VinaCapital

VinaCapital Vietnam Opportunity Fund (VOF) | Monthly report | May 2023

Performance Summary — 31 May 2023

	USD	GBP
NAV per share:	6.49	5.24
Change (Month-on-month)[1]:	1.7%	3.4%
Total NAV (million):	1,039.7	839.4
Share price:	5.40	4.36
Market cap (million):	865.2	698.5
Premium/(discount):	-16.8%	-16.8%

1. Inclusive of dividend distributions
GBP/USD exchange rate: as of 31 May 2023: 1.2387; as of 30 April 2023: 1.2575
Source: Bloomberg

Cumulative Change (% change, USD, total returns)[2]

	1M	3M	FYTD	CYTD	1YR	3YR	5YR
NAV per share	1.7	3.5	-8.0	6.2	-13.2	42.4	30.9
Share price	2.4	0.7	-4.1	1.1	-9.7	47.7	42.4
VN Index	2.5	6.6	-9.7	7.9	-16.6	29.1	16.8
MSCI Emerging market	-1.7	0.2	-1.6	1.1	-8.1	11.9	-1.6
MSCI Vietnam	-4.7	-0.8	6.2	-1.7	-3.0	13.5	-9.2

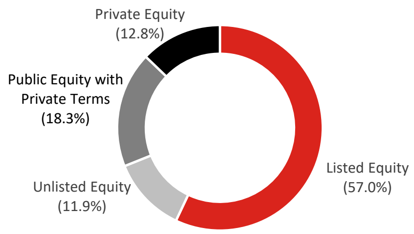
2. Inclusive of dividend distributions; FYTD data: from July 1 to date

VOF Key Metrics[3]

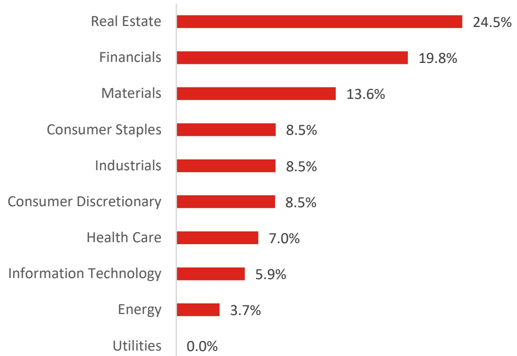
	VOF NAV	VN Index
Annualized Total Return	12.5	8.9
Annualized Standard Deviation	17.0	22.2
Beta	0.73	1.00
Sharpe Ratio	0.62	0.31

3. Based on monthly total return, USD terms in 3 years; Risk-free rate is the 5-year G-bond yield

Portfolio by Asset Class[4,5]



Portfolio Allocation by Sector[4]



4. Excluding Cash & Others (-1.0% of NAV); based on Global Industry Classification Standards (GICS)
5. Refer to Portfolio by Asset Class reclassification note in the Fund Summary

Top 10 Holdings[6]

Investee company	% of NAV	Sector
Asia Commercial Bank	13.8%	Financials
Khang Dien House	10.1%	Real Estate
Hoa Phat Group	9.9%	Materials
Airports Corporation of Vietnam	6.2%	Industrials
FPT Corporation	5.9%	Information Technology
Vinhomes	4.8%	Real Estate
Orient Commercial Bank	4.3%	Financials
Quang Ngai Sugar	3.7%	Consumer Staples
Phu Nhuan Jewelry	3.6%	Consumer Discretionary
PetroVietnam Technical Services Corp	2.4%	Energy
Total	**64.7%**	

6. Public Equities, including Listed and Unlisted Equities

"You can't do the same things others do and expect to outperform."
– Howard S. Marks, Co-founder and Co-chairman of Oaktree Capital Management

The Vietnam Index staged a moderate recovery in May after April's losses, with the benchmark up +2.5% month-on-month in total returns terms ($TR). Year-to-date, the index is up 7.9% ($TR), outperforming both the MSCI Frontier (+3.0% YTD) and MSCI Vietnam (-1.7% YTD) indices. While the market traded in a narrow range for most of May, by the close of the month and into early June, we have seen the market trending upwards, and as of writing, the VN Index is hovering around 1,100 – 1,150 levels.

