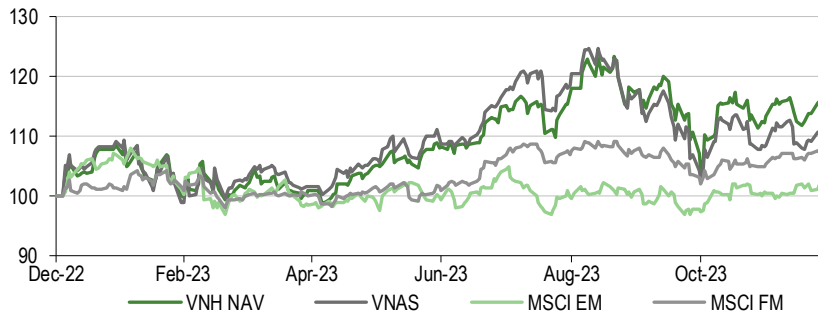


# VietNam Holding

## Introducing redeemable shares

VietNam Holding (VNH) posted a solid net asset value (NAV) per share total return (TR) in 2023 of 15.8% (22.4% in US dollar terms), outperforming the Vietnam All Share index (VNAS), which posted an 11.7% return, and its direct peers. The investment manager remains confident that 2024 will be strong for Vietnamese equities, underpinned by average 20% y-o-y expected earnings per share (EPS) growth. VNH recently introduced a share redemption facility (on top of regular share buybacks), which allows shareholders to redeem their shares at NAV each September. We believe that this has contributed to the recent narrowing of VNH's share discount to NAV to 3.0% compared to its three-year average of 14.1%.

### VNH 2023 performance against VNAS, MSCI Frontier, MSCI Emerging



Source: LSEG, Edison Investment Research. Total returns in sterling.

## Why invest in Vietnam?

Vietnam is attracting significant foreign direct investment (FDI) inflows, predominantly into manufacturing as global giants are diversifying their supply chains. Vietnam is also a 'young' country, with a median population age of 32.5 years and a 73% employment to population ratio (the global average is 55%). Strong economic growth paired with favourable demographics translates into rapidly growing domestic spending. Vietnam is currently categorised as a frontier market by both the London Stock Exchange Group (LSEG) and MSCI and its government is actively addressing regulatory constraints for its potential upgrade to emerging markets status. We anticipate that an upgrade could result in a meaningful influx of new capital and investors to the market and a re-rating in the valuations on the Ho Chi Minh City Stock Exchange (HOSE).

## VNH continues to outperform benchmark

VNH's portfolio had a good start to 2024, posting a 10.5% NAV TR in the first two months (VNAS at 9.2%), continuing its long-term outperformance with an average annual return of 13.2% (five-year) compared to the index's 8.9%. The shareholders' return is higher, given recent narrowing of the discount following the announcement of the share redemption facility. Redemption for long-time holders (over two years) will be free of charge, while shares held for less than two years will be subject to a 2–3% redemption fee paid to the fund, benefiting the remaining shareholders. Shares held for less than six months will not be eligible for redemption.

## Investment companies Vietnam

12 April 2024

**Price** 380.0p  
**Market cap** £103.7m  
**NAV\*** £106.9m

NAV per share\* 391.9p  
Discount to NAV 3.0%

\*As at 28 February 2024.

Yield 0.0%

Ordinary shares in issue 27.3m

Code/ISIN VNH/GG00BJQZ9H10

Primary exchange LSE

AIC sector Country Specialists

52-week high/low 380.0p 252.0p

NAV high/low 391.9p 300.4p

### Gearing

Net cash at 28 February 2024 1%

### Fund objective

VietNam Holding's investment objective is to achieve long-term capital appreciation by investing in a diversified portfolio of companies that have high growth potential and an attractive valuation. The fund has been managed by Dynam Capital since July 2018.

### Bull points

- Portfolio size allows manager to be nimble and swift with reallocations, resulting in meaningful alpha.
- Shareholders have an option to redeem their shares at NAV.
- ESG considerations are a key part of the manager's approach.

### Bear points

- The relatively small market cap limits liquidity and the pool of potential investors.
- Investments in frontier markets are inherently risky.
- The trust has relatively high fees for an LSE-listed trust. Nevertheless, it delivers above-average returns post fees.

