VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | 28 February 2022

Performance summary — 28 February 2022

	USD	GBP
NAV per share:	8.65	6.46
Change (Month-on-month):	2.5%	2.9%
Total NAV (million):	1,426.5	1,065.3
Share price:	6.61	4.94
Market cap (million):	1,089.3	813.5
Premium/(discount):	-23.6%	-23.6%

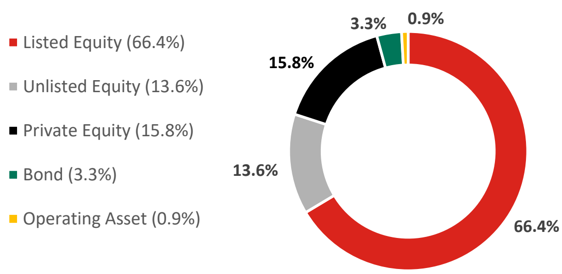
GBP/USD exchange rate as 28 February 2022: 1.3391
GBP/USD exchange rate as 31 January 2022: 1.3437
Source: Bloomberg

Cumulative change (% change, USD, total returns)[1]

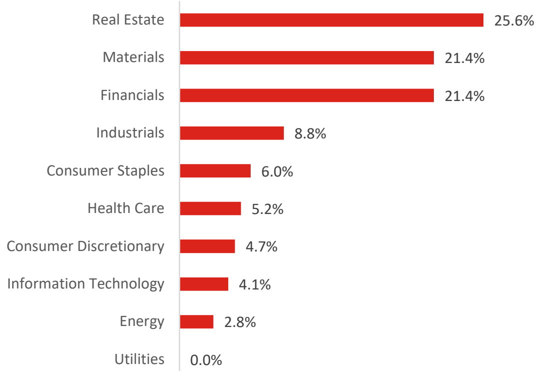
	1mth	3mths	FYTD	CYTD	1yr	3yr
NAV per share	2.5	3.5	8.3	1.3	33.7	76.1
Share price	-4.1	-1.3	0.6	-5.4	18.6	59.3
VN Index	0.1	0.7	7.5	-0.4	30.1	65.0
MSCI Emerging market	-3.0	-3.0	-13.5	-4.8	-10.4	20.4
MSCI Vietnam	-2.2	-6.4	-6.3	-7.0	9.7	25.2

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

Portfolio by asset class[2]



Portfolio allocation by sector[2]



2. Excluding Cash & Others (-0.1% of NAV); based on Global Industry Classification Standards (GICS)

Top ten holdings[3]

Investee company	% of NAV	Sector
Hoa Phat Group	14.0%	Materials
Khang Dien House	12.3%	Real Estate
Airports Corporation of Vietnam	6.5%	Industrials
Eximbank	6.4%	Financials
Asia Commercial Bank	5.8%	Financials
Vinhomes	5.3%	Real Estate
Orient Commercial Bank	5.1%	Financials
FPT Corporation	4.1%	Information Technology
An Cuong Wood Working	3.4%	Materials
Quang Ngai Sugar	3.2%	Consumer Staples
Total	**66.1%**	

3. Public Equities

"The two most powerful warriors are patience and time" – Leo Tolstoy

Heightened uncertainty arising from the Ukraine conflict, inflation pressures, and the US Fed rate hikes has led to higher volatility across global and regional markets. Geopolitical risks have fuelled price increases across multiple commodities, including oil, natural gas, nickel, and wheat, and will invariably raise the risk of slower economic growth and lower corporate earnings.

The direct impact of these geopolitical developments on Vietnam's economy should be modest, which helps explain why the VN Index has not experienced any major correction despite these unprecedented events, with the benchmark VN Index eking out a slight increase of 0.1% m-o-m (in total return, USD terms). However, this was only a temporary reprieve as risk aversion and a decline in liquidity has seen the local market retreat in early March as the Ukraine conflict drags on.

