

## VinaCapital 2016 Investor Conference Recap

On October 12, 2016, more than 100 attendees from around the world convened at the Park Hyatt Saigon for VinaCapital’s eleventh annual investor conference. The event assembled a range of speakers, from a noted economist to the director of Vietnam’s only privately owned airline, which will shortly undergo an initial public offering. For those investors who were not able to attend the conference, a brief recap follows.

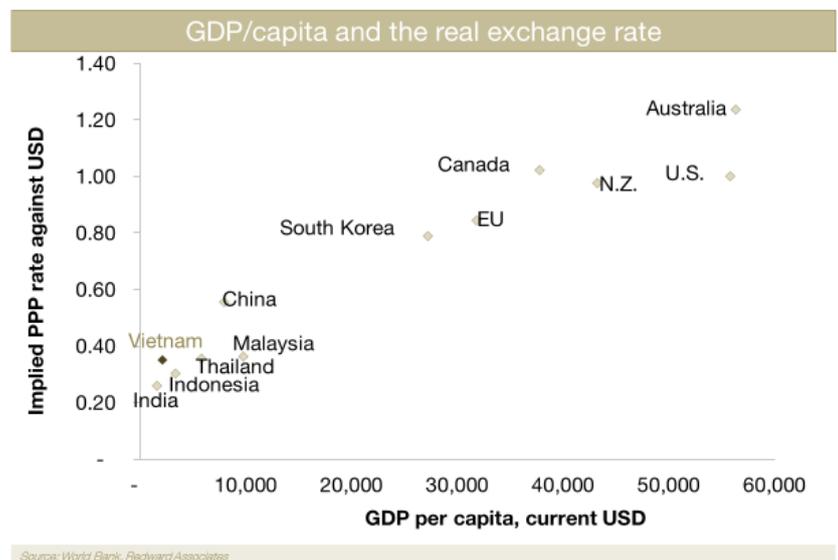
Welcoming attendees was **His Excellency Huỳnh Cách Mạng, Vice Chairman of the Ho Chi Minh City People’s Committee**, who stressed how the city is continually working to be an attractive destination for investment. Noting that GDP growth in HCMC during the first nine months of the year was 7.8% -- outpacing the country as a whole, which recorded 5.9% growth – Vice Chairman Mạng noted the important role international and local investors have played in the city’s success to date.



*HCMC People’s Committee  
Vice Chairman Huỳnh Cách Mạng*

### Macroeconomics

The program kicked off on a lively note, with two speakers discussing macroeconomics. **Peter Redward, Principal at Redward Associates** and a former head of Emerging Asia research with Barclay’s Capital and a currency trader at Citadel Investment Group, discussed why he believes the Vietnamese dong (VND) is a structurally undervalued currency. He stated that he believes “the currency is probably slightly below its fundamental equilibrium” but that from an exchange rate perspective, “there is no compelling reason for the currency to be stronger, or weaker.” Mr. Redward concluded that “while it may seem fanciful now, it is possible the dong may in fact appreciate against the USD in coming years...when the USD experiences its next period of weakness, the dong will actually strengthen against it. When this occurs, long VND positions will likely prove very attractive to foreign investors.”



VinaCapital’s chief economist Dr. Alan Pham then provided a brief summary of the country’s key indicators as well as his stable and positive outlook for the next 12 months. He believes that while there are some short-term challenges, GDP growth will come in at 6.0% in 2016 and 6.5% in 2017, while inflation will reach 4% for year-end 2016 and 4.5% for year-end 2017.

During lunch on day one, noted economist **Dr. Jim Walker**, founder of **Asianomics Group** and former Chief Economist at CLSA, discussed why he believes ASEAN markets are among the best prospects for long-term investment in Asia. Dr. Walker believes that North Asian countries are heavily investing in countries such as Vietnam as a way of supporting aging populations at home, that the opportunities and returns from Southeast Asia are superior to those in their home markets.