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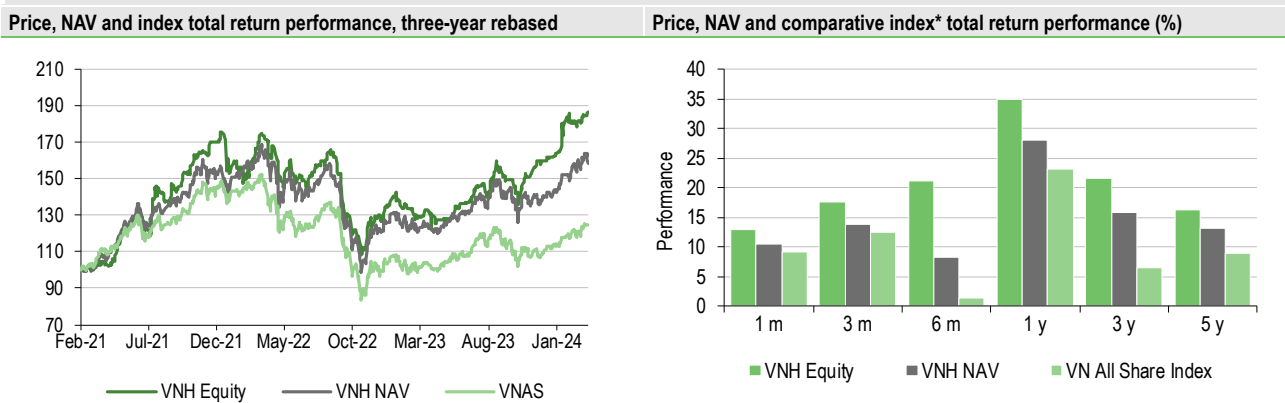
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## Outperforming in a bull market

### VNH delivered strong NAV development...

VNH's NAV in 2023 rose by 15.8% in sterling TR terms and increased further by 10.5% since beginning of 2024 until end-February (22.4% and 10.4% in VNH's reporting currency, the US dollar). While performance was driven by a supportive environment for Vietnamese equities (VNAS up in sterling 11.7% in 2023 and 9.2% year-to-date), we highlight that VNH's portfolio positioning delivers outperformance against VNAS (see Exhibit 1) and its direct peers (Exhibit 2) over one-, three- and five-year periods. However, we note that the private part of VinaCapital Vietnam Opportunity Fund's portfolio is valued periodically and tends to lag short-term public market developments.

**Exhibit 1: VNH performance to 28 February 2024**



Source: LSEG, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. \*Vietnam VN Index.

**Exhibit 2: Selected peer group\* as at 12 April 2024\*\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
<b>VietNam Holding</b>	103.7	27.9	55.0	85.8	222.5	(3.0)	3.07	No	100	0.0
VinaCapital Vietnam Opp Fund	725.5	14.9	32.3	66.4	243.6	(19.8)	1.77	Yes	100	2.6
Vietnam Enterprise Investments	1,177.3	14.2	9.8	49.8***	248.8	(19.5)	1.91	No	100	0.0
<b>Vietnam funds average (excl. VNH)</b>	<b>951.4</b>	<b>14.5</b>	<b>21.1</b>	<b>58.1</b>	<b>246.2</b>	<b>(19.7)</b>	<b>1.8</b>	<b>-</b>	<b>100.0</b>	<b>1.3</b>
<b>VNH rank in subgroup***</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>2</b>
Ashoka India Equity Investment Ord	379.3	36.6	83.2	178.7	N/A	5.9	0.47	Yes	101	0.0
Baillie Gifford China Growth Trust Ord	120.5	(28.9)	(54.0)	(35.5)	1.3	(10.9)	0.94	No	103	1.0
Fidelity China Special Ord	1,086.7	(19.4)	(46.0)	1.6	125.2	(10.8)	0.98	Yes	123	3.0
India Capital Growth Ord	141.9	39.1	73.4	101.1	302.5	(10.6)	0.42	No	100	0.0
JPMorgan China Growth & Income Ord	180.1	(32.4)	(60.9)	(9.6)	68.8	(11.1)	1.12	No	105	6.3
JPMorgan Indian Ord	653.8	16.5	41.1	58.4	194.3	(20.5)	0.81	No	103	0.0
Weiss Korea Opportunity Ord	122.3	2.7	(23.1)	45.8	105.7	0.3	2.09	No	100	3.0
<b>Full peer group average (excl. VNH)</b>	<b>509.7</b>	<b>4.8</b>	<b>6.2</b>	<b>50.7</b>	<b>161.3</b>	<b>(10.8)</b>	<b>1.2</b>	<b>-</b>	<b>103.9</b>	<b>1.8</b>
<b>VNH rank in peer group***</b>	<b>10</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>6</b>	<b>6</b>

Source: Morningstar, Edison Investment Research. Note: \*Country Specialist funds focused on Asian markets (ex-Japan). \*\*Performance in sterling as at 28 February 2024 based on cum-fair NAV. \*\*\*Performance since end-January 2019 due to NAV availability. \*\*\*\*Rank based on arithmetic value: 1 = the highest. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. 100 = ungeared.