Revised 2022 GDP growth forecast of 6.5%

The most immediate risk is that surging commodity and oil prices could push up Vietnam's headline rate of inflation. We discuss this risk further in the macroeconomic section of this month's report.

While Vietnam produces a considerable amount of oil, natural gas and coal, the country is not quite energy independent, and our research team estimates that Vietnam has an energy deficit equivalent to 1% of GDP. The surge in fuel costs will lead to consumers diverting income that might have been spent on goods to pay for petrol and other energy needs. This may weigh on economic growth and prompt a review of GDP growth forecasts; our Chief Economist currently forecasts GDP growth of 6.5% for 2022. Similarly, earnings growth for some sectors that are more directly impacted by higher commodity prices will warrant monitoring, and potentially, revision.

Vietnam has minimal economic links to Russia

The direct economic links between Vietnam and Russia are now minimal, despite the strong legacy of relations between the two countries. Less than 1% of Vietnam's exports, equivalent to USD2.3 billion, are sold to Russia, and less than 1% of Vietnam's imports come from Russia, while less than 4% of Vietnam's tourist arrivals pre-COVID were from Russia.

Within the export basket, the major exports to Russia are in the form of mobile phones (USD1.1 billion), electronics (USD0.4 billion), and garments (USD0.3 billion), while the major imports from Russia include coal (USD0.5 billion), steel (USD0.5 billion) and fertilizer (USD0.1 billion) according to Vietnam's Customs Department.

The portfolio has no exposure to Russian investments, nor are companies held in the portfolio reliant on economic links or trade with Russia.

February fund performance

Overall, in USD total return terms ($TR), the VOF portfolio delivered a 2.5% return in February, and over a rolling 12-month basis, is up 33.7%, compared to the VN Index which is up 30.1% over the same 12-month period ($TR). The increase in VOF's NAV owes much to the performance of quality companies in the portfolio which continue to benefit from rising markets. The investments in our private equity portfolio have demonstrated resilience, both during the pandemic and during recent market volatility resulting from recent geopolitical conflicts.

Additional investment in Asia Commercial Bank

By the end of February, the fund was in the process of closing on an additional investment in Asia Commercial Bank (HOSE: ACB, 5.8% NAV as of 28 February), which was announced to the market on 4 March. ACB is now the third-largest holding in the fund, representing approximately 11.1% of NAV as of 4 March 2022 when we announced the transaction.

Founded in 1993, ACB is one of Vietnam's leading private banks, with a strong focus on consumer lending to the retail and SME segments. The bank recently reported that it attracted 800,000 new active customers in Q4 2021, increasing customer deposit growth. Furthermore, the bank is embarking on an intensive expansion into digitalization, new strategic client segments, and extending its network in cities in northern Vietnam.

ACB ranks among the top 10 banks in Vietnam in terms of loans and total assets. It has superior asset quality as evidenced by having the second lowest non-performing loans ratio amongst peers, and a high reserve cover.

Looking ahead to 2022, the bank announced that they expect to deliver strong growth, with pre-tax profit estimated to increase by 25% year-on-year (y-o-y) to USD656 million, behind an expansion in net interest margins of 14 basis points and a lower credit cost of 0.75%.

The bank is attractively valued: it trades on a price-to-earnings ratio (P/E) of 8.2x; on a forward price-to-book ratio (P/B) of 1.6x; on estimated 2022 return-on-equity (ROE) of 22.5%. This compares favourably to the banking sector that trades on a P/E of 12.3x; a forward P/B ratio of 2.0x; and on estimated 2022 ROE of 18.3%, according to Bloomberg and VinaCapital Research.

Furthermore, we reviewed the potential impact that higher inflation and rising interest rates will have on the banking sector and conclude that our consolidation of investments into higher quality banks such as ACB stand to benefit the most as they are able increase their net interest income and earnings in a rising rate environment.