Meanwhile, Dr. Walker noted that unlike the prior boom cycle

in the region, the ratio of short-term debt to foreign reserves in key Asian countries are for the most part modest and manageable, with the exception of Malaysia. "If the government...delivers on the state-owned enterprise ownership reform that it is promising, Vietnam will transit from frontier to emerging market within the next two years," said Dr. Walker. "We can conclude that the Vietnamese economy, as regards growth, inflation and the exchange rate, is on an even keel at present. Credit conditions are worth monitoring but by and large domestic conditions are supportive of economic expansion and profit generation. In turn, these will support equity prices."

## Trade

Much of Vietnam's recent growth can be pegged to the country entering or agreeing to a number of free trade agreements, most notably the Trans-Pacific Partnership (TPP). Over lunch on day two, **Fred Burke**, partner at **Baker & McKenzie Vietnam**, provided an update on the status of TPP and other agreements. Much heralded a year ago when the 12 member states reached the historic agreement, TPP is now mired in politics in the US, and there is some doubt as to whether the US Congress will pass it. Fred outlined the process for ratification in the US, and noted that President Obama has been making its ratification a priority before leaving office in January. Fred also said that Vietnam's other free-trade agreements, such as those it has entered into with the EU, Korea, and others, as well as the ongoing negotiations on RCEP, will bring significant benefits to Vietnam. While he would not predict whether TPP will be approved by the US Congress, he noted that "most businesses seem sanguine about Vietnam's prospects and ability to adjust to new circumstances."

## Company Reports

This year's conference focused on the opportunities in the market brought about by accelerating government privatization of state-owned enterprises and rapidly growing privately owned companies. **VietJet Air** is the country's only privately owned airline, and the low-cost carrier has expanded rapidly since its founding in 2011. Managing Director Luu Duc Khanh explained the airline's growth strategy both domestically and internationally, and confirmed that the company plans to list on the Ho Chi Minh City Stock Exchange in the near term, with an overseas listing likely to follow sometime later. Dinh Ba Thanh, Chairman of **Dat Viet**, one of the pioneers in Vietnam's media and advertising industries, outlined the tremendous growth in the sector, which has revenue of USD1.5 billion. Domestic consumption continues to rise, and with a young, digital-savvy

## EXTERNAL DEBT: IT'S DIFFERENT THIS TIME

5

### Only Malaysia in danger of a debt strike crisis

ASIAN EXTERNAL DEBT, 1997 AND NOW

	External debt outstanding, bn US\$		External debt increase, %		Short-term debt to foreign reserves, %	
	2007	2016	1Q01-2007	1Q09-2016	2007	2016
China	130.9	796.7	141.1	136.3	12.7	* 18.9
India	94.7	479.7	9.0	113.7	18.3	24.4
Indonesia	136.3	323.8	71.4	114.5	188.9	40.2
Korea	161.6	391.8	307.1	28.2	286.1	29.6
Malaysia	47.2	211.4	177.6	110.3	71.5	93.0
Philippines	50.7	77.7	56.5	19.2	134.5	19.3
Taiwan	33.6	163.2	75.0	97.6	25.1	34.6
Thailand	109.7	143.1	191.0	102.8	140.7	35.8
Vietnam**	21.8	45.2	-6.4	36.8	111.6	40.2
Asia	786.6	2631.6	98.6	92.1	67.2	24.1

\* Short-term external debt data for China were discontinued as at end-2014. In calculating the percentages in the last column above we have assumed that short-term debt as a percentage of total debt remained constant to 2015. If anything, this is likely to overstate China's short-term debt position given developments in policy and the external reserve position since August 2015. \*\* The figures were as of 2014.

Source: Asianomics Group, Haver Analytics

Copyright © Asianomics Group Limited  
 IMPORTANT: All information, advice and comments in this presentation are given in good faith but without legal responsibility.  
 Our Privacy Policy, Terms of Use and Important Notice are available on our website, [www.asianomicsgroup.com](http://www.asianomicsgroup.com).



