VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | 28 February 2021

Performance summary — 28 February 2021

	USD	GBP
NAV per share:	6.59	4.73
Change (Month-on-month):	7.3%	5.6%
Total NAV (million):	1,124.6	806.5
Share price:	5.69	4.08
Market cap (million):	970.4	695.9
Premium/(discount):	-13.7%	-13.7%

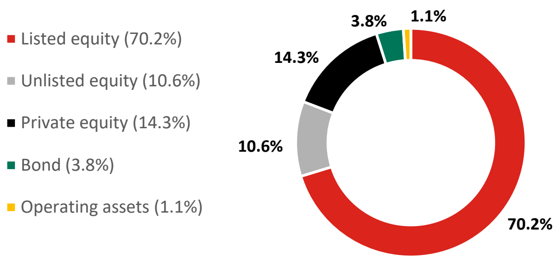
GBP/USD exchange rate as 31 January 2021: 1.3706
GBP/USD exchange rate as 28 February 2021: 1.3945
Source: Bloomberg

Cumulative change (% change, USD, total returns)*

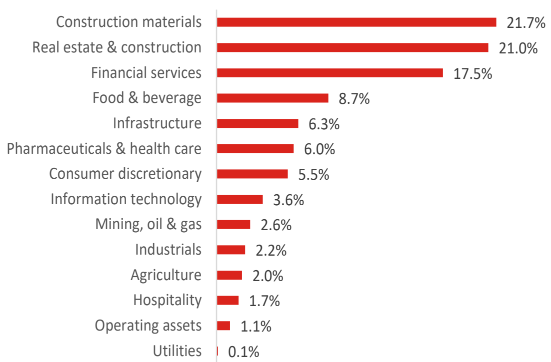
	1mth	3mths	FYTD	1yr	3yr	5yr
NAV per share	7.3	12.5	34.0	43.4	15.1	120.3
Share price	1.1	11.5	41.5	69.7	24.6	161.8
VN Index	10.8	17.6	44.8	36.2	8.9	127.9
MSCI Emerging market	0.8	11.6	36.5	36.5	21.5	107.1
MSCI Vietnam	7.9	12.4	36.6	32.5	4.1	96.4

** Inclusive of dividend distributions*

Portfolio by asset class**



Portfolio allocation by sector**



Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	19.0%	Construction materials
Khang Dien House (KDH)	9.4%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.3%	Infrastructure
Asia Commercial Bank (ACB)	5.7%	Financial services
Vinhomes (VHM)	5.1%	Real estate & construction
Phu Nhuan Jewelry (PNJ)	5.0%	Consumer discretionary
Eximbank (EIB)	4.3%	Financial services
Orient Commercial Bank (OCB)	4.0%	Financial services
Quang Ngai Sugar (QNS)	3.8%	Food & beverage
FPT Corporation (FPT)	3.7%	Information technology
Total	**66.2%**	

*** Excluding Cash & Others (-1.9% of NAV)*
**** Public Equities*

"It was the best of times. It was the worst of times." - *Charles Dickens, A Tale of Two Cities*

February was a short trading month with this year's Lunar New Year holidays ("Tet") seeing the markets closed from 10 February through to 16 February inclusive. Over the remaining 15 trading days of the month, the VN Index delivered an impressive 10.8% month-on-month total return in USD terms (TR$), with a broad-based recovery led by the financials (+13.9% m-o-m), real estate (+7.6% m-o-m), and construction materials (+15.4% m-o-m) sectors being the top contributors to the index performance. Calendar year-to-date, the VN Index is up 6.4% (TR$), a stand-out performance relative to ASEAN peers, including Thailand (+2.3% YTD), Indonesia (+2.0% YTD), and the Philippines (-3.7% YTD).

This was despite the inability of HOSE's trading system to handle a record level of transactions (daily average volume surged from USD150-250 million to USD700-800 million per day), and the resurgence of COVID community transmission cases which appeared in late January after a 55-day clean streak. The outbreak was initially detected in the northern part of the country but rapidly spread to 13 cities and provinces just as the all-important Tet holidays began. During this extended holiday period, people will typically travel to their hometowns and congregate with extended family. Given the outbreak and the Government's measures to encourage less travel during the holidays, we witnessed a far more subdued holiday period than usual.

