the pandemic, and we expect that Vietnam's leading steel producer HPG, a core holdings in the VOF portfolio (10.3% NAV), will stand to benefit from the quickening public investment program over the next 2-3 years. HPG delivers a combination of attractive valuation (it currently trades on a 2020F P/E of 6.2x, well below the VN Index 11.7x), a high dividend yield, a strong balance sheet, and given its market leading position, will stand to benefit as smaller and weaker players in the sector face difficulties.

During March, the VOF NAV per share declined by 16% in USD terms, outperforming the local benchmark VN Index which declined by 24.9% over the month. The discount widened significantly during the early stages of the month, as it appeared that shares were oversold. We witnessed buying activity in the fund by some astute investors, who were able to enjoy a significant narrowing of the discount to 16.5% by the end of the month.

The fund held approximately 5% cash and cash equivalents at the end of the month, allowing us to take advantage of several investment opportunities, continue the share buyback programme, and pay out dividends (declared 26 March, 5.5 US cents per share, c.1.9% yield). We held analyst and media calls following the release of the fund's 2020 interim results on 27 March. Investors who wish to speak with our Manager should not hesitate to reach out to our Investor Relations team or advisors whose contact information may be found at the end of this report. Details of the RNS announcements can be found here:

- 2020 Interim Results
- Dividend declaration

Macroeconomic Commentary

COVID-19 depressed Vietnam's GDP growth by 3%, from 6.8% y-o-y growth in 1Q19 to 3.8% growth in 1Q20. Of that hit to Vietnam's GDP growth, 0.9% is attributable to slower manufacturing output growth, and we estimate that the economy took a-0.7% hit from a plunge in tourist arrivals, and an additional-0.7% hit from slow-down in domestic consumption- especially in the month of March.

Vietnam's Government initiated a widespread public health campaign almost immediately when COVID-19 came to light in January, with a resulting modest impact on the behaviour of urban (but not rural) consumers starting from around the middle of February. However, public health measures dramatically intensified in March (as they did in most countries around the world) after a cluster of infections was traced back to an individual who had returned from Europe to Vietnam on March 2nd.

During the month of March, public health measures progressively became more stringent until most non-essential service providers were shut for two weeks starting from April 1st. The successive “locking down” of the economy during the month, coupled with a collapse in tourist arrivals from +7% y-o-y in 1Q19 to a decline of 18% y-o-y in 1Q20 resulted in the collapse in real retail sales growth from 9.3% y-o-y in 1Q19 to 1.6% in 1Q20.

In our understanding, most manufacturing businesses were not targeted by the Government’s “partial lockdown” of the economy, which western public health experts would probably characterise as a “Mitigation Light” COVID-19 strategy.

While manufacturers are not experiencing any major workforce issues, they have experienced a supply-side shock at the beginning of the quarter which has now changed into a demand-side shock as Vietnam’s two biggest export markets, the US (25%/exports), and the EU (15%/exports) shut down. Consequently, manufacturing output growth collapsed from 12.4% y-o-y in 1Q19 to 7.1% growth in 1Q20, and the Vietnam’s Manufacturing PMI survey index declined from 49 in February to 41.9 in March.

We have discussed all of the above developments in greater detail in our report published on 6 April on COVID-19’s intensifying impact on Vietnam’s economy, in which we also discussed the Government’s current proposal for circa 3%/GDP of fiscal stimulus aimed at helping support the economy through this difficult time (note that we expect the Government to end up taking more drastic steps to support the economy as COVID’s impact on Vietnam’s economy continues to materialise).

Remarkably, the value of Vietnam’s currency has remained relatively stable throughout the COVID-19 crisis. The unofficial value of the VN Dong had depreciated by about 0.4% YTD at the end of February, and then depreciated by less than 2% during the month of March, despite the circa 14% depreciation in the value of the Indonesian Rupiah in March that heightened investors’ concerns about emerging market currencies.

Part of the resiliency of the VN Dong is attributable to the fact that Vietnam’s USD85 billion of FX reserves are more than adequate the meet any potential short term “hot money” outflows, which were about USD331 million in March (EM stock and bond markets saw a record USD 83 billion in outflows during the month). Vietnam’s FX reserves, which are over three months’ worth of imports, are also more than adequate to cover the country’s de minimis short term external debt repayments.

Another factor supporting the currency is the fact that Vietnam’s trade surplus increased from USD1.5 billion in 1Q19 to an estimated USD2.8 billion in 1Q20, driven by a 2% decline in imports according to the General Statistics Office (GSO); exports grew 1% y-o-y. The drop in Vietnam’s imports was driven by an 18% drop in imports from China, which reflects the supply-side issues mentioned above that helped constrain manufacturing output growth (factories in Vietnam source about one-third of their inputs from China).

