VinaCapital

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

Performance summary — 31 May 2020

	USD	GBP
NAV per share:	4.84	3.93
Change (Month-on-month):	9.5%	12.0%
Total NAV (million):	858.1	696.6
Share price:	3.94	3.20
Market cap (million):	697.5	566.3
Premium/(discount):	-18.6%	-18.6%

GBP/USD exchange rate as 30 April 2020: 1.26
GBP/USD exchange rate as 31 May 2020: 1.23
Source: Bloomberg

Cumulative change (% change)

	3mth	1yr	3yr	5yr
NAV per share (USD)	3.1	-4.7	4.2	53.2
Share price (USD)	15.9	-6.9	17.1	73.1
VN Index (USD terms)	-2.2	-9.4	14.3	42.2
MSCI Emerging market	-7.5	-6.8	-7.5	-7.4
MSCI Vietnam	1.4	-11.9	27.4	26.6

Annual performance history (% change)

CY	2020	2019	2018	2017	2016
NAV per share (USD)	-4.2	-1.6	-9.0	32.1	25.5
VN Index (USD terms)	-10.5	7.7	-11.2	48.4	13.4

Top ten holdings*

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	13.7%	Construction materials
Khang Dien House (KDH)	8.0%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.5%	Infrastructure
Phu Nhuan Jewelry (PNJ)	6.0%	Consumer discretionary
Eximbank (EIB)	5.3%	Financial services
Vinamilk (VNM)	5.3%	Food & beverage
Quang Ngai Sugar (QNS)	3.0%	Food & beverage
FPT Corporation (FPT)	2.9%	Information technology
Orient Commercial Bank (OCB)	2.4%	Financial services
Coteccons (CTD)	2.1%	Real estate & construction
Total	**55.3%**	

*Capital market equities

May 2020: "It is good fishing in troubled waters" – Spanish proverb

Investors who did not cast their nets in May would have missed out on another impressive haul across global and local markets. The benchmark Vietnam Index (VN Index) continued its upstream run to post a second consecutive month of gains, climbing 13.1% (USD terms), after a breath-taking 17% (USD terms) rally in April. Year-to-date, the VN Index is the best performing market in the region and has soared 32.8% from its March lows. Investors – particularly domestic retail investors – continued to drive much of the market inflows, with liquidity reaching two-year highs. Even though foreign investors continued to be net sellers, the rate of outflows declined sharply this month compared to April (May USD38 million vs April USD296 million in net foreign outflows) as interest returned to quality blue-chip names. So much for the adage "sell in May and go away", although come June, we have to date encountered troubled waters as the emergence of a potential second wave of the pandemic spreading across the US, China, India and other regions, coupled with a dour outlook from the US Federal Reserve have rattled markets.

Here in Vietnam, by the start of May, most aspects of domestic economic activity have resumed after the social distancing and lockdown measures implemented during the early part of the year ended. Efforts to control the spread of COVID-19 have been effective, with only 334 confirmed cases nationwide, of which 323 have recovered, and remarkably zero deaths. Domestic air travel has resumed and there is speculation that international flights will re-start in early July to connect with certain Asian destinations including Seoul, Tokyo, Guangzhou, and Taipei. We are also seeing an eagerness to resume manufacturing investment activities, as foreign direct investment (FDI) continued to find its way into Vietnam despite the COVID-19 pandemic. Registered FDI (excluding capital contributions and share purchases) in 5M20 increased 19.9% y-o-y to reach USD10.9 billion. Vietnam's top three FDI investors in 5M20 in terms of registered capital are Singapore (USD5 billion, +171% y-o-y), Thailand (USD1.5 billion, +216% y-o-y) and Japan (USD1.2 billion, -11.3% y-o-y); perhaps it is no coincidence that some of these cities may be the first destinations that international travel will open up to.

