VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | 30 June 2021

Performance summary — 30 June 2021

	USD	GBP
NAV per share:	7.97	5.78
Change (Month-on-month):	2.4%	5.7%
Total NAV (million):	1,342.3	972.7
Share price:	6.64	4.82
Market cap (million):	1,119.1	810.9
Premium/(discount):	-16.7%	-16.7%

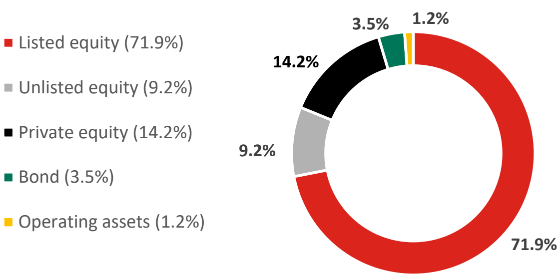
GBP/USD exchange rate as 31 May 2021: 1.4206
GBP/USD exchange rate as 30 June 2021: 1.3800
Source: Bloomberg

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

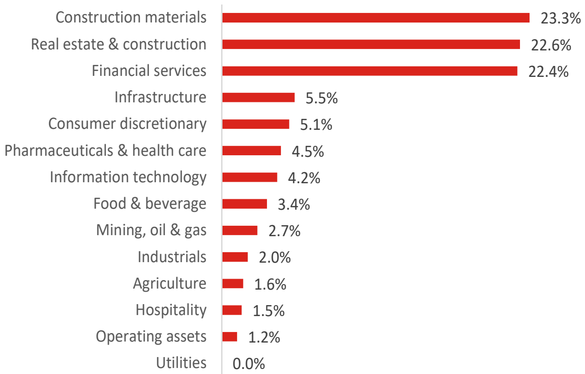
	1mth	3mths	CYTD	1yr	3yr	5yr
NAV per share	2.4	20.7	27.8	63.4	57.8	131.8
Share price	1.7	16.3	15.7	66.9	66.7	165.5
VN Index	6.5	18.9	28.7	75.3	54.1	141.0
MSCI Emerging market	0.2	5.1	7.4	41.3	39.1	87.9
MSCI Vietnam	4.8	17.0	22.3	60.0	36.7	103.7

** Inclusive of dividend distributions*

Portfolio by asset class**



Portfolio allocation by sector**



Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	19.8%	Construction materials
Khang Dien House (KDH)	9.2%	Real estate & construction
Asia Commercial Bank (ACB)	6.4%	Financial services
Eximbank (EIB)	6.0%	Financial services
Airports Corporation of Vietnam (ACV)	5.4%	Infrastructure
Vinhomes (VHM)	5.0%	Real estate & construction
Phu Nhuan Jewelry (PNJ)	4.9%	Consumer discretionary
Orient Commercial Bank (OCB)	4.9%	Financial services
FPT Corporation (FPT)	4.1%	Information technology
Quang Ngai Sugar (QNS)	3.1%	Food & beverage
Total	**68.8%**	

** *Excluding Cash & Others (2.8% of NAV)*
*** *Public Equities*

"All sunshine makes desert."

We ended the first half of the calendar year on a mixed note. On the one hand, Vietnam's 4th COVID wave is taking its toll on domestic economic and social activities, with almost 40,000 new cases reported since this latest outbreak was first detected in late April 2021. On the other hand, the stock market continues to outperform the region, up 6.1% month-on-month (m-o-m) and 27.6% calendar year to date, in USD total return basis ($TR), driven by record levels of liquidity, with average daily turnover exceeding USD1.3 billion (+13.6% m-o-m) by the end of June 2021.

The economy remains resilient and for the first half of 2021, GDP grew by 5.6% y-o-y, and the Government continues to forecast 6.5% GDP growth for 2021. Our in-house research team is suggesting that in a worst-case scenario, a prolonged lockdown could shave up to 1% off GDP growth to 5.5% for the year. Our macroeconomic commentary below and recent note from our Chief Economist delves deeper into our outlook for 2H21.

With the strong market performance, the Vietnam Index (VN Index) is reverting to its historical average and now trades at 16.9x on a forward price-to-earnings ratio (PER). With consensus earnings growth for 2021 trending upwards to 31%, market valuations do not seem too stretched. Nevertheless, Vietnam stocks are not as cheap as they used to be versus regional peers, with the PER discount to Thailand, Indonesia, and the Philippines of less than 10% (versus the long-term average discount of 30%).