Airports Corporation of Vietnam a leading contributor to performance

During the recent Lunar new year holidays, we witnessed domestic tourism return with a vengeance, as evidenced by long queues at airport terminals and traffic jams on roads to the beach resorts and other holiday destinations. Over 10 million domestic trips were recorded passing through Vietnam's airports over the first two months of this year, a ten-fold increase compared to the previous two months (November and December 2021). Naturally, a beneficiary of this increase in tourism has been Airports Corporation of Vietnam (UPCoM: ACV, 6.5% NAV), which saw its share price increase almost 10% in February.

On 15 March, the Vietnamese government reopened its borders to foreign tourists and waived the visa requirements for nationals from 13 countries, including the United Kingdom. This is a highly encouraging sign and paves the way to a revival of Vietnam's tourism sector. Foreign tourism accounted for about 8% of Vietnam's GDP pre-COVID but, for obvious reasons, made essentially no contribution to the country's economy in the past year. For the first two months of 2022, Vietnam welcomed 43,200 international arrivals, representing a 135% y-o-y increase.

ACV remains well-positioned to recover and benefit from this resumption of travel. Nevertheless, we expect a moderate recovery in international tourist numbers for 2022. Market consensus forecasts 2022 earnings per share (EPS) growth of approximately 400% for ACV, although this should be read in the context of an EPS contraction of 70% in 2021. Nevertheless, as travel returns to some semblance of pre-COVID levels by 2023, the market expects ACV will deliver strong earnings growth over 2023 to 2025.

Full divestment of Eximbank

VOF also announced in early March the full divestment of its stake in Eximbank (HOSE: EIB, 6.4% NAV as of 28 February), which has been a holding since 2004 and was most recently the third largest in the portfolio. Founded in 1989, EIB was one of the first private banks in Vietnam and listed on the Ho Chi Minh Stock Exchange on 27 October 2009.

The fund invested in 2008 when the USD to VND exchange rate was approximately VND16,000 per US dollar. Over that period the VND has devalued and today the exchange rate is approximately VND23,000. Accounting for the local currency devaluation over an almost 14-year holding period, the investment was still able to deliver a positive return to the fund in USD terms.

Release of the 31 December 2021 interim results

On Friday, 25 March, the fund will announce its interim results for the period 1 July 2021 to 31 December 2021. This will be followed by a live webinar in which the portfolio manager will discuss the results, their outlook for 2022, and field questions from analysts and investors. We welcome you to register here.

Macroeconomic Commentary

The on-going recovery of Vietnam's economy continued to progress in February. This was best illustrated by a pickup in the country's electricity usage to 7.4% y-o-y growth in 2M22, a rate that was typical of Vietnam's electricity consumption growth, pre-COVID. For comparison, in 2M21, electricity usage only grew by about 4% y-o-y.

That said, Vietnam's industrial production growth of 5.4% y-o-y in 2M22 was still below the 7.4% growth in 2M21, and real retail sales (i.e., excluding inflation) actually fell slightly in 2M22 versus de minimis growth in 2M21, all signals that Vietnam's recovery has not yet fully gained traction (note that real retail sales fell 0.3% y-o-y in 2M22, versus 0.7% growth in 2M21).

One benefit of this still tepid recovery is that inflation in Vietnam remains quite low, and actually fell from 1.9% y-o-y in January to 1.4% in February. Furthermore, Vietnam's inflation rate dropped in February despite the fact that retail petrol prices increased by about 8% m-o-m, and retail pork prices increased 5% m-o-m, which was in-turn partly because of the "high base effect" attributable to surges in the prices of both in early 2021.

Specifically, the year-on-year increase in petrol prices only ticked up from 44% y-o-y in January to 45% in February, and the drop in retail pork prices remained unchanged (at -22% y-o-y) in both January and February. Note that both pork and petrol have a circa 3% weighting in Vietnam's CPI basket.

We estimate that the circa 30% surge in global oil prices after Russia's invasion of Ukraine will increase Vietnam's headline inflation rate by 1-2%pts, although interest rates in Vietnam have not increased since the time of the invasion. This is in part due to the expectation that Vietnam's Government will cap petrol prices to constrain inflation in Vietnam to below its 4% target, if need be.