Market sentiment has improved thanks to a raft of policy measures that have been introduced in recent weeks, including the central bank reducing policy rates once more in May, with a 50-basis points reduction after a similar 50 bps reduction in April, as well as benign inflation levels (+2.4% m-o-m) and a stable currency (+0.6% YTD appreciation against the USD). These rate cuts should eventually translate to a weaker VND against the USD and lower borrowing and deposit rates at commercial banks, which currently hover at around 10% for commercial lending and 7% for 12-month deposits, respectively.

The stock market has recently enjoyed higher levels of domestic investor participation, with small caps finding favour once again, evidenced by their outperformance to the broader market and VN30 constituents for the month. However, foreign investors remained net sellers at USD134 million for the month, driven primarily by outflows from several ETFs, which have on average recorded outflows over the past three months. Monthly average daily trading value (ADTV) was the highest for 2023, increasing almost 10% m-o-m to USD523 million in average daily traded value, more than 15% higher than the year-to-date average daily levels.

Increasing public spending and policy measures will support economic growth

Importantly, we have seen a strong recovery, both month-on-month, and year-to-date in several sectors of the market that are benefiting from supportive government policy measures, which we have discussed in previous months' reports, as well as our recent Economist's Note "Vietnam's Government Has A Plan To Boost Economic Growth".

The materials sector, which makes up 7.5% of VN Index weight, is up 4.3% m-o-m and 15.8% YTD, with the government's programme of infrastructure spending helping to boost construction steel sales. Core portfolio holding Hoa Phat Group (HOSE:HPG, NAV 9.9%) is up almost 18% YTD and continues to show strong share price performance as we roll-over into June. Led by improved export orders and better inventory management, HPG recently disclosed that all of their steel product lines have returned to profitability in 2Q23. Furthermore, HPG is confident of achieving their full-year revenue target of USD6.4 billion (+6% year-on-year) and net profit of USD350 million.

In early June, the company restarted its last idle blast furnace at the Hai Duong Steel Complex, and in July plans to restart the final idle blast furnace at its Dung Quat Steel Complex, indicating that demand is improving. While there have been concerns about Vietnam's ability to supply stable electricity transmission to large power consuming enterprises including steel making, this has limited impact on HPG as their blast furnace technology utilizes residual heat from the coke-making process to generate electricity, and therefore they are able to self-supply over 70% of the electricity demand at Hai Duong Steel Complex.

"I got the power (power, power)" – Snap! "The Power"

The energy sector, which makes up 1.7% of VN Index weight, is up 4.1% m-o-m and 19.8% YTD, as outlook improves on suggestions that the government is getting serious about the energy and renewable energy roadmap for Vietnam. In mid-May, the government announced the long-awaited PDP8, which outlines the country's electricity generation and distribution strategy for the period 2021-2030 with a vision to 2050, as part of Vietnam's net-zero targets under its COP26 commitment. Our Research team published a note in early June titled "Power Development Plan VIII (PDP8) Has Been Approved". Under PDP8, an estimated USD135 billion of funding will be needed to develop new power capacity and expand or enhance existing transmission grid capabilities from now to 2030. Given there is no foreign ownership limits on the power generation market, we expect significant interest from private capital to fulfil the funding needs, particularly in the form of FDI.

PetroVietnam Technical Services (HNX: PVS, NAV: 2.4%), the leading upstream energy services provider in Vietnam, with a dominant market share in EPC (Engineering, Procurement, and Construction, which is a type of turnkey contract), reported a preliminary 2Q23 profit before tax of USD7.4 million (+177% y-o-y), implying that the company will deliver a 1H23 PBT of almost USD19 million (+18% y-o-y). Shares increased 22% m-o-m, thanks to positive news that PVS is likely to be awarded the EPC contract for the "Block B O Mon" offshore gas field project, located off Vietnam's southwest coast; some analysts have estimated this project could deliver over USD1 billion in earnings from its construction and launch over the next three years. Furthermore, at their recent AGM, PVS have committed to increasing their investment in renewable offshore wind projects, and potentially exporting electricity to Singapore through subsea cables from these offshore wind projects, in partnership with Singapore's Sembcorp.