It has been widely covered that the current market bull run has been fuelled by record levels of liquidity amidst a prevailing low interest rate environment, with local Vietnamese retail investors now making up almost 90% of market turnover. The year-to-date average daily turnover for the VN Index has surpassed Singapore, Malaysia, and the Philippines (and Indonesia too, if the HNX and UPCoM exchanges are included). The recent systems glitches which held back daily trading volumes seem to have been fixed with an interim solution provided by technology services company FPT (HOSE: FPT) – which incidentally is a VOF portfolio holding – and seems to have appeased retail and institutional investor concerns.

Reading across sectors, June saw Real Estate (+9% m-o-m, +31.8% y-t-d) companies finally catching up after strong recent outperformance led by Financials (+3% m-o-m, +45.1% y-t-d), Construction Materials (+0.5% m-o-m, +44.2% y-t-d), and Information Technology (+4% m-o-m, +66.8% y-t-d).

• *Real Estate*: While sluggish sales amid the current outbreak appears to have dampened sales prices, consensus expectations are for an aggressive increase in real estate business activity in the latter quarters of the year and into 2022, with most developer's concentrating their efforts to plan for launches in 2H21, which is usually the peak season for the real estate market. For example, Vinhomes (HOSE: VHM), the nation's leading residential real estate developer, is expected to book significant bulk sales in 2H21. Overall, for 2021 the sector is expected to post 66% y-o-y presales growth to USD9 billion, driven mainly by demand in tier-two cities, while net profit could rise by 28% y-o-y to USD2 billion. The portfolio holds 22.6% in Real Estate companies, with Khang Dien House (HOSE: KDH, 9.2% NAV) and VHM (HOSE: VHM, 5.0% NAV) making up the core public equity holdings.

• *Financials*: The sector has shown strong profitability and high growth despite the pandemic, on the back of resilient margins and lower provisions (due to lower legacy non-performing loans) and stricter credit policies in place which has helped improve loan quality. Furthermore, as deposit rates have decreased, this has helped banks' net interest margins improve and profitability grow. Nevertheless, risks revolve around asset quality and looking over the horizon, we are wary that the sector may not be out of the woods yet, as concerns weigh on higher NPLs and provisions, given the debt restructuring and relief measures introduced by the government to help COVID-impacted borrowers may now extend beyond 2023, and the fact that ~40% of all loans have received some form of payment restructuring or interest waiver (as of April 2021). As of the time of this report, the State Bank has approved new credit quotas for most of the top-tier commercial banks, as most banks have used their credit quota allowance. While our research team have increased their FY21 profit before tax forecast to grow 30% y-o-y behind better margins, fees, and provision recovery, this still implies that a more tempered growth can be expected in the 2H21 as the pandemic grinds on. VOF currently hold 22.4% exposure to the sector, with Asia Commercial Bank (HOSE: ACB, 6.4% NAV), Eximbank (HOSE: EIB, 6.0% NAV), and Orient Commercial Bank (HOSE: OCB, 4.9%) making up our top publicly listed holdings

• *Construction Materials*: The Vietnamese government remains committed to infrastructure spending which is supportive of construction activities and thus construction materials volume growth. Leading players such as Hoa Phat Group (HOSE: HPG, 19.8% NAV) have gained market share from greater efficiencies, while the recent correction of China's steel prices, prompted by that government's efforts to control steel speculation activities, has had a minor impact on the industry. China steel-related product prices plunged in late May 2021 but have subsequently recovered. We believe the China steel price correction has a minor impact on Vietnam's steel sector, as companies only saw a slight cut in their selling price. Specifically, for HPG, we expect their sales volumes and selling prices to recover in July and August. For 2021, we forecast HPG to deliver 157% net profit growth, thanks to additional capacity of 3 million tons from the fourth and latest blast furnace in Dung Quat Steel Complex, which came online in early 2021 and which will bring total capacity in FY21 to 8 million tons of crude steel for 2021 as the company has reached maximum production capacity. The company is currently trading at a FY21E PER of 6.4x (below its 5-year historical mean) and an EV/EBITDA of 5.3x (lower than its 5-year historical mean). Year-to-date, the stock has risen 61.1% on the back of a good 1Q21 net profit (USD304 million, +206% y-o-y), a surge in selling prices, and high expectations on its new Australian mine.

Our research team recently hosted a webinar on the first half wrap-up and outlook for the second half of 2021, and a recording of the webinar can be found on the VinaCapital website along with slides.

We would also like to welcome Peter Hames to the VOF Board of Directors. Peter brings a tremendous depth of investment experience, where in 1992 he co-founded Aberdeen Asset Management's Asian operations and as Director of Asian Equities, he oversaw regional fund management teams responsible for running a number of top-rated and award-winning funds. More details of his appointment can be found on our website.