Turning to our investment portfolio activities, it has certainly been a busy period as we cast our line out. We have taken the opportunity to build up meaningful positions in high-quality listed companies, given attractive valuations levels as compared to pre-COVID levels. These are not trading opportunities, but instead offer an opportunity to allocate and build up a strategic stake in these companies and enhance our sector allocations where we have been historically underweight (e.g., financial services or industrial land). Some recent investments include:

- VCB (+25.3% m-o-m) – Vietcombank is the leading commercial bank and largest company by market capitalisation.
- VPB (+13.9% m-o-m) – VP Bank is a leading mid-tier bank and the number one consumer finance bank.
- PHR (+12.6% m-o-m) – Phuoc Hoa Rubber, contrary to their name, actually manage a large industrial land and processing zone portfolio that benefits from the rise in foreign direct investment.
- VHM (+20.4% m-o-m) – Vinhomes is Vietnam's leading real estate developer, and the third largest company in terms of market capitalisation.

These companies share a common theme: they have strong market-leading positions, healthy balance sheets and financial ratios, prudent levels of cash, and are able to demonstrate that they have the right teams in place to drive growth over the medium- to long-terms as we look beyond current market volatilities. The proceeds from the sale of smaller positions in the portfolio into the market strength have been mostly used to fund these new investments.

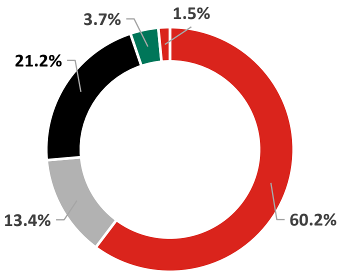
It has been AGM season across many listed companies in the portfolio since social distancing measures have been relaxed and companies carry on with the business of updating performance.

- HPG (+27.4% m-o-m, 13.7% NAV, PER 7.6x 2021F) – Vietnam's largest industrial steel company, recorded impressive 64% y-o-y growth in construction steel for 5M20 despite COVID-19 impact, as they continue to dominate market share and enjoy competitive production costs. Consensus forecast net profit growth of 16.6% and 22.3% for FY20 and FY21 respectively.
- KDH (+5.0% m-o-m, 8.0% NAV, PER 9.0x 2021F) – Leading landed residential developer in Ho Chi Minh City, 1Q20 earnings and pre-sales activities continued with minimal impact from COVID-19 as sales from their Verosa Park and Safira projects continue. The company expects net profit to increase 23% y-o-y for FY20, and they have a strong pipeline of projects leading into 2021-2022 with the Armen and Clarita projects, which will contribute 77% to their pre-sales forecasts, to maintain a 2020-2022F net profit CAGR of 19%.
- VNM (+16.2% m-o-m, 5.3% NAV, PER 19.7x 2021F) – Vietnam's leading dairy milk company has seen limited impact from COVID-19 on earnings year-to-date as schools and export sales channels resume, with the company set to deliver almost USD500 million in net profit for FY20, up 7.7% y-o-y. In early June, Vinamilk and Kido Group (Vietnam's leading ice cream business with 41% market share) announced intentions to established a joint venture to expand into the ice cream and beverage segments, and we see benefits to VNM from this joint venture.

Our activities in the private equity and private markets investments also continues with great enthusiasm. We have recently deployed USD15 million into a structured investment into a private company that offers a potential return of 18% within the next 12 months, coupled with belt-and-braces protections including a suite of covenants and collateral. We are also in the final stages of closing a USD22 million private equity investment in the healthcare sector that will complement our current portfolio of healthcare assets. Once the proceeds are disbursed, we will provide more colour on this exciting opportunity.

By the end of May, the fund's discount to NAV narrowed to 18.6%, a significant improvement from March levels (38% discount at its widest), while the share price has increased 62% from the March lows. NAV was USD858.1 million, or USD4.84 per share, representing an increase of 9.5% m-o-m, as core holdings in HPG, EIB, VNM and PNJ contributed to our portfolio performance.

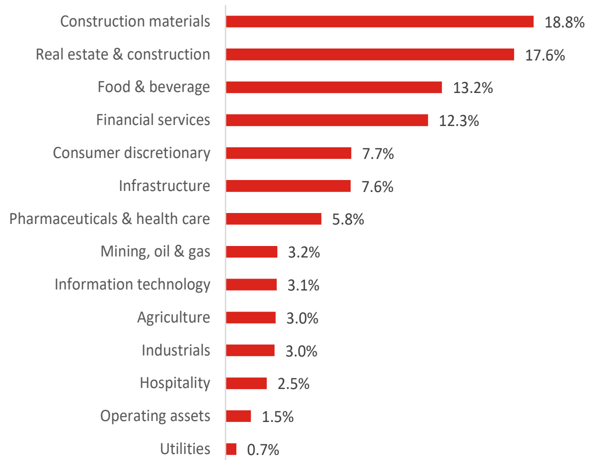
VOF portfolio by asset class**



- Listed equity (60.2%)
- Unlisted equity (13.4%)
- Private equity (21.2%)
- Bond (3.7%)
- Operating assets (1.5%)

