VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | 31 August 2021

Performance summary — 31 August 2021

	USD	GBP
NAV per share:	7.85	5.71
Change (Month-on-month):	1.4%	2.5%
Total NAV (million):	1,315.6	956.7
Share price:	6.23	4.53
Market cap (million):	1,044.1	759.2
Premium/(discount):	-20.6%	-20.6%

GBP/USD exchange rate as 31 August 2021: 1.3752
GBP/USD exchange rate as 31 July 2021: 1.3899
Source: Bloomberg

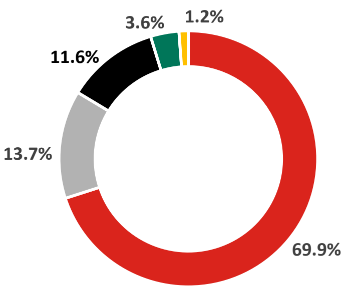
Cumulative change (% change, USD, total returns)*

	1mth	3mths	FYTD	CYTD	1yr	3yr
NAV per share	1.4	0.9	-1.5	25.9	52.1	53.4
Share price	-2.1	-4.6	-6.2	8.4	50.3	52.6
VN Index	2.4	1.8	-4.4	23.1	55.9	44.7
MSCI Emerging market	2.6	-4.0	-4.2	2.9	21.4	33.9
MSCI Vietnam	1.1	-0.8	-5.4	15.7	43.6	28.3

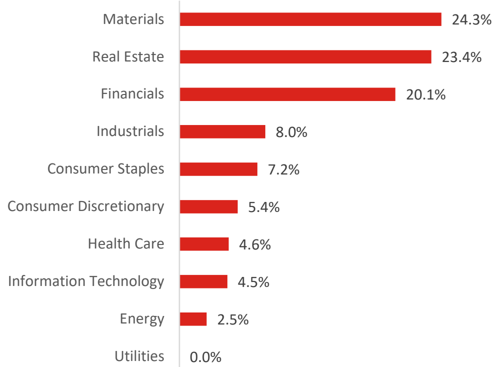
** Inclusive of dividend distributions; FYTD data is from July 1 to date; CYTD data is from January 1 to date*

Portfolio by asset class**

- Listed equity (69.9%)
- Unlisted equity (13.7%)
- Private equity (11.6%)
- Bond (3.6%)
- Operating assets (1.2%)



Portfolio allocation by sector**



*** Excluding Cash & Others (1.1% of NAV); based on Global Industry Classification Standards (GICS)*

Top ten holdings***

Investee company	% of NAV	Sector
Hoa Phat Group (HPG)	17.5%	Materials
Khang Dien House (KDH)	10.0%	Real Estate
Vinhomes (VHM)	6.0%	Real Estate
Asia Commercial Bank (ACB)	5.9%	Financials
Airports Corporation of Vietnam (ACV)	5.7%	Industrials
Eximbank (EIB)	5.2%	Financials
Orient Commercial Bank (OCB)	4.7%	Financials
FPT Corporation (FPT)	4.4%	Information Technology
Quang Ngai Sugar (QNS)	4.0%	Consumer Staples
Phu Nhuan Jewelry (PNJ)	3.9%	Consumer Discretionary
Total	**67.3%**	

**** Public Equities*

"The best-laid plans of mice and men…", To A Mouse by Robert Burns (1786)

Vexing quarantine and social distancing rules continued to bear down on economic activity during August, with 3Q21 economic data shaping up to be disappointing. Nevertheless, as discussed in detail in the macroeconomic commentary that follows, a surprisingly strong domestic currency (despite a widening trade deficit) and better-than-expected manufacturing data for 8M21 (vs 8M20) hint at a possible manufacturing-led recovery. Current and new FDI projects continue to flow into Vietnam, notwithstanding some negative headlines in the international media in recent weeks regarding the country's handling of the latest COVID outbreak.

While August and September saw severe movement restrictions, particularly in Ho Chi Minh City (HCMC), the economic centre of the south, it appears increasingly likely that October will see a loosening of some of the strictest measures, as the Government's approach turns towards "living with the virus safely" under a "new normal". Vaccination rates have steadily improved, with priority given to HCMC as it continues to aggressively roll-out the first dose of vaccines, with an increasing number of people receiving a second dose. Complementing this vaccine roll-out is the adoption of electronic vaccine passports, which will be useful as part of the reopening strategy. Overall, these measures, while perhaps a little late, seek to restore Vietnam's regional and global competitiveness, and not lag in economic recovery.

