# VinaCapital Vietnam Access Fund Limited (VAF)

30 November 2022

NAV/share: USD137.609

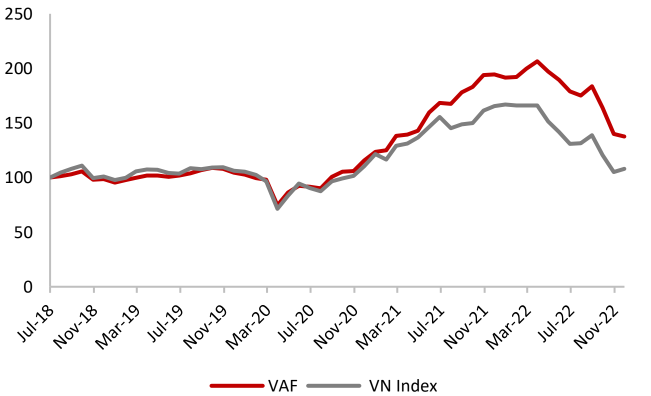
VAF is a Cayman Islands open-ended fund that invests in the Vietnam Equity Special Access Fund (VESAF), a Vietnam-regulated open-ended fund, with the flexibility to participate in IPOs as well as make direct investment in Vietnamese listed and unlisted securities.

## PERFORMANCE SUMMARY

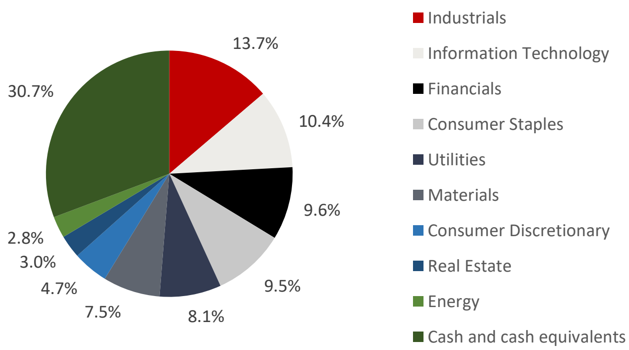
| | Fund | VN Index |
|---|---|---|
| November 2022 (m-o-m) | -1.7% | 2.8% |
| YTD | -28.2% | -35.2% |
| 3-year annualized | 9.6% | 0.5% |
| Annualized since inception* | 7.5% | 1.8% |
| Accumulated since inception* | 37.6% | 8.1% |
| Annualized standard deviation | 21.9% | 24.7% |

** Inception date: 03 July 2018*

## PERFORMANCE CHART




## SECTOR ALLOCATION




## TOP HOLDINGS

| Ticker | Market Cap (USDm) | Sector | % of NAV | 2023 PE | 2023 ROE |
|---|---|---|---|---|---|
| FPT | 3,320 | Information Technology | 10.4% | 12.3 | 24.9% |
| BWE | 344 | Utilities | 8.1% | 10.7 | 16.9% |
| QNS | 541 | Consumer Staples | 4.8% | 10.9 | 16.7% |
| MBB | 3,200 | Financials | 4.7% | 3.6 | 24.3% |
| MWG | 2,618 | Consumer Discretionary | 4.7% | 10.6 | 22.1% |
| DPR | 89 | Materials | 3.7% | 5.5 | 12.8% |
| SZC | 123 | Industrials | 3.2% | 8.7 | 19.6% |
| KDH | 797 | Real Estate | 3.0% | 14.0 | 11.4% |
| ILB | 27 | Industrials | 2.5% | 4.6 | 23.8% |
| VHC | 506 | Consumer Staples | 2.4% | 6.8 | 20.9% |

*Source: Bloomberg, VinaCapital's estimates*

## MANAGER'S MONTHLY COMMENTARY

Vietnam's stock market finally found a short-term bottom in the second half of November after a sharp downward move in the first half of the month. To recall, the market experienced a roller coaster ride as the VNIndex hit a 26-month low on 15 November (11.2% decline from the end of October) but recovered sharply to close the month with a 2.8% MoM gain and a 15.7% increase from the bottom, all in USD terms.

The massive selloffs that occurred during the last two months and the first half of November were triggered by negative sentiment about real estate developers with large amounts of outstanding corporate bonds, which was also the cause for margin calls on stocks pledged for loans to key shareholders as well cross margin calls on others. Margin call pressure faded as the total margin level decreased significantly mid-month (by approximately 30% at the large brokerage houses), and several shareholders were able to top up their shares. Shares in the small and mid-cap universe that were more heavily impacted by those activities bounced back strongly in the second half of the month, but they still recorded declines as shown in the decline of 3.3% and 3.5% of VN70 and VN Small-Cap (VNSC) Indexes for the whole month. Large-cap stocks, on the other hand, saw strong performance as foreign investors net bought USD695 million (from a net sell of USD25 million in October) when the market valuation was extremely low at a 2022F P/E of only 8.8x. At the time of writing, the Vietnam Dong appreciated by 5.2% compared to its level at the end of October, following the decline of the DXY by 8.8% from its peak level. That also helped lift investor confidence.

***Portfolio Highlights***

VAF declined 1.7% during November as a result of the volatility of small and mid-caps due to the cross-margin call activities. These holdings, however, saw significant price recovery as margin pressure eased, and their valuation outlook became very attractive for the next year. We have gradually increased our exposure to holdings that have a P/B valuation of below 1.0x as we believe share prices largely reflect macro and business risks. For the year ahead, we see opportunities in companies that are likely to benefit from accelerating infrastructure disbursement, such as Petrolimex Chemical (PLC) and Hoa An JSC (DHA); companies that target niche market segments with differentiated strategies and can stay strong despite slowing exports, such as Sao Ta Foods (FMC)and Tan Cang Long Binh (ILB); and companies with large landbanks or assets that are ready to realize profits, including Sonadezi Chau Duc (SZC), Dong Phu Rubber (DPR), and Power Construction No.1 (PC1). At the same time, we continued to reduce exposure to companies with lacklustre business outlook.

