

Performance summary 31 March 2021

	USD	GBP
NAV per share:	6.66	4.83
Change (Month-on-month):	1.1%	2.1%
Total NAV (million):	1,135.3	822.7
Share price:	5.77	4.18
Market cap (million):	983.1	712.4
Premium/(discount):	-13.4%	-13.4%

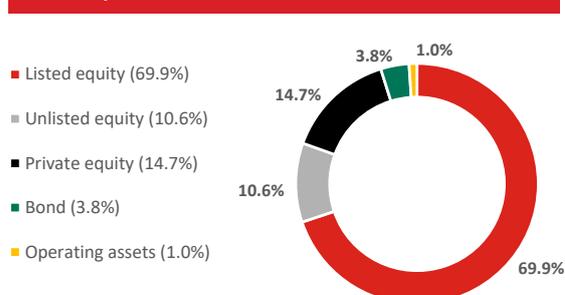
GBP/USD exchange rate as 28 February 2021: 1.3945
 GBP/USD exchange rate as 31 March 2021: 1.3800
 Source: Bloomberg

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

	1mth	3mths	FYTD	1yr	3yr	5yr
NAV per share	1.1	5.9	35.4	72.4	13.4	111.7
Share price	1.4	-0.6	43.4	80.0	27.4	150.1
VN Index	1.8	8.2	47.4	87.3	5.8	130.2
MSCI Emerging market	-1.5	2.2	34.4	58.9	21.9	80.2
MSCI Vietnam	0.1	4.6	36.8	70.3	-2.6	93.4

* Inclusive of dividend distributions

Portfolio by asset class**



Portfolio allocation by sector**



Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	18.9%	Construction materials
Khang Dien House (KDH)	8.9%	Real estate & construction
Airports Corporation of Vietnam (ACV)	6.2%	Infrastructure
Asia Commercial Bank (ACB)	5.7%	Financial services
Phu Nhuan Jewelry (PNJ)	4.9%	Consumer discretionary
Vinhomes (VHM)	4.9%	Real estate & construction
Eximbank (EIB)	4.7%	Financial services
Orient Commercial Bank (OCB)	4.6%	Financial services
Quang Ngai Sugar (QNS)	3.8%	Food & beverage
FPT Corporation (FPT)	3.7%	Information technology
Total	66.3%	

** Excluding Cash & Others (-1.0% of NAV)

*** Public Equities

“There is no top. There are always further heights to reach.” – Jascha Heifetz

Vietnam was one of the few countries in ASEAN to grow during the coronavirus pandemic of 2020, posting 2.9% growth in GDP, thanks to its widely praised efforts to contain the outbreak. With the first quarter of 2021 now behind us, we take a brief look at the economy and market before turning to our portfolio holdings.

Economic growth over the first quarter of this year reached 4.5% year-on-year (y-o-y) versus 3.7% y-o-y in 1Q20, driven by an expansion in manufacturing and construction (6.3% y-o-y in 1Q21). The government’s target of 6.5% annual GDP growth seems achievable and our Chief Economist discusses in more detail below the resilience of this growth, with consensus estimates for the market to deliver 24% earnings growth on average for 2021, while we expect holdings in our portfolio to deliver 36% earnings growth on average.

The expansion in the manufacturing and construction sector is a direct result of strong export demand for “stay at home” products (a theme that we have discussed over the past year), the continued inflow of FDI investment, confident domestic consumer spending, and supportive monetary and fiscal stimulus policies from the government, with disbursement in public investment capital set to continue to grow this year after last year’s 35% increase in public spending.

The increase in investments for the construction of roads, highways, smart cities, metros, bridges, and expressways to meet the growing demands due to population growth and urbanisation will provide a strong catalyst for companies in the construction material and real estate sectors. Large infrastructure projects like the Long Thanh Airport (in the South), and the North-South Expressway, are set to be joined by other major public projects recently announced under the new government leadership, such as the Quang Tri Airport project¹.

