Forum One - VinaCapital Vietnam Fund (VVF)

VinaCapital

31 May 2023

Class A NAV/share: USD20.39

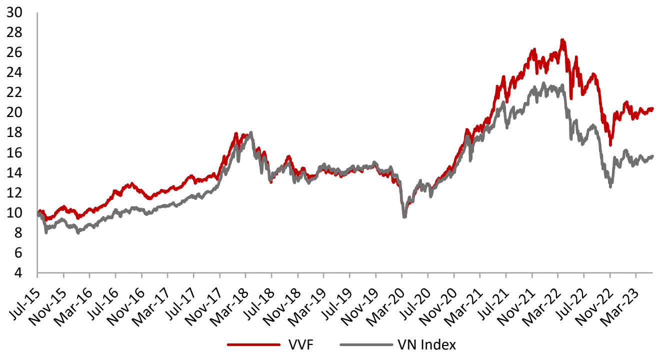
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam, with an objective to deliver long-term capital growth, through bottom up stock picking and disciplined risk management.

PERFORMANCE SUMMARY

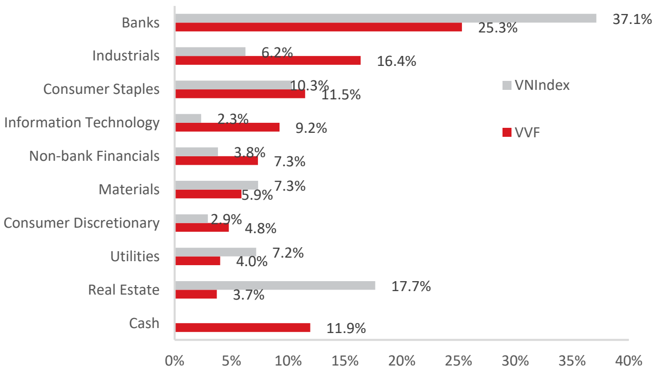
	Fund*	VN-Index
May 2023 (m-o-m)	1.7%	2.3%
YTD	5.2%	7.4%
3-year annualized	17.6%	7.2%
5-year annualized	5.9%	1.4%
Annualized since inception	9.5%	5.8%
Accumulated since inception	103.9%	56.3%
Sharpe ratio (annualized since inception)	0.37	0.21
Annualized standard deviation	20.6%	22.3%
Tracking error	8.1%	

** Fund information calculated from Class A shares*

PERFORMANCE CHART



SECTOR ALLOCATION



TOP HOLDINGS

Ticker	Market Cap (USDmn)	Sector	% of NAV	2023F PE	2023F ROE
FPT	3,954	Information Technology	9.2%	14.2	23.7%
VCB	18,939	Banks	8.8%	12.2	23.8%
STB	2,223	Banks	6.7%	6.3	19.9%
GMD	643	Industrials	5.1%	6.5	26.9%
QNS	655	Consumer Staples	4.7%	10.0	20.6%
CTG	5,729	Banks	4.5%	7.0	16.9%
HPG	5,248	Materials	3.5%	13.5	9.3%
PNJ	990	Consumer Discretionary	3.0%	11.5	22.3%
SAB	4,314	Consumer Staples	3.0%	19.5	20.0%
PC1	347	Industrials	2.7%	8.2	13.0%
VVF Port.				10.0	19.0%
VN-Index				10.5	15.2%

Source: Bloomberg, VinaCapital's estimates

MANAGER'S MONTHLY COMMENTARY

Domestic retail investors did not sell in May; on the contrary, they were very active in the stock market, in particular by trading small cap and mid cap stocks. This resulted in the Small and Mid-Cap Indexes outperforming the Large-Cap Index by a wide margin in May 2023 as well as on a year-to-date basis. While the VN-Index increased 2.3% MoM and 7.4% YTD, there has been a divergence of performance based on market cap categorization, with the VN-Small Cap, VN-Mid Cap, and VN30 (large cap) increasing +9.7%, +4.5%, and +1.6%, respectively, on a MoM basis, and +23.2%, +7.2%, and +6.7%, respectively, on a YTD basis. Liquidity also improved, with average daily trading value reaching USD523mn in May versus USD433mn for the first four months of the year. Foreign investors were net sellers for the month, with total outflows of USD131mn.

While we continue to see domestic and global headwinds for the economy, there were still several positive notes. Retail sales were strong (+12.6% YTD, mainly due to resumption of outdoor and travel activities post-Covid), and inflation remained under control (+2.4% YoY). Low inflation (even with electricity prices being allowed to increase 3% in May 2023 after a couple of years of no price increases) should allow the State Bank of Vietnam (SBV) to cut interest rates further. Year to date, the SBV has lowered interest rates three times, despite continuing rate hikes by the US Fed. Being fully aware of the weak economy, the government is relying on public spending as a key growth driver for the economy, with public investment increasing 18.4% YoY in 5M23. We expect continuing expansionary monetary policy and accelerated budget spending in the months ahead, both of which have historically had positive effects on the stock market. If we see negative headlines on low PMI, slow exports, etc, we believe these may spur the SBV and government to expedite additional accommodative policies which will benefit the stock market.