Efforts to control the spread of transmission has helped control this third outbreak, and as at the time of publication of this report, we have seen less than 900 new cases of community infection since late January, once again a testament Vietnam's ability to contain this pandemic. This has been recognised through a recent Lowy Institute research paper published in late January, which ranked Vietnam second, out of 98 countries, only behind New Zealand (#1) and ahead of Taiwan (#3), in their success of handling the pandemic.

Turning to the vaccine front, on 24 February Vietnam received its first shipment of 117,000 COVID vaccine doses out of 30 million doses ordered from AstraZeneca, which are manufactured by South Korea's SK Bioscience. The first doses were administered on 8 March to frontline health workers and other prioritised groups. By the end of 2021, it is expected that almost 20% of Vietnam's population will be vaccinated.

By early March, the Government's modest restrictions on business and community gatherings lifted, with schools, restaurants, conference / wedding halls, and gyms all re-opening (although to the chagrin of some, bars and karaoke parlours remain closed). The reopening is particularly welcomed by several of our portfolio investments:

- Hospitality sector: in 4Q20 the GEM Centre and White Palace Conference Centre showed signs of recovery as the industry's peak season began. The company has seen a surge in bookings, with events that were deferred over past months being rebooked and leading into the all-important AGM season in the coming months, we are seeing companies increasingly opting for in-person meetings. During 2020, our post-investment team worked closely with the company's management to introduce several cost-cutting measures in response to a weak business performance, and we assisted in the renegotiation and restructuring of bank loans. In 2020, the company delivered positive EBITDA and we expect a strong recovery in earnings, profit, and margins in 2021. Encouragingly, the company retains a very strong cash balance which is earmarked for expansion and growth as part of our original investment plan.

- Healthcare sector: Thu Cuc International Hospital in Hanoi is our most recent investment in the private healthcare sector which we invested in August 2020. The company delivered stable performance in terms of revenue and EBITDA for 2020, which is commendable considering the pandemic and its impact on healthcare services including rising costs due to COVID-prevention measures. In-patient and out-patient volumes also increased by 40% y-o-y and 13% y-o-y, respectively. For 2021, the roll out of vaccines should drive significantly improved performance through increased patient visits, and the contribution from the recent opening of the company's second clinic in Hanoi, a 7,000 sqm facility, will support revenue and profits.

With the 4Q and 2020 earnings season now wrapped up, we lay bare the pandemic's impact on the market. While most regional markets suffered significant earnings contraction during a turbulent year, surprisingly Vietnam stood out amongst peers, posting a modest 1.4% average EPS growth for 2020. This compares favourably with regional peers who suffered large EPS contractions[2]: Thailand, -48.7%; the Philippines, -46.5%; and Indonesia, -45.5%. Recently revised estimates have upgraded the VN Index's 2021 average EPS growth to 23.8% y-o-y, which seems highly probable given the resilience of the local economy, driven by strong export growth, high consumer confidence, and ongoing public spending. Following 2020 GDP growth of 2.9%, Vietnam's government is forecasting 6.5% GDP growth for 2021, which underpins this earnings growth confidence.

Market valuations remain attractive given the expected earnings growth, with the VN Index trading on a trailing P/E multiple of 18.0x as at the end of February, while we expect the market to trade on a forward P/E of 14.6x. Vietnam still offers investors looking for growth at a reasonable price a rare balance of high return on equity and EPS growth at fair prices. As discussed in last month's newsletter, the VOF public equity portfolio is expected to deliver an average EPS growth for 2021 of 27.6%[3] y-o-y, while trading at an average forward P/E of 10.1x. During the month of February, the fund delivered 7.3% total return on NAV, while share price traded at a slightly wider discount to NAV of 13.7%.