Real estate sector slowly claws back losses despite continued near term challenges

The real estate sector, which makes up 17.7% of the VN Index, is slowly clawing back losses from recent months, and was up 3.1% m-o-m and 4.6% YTD. Overall, we still expect the fundamentals concerning the residential property sector to stay challenging for the rest of year. Transaction volumes are expected to remain low amid a high interest rate environment, and limited credit is available as banks remain cautious in directing loans to developers and mortgages. Meanwhile, continuing difficulties in the ability to raise liquidity through corporate bond issuances will further impede developer funding.

Nevertheless, we believe that the longer-term fundamentals underpinning demand for the sector remain intact, driven by a rising middle-class particularly in Hanoi and Ho Chi Minh City, increasing urbanisation into the primary and secondary cities, and a long-term trend of transitioning to small family units with fewer multi-generational house formations. Emerging markets are notoriously prone to real estate boom and bust cycles, characterized by overbuilding of new housing units, but Vietnam's housing market is undersupplied; developers' current cash flow problems were not caused by insufficient demand for their products. The demand for new housing units in Vietnam by prospective owner-occupiers vastly outstrips the annual supply of new units as discussed by our Chief Economist in a recent March Insights article. Estimated levels of unsold inventory remains below 5%. The government's actions to fix the corporate bond market through the introduction of Decree 08 and deleverage a residential property sector that has been addicted to corporate bond issuances in recent years is timely and necessary, and ultimately will promote sustainable property development and affordable pricing for local home buyers.

Dat Xanh Services (HOSE: DXS, NAV: 2.6%), is an investment held in the fund's Public Equity with Private Terms portfolio. Founded in 2011, DXS is a subsidiary of Dat Xanh Group (HOSE: DXG) and is the leading real estate broker in Vietnam. Unsurprisingly, they have faced significant challenges during the past year. However, we have seen some green shoots appear as recent directives from the government to help the property sector are helping to improve funding flows, relieve legal entanglements, and boost market sentiment. DXS should benefit from this, and from our recent meeting with company management, we understand volumes are improving in 2Q23, expected to increase 30-40% quarter-on-quarter, with most of the increase from affordable housing projects in HCMC and the city's surrounding areas. Admittedly volume levels are well down from 2Q22, but DXS plans to improve sales by focusing on the mid-end housing products (affordable housing is not significantly profitable due to margin caps by law) rather than speculative and high-end projects. Severe cost controls, including reducing fixed costs such as rentals, closing unprofitable branches, and reducing salary costs by reducing sales staff, should see them deliver a small profit in 2Q23. We continue to work with the company's management as well as with the management of parent company Dat Xanh Group (HOSE:DXG, not held) to monitor and recover our investment cost and expected returns, and will update investors accordingly.

Upcoming investor meetings in Europe and the UK

In late June and early July the Investment Manager will be meeting with investors in Europe and the UK. Should you wish to meet with the manager, please do not hesitate to reach out to our distribution team. Furthermore, we are honored to be presenting at the Numis Emerging Markets Single-Country Funds Conference "Exploring the Big Opportunities" in London on Wednesday afternoon, 28 June 2023. We look forward to seeing many of you there.

And once again, as a reminder, please email us your interest in attending the VinaCapital Annual Investor Conference which will be held in-person in Ho Chi Minh City on Monday, 2nd October through Wednesday, 4th October 2023. We will start registration next month, so please stay tuned.

Macroeconomic Commentary

Vietnam's manufacturing activity continued to slow in May, driven by the continued drop in demand for "Made in Vietnam" products by consumers in the US, although there were signs that output at factories producing high-tech products started to stabilise.