Turning to the country’s leadership, in early April Vietnam completed a government transition that occurs every five years. The country is led by the “four pillars”: The General Secretary of the Party, the President, the Prime Minister, and the Chairman of the National Assembly. Mr Nguyen Phu Trong was re-elected as General Secretary for a third term in late January. Mr Nguyen Xuan Phuc, who has served as Prime Minister for the past five years, has been promoted to President, while Mr Pham Minh Chinh, whose career has largely been focused on public security, has been elected Prime Minister. Finally, Mr Vuong Dinh Hue, the party secretary for Hanoi (and a former deputy prime minister and finance minister), has been elected Chairman of the National Assembly.

We believe that the new government will largely continue the economic policies of the previous five years given their effectiveness in fostering growth and stability and continue with Vietnam’s openness to foreign trade and investment. We have published a separate [note](#) that provides a more detailed review of the new government.

In late March, international credit rating agencies Moody’s and Fitch Ratings raised Vietnam’s economic outlook to “Positive”². The overall positive sentiment has buoyed the local stock market, with the Vietnam Index (VN Index) up 8.2% calendar year to date, making it one of the best performing regional markets. For the month of March alone, the VN Index delivered a 1.8% m-o-m return (all in US Dollar total return terms, \$TR).

The first week of April saw the VN Index cross through the psychologically important 1,200 points level which it had been testing in recent weeks, to reach its all-time high thanks to strong performance across blue-chips, record domestic liquidity flows (despite on-going system glitches related to order capacity issues on the main bourse), and a welcome return of net-buying from foreign investors, the first since February.

VOF’s NAV increased 1.1% m-o-m (\$TR), with the top weighted contributors to performance being Orient Commercial Bank (HOSE: OCB) +15.6%, Eximbank (HOSE: EIB) +11.0%, Hoa Phat Group (HOSE: HPG) +2.6%, and Cenland (HOSE: CRE) +33.1%. Recall that our investments into companies such as HPG, OCB and CRE were through the private equity channel when these companies were still private, and over the years, we have taken them public.

With 1Q21 earnings season just starting, we highlight several portfolio companies updates below:

- **HPG (18.9% of NAV)** is expected to deliver knock-out 1Q21 results thanks to increased sales volumes for long steel, particularly construction steel, and hot-rolled coil as the final furnace of the Dung Quat Integrated Complex came online in January. The surge in steel prices in recent weeks (+23% q-o-q average increase in steel prices) will more than offset the recent increase in input prices. Furthermore, HPG announced plans to expand the Yen My II Industrial Park in Hung Yen Province by 216 ha, as it continues to invest in the industrial zone sector. HPG have announced 2021 guidance for revenue of USD5.2 billion (+33% y-o-y) and NPAT of USD783 million (+33% y-o-y). We note that HPG has a track record of exceeding its guidance. The company has also announced a 2020 dividend of 35% (5% in cash on par value, 30% in stock) and for 2021 the dividend is expected to remain more-or-less consistent at 30%.
- **PNJ (4.9% of NAV)** announced upbeat 2M21 results led by the retail business, with revenues of USD218 million (+37% y-o-y) and NPAT of USD16.5 million (+11% y-o-y). PNJ expects positive retail sales growth in March 2021 thanks to its Women’s Day promotion activities during the month, and 1Q21 performance will recover strongly compared to 1Q20 when the company was acutely hit by the initial COVID-19 outbreak. The jewellery company expects to achieve 2021 net revenue of USD913 million (+20% y-o-y) and after-tax profit of USD54 million (+15% y-o-y), while increasing its dividend to 20% on par value.
- **QNS (3.8% of NAV)** posted 1Q21 revenues of USD48 million (+5% y-o-y) and NPAT of USD6.1 million (+20% y-o-y). Growth was led by the sugar segment, with revenues up 80% y-o-y in 1Q21, while soymilk sales were mostly flat y-o-y. The company has offered 2021 guidance for sales to increase +19% y-o-y, while it expects to pay out this year’s dividend of 15% on par value.
- **FPT (3.7% of NAV)** reported that 2M21 PBT increased 21.5% y-o-y, led by two core segments (technology +33.6% y-o-y and telecoms +17.7% y-o-y). Overall, the technology segment reported newly signed projects of USD131 million (+29.4% y-o-y) in which USD87 million is from global IT services (+10.4% y-o-y). For FY2021, the company estimates growth in revenues of 16% y-o-y, net profit growth of 18% y-o-y, and a cash dividend of 20% on par value.