***Update On The Corporate Bond Market***

Corporate bond issuance has been rather quiet since April this year given regulatory tightening, with total new issuances recorded at only USD10.9 billion in the first 11M, just 44% of the amount issued in the same period last year. While banks remained active in new bond issuances to meet tier-2 capital requirements (bank bond issuance declined 27% YoY in 11M), property developers faced more difficulties, with only USD2.9 billion issued mostly in the first few months, a decline of over 70% YoY. The total value of property bonds matured in December 2022, 1H23 and 2H23 are USD950 million, USD2.8 billion and USD4 billion, respectively.

The interest rate increase accelerated in October because of the US Fed's rate hike and the short-term liquidity crunch in the banking system, coupled with the cashflow difficulties of real estate and related sectors under credit quota limits, all caused retail bond holders to go into panic mode, which is reflected in the sharp decline in bond market liquidity and the surge in bond yields to nearly 30% in mid-November. However, that issue quickly faded when several real estate developers started to buy back premature bonds (total bond buybacks recorded at USD1.6 billion) or were able to top up additional shares or assets as collateral after the value of listed shares pledged fell. We view this as a positive sign as it helped to differentiate corporations with sufficient financial capacity as well as ease the pressure on the stock market. Bond yields recently stabilized at an average rate of 15.0% and the stock market has bounced back since then.

The corporate bond market also saw positive developments at the time of writing, as the Government finally hinted at some solutions to the liquidity bottleneck and restore investor confidence. First, possible amendments to corporate bond regulations have been proposed, notably to allow bond issuers to extend bond repayments for a maximum of two years after gaining consent from 65% of bond holders. Additionally, a sizable additional credit quota has recently been granted (for a total credit growth target of 15.5%-16% compared to the initial 14.0% expected), and though it is to be directed primarily to the manufacturing sector, it is also open to healthy companies in the real estate sector. While these developments may help to gradually resolve the liquidity issues of corporates and corporate bond

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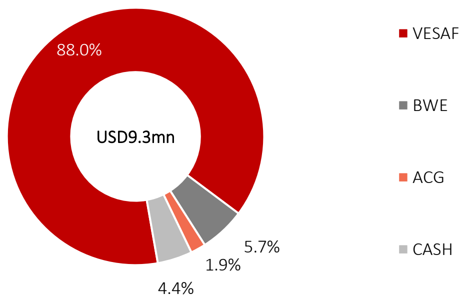


| | |
|---|---|
| Small- & mid-cap | 48.0% |
| Stocks traded on UPCoM | 7.7% |
| Stocks at full Foreign Ownership Limit | 21.7% |

- *Small- & mid- cap: stocks with market capitalization below USD2 billion*
- *UPCoM: Unlisted Public Company Market*

market, we believe they also streamline the financial market, since banks with better liquidity, lower funding costs, and reasonable LDRs will have more room to participate in lending and gain market share at a time when deposit growth is just half of credit growth. In short, the Government's strategy is to solve the short-term liquidity crunch while still maintaining a healthy financial system for the longer term.

KDH (residential developer) and PC1 (energy and industrial park) are the only companies in the portfolio that have issued bonds in the recent years. As for KDH, which we believe to be the most prudent property developer in Vietnam, the leverage ratio is only 0.6x and outstanding bonds are only 15% of its total borrowings. Notably, KDH was among the real estate developers whose bond issuance was fully subscribed by institutional investors amidst the recent difficult time in Q3, due to its strong credit profile. PC1 also issued bonds in Q3 (which accounted for 10% of its total borrowings) to finance its industrial park projects, while its shares were pledged as collateral. The company has stable operating cashflow and no bond repayment risk, although its shares were impacted by margin call activities, declining 30% in the first half of the month. Share prices quickly recovered by 50% from the bottom as the company's valuation turned very attractive at a P/B of only 0.5x during the selloff, which is when we took the opportunity to accumulate the stock.

***Portfolio Strategy***

At the end of November, the fund maintained a cash level of 30.7%, although we have recently been working to reduce cash. While the growth outlook will partially be affected by both global and domestic factors, the risks are significantly lower after the recent large price correction, and more importantly, as we see improvement in macro conditions and supportive policies as mentioned earlier in this report. We have started to position the portfolio towards a more aggressive strategy, including increasing exposure to the financial sector.

## VAF FUND INFORMATION

| | |
|---|---|
| Launch date | 03 July 2018 |
| Fund size | USD9.3mn |
| Domicile | Cayman Islands |
| Fund manager | VinaCapital Investment Management Ltd. |
| Auditor | Grant Thornton Cayman Islands |
| Administrator | Vistra Alternative Investments (Singapore) Pte. Ltd. |
| Management fee | None |
| Performance fee | 15% over 8% hurdle rate, with high watermark |
| Subscription frequency | Monthly, the Subscription Day is the first business day of each calendar month |
| Redemption frequency | Monthly, the Redemption Day is the first business day of each calendar month |
| Minimum subscription amount | USD100,000 |

## CONTACT DETAILS


VinaCapital
17th Floor, SunWah Tower
115 Nguyen Hue Street
District 1, Ho Chi Minh City, Vietnam
office: +84 (0) 28 3821 9930
fax: +84 (0) 28 3821 9931
www.vinacapital.com