Vietnam's manufacturing output fell from growth of 8.9% y-o-y in 5M22 to a 2.5% contraction in 5M23. Meanwhile, the country's Manufacturing PMI fell from the already-low level of 46.7 in April to a 20-month low of 45.3 in May, driven by a faster drop in new orders, output, and employment at factories in Vietnam.

Further to that last point, the number of workers employed in Vietnam's factories fell by nearly 5% y-o-y according to Vietnam's General Statistics Office (GSO), and further cuts look likely at factories that produce garment and footwear products. Pou Yuen, a Taiwanese footwear maker and the largest employer in Ho Chi Minh City, announced that it will lay off 5,744 employees in June and July in a downsizing equivalent to about 10% of the firm's pre-COVID workforce.

As we have mentioned in these monthly and other reports for some time now, the primary challenge for Vietnam's manufacturing sector this year would be an over-accumulation of inventories by US retailers and other consumer facing firms in 2022. Consequently, we have been monitoring the situation in the US by tracking PMI surveys, earnings calls of consumer-facing firms, and with other collaborating data sources (such as channel checks with Vietnam based suppliers of intermediate goods, including yarn/fibre in the case of garment companies). In our understanding, inventory levels in the US have been falling for eight months, and the drop is accelerating, although inventories for garment and footwear companies remain bloated; one leading US sneaker retailer reported that its inventory levels are still up about 25% y-o-y. This helps explain the impending Pou Yuen layoffs.

Exports of garments and footwear account for nearly one-quarter of Vietnam's total exports to the US, so the collapse in orders from US retailers of such products helps explain why Vietnam's exports to the US, which is its largest export market (at over one-quarter of total exports) fell 20% y-o-y in 5M23 versus 25% growth in 5M22.

While we do not expect orders for factories producing garments and footwear to recover until next year, there are some signs that inventories of consumer electronics products have now bottomed out, so we continue to expect orders for factories in Vietnam that produce high-tech products to recover in 2H23.

Specifically, Vietnam's exports of computers increased nearly 12% month-on-month in May, which helped drive a rebound in Vietnam's overall export growth from a 6% m-o-m decline in April to a 0.6% m-o-m increase in May. Recall that high-tech products account for over one-third of Vietnam's exports.

More importantly, Vietnam's imports rebounded from a 11% m-o-m drop in April to a 3% m-o-m increase in May, which means that some FDI factories in Vietnam have started to restock their inventories of production materials – which account for the vast majority of Vietnam's imports - with a view to ramping up production in 2H23.

The net result of all of the above is that Vietnam's total exports fell by 12% in 5M23, which is comparable to the decline experienced by other Asia export powerhouses such as Korea and Taiwan. Vietnam's imports are down 18% because FDI companies reduced their imports of production materials. Consequently, Vietnam's trade surplus reached nearly USD10b in 5M23, including a USD2.2b surplus in May alone, according to the GSO.

The surge in Vietnam's trade surplus, from circa 0% of GDP in 5M22 to a whopping 5%/GDP in 5M23 (anything over 3% is considered to be large), coupled with Vietnam's resilient FDI inflows (disbursed FDI fell 1% to USD7.7b in 5M23), supported the value of the VN Dong, which was unchanged during the month. That resilience in the USD-VND exchange rate in-turn enabled the State Bank of Vietnam (SBV) to cut Vietnam's policy interest rates by an additional 50 bps in May to 5%, following a 50 bp cut in April, after having hiked rates in late-2022 to support the exchange rate.

Next, the ongoing rebound in foreign tourist arrivals continued to support consumption in Vietnam in May. We estimate that foreign tourists previously accounted for nearly 10% of Vietnam's retail sales, pre-COVID. The number of tourist arrivals was slightly above 60% of pre-COVID levels in 5M23 (unchanged from 4M23), and real retail sales (i.e., stripping out the impact of inflation) grew 8.3% y-o-y in 5M23 (also unchanged from 4M23).