### ...supported by a benign macro environment...

Vietnam enjoyed a strong year in terms of macroeconomics with 5.1% GDP growth, among the highest in the region, and at the same time is expected to outperform its neighbours in 2024 according to LSEG consensus (expected growth of 5.8%). Growth was driven by returning demand for 'made in Vietnam' products, as well as increased consumer spending. Vietnam has seen a record-high trade surplus (US\$28bn) and record level of disbursed FDI (US\$23bn) in 2023.

Furthermore, its government has accelerated public investments (which stood at US\$26.1bn, up 27% y-o-y) and made progress on some of the flagship infrastructure projects in Vietnam, such as the international airport in Long Thanh and subway systems in Hanoi and Ho Chi Minh City. Dynam Capital anticipates a further increase in public spending in 2024 up to US\$30bn.

### ...and Dynam Capital expects a good year ahead

The State Bank of Vietnam (SBV) is able to keep record-low interest rates thanks to limited inflationary pressure (3.8% in 2023), and at the same time the high trade surplus is bolstering SBV's FX reserves, providing good headroom for potential currency market interventions if required. This translates into record-low sovereign bond yields and in turn increases demand for local equities. Individual investors, which are currently the main contributors to HOSE's trading activity, have returned to the equity market after a relatively calm 2022 and as a result daily liquidity doubled over the course of 2023. This trend continued into 2024, with an average daily volume in February 2024 of US\$758m, 23% higher than in January 2024. Together with good outlook for corporate earnings growth (Dynam Capital expects a weighted average EPS increase of 20%, below current consensus), this provides encouraging prospects for local equities, according to Dynam Capital.

### Vietnam's stock market should benefit from potential index reclassifications

Vietnam is currently recognized as a frontier market by both LSEG and the MSCI, and potential upgrades to emerging markets are widely discussed by the media. We anticipate that potential upgrades could result in a meaningful influx of new capital and investors to the market and a re-rating in the valuations on HOSE. Dynam Capital expects that LSEG's reclassification could happen as soon as H224. However, opinions on this subject vary, as for instance representatives of Vietnam's leading broker (and one of VNH's top holdings) SSI Securities see a possible upgrade by September 2025. According to Reuters, an upgrade at the much larger MSCI indices is less likely, due to its stricter requirements, and expected no sooner than 2025 in the most optimistic views. It is important to note that Vietnam's government is devoted to eliminating any regulatory hurdles preventing the upgrades.

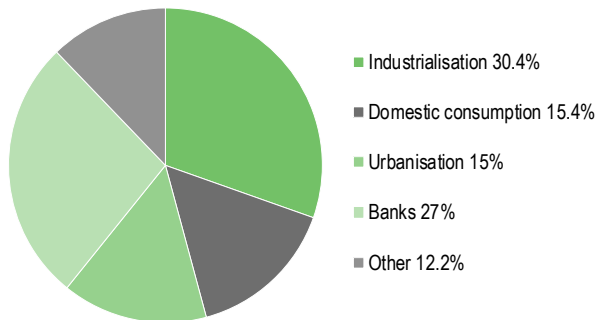
**Exhibit 3: VNH's discrete performance versus public markets (%)**

12 months ending	VNI	VNH (NAV)	VNAS	MSCI World	MSCI EM	MSCI Frontier Markets
29/02/20	(9.8)	(6.1)	(4.8)	(5.6)	8.8	2.6
28/02/21	30.8	27.7	33.2	23.0	19.6	24.7
28/02/22	51.0	56.6	44.2	33.6	12.8	(6.6)
28/02/23	(11.7)	(22.6)	(32.0)	(26.8)	2.2	(5.7)
29/02/24	34.9	27.9	23.2	13.0	17.9	4.2

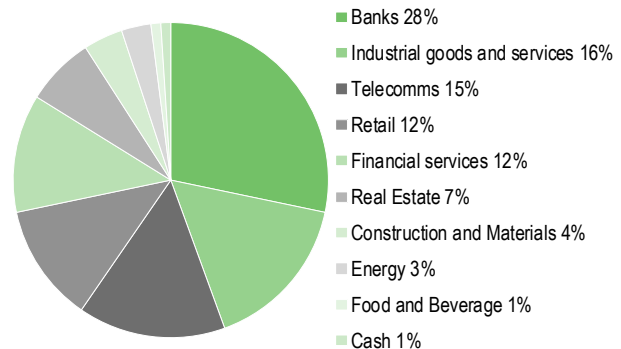
Source: LSEG, VNH, Edison Investment Research

### VNH continues to favour its three core themes

VNH's portfolio remains highly concentrated, comprising around 24 names, with the top 10 holdings representing 65% of its NAV at end-February 2024 (see Exhibit 6). Compared to VNAS, the company is overweight telecommunications (15% versus combined VNAS exposure to IT and communication services at 3.2%) and underweight financials, even if banks and financial services make up c 40% of its portfolio value. Most of its portfolio is allocated to companies expected to benefit from three core themes: industrialisation, an increase in domestic consumption and urbanisation, as well as banks, which are expected to benefit from all three themes (see Exhibit 4).