The list of negative economic data, from weak consumer spending, personal mobility restrictions, factory closures, input pricing and availability, supply chain disruptions, and other indicators and anecdotes are having an impact on the earnings of domestic businesses. It remains perplexing that consensus earnings forecasts have not revised downwards by a magnitude that reflects the economic reality. Nevertheless, our in-house research team have revised their expectations for 2021 earnings growth to approximately 15% for the market, from 35% previously, recognising that the current extended lockdown will have an impact on business activity in the near-term. A check with many of the companies under our research team's coverage universe found that the majority are retaining their full year targets and guidance, which seems improbable. To quote the American essayist Edward Abbey, "better a cruel truth than a comfortable delusion."

That said, the lower base created by 2021 estimates establishes a foothold for a strong rebound in 2022 estimates. While the market should expect weak 3Q21 results, the focus should turn to 2022 and the recovery theme for Vietnam, particularly as sectors and companies that stand most to benefit from this recovery may run ahead of the market. While consensus seems slow in adjusting earnings expectations for 2021, the market appears to have discounted most of the ill effects of the lockdowns and is looking ahead as it prices in a recovery for 2022. In fact, the Vietnam Index (VN Index) gained 2.4% m-o-m in total returns (USD terms), factoring in the currency appreciation during the month, and calendar year-to-date, the VN Index is up 23.1%, firmly establishing it as one of the best performing markets in the region (Thailand 7.5%, Indonesia 3.3%, Philippines -5.6%, Singapore 8.5%, Malaysia -2.6%). Furthermore, the market remains attractive, trading at a 2021 forward P/E ratio of 15x compared to 17x for ASEAN peers, and it remains one standard deviation below its historical valuation average.

Delving further into the sectors and companies that are poised to lead the recovery, materials, real estate, and financials are set to be the outperformers. With over 67% our portfolio held across these three sectors (materials: 24% portfolio weight; real estate: 23%; and financials: 20%), we stand to benefit from strong performance leading out of 2021 and into 2022. For example:

Hoa Phat Group (HOSE: HPG, 17.5% NAV) – released August sales volumes that surprised the market's expectations, with 690,000 tons (+14.4% m-o-m and +17.2% y-o-y), driven by export volume. Hot-rolled coil (HRC) 273,000 tons (+62.5% m-o-m) and billet 80,000 tons (from nil volumes in July 2021) were the biggest contributors to sales, and gauging from data posted by Vietnam Customs, we expect HPG to announce strong sales volumes in 4Q21. With China's clampdown on steel production and output, HPG has been able to export to markets like China and Taiwan for billet, the US and Chile for HRC, and Australia, Japan and other developed markets for rebar. Our in-house research team have forecast HPG to deliver 157% earnings growth for 2021 and expect it to be one of the few companies outside of financials or real estate to deliver over USD1.5 billion in net profit for 2021.

Vinhomes (HOSE: VHM, 6.0% NAV) – posted strong revenue growth in 2Q21, up 75% y-o-y to USD1.2 billion due to deliveries at three mega projects: Ocean Park, Smart City, and bulk sale deliveries at Grand Park. Net profit surged by 198% y-o-y to USD440 million and completing 30% of their FY21 forecast. Furthermore, VHM is expected to implement a bulk sales strategy for their Wonder Park and Dream City projects, with pre-sales for 2021 forecast to reach USD3.2 billion (+14% y-o-y). Nevertheless, we are mindful that prolonged social distancing restrictions could impact sales and cause further delays in the launch of new mega projects, and as such, there may be a downward revision to the estimated 26% earnings growth forecast for 2021.

Asia Commercial Bank (HOSE: ACB, 5.9% NAV) – the bank recently announced a broad lending rate cut program applicable from mid-July to mid-September 2021 as part of its efforts to help support customers impacted by COVID in accordance with the guidelines set out by the State Bank of Vietnam. At first glance, these concessionary rates would have an impact on net interest margins (NIM), however ACB is expected to hold steady or even increase their NIM thanks to favourable costs of funding as deposit rates remain persistently low and a 4% increase in their CASA ratio. The bank has set a target to attract one million new customers in 2H21, including 960,000 retail customers by gaining market share in provinces where the bank does not currently have strong banking and transaction networks in place, as well as growing SME banking, where the use of mobile / internet banking has accelerated in light of social distancing restrictions. Nevertheless, we remain cautious about the sector, as provisioning policies have allowed banks to defer the recognition of certain non-performing loans that could otherwise cause high-than-expected NPLs.