Chinese tourist arrivals in May were one-third of their pre-COVID levels, which is somewhat concerning because overall outbound tourism in China is now well over 50% of pre-COVID levels according to some reports; Vietnam does not seem to be getting its "fair share" of Chinese tourists. In our understanding, overall outbound Chinese tourism has been somewhat constrained by delays within China for people to renew their passports, so we are expecting more Chinese tourists in H2, although we will continue to monitor this situation.

Finally, China's weaker-than-expected post-COVID re-opening boom featured prominently in the international business press recently, but Vietnam is not overly-exposed to China's domestic economy, which we discussed in this report. If anything, China's tepid re-opening has helped keep a lid on CPI inflation in Vietnam.

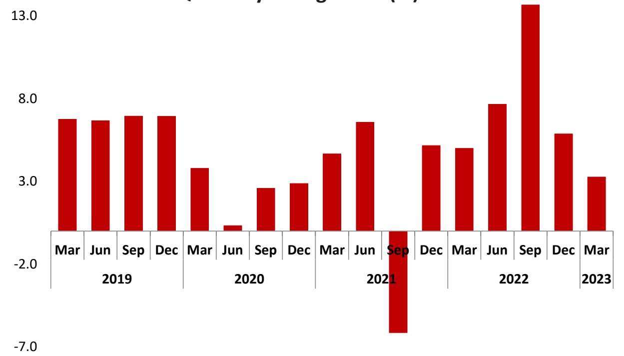
Vietnam's CPI inflation rate fell from 2.8% y-o-y in April to 2.4% in May, largely driven by a -10% month-on-month drop in Retail Petrol Prices. Note also that this drop in Vietnam's inflation rate (down from a peak of 4.9% earlier this year) was another factor that enabled the country's central bank to cut policy interest rates in May.

Macroeconomic Indicators

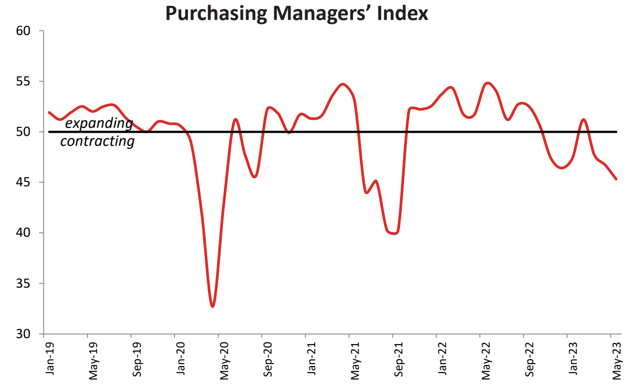
	2022	May-23	YTD	YOY[1]
GDP growth (%)	8.0		3.3	
Inflation[2] (%)	3.1	2.4	3.6	
FDI commitments (USDbn)	22.6	1.8	7.5	-22.5%
FDI disbursements (USDbn)	22.4	1.8	7.7	-0.8%
Imports (USDbn)	360.7	26.8	126.4	-17.9%
Exports (USDbn)	371.9	29.1	136.2	-11.6%
Trade surplus/(deficit) (USDbn)	11.2	2.2	9.8	
Exchange rate (USD/VND)[3]	23,633	23,485		

Sources: GSO, Vietnam Customs, MPI, Bloomberg |1. FDI and trade data is YTD y-o-y |2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO |3. BBG-USD/VND Spot Exchange rate