¹ <https://vietnamnet.vn/en/business/vietnam-business-news-april-7-725457.html>

² <https://www.moody.com/credit-ratings/Vietnam-Government-of-credit-rating-600023790>

Finally, on 29 March the fund released its interim results for the period ending 31 December 2020, which can be found on the VOF [website](#). Over the first six months of the financial year from July to December 2020, NAV per share increased 28.0% measured in USD on a total return basis, while the discount narrowed significantly over the period from 18.1% as at 30 June to 7.9% at the end of December. Furthermore, off the back of the strong performance of the fund, the Board declared an increase in the semi-annual dividend to 6.0 US cents per share, which will be payable to shareholders on or around 4 May 2021 ([see announcement](#)). Please note that shareholders of the London Stock Exchange ("LSE") Premium listing of fund's shares are eligible for the dividend (ticker: VOF; ISIN: GG00BYXVT888).

Macroeconomic Commentary

Vietnam's GDP grew 4.5% year-on-year (y-o-y) in Q1, which was a remarkably strong performance given that: 1) Vietnam's third COVID outbreak prompted modest social distancing measures in February and March; and 2) Vietnam's foreign tourist arrivals collapsed to zero relative to 1Q20, which weighed heavily on the economy, although GDP still increased from 3.7% in 1Q20.

Further to point 1 above, note that Vietnam's GDP growth was unchanged at 4.5% y-o-y in both the last quarter of 2020 and the first quarter of 2021, despite the above-mentioned COVID outbreak during Q1 (there were no restrictive social distancing measures in place during most of 4Q20). Further to point 2 above, note that foreign tourists contributed about 8% to Vietnam's economy pre-COVID, and that tourist arrivals were up 5% y-o-y in 2M20, before COVID emerged.

The strength in Vietnam's GDP growth in Q1 was attributable to strong household consumption, and to the manufacturing of "stay at home" goods that were exported to the US and other developed countries.

Regarding consumption, real retail sales growth (i.e., excluding inflation), which is a close proxy for household consumption in Vietnam, increased from 0% y-o-y in 1Q20 to 4.5% in 1Q21. However, we estimate that foreign tourists previously accounted for about 10% of Vietnam's retail sales, so the growth of real retail sales, excluding foreign tourists probably surged by about 9% y-o-y in Q1, which is in-line with its 5-year average (pre-COVID).

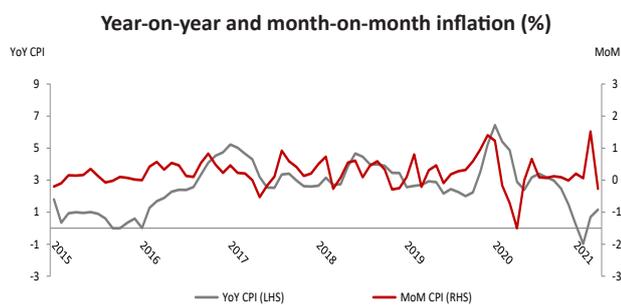
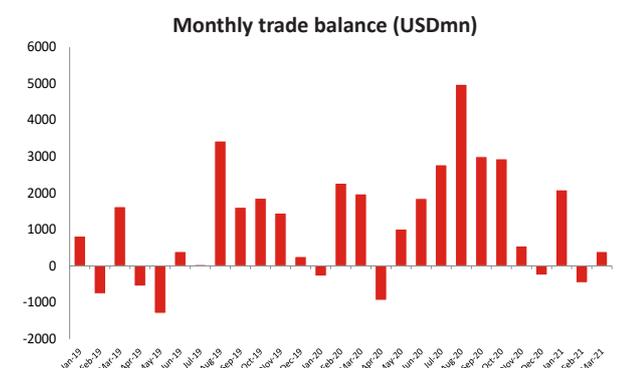
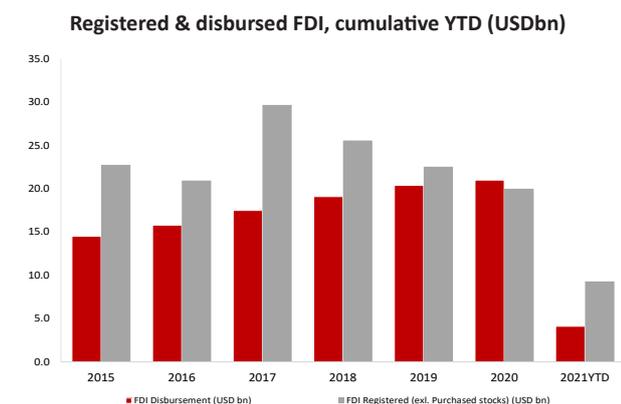
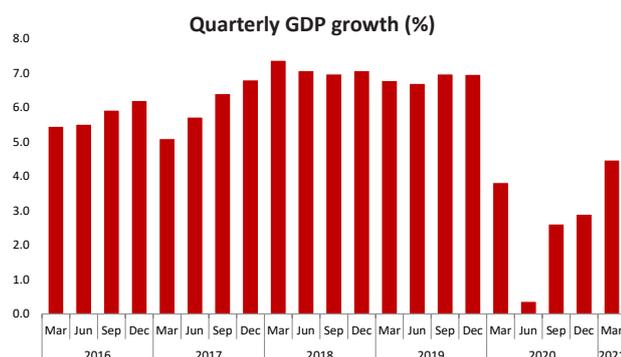
Regarding manufacturing, a recent Wall Street Journal article titled "The Vietnamese Recovery is Made in America" observed that "Vietnam's economy is returning to solid export-fueled growth that will likely continue thanks to US fiscal stimulus". We agree with that assessment and note that Vietnam's exports to the US soared 33% y-o-y in Q1 to USD21 billion, and that a surge in new export orders lifted Vietnam's manufacturing PMI from 51.6 in February to 53.6 in March – its highest level in over two years.