[2] *Source: Bloomberg, VinaCapital research*
[3] *https://vinacapital-cdn.azureedge.net/wp-content/uploads/sites/2/2021/02/VOF-Monthly-January-2021.pdf*

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Macroeconomic Commentary

Vietnam's economic growth was surprisingly resilient in 2M21, despite the COVID outbreak described in the previous section. Real retail sales growth increased from 5.4% y-o-y in 2M20 to 5.5% in 2M21, and manufacturing output growth increased from 7.4% y-o-y to 10.4% y-o-y, clear evidence that the country's Government has mastered containing COVID outbreaks without overly constraining the economy. We continue to expect Vietnam GDP growth to rebound from 2.9% in 2020 to 6.5% in 2021, driven by a rebound in personal consumption growth from around 0% y-o-y in 2020, to 8-9% in 2021, and manufacturing output growth from 5.8% y-o-y in 2020 to 11-12% in 2021.

Further to that last point, the strength in Vietnam's manufacturing output was also reflected in an increase in Vietnam's PMI survey from 51.3 in January, to 51.6 in February, in contrast to a drop in the ASEAN-wide PMI from 51.4 to 49.7. The on-going strength in Vietnam's manufacturing sector continues to be driven by the demand for "stay at home" goods in the US and other developed countries.

In January, US retail sales surged by over 5% month-on-month, after having declined for three months in a row, a result of the COVID stimulus relief that was distributed to US households at the end of December. Sales of electronics and furniture surged at near record-high growth rates of 12-15% m-o-m in January.

These products are now largely made in Vietnam, which helped propelled a circa 40% surge in Vietnam's exports to the US in 2M21, which in-turn drove a 23.7% y-o-y increase in Vietnam's total exports to USD48.7 billion in 2M21. Vietnam's exports of high-tech products such as consumer electronics and mobile phones grew by about 25% y-o-y for that period.

Despite that surge in exports, Vietnam's overall trade surplus fell from USD1.8 billion in 2M20, to USD1.6 billion in 2M21, according to Vietnam Customs. Counterintuitively, the dip in the trade surplus is actually a positive sign because imports soared by 25.5% y-o-y to USD47.1 billion, driven by the aggressive procurement of components and other production inputs that FDI firms require to manufacture the products they export.

Next, the trade surplus continued to support the value of the Vietnam Dong and the official USD-VND exchange rate was unchanged YTD. The absence of foreign tourists and overseas Vietnamese during the Tet holiday resulted in an unusual situation in which Vietnam's commercial banks had an over-abundance of US Dollars - for reasons that were discussed in January's report - but the informal market suffered from a modest shortage of USD, which is usually sourced from foreign tourists.

Consequently, the unofficial value of the VN Dong depreciated by 2% YTD at the end of February, resulting in a circa 2% divergence between the official and unofficial USD-VND exchange rates. We are not overly concerned about this difference and strongly believe that Vietnamese confidence in the VND remains high, although we are closely monitoring the situation.

Finally, CPI inflation in Vietnam rebounded from a contraction of 1% y-o-y in January to a rise of 0.7% in February, driven by: 1) the removal of a temporary subsidy on retail electric prices (which was discussed in January's report), 2) seasonal factors in the run-up to the Lunar New Year holiday, which pushed food prices up nearly 2% m-o-m in February, and 3) the "base effects" that will have a major impact on Vietnam's inflation rate in April.

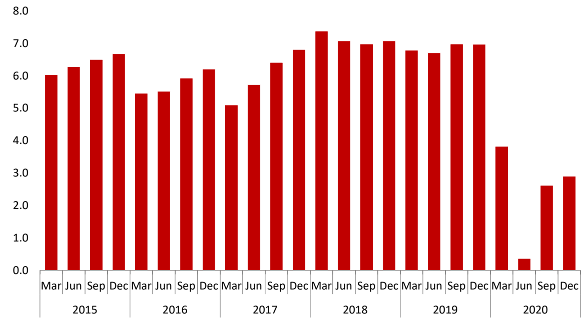
Further to that last point, we expect inflation in Vietnam to surge in April on account of oil prices that have increased by more than 30% in 2021, and because of the low base effects caused by weak economic activity at the height of the COVID outbreak in April 2020. However, these base effects will then ease as the year progresses, and we expect inflation in Vietnam (and in the rest of the world) will likely moderate in H2. We expect Vietnam's inflation rate will drop back to 2% by the end of 2021.