Looking across to our portfolio, based on the revised earnings forecast from our in-house research team, we expect VOF's public equities portfolio to maintain strong earnings growth for 2021 and into 2022, with 2021 forecast earnings growth of 35% and trading at a forward P/E ratio of 12x. For the month of August, the fund delivered 1.4% in total returns, and calendar year-to-date, NAV is up 25.9% on total return basis against the VN Index which delivered 23.1%.

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Macroeconomic Commentary

COVID cases in Vietnam surged by nearly 320,000 during August to 462,096. About 80% of Vietnam's new cases were in greater Ho Chi Minh City, prompting the Government to further tighten what were already some of the strictest measures in Southeast Asia to contain COVID in the city.

Consequently, the Google workplace mobility index fell from -18% at end-July to -60% at end-August, which essentially means that the number of people travelling back-and-forth to work was 60% below pre-pandemic levels at the end of August. Google's other mobility indices for Vietnam (retail shopping, transportation, etc.) dropped by similar magnitudes, and HCMC's workplace mobility index fell to -92% at end-August.

The most notable new measure introduced was a restriction for most HCMC residents to visit supermarkets. Instead, food was delivered to people's homes by the military, civic organizations, and motorbike delivery services, resulting in Vietnam's retail sales falling by 11% month-on-month in August. Also, the Government's prior estimate of July retail sales was slashed by 8%. The net result is that real retail sales (i.e., excluding inflation) fell by 6.2% y-o-y in 8M21, an even greater drop than the 5.8% y-o-y decline in 8M20.

Vietnam's manufacturing output was also impacted by the Government's social distancing measures. Factory output contracted in August (on a month-on-month basis) for the first time this year, although the Government has made a concerted effort to enable companies to continue operating, albeit at reduced capacities, which we discussed in this report.

These efforts have yielded results, because the current COVID outbreak has had less of an impact on manufacturing output than the initial COVID outbreak did in early 2020. Manufacturing output fell 4% m-o-m in August 2021 versus a 15% m-o-m drop in April 2020 at the depths of the first COVID outbreak. Furthermore, Vietnam's PMI fell to 40.2 in August 2021, which is still considerably above its April 2020 level of 32.7.

The net result is that Vietnam's manufacturing output increased from 3.7% y-o-y in 8M20 to 7% in 8M21. As such, we expect the country's manufacturing output to grow 9% this year, given all the efforts that the government is making to reopen cities and factories as soon as possible.

Next, the drop in manufacturing was reflected in a 6% m-o-m drop in exports in August, resulting in a USD0.1 billion trade deficit for the month, according to Vietnam Customs Office. In the first eight months of the year, Vietnam's exports grew 21.8% y-o-y to USD213.5 billion, while imports grew 33.7% y-o-y to USD216.2 billion, resulting in the country's trade balance falling from a USD13.7 billion surplus in 8M20 to a USD2.7 billion deficit in 8M21.

Despite the country's widening trade deficit and worsening COVID situation, the VN Dong continued to appreciate in August. The official USD-VND reference rate appreciated by 0.2% during the month, and UBS highlighted the VN Dong's surprising strength despite the outbreak in a recent report. Note that the exchange rates of Vietnam's regional peers depreciated by 3-8% YTD.

One reason Vietnam's currency has remained relatively firm versus the USD is that FDI inflows have remained resilient. Disbursed FDI increased by 2% y-o-y to USD11.6 billion in 8M21, while planned new FDI projects were up 11.6% y-o-y in 8M21 to USD16.3 billion, which should ensure continued robust FDI inflows in 2022-23.

Next, Vietnam's inflation rate ticked up from 2.6% y-o-y in July to 2.8% in August, which is still well below the interest rates that most savers earn depositing money into the bank. This also helps support the value of the VN Dong, because when local savers earn a positive "real" rate of return (i.e., deposit rates are higher than the inflation rate), they are incentivised to keep their savings in VN Dong instead of converting into USD.