*** Excluding cash & others:*
Cash: 5.6% of NAV
Payables & receivables: -0.02% of NAV

VOF portfolio allocation by sector**



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May 2020: Macroeconomic Commentary

Most of Vietnam's economy re-opened in late-April, resulting in a sharp rebound in domestic economic activity in May, which in turn boosted the sentiment among local businesses and consumers. The country's PMI reading leapt from 32.7 in April to 42.7 in May, despite the continued deterioration in Vietnam's manufacturing output growth in May, and nearly half of Vietnamese consumers expect Vietnam's economy to recover to pre-COVID levels within three months, according to McKinsey.

In contrast to that overly-optimistic sentiment, the on-going plunge in global demand for the products Vietnam exports, and the continued halt of foreign tourist arrivals are both weighing very heavily on the country's GDP growth, and nearly all of Vietnam's economic growth metrics continued to deteriorate on a year-to-date (YTD) basis in the month of May. One indicator we are following closely is electricity usage, which gives a broad view of the country's overall economic health; it worsened from 3% yoy growth in 4M20 to 2.6% in 5M20, versus 10.3% yoy growth in 5M19.

At a more granular level, note that growth of manufacturing output fell from 3% yoy in 4M20 to 2.2% growth in 5M20, versus 10.9% in 5M19, while oil production volume deteriorated from-12% yoy in 4M20 to-13.7% in 5M20, versus-8% in 5M19. A comparable deterioration was seen in a range of Vietnam's other growth metrics, with the exception of real retail sales, which improved from a 9.6% yoy drop in 4M20 to an 8.6% drop in 5M20 (versus an increase of 8.5% in 5M19).

The deterioration of Vietnam's manufacturing activity was linked to a drop in demand for the products the country exports. Exports fell by 16% yoy in the month of May alone (and decreased by 2% in 5M20), driven by a 34% yoy plunge in garment exports in May (note that garment sales in the US plummeted 90% from pre-COVID levels in May, according to the most recently released US retail sales figures). Consequently, Vietnam suffered a USD900 million trade deficit in May, which reduced the YTD trade surplus to USD1.9 billion (or circa 2% of GDP) according to the General Statistics Office (GSO).

The weak global demand mentioned above doubly impacted some of Vietnam's manufacturers. The output China's manufacturers has reportedly returned to around 85% of pre-COVID levels, leading to an oversupply of some low value-added goods, which is in turn depressing the selling prices of those products for Chinese and Vietnamese producers alike.

Next, since the Vietnam's borders are still essentially closed, foreign tourist arrivals fell 49% in 5M20, and are now likely to drop 75% in 2020. This will weigh heavily on GDP growth this year, given our estimate that foreign tourists contributed nearly 10% of Vietnam's GDP last year. Furthermore, the border closure contributed to an 8% yoy drop in FDI inflows in 5M20 (to USD6.7 billion) as foreign executives have been unable to travel to the country. Nevertheless, we remain extremely optimistic about the likelihood of a new wave of FDI to Vietnam after the COVID-19 outbreak subsides.

Even with the decline in FDI and the country's trade deficit in the month of May, the unofficial value of the VN Dong appreciated by about 0.5% during the month. This occurred despite the State Bank of Vietnam (SBV) cut of policy interest rates by 50bps, which in turn drove a 160bps collapse in interbank interest rates during the month to about 0.6% by month-end.

Next, the GSO reported that Vietnam's Consumer Price Index (CPI) inflation fell from 2.9% yoy in April to 2.4% in May. This decline was driven by falling oil prices, although food price inflation remained stubbornly high at double-digit levels, partly due to a 4% mom increase in retail pork prices to a new record high. A small number of new cases of African Swine Fever (ASF) were reported, driving pork prices to rise well over 100% yoy, leading the Government to permit the importation of live pigs to Vietnam for the first time.