ASIANOMICS

population, brands are expected to continue to spend ever-increasing resources to build market share. Dat Viet is a leader in media planning and buying, and has more than 20% market share thanks to relationships with most of the world's largest consumer marketers.

**Novaland**, a company in which VinaCapital's VOF has an interest, is one of the largest developers in HCMC, with a strong reputation for building well-located, mid-size projects in the city. Phan Le Hoa described how the company's processes enable it to develop projects more quickly than their competitors. With a large sales team, market researchers, and in-house training program, the company excels at strong pre-sales, enabling it to have resources on hand to execute its projects on schedule and at a high level of quality. In 2015, Novaland reported nearly USD300 million in revenue and nearly USD20 million in profit. It currently has more than 40 projects, both completed and in development, and the business is currently valued in excess of USD1.4 billion. The company is expected to list on the Ho Chi Minh City Stock Exchange by year's end, and will be the second largest property company on the exchange.



*Dinh Ba Thanh, Chairman, Dat Viet*

With a current market cap of over USD9 billion, **Vinamilk** is a company familiar to every investor in Vietnam. The company's Tran Chi Son outlined how the company has achieved 22% CAGR over the past ten years, becoming the leading dairy brand in Vietnam. For the first half of 2016, Vinamilk recorded a 21.9% net profit. Vietnamese dairy consumption continues to trail regional peers, with Vietnamese consuming about a quarter of regional peers, so the home market continues to have ample room for growth. Nonetheless, Vinamilk exports to a number of markets and has investments in the US, New Zealand and Poland. Vinamilk removed its foreign ownership limit earlier this year – the largest company to do so – and the government has announced plans to begin selling down its 45% stake. VinaCapital Corporate Finance Limited is advising the government on the sale process.

Its cranes seemingly present at every major real estate development in HCMC, the name **Coteccons** is a familiar sight to people living in the city. Tran Quang Quan, Deputy Managing Director, described how the company has grown since it was founded in 2002 into a firm valued at more than a half billion dollars today. From 2011 to 2015, the company has recorded CAGR of 32% and counts all of Vietnam's major developers as customers. Building on its success in the south, the company has expanded into the north, and is also diversifying into infrastructure construction.

**An Cuong Woodworking**, a company in which VOF took a private equity stake earlier this year, is the country's top laminate and materials company, employing European technology and standards to manufacture a range of products including laminates, furniture and others. CEO Le Duc Nghia described the company's plans to expand its retail presence and increase manufacturing capacity. The company has consistently grown sales at 30-35% over the past few years.



*Le Duc Nghia, CEO, An Cuong Woodworking*

Plastic rope may not come to mind as a high growth product, but **Siam Brothers Vietnam** is the market leader, with 90% of the premium segment and 24% market share overall. General Director Frank Fan described how the ropes are used in the fisheries business, a large part of Vietnam's economy. Originally started by a Thai family, the company has grown dramatically, with 2015 profit before tax increasing 60% from the previous year, while sales for the period were up 24% thanks in part to a strong brand and retail network. With manufacturing at capacity, the company plans to list on HOSE in the near future.

## Fund Updates

Three VinaCapital funds presented updates on their performances over the past year and strategies for the year ahead. Andy Ho, Managing Director of the **VinaCapital Vietnam Opportunity Fund (VOF)** and Chief Investment Officer of VinaCapital, described the fund's progress over the past year, when it moved onto the main market of the London Stock Exchange and joined the FTSE All-Shares index. The fund's listed equity holdings – which represent 54% of the fund – grew 22% in the 2016 financial year ended June 30<sup>th</sup>. The concentrated capital markets portfolio of high conviction holdings in fewer than 20 stocks has generated superior returns and is double the return of peers in 2016 thus far.