Macroeconomic indicators

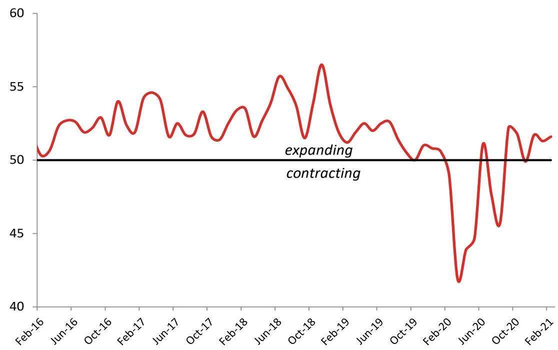
	2020	Feb-21	2M2021	YOY
GDP growth[1] (%)	2.9			
Inflation[2] (%)	3.2			0.7
FDI commitments (USDbn)	21.0	3.1	4.9	-13.1%
FDI disbursements (USDbn)	20.0	1	2.5	2.0%
Imports (USDbn)	262.4	20.7	47.1	25.5%
Exports (USDbn)	281.5	20.2	48.7	23.7%
Trade surplus/(deficit) (USDbn)	19.1	-0.5	1.6	
Exchange rate (USD/VND)[3]	23,131	23,130		0.0%

Sources: GSO, Vietnam Customs, MPI, Bloomberg|1.Annualised rate, updated quarterly.|2. Monthly year-on-year change; Annual is 12-month average change in CPI per GSO|3. BBG-State Bank of Vietnam Avg. USD/VND Interbank rate

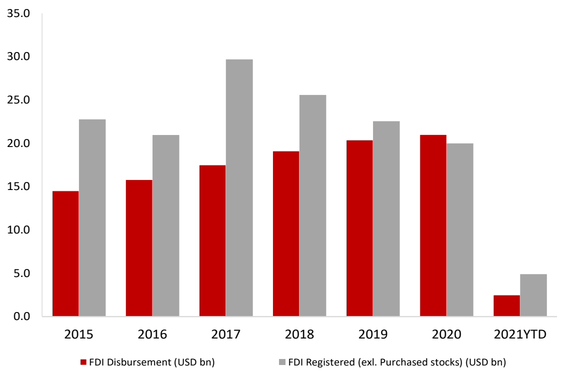
Quarterly GDP growth (%)



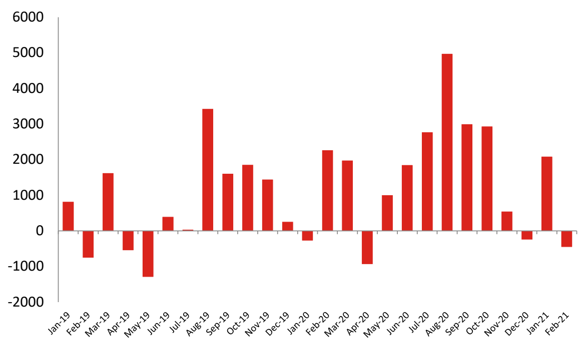
Purchasing Managers' Index



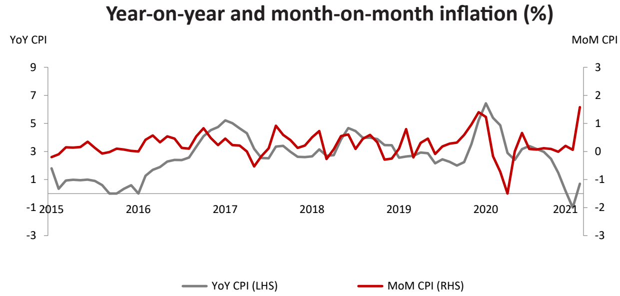
Registered & disbursed FDI, cummulative YTD (USDbn)



Monthly trade balance (USDmn)



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**
Steve 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	Dieu Phuong Nguyen	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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