Next, the USD-VND exchange rate has also not moved since the Russian invasion, despite some large spikes in the US Dollar/DXY index prompted by "safe haven" buying of US Dollars in the international markets. That said, the value of the VN Dong depreciated by about 0.7% in February (before the invasion), after having appreciated by about 0.7% in January, all of which left the USD-VND exchange rate essentially unchanged, year-to-date (YTD).

In short, Vietnam's General Statistics Office (GSO) reported that the country ran a USD2 billion trade deficit in February (and a USD0.6 billion trade deficit YTD), owing to some specific dynamics in the FDI manufacturing sector that are benign. Specifically, Vietnam's imports surged by 16.7% y-o-y in 2M22 (to USD55.1 billion), which outpaced export growth of 11.7% (to USD54.5 billion), on account of FDI companies aggressively importing production materials they require to ramp-up the manufacture of products that will then get exported as 2022 progresses. We expect Vietnam's trade surplus to widen from 1% of GDP in 2021 to 4-5% in 2022.

Those companies are ramping up their imports in response to their swelling order books. Vietnam's PMI ticked up from 53.7 in January to 54.3 in February, driven by a surge of export orders to a 10-month high. Furthermore, note that: 1) FDI companies' export orders also jumped in January; 2) several respondents to the PMI survey reported a surge of their imports/purchases of production inputs/materials; and 3) over three-quarters of Vietnam's imports are of production materials primarily by FDI companies.

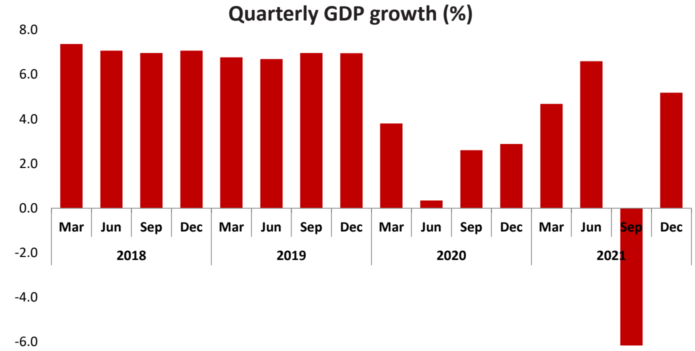
Another encouraging indicator is the fact that FDI continues to flow into Vietnam, and there are clear signs that inflows will increase in the months ahead as travel to the country begins to re-open - making it easier for company executives to come to Vietnam in order to consummate investment deals. In 2M22, disbursed FDI increased 7.2% y-o-y to USD2.7 billion.

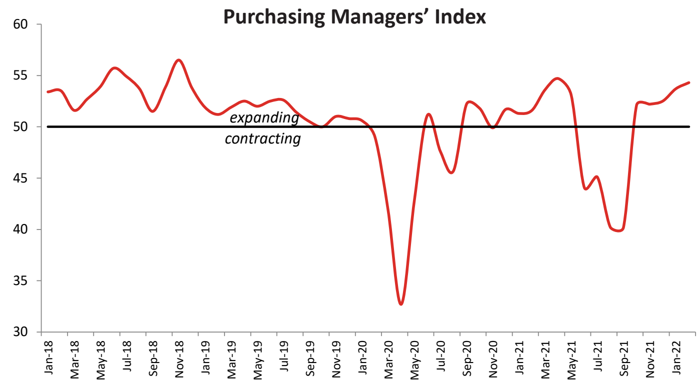
Finally, on the topic of travel, this month's on-the-ground observation about Vietnam's on-going economic recovery is a comment about the booming recovery in the country's domestic tourism. In short, hotels at popular weekend getaway locations (especially outside of HCMC and Hanoi) are booked solid, prices have fully recovered to pre-COVID levels, and travel to those destinations is complicated by severe traffic jams and overcrowded airports as throngs of local tourists resume their normal everyday activities as Vietnam embraces a "living with COVID" approach to the pandemic.