On the **private equity** front, Andy described the past year as one of focusing on rebuilding the fund's investments after several recent successful exits (IRR in excess of 20% over 40 fully realized investments). Since the last investor conference, VOF has made new investments in a hospital in the Mekong Delta and An Cuong Woodworking, consistent with its strategy of focusing on sectors benefiting from Vietnam's compelling domestic consumption story. Currently at 12%, the private equity portion of the fund is expected to increase to 20% over the next 1-2 years, and Andy said that the fund was reviewing a handful of possible transactions worth more than USD100 million. Finally, Andy noted that the fund significantly reduced its direct real estate investments, from approximately 15% last year to less than 7% currently.

Just over a year old, VinaCapital's UCITS-compliant fund, the **Forum One – VCG Partners Vietnam Fund (VVF)**, has seen great success, increasing 28.3% since its inception on July 14, 2015 through September 30, 2016 and significantly outperforming the VN Index, which gained 5.0% during that period. Thu Nguyen, Managing Director, highlighted some of the fund's top performing stocks such as Vinamilk (+86% since added to the fund to September 30, 2016), Coteccons (+188%), and Hoa Phat (+86%), as well as what she sees as the future catalysts for the funds growth, including the lifting of foreign ownership limits, acceleration of privatization and continued strong macroeconomics. Thu also announced that the company is set to launch the open-ended **VinaCapital Special Access Fund** which focuses on smaller Vietnamese companies.

David Blackhall, Managing Director of **VinaLand (VNL)**, detailed the progress the fund has made with respect to its realization strategy. Over the past 12 months, the fund has divested seven projects generating USD160 million. David also announced the fund's new strategy of continuing the realization process while also continuing to develop select existing properties with a view toward divesting them over the next three years. This measured approach will help ensure that remaining investments are sold in an orderly manner to achieve the highest possible sales value and return available proceeds to shareholders. This and other matters will be voted on by shareholders at the next VNL extraordinary general meeting to be held in Zurich on November 18, 2016.

**DFJ VinaCapital (DFJV)** also provided an update on its investments. Established in 2007, the fund will complete exits from its investments over the next year. Phuc Than, Managing Director of DFJV, described how Vietnam's venture capital scene has changed dramatically since the fund was launched; from 2004 to 2010, DFJV was one of just three players in the space. Today there are several dozen firms providing seed funding, strategic and financial investments, incubators and accelerators, from private firms to state-owned enterprises. Phuc also announced that VinaCapital is looking at establishing a **new venture capital fund** that will focus on fintech. To provide conference attendees with a sense of what is happening in the scene, Phuc led a discussion of panelists from startups and investment firms. The takeaway:



Vietnam is clearly on investors' maps, and as challenges in terms of exits and regulation are addressed, the country could evolve into a tech and startup powerhouse.

### **Conference Takeaways**

The next twelve months look to be an exciting time to invest in Vietnam. While nobody can predict what may happen at a global level, Vietnam – whose economy has been remarkably resilient during recent global slowdowns – is poised to make significant progress on privatization which, in turn, could lead to increases in market liquidity, an important factor in the country “graduating” to emerging market status. While we are bullish on the country’s prospects, we are cognizant of the challenges that remain. That said, we have seen a tremendous amount of new interest from foreign investors who are keen to participate in Vietnam’s compelling growth story, and we are proud to offer some of the few investment products that enable them to do so. We look forward to welcoming you to next year’s investor conference.

\*\*\*

If you would like more information about VinaCapital and its funds, please contact [ir@vinacapital.com](mailto:ir@vinacapital.com). If you attended this year’s investor conference, we invite your feedback on the event. We also welcome suggestions regarding the type of content, speakers, and events you might like to see during our 2017 Investor Conference. Please contact Christopher Fitzwilliam-Lay at [Christopher.fitzwilliam-lay@vinacapital.com](mailto:Christopher.fitzwilliam-lay@vinacapital.com).