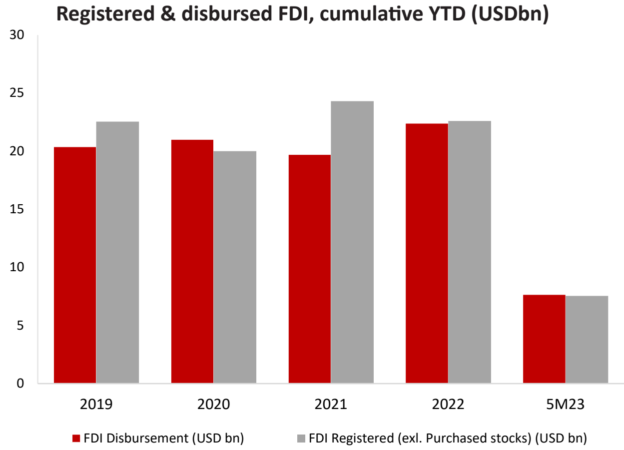
Quarterly GDP growth (%)



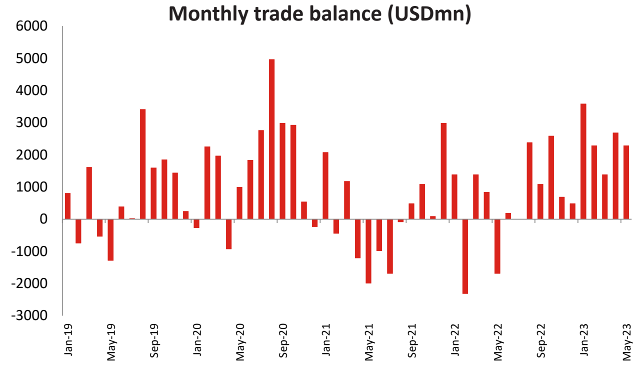
Purchasing Managers' Index



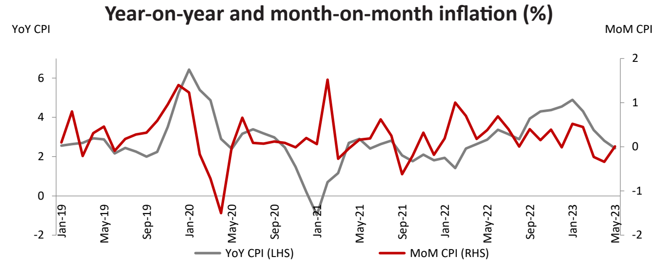
Registered & disbursed FDI, cumulative YTD (USDbn)



Monthly trade balance (USDmn)



Year-on-year and month-on-month inflation (%)



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
Julian Healy	Non-executive Director	Brook Taylor	Group COO
Kathryn Matthews	Non-executive Director	Andy Ho	Group CIO & Managing Director
Peter Hames	Non-executive Director	Khanh Vu	Deputy Managing Director
Hai Trinh	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
Secretary and Administrator	Aztec Financial Services (Guernsey) Limited
Registrar and Transfer Agency	Computershare Investor Services
Brokers	Numis Securities (Bloomberg: NUMIS)
Management and incentive fee (effective until 30 June 2023)	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
Reclassification of Portfolio by Asset Class	To better reflect VOF's investment strategy and highlight the negotiated terms of investments for several of our investments in the portfolio, we have reclassified the portfolio by asset class into the following buckets to help investors better understand the nature of our investments and terms: 1. Listed Equities: Investments that are held in the portfolio which do not have privately negotiated terms, or where these privately negotiated terms of investment have expired, aside from what is permitted under the relevant Securities Law. 2. Unlisted Equities: Publicly traded securities that are listed on either the UPCoM (Unlisted Public Company Markets) exchange of the Hanoi Stock Exchange, or are traded OTC (Over-The-Counter) and are generally illiquid in nature. These investments may be entered via through a privately negotiated process or privatisation of a state-owned entity, but no longer have privately negotiated terms, or these privately negotiated terms of investments have expired, aside from what is permitted under the relevant Securities Law. 3. Public Equity with Private Terms: Investments in publicly listed companies that have unique terms of investment, such as downside protections and profit commitments, that not readily available to general market participants. Where these terms have expired or are no longer relevant then these investments will be reclassified to either Listed Equities or Unlisted Equities. 4. Private Equity: Illiquid investments in private companies with terms of investments including downside protections and profit commitments, as well as Operating Assets that generate an ongoing yield.

VinaCapital

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