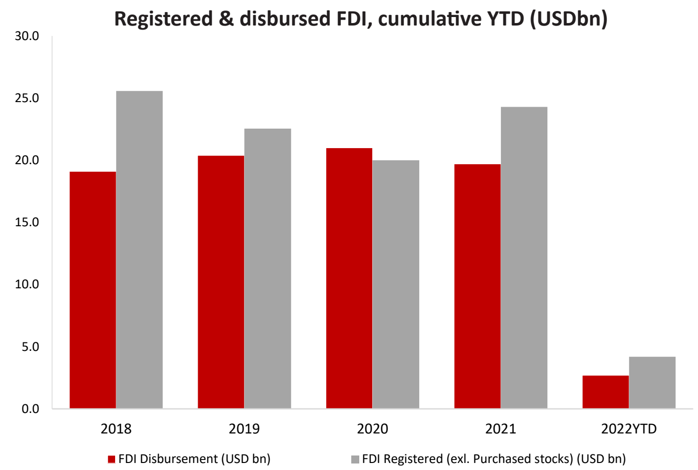
Macroeconomic indicators

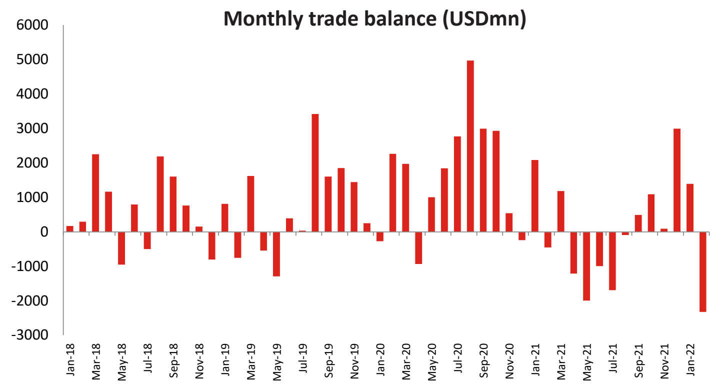
	2021	Feb-22	YTD	YOY[1]
GDP growth (%)	2.6			
Inflation[2] (%)	1.8	1.4	1.7	
FDI commitments (USDbn)	24.3	2.6	4.2	-14.0%
FDI disbursements (USDbn)	19.7	1.1	2.7	7.2%
Imports (USDbn)	332.2	25.4	55.1	16.7%
Exports (USDbn)	336.3	23.4	54.5	11.7%
Trade surplus/(deficit) (USDbn)	4.1	-2.0	-0.6	
Exchange rate (USD/VND)[3]	23,145	23,140		

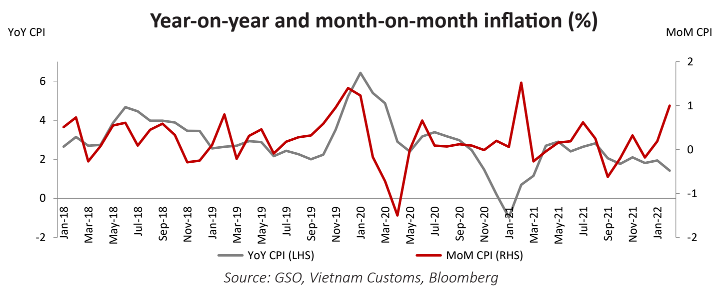
Sources: GSO, Vietnam Customs, MPI, Bloomberg|1. GDP is annualised rate, updated quarterly; FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; Annual is 12-month average change in CPI per GSO|3. BBG-State Bank of Vietnam Avg. USD/VND Interbank rate











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**
Huw Evans	Non-executive Chairman	Don Lam	Group CEO
Thuy Dam	Non-executive Director	Brook Taylor	Group COO
Julian Healy	Non-executive Director	Andy Ho	Group CIO & Managing Director
Kathryn Matthews	Non-executive Director	Khanh Vu	Deputy Managing Director
Peter Hames	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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