That surge in Vietnam's exports to the US, coupled with a 31% y-o-y surge in electronics exports (to USD12 billion) lifted Vietnam's total export growth from 8% in 1Q20 to 22% y-o-y in 1Q21. At the same time, import growth rocketed even more, from about 4% in 1Q20 to 26% y-o-y in 1Q21. This is actually positive because these imports are primarily production materials required to manufacture products for export, such as components for consumer electronics, cell phones, and other high-tech products. This surge in imports is a clear leading indicator that the production and export of these products will continue to grow in the months ahead. Vietnam achieved an estimated trade surplus of nearly USD2 billion in Q1, although the surplus shrank from 7% of GDP in 2020 to 2-3% of GDP in Q1.

Another positive leading indicator was the 6.5% increase in disbursed FDI inflows in Q1 (to USD4.1 billion) because most of these inflows fund new manufacturing and power generation projects (or expansions of existing projects). Furthermore, newly approved/registered FDI projects surged 41% y-o-y to USD9.3 billion in Q1, driven by a new 3,000MW LNG-to-power project from a joint venture led by Korea's GS Energy and VinaCapital.

Next, Vietnam's CPI inflation rate ticked up from 0.7% in February to 1.2% y-o-y in March, driven higher by a 4% month-on-month (m-o-m) increase in retail petrol prices, but dampened by a 4% m-o-m drop in pork prices (note that African Swine Fever is now under control in Vietnam and in China, where pork prices fell by about 10% m-o-m in March).

The VND's official exchange rate against the USD continued to be stable. Recent comments about Vietnam's currency practices from US Trade Representative Katherine Tai will surely put more pressure on the VND to appreciate against the USD as 2021 progresses.



Macroeconomic indicators

	2020	Mar-21	2021YTD	YOY
GDP growth ¹ (%)	2.9			4.5
Inflation ² (%)	3.2			1.2
FDI commitments (USDbn)	21.0	4.4	9.3	41.4%
FDI disbursements (USDbn)	20.0	1.6	4.1	6.5%
Imports (USDbn)	262.4	28.2	75.3	26.3%
Exports (USDbn)	281.5	28.6	77.3	22.0%
Trade surplus/(deficit) (USDbn)	19.1	0.4	2.0	
Exchange rate (USD/VND) ³	23,131	23,244		0.5%

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

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	<p>Commencing July 1, 2018: a tiered management fee structure has been introduced, with the following annual rates applied to net assets:</p> <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 <p>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.</p>		
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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