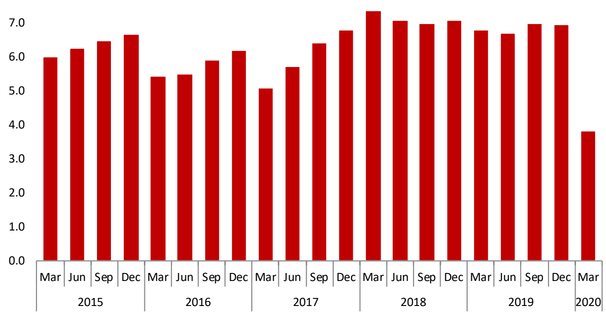
Finally, our own analysis of inflation in Vietnam suggests that the GSO's official inflation statistics are slightly understated, so that the true rate of inflation in Vietnam is currently closer to 3%.

Macroeconomic indicators

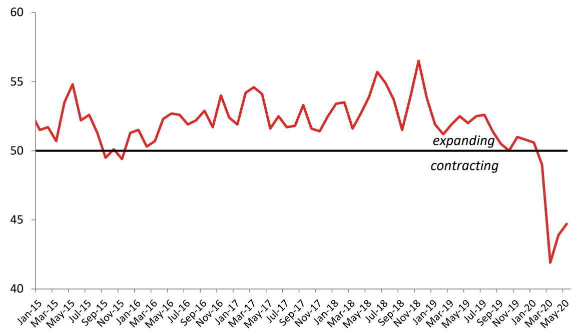
	2019	May-20	2020YTD	Y-O-Y
GDP growth[1]	7.0			
Inflation (%)	5.2	2.4	2.4	2.4
FDI commitments (USDbn)	36.0	1.0	10.9	19.9%
FDI disbursements (USDbn)	20.4	1.6	6.7	-8.2%
Imports (USDbn)	253.1	18.2	96.7	-4.6%
Exports (USDbn)	264.2	19.2	100.2	-0.9%
Trade surplus/(deficit) (USDbn)	11.1	1.0	3.5	
Exchange rate (USD/VND)	23,190	23,300	0.5%	

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

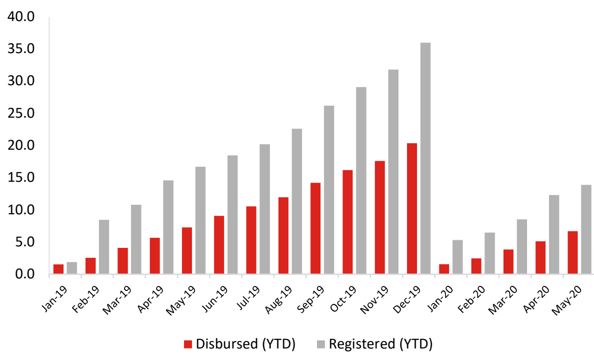
Quarterly GDP growth (%)



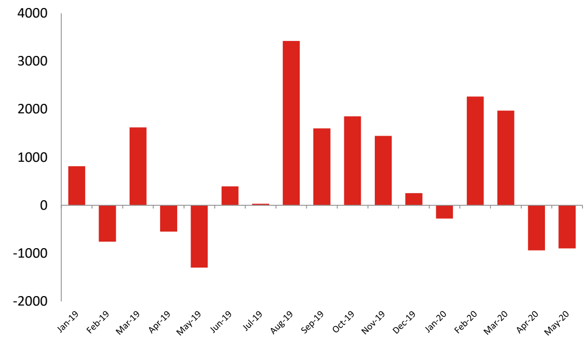
Purchasing Managers' Index



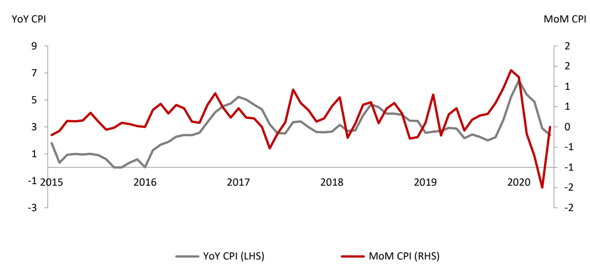
Registered & disbursed FDI, cumulative YTD (USDbn)



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	Khanh Vu	Deputy Managing Director
Kathryn Matthews	Non-executive Director	Loan Dang	Deputy Managing Director

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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