The Fund's Class A NAV per share increased 1.7% USD terms in May, slightly underperforming the index, reflecting the portfolio's skew towards large and mid-cap stocks. As a disciplined investor, we do not chase after penny stocks or retail-driven sentiment stocks. We have a fairly high cash position, given our prudence on capital disbursement and our preference for having a margin of safety on entry point. Top performing stocks in the month included brokerage (VCI +10.3%, HCM +8.5%, SSI +7.3%), banks (STB +9.3%, ACB +4.8%), industrial park developers (PHR +15.0%, SZC +10.5%), and IT (FPT +8.4%).

The brokerage sector has been a direct beneficiary of 1) higher trading volumes; 2) increasing margin lending books (albeit the leverage ratio in the system is still low); 3) higher stock prices supporting the proprietary books of brokerage companies and those of their clients (for the clients, as value and liquidity of assets increased, the default risk decreased, indirectly benefiting the lenders). We maintained our overweight positions in leading companies in the sector. Regarding industrial park developers, the trend of increasing new FDI inflows is encouraging, with newly registered FDI in 5M23 reaching USD5.2bn (+28% yoy). Although the residential real estate sector has been struggling, we did not see any pressure on land prices in industrial real estate sector, hence major industrial park developers with large available land banks should continue to thrive.

On the detractor list, major laggards were mainly consumer-related stocks (SAB -8.3%, PNJ -8.0%, VNM -5.7%). Weaker consumer spending on discretionary products amid economic difficulty, coupled with specific regulation risks, were the main reasons for the poor performances. Nevertheless, supportive policies such as a reduction in the value added tax in 2H23, plus softer commodity prices, should provide a temporary boost for the consumer sector.

Although the near-term difficulties of the economy have already been partially priced into stock prices, we expect volatility to continue on the back of weak corporate earnings and subdued economic growth. Nevertheless, given the current attractive valuations, we see a number of opportunities for companies we monitor, especially those at their full foreign ownership limit, which have traditionally been difficult to accumulate sizable positions or have traded at high premiums. We remain selective in picking stocks with strong cash flow generation, high earnings power and earnings visibility, or at inflection points. The valuation of the overall stock market continues to be attractive for long-term investment, with a 2023E PER of just ~10x, which is at a large discount to ASEAN peers and other emerging markets.

MACRO 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% yoy 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% yoy 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 previously mentioned, 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. We have been monitoring the situation in the US by tracking PMI surveys, earnings calls of consumer-facing firms, and 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% yoy. 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% yoy 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 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% yoy 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.

Vietnam's CPI inflation rate fell from 2.8% yoy 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.

MACRO INDICATORS

	2022	May 2023	YTD 2023	y-o-y
GDP growth[1] (%)	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, SBV, MPI, Bloomberg

1. Latest quarterly GDP performance | 2. Inflation: year-on-year change | 3. BBG-USDVND Spot Exchange Rate

KEY TERMS

	Class A	Class B	Class C	Class D	Class G	Class H	Class I
Currency	USD	USD	EUR	EUR	JPY	USD	USD
Min. Investment	500,000[1]	5,000	500,000[1]	5,000	10,000,000[1]	5,000,000[1]	10,000,000[1]
Management Fee	1.25%	2.00%	1.25%	2.00%	2.00%	1.25%	1.00%
Bloomberg	FOVCPVA LX	FOVIEBU LX	FOVIECE LX	FOVIEDE LX	FOVCPVG LX	FORMVIN LX	FOVCPIU LX
ISIN	LU1163030197	LU1163027052	LU1214542463	LU1214545136	LU1286783011	LU2552457918	LU2560055225

[1] The minimum initial subscription amount may be waived at the discretion of the Investment Manager.

VVF FUND INFORMATION

Launch Date	14 July 2015
Legal Entity Identifier (LEI)	5493003GR1U7LK7K6767
Trading Period	Daily Subscriptions/Redemptions
Fund Size	USD68.3m
Incorporation	Luxembourg
Registered	UK, The Netherlands, Germany, Singapore, Austria, Switzerland, Sweden, France
Management Company	Edmond de Rothschild Asset Management (Luxembourg)
Fund Manager	VinaCapital Fund Management JSC
Depository Bank	Edmond de Rothschild (Europe)
Auditor	PwC Societe Cooperative Luxembourg
Swiss Representative	First Independent Fund Services Ltd, Klausstrasse 33, CH-8008 Zurich, Switzerland
Swiss Paying Agent	NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, P.O. Box, CH-8022 Zurich, Switzerland

CONTACT DETAILS

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