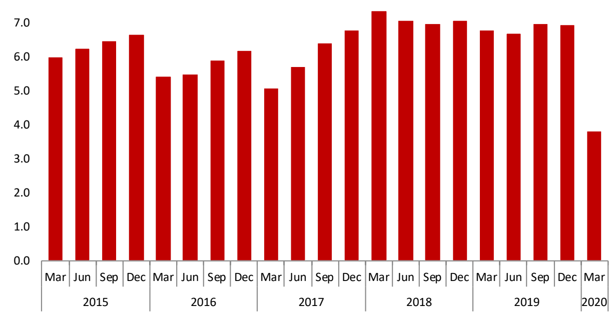
Finally, the enormous negative impact of COVID-19 on global economic growth has displaced inflation from most investors’ minds, especially with the-50% YTD plunge in oil prices (Vietnam cut retail petrol prices by 10% in March). However, Vietnam is still suffering the after effects of the African Swine Fever (ASF) epidemic, so food inflation is still around 10% y-o-y, driven by a 120% y-o-y surge in pork prices; this is in turn attributable to a-20% y-o-y drop in Vietnam’s swine population. For that reason, inflation only fell from 5.4% y-o-y in February to 4.9% y-o-y in March, but the Government cut oil prices by an additional-20% in early April, which should bring inflation down to about 3.5% in the month of April.

Macroeconomic indicators

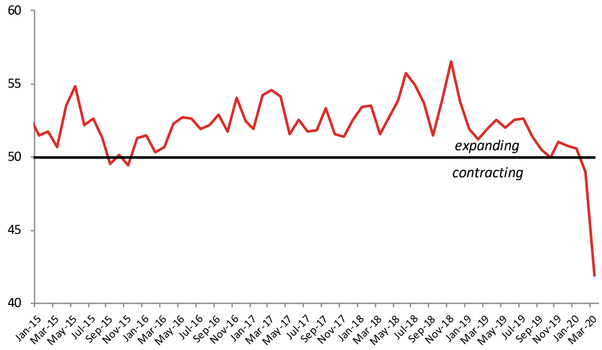
	2019	Mar-20	2020YTD	Y-O-Y
GDP growth[1]	7.0%			3.8%
Inflation (%)	5.2%			4.9%
FDI commitments (USDbn)	36.0	2.1	8.6	-20.9%
FDI disbursements (USDbn)	20.4	1.4	3.9	-6.6%
Imports (USDbn)	253.1	19.0	56.3	-1.9%
Exports (USDbn)	264.2	20.0	59.1	0.5%
Trade surplus/(deficit) (USDbn)	11.1	1.0	2.8	
Exchange rate (USD/VND)	23,190	23,775	-2.5%	

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

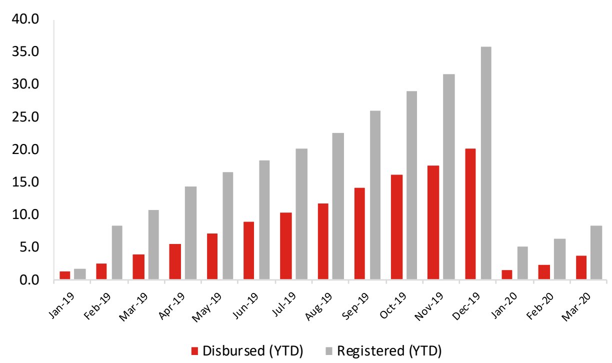
Quarterly GDP growth (%)



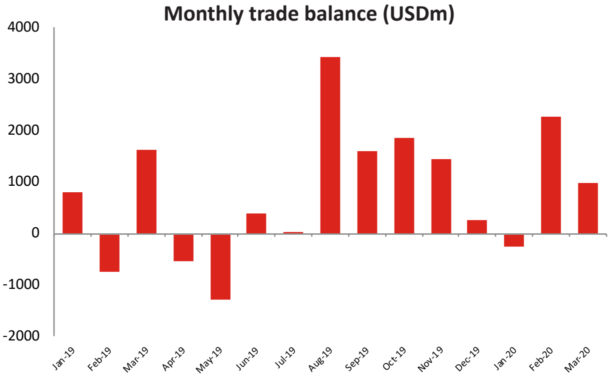
Purchasing Managers’ Index



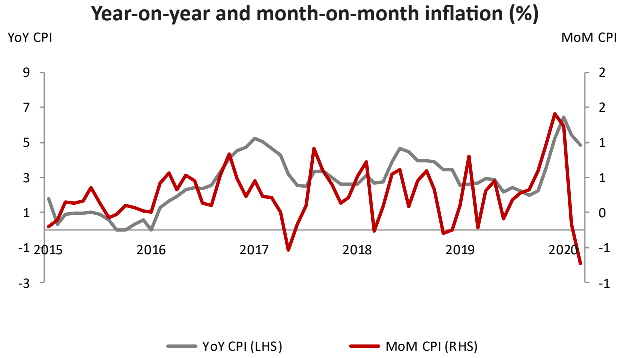
Registered & disbursed FDI, cumulative YTD (USDbn)



Monthly trade balance (USDm)



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



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 an entity regulated by the State Securities Commission of Vietnam
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: - 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

VinaCapital

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