Finally, we are humbled to have been conferred the award for "Best Factsheet" as part of The Association of Investment Companies 2021 Shareholder Communications Awards, which was announced on 14 July.

Macroeconomic Commentary

Vietnam's GDP grew 5.6% y-o-y in H1, which was quite a strong performance given that the country's 4th COVID outbreak emerged at the end of April 2021, prompting fairly stringent social distancing measures, especially in Ho Chi Minh City.

Three factors supported GDP growth in the first half of this year: 1) resilient domestic consumption; 2) strong manufacturing growth; and 3) the base effects caused by the very weak economic conditions at the peak of Vietnam's COVID outbreak in April 2020, which led to an acceleration in the country's quarterly GDP growth rate from 4.7% y-o-y in 1Q21 to 6.6% in 2Q21 despite the above-mentioned 4th COVID outbreak during 2Q21.

Regarding consumption, real retail sales (i.e., stripping out inflation) improved from a plunge of 5.8% y-o-y in 1H20 to return to growth of 3.6% in 1H21. This rebound is partly attributable to the fact that many businesses which sell to consumers have figured out how to adapt to COVID, such as grocery stores in the major cities now delivering to consumers' homes.

Vietnam's manufacturing output growth surged from 5% y-o-y in 1H20 to 11.4% in 1H21, which boosted GDP growth by nearly 2%. A stark contrast to the reduction in retail sales during the months of May and June, manufacturing output actually grew (m-o-m) in both May and June.

In short, manufacturers have now instituted best practices that protect the health of their workers while enabling production to rebound quickly from occasional, localised COVID outbreaks. These measures include steps such as providing on-site living accommodations for workers, and the active procurement of vaccines for their employees.

All of that said, Vietnam's manufacturing PMI index dropped from 53.1 in May to 44.1 in June, which was the second-largest monthly drop on record. This was partly driven by a drop in new export orders, a trend also seen in China, which also posted a lower PMI in June.

Most products manufactured in Vietnam are exported to the US and China, so the manufacturing sector's strong performance in 1H21 was also reflected in a 29% y-o-y increase in Vietnam's exports in 1H21 to USD158.3 billion. However, imports grew by 36.3% y-o-y to USD159.3 billion in 1H21, so Vietnam ran a USD1 billion trade deficit in the first half of the year, according to the Department of Vietnam Customs.

The worsening of Vietnam's balance of trade from a USD5.9 billion surplus in 1H20 to a USD1 billion trade deficit in 1H21 did not significantly impact the USD-VND exchange rate, partly because of the large amount of foreign direct investment (FDI) and remittances from overseas Vietnamese that continues to flow into the country. FDI inflows grew by nearly 7% y-o-y in 1H21 to USD9.2 billion, or about 5% of GDP, so the official USD-VND reference rate only depreciated by 0.2% in the month of June and has depreciated by 0.2% YTD.

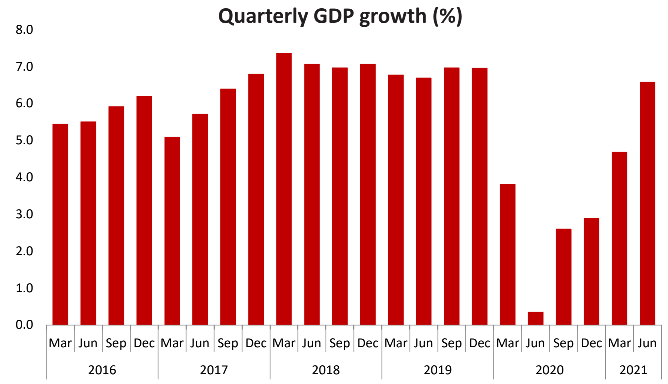
Another reason the Vietnam Dong may not have responded to the country's modest trade deficit in June is that the above-mentioned surged in imports, which drove the trade deficit, was itself driven by FDI companies aggressively importing the production inputs they need to produce their products that will later be exported. For that reason, most local economists expect Vietnam's trade balance to flip back to a surplus by the end of 2021.

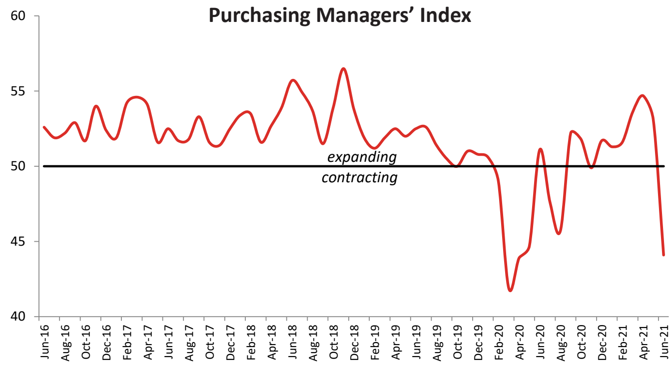
Finally, Vietnam's consumer price inflation dropped from 2.9% y-o-y in May to 2.4% in June, driven by the on-going collapse in pork prices now that the African Swine Fever is fully under control. Food prices actually fell 0.3% y-o-y in June, although that drop was somewhat offset by higher global oil prices, and higher local steel prices. Specifically, retail petrol prices have hiked nearly 4% in June, while steel prices increased by nearly 4% m-o-m (and by 15% y-o-y), which added about 0.2% to the country's headline CPI inflation rate.