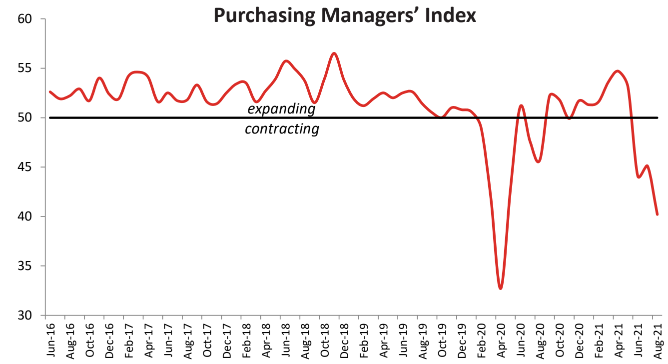
Finally, we received many questions from investors about the potential impact of the Federal Reserve tapering on the value of the VN Dong. In August, the Federal Reserve published research showing the Emerging Market countries which suffered the biggest declines in their FX rates during the 2013 "taper tantrum" were those which had inadequate FX reserves and had a significant amount of USD-denominated debt.

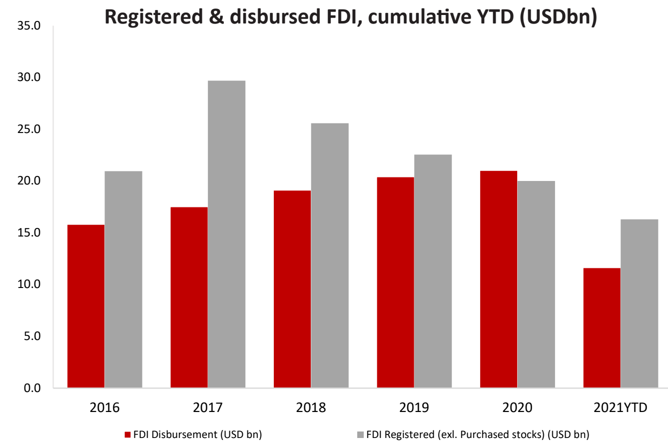
Vietnam's FX reserves are nearly 10% above the IMF's recommended level of reserves for the country and equate to about 30% of GDP. We estimate that Vietnam has 25% of GDP worth of external debt that the country's private sector companies, SOEs, and Government owe to foreign investors.

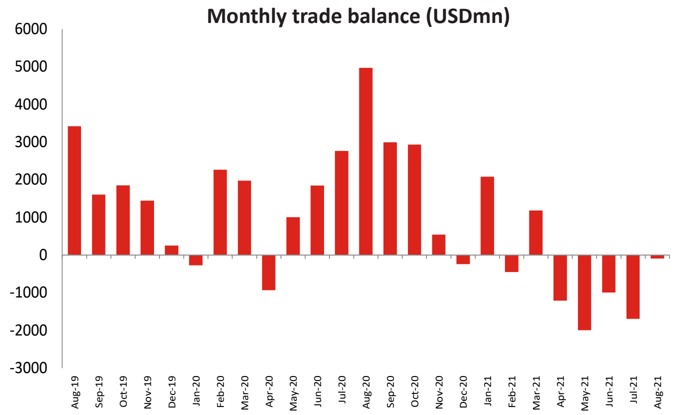
Macroeconomic indicators

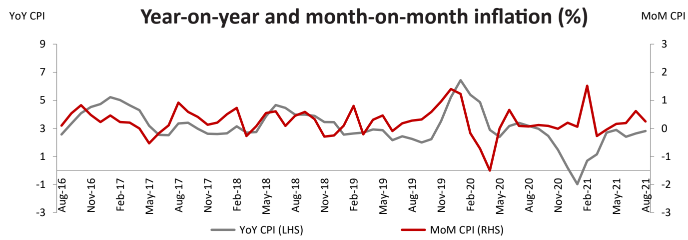
	2020	Aug-21	YTD	YOY[1]
GDP growth (%)	2.9			5.6
Inflation[2] (%)	3.2	2.8	1.8	
FDI commitments (USDbn)	21.0	1.6	16.3	11.6%
FDI disbursements (USDbn)	20.0	1.1	11.6	2.0%
Imports (USDbn)	262.4	27.3	216.2	33.7%
Exports (USDbn)	281.5	27.2	213.5	21.8%
Trade surplus/(deficit) (USDbn)	19.1	-0.1	-2.7	
Exchange rate (USD/VND)[3]	23,131	23,130		

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		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
Peter Hames	Non-executive 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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