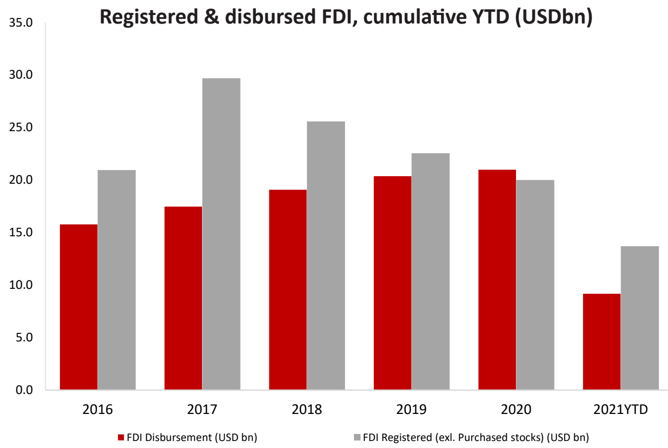
Macroeconomic indicators

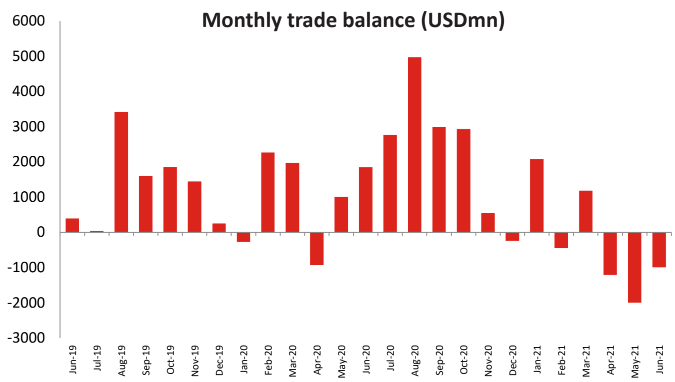
	2020	Jun-21	YTD	YOY[1]
GDP growth (%)	2.9			5.6
Inflation[2] (%)	3.2	2.4	1.5	
FDI commitments (USDbn)	21.0	1.0	13.7	12.4%
FDI disbursements (USDbn)	20.0	2.1	9.2	6.8%
Imports (USDbn)	262.4	27.7	159.3	36.3%
Exports (USDbn)	281.5	27.2	158.3	29.0%
Trade surplus/(deficit) (USDbn)	19.1	-0.5	-1.0	
Exchange rate (USD/VND)[3]	23,131	23,178		0.2%

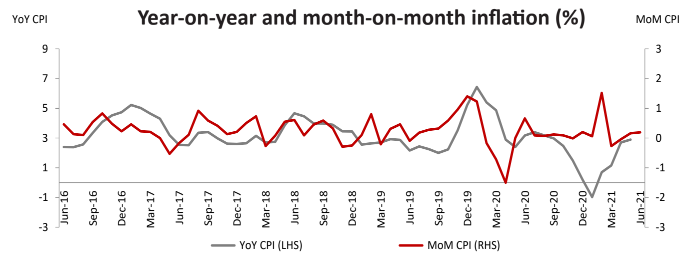
Sources: GSO, Vietnam Customs, MPI, Bloomberg|1. GDP is annualised rate, updated quarterly; FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; Annual is 12-month average change in CPI per GSO|3. BBG-State Bank of Vietnam Avg. USD/VND Interbank rate











Source: GSO, Vietnam Customs, Bloomberg

Board of Directors

VOF's Board of Directors is composed entirely of independent non-executive directors.

Member	Role
Steve Bates	Non-executive Chairman
Thuy Dam	Non-executive Director
Huw Evans	Non-executive Director
Julian Healy	Non-executive Director
Kathryn Matthews	Non-executive Director
Peter Hames	Non-executive Director

VinaCapital Investment Management Ltd

Member	Role
Don Lam	Group CEO
Brook Taylor	Group COO
Andy Ho	Group CIO & Managing Director
Khanh Vu	Deputy Managing 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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