**Exhibit 4: Portfolio split by theme (November 2023)**


Source: VNH

**Exhibit 5: Portfolio split by sector (February 2024)**


Source: VNH. Note: Numbers do not add up to 100% due to rounding.

## 1) Urbanisation, with increasing access to the internet

FPT Corporation is VNH's largest portfolio company (15% of NAV at end-February 2024) and delivered a 36% share price TR in 2023 in sterling). The company has three operating segments: software technology (with 28k engineers supporting more than 100 of the Fortune Global 500 companies), telecoms (as a leading provider of broadband, data service and pay TV in Vietnam, with nationwide telecommunication infrastructure) and education (with 140k students focusing on science, technology, engineering, and mathematics subjects). FPT recorded 20% y-o-y net profit growth in 2023. At the same time, global IT services' revenue and profits increased by 29% and 28% y-o-y respectively, and FPT targets to quintuple the former by 2028. While the objective is ambitious, VNH underlines that outsourcing companies from India like Infosys that have opened up to global markets earlier than Vietnam reached a scale far beyond FPT's ambitions.

Another notable growth driver was Viettel Construction (1.7% of NAV at end-December 2023), which recorded a 71% total return in 2023. The company is the construction arm of the state-owned telecommunication company Viettel, which holds a 66% stake in the company. It is recognised within construction and materials in VNH's sector split. In December 2023, the Ministry of Information and Telecommunications announced that 2G bandwidth would be discontinued in Vietnam in September 2024, which should translate into high demand for 4G tower construction services across the country, supporting Viettel Construction.

**Exhibit 6: VNH's top 10 holdings**

Company	Sector	Feb-24	Feb-23	Change*	2023 share price TR GBP
FPT Corporation	Telecommunications	15.0%	13.0%	2.0pp	35.7%
MB Bank	Banks	6.4%	5.4%	1.0pp	18.7%
Gemadept	Industrial Goods and Services	6.3%	8.4%	(2.1pp)	47.7%
Vietcombank	Banks	5.9%	4.1%	1.8pp	(8.6%)
Sacombank	Banks	5.8%	8.9%	(3.1pp)	36.6%
IDICO	Real Estate	5.6%	N/A	N/A	66.3%
Phu Nhuan Jewelry	Retail	5.2%	9.3%	(4.1pp)	(9.4%)
Asia Commercial Bank	Banks	5.1%	N/A	N/A	20.5%
FPT Digital Retail	Retail	4.8%	N/A	N/A	65.9%
SSI Securities	Financial Services	4.5%	N/A	N/A	77.7%
Top 10 holdings		64.6%	66.6%	(2.0pp)	-

Source: VNH. Note: \*N/A where not in February 2023 top 10 holdings.

## 2) Industrialisation, fuelled by increase in demand for 'made in Vietnam' products

The revival in exports and manufacturing was beneficial for stocks forming the ecosystem around Vietnam's manufacturing base. VNH's third largest holding, Gemadept (6.3% of NAV at end-

February), which is a port operator, recorded a 48% share price increase in sterling over 2023, with its record profits supported by the sale of one of its older ports. In 2024, the company plans to divest its non-core rubber plantation. The industrial parks developer IDICO gained 52% over the year (in sterling), as its core projects continue to attract FDI.

### 3) Consumer spending from increasing disposable income

In 2023, VNH portfolio was expanded to include FPT Digital Retail, which is a subsidiary of VNH's largest and long-lasting holding FPT (47% ownership) and represents 4.8% of VNH's NAV at end-February 2024. FPT Digital Retail's share price increased by 66% in 2023, predominantly due to the rapid expansion of its new pharmacy business. In 2023 the company opened 560 pharmacies, taking its total store count to 1,497 (whereas its traditional digital goods retailing segment was affected by deteriorating consumer sentiment).

### Retaining exposure to banking as a litmus test of the whole economy

VNH retains meaningful exposure to banks and financial services as it considers the banking sector an attractive play on the broad economic growth of Vietnam, with banks increasing their loan books in parallel to growing investments and customer spending. In the second part of 2023, VNH's exposure to banks underperformed the VNAS Index (VNH recorded a 3.6% loss on exposure to banks in total), offsetting part of its H123 gains, but overall contributed positively to FY23 results. The manager continues to see good prospects for several Vietnamese banks (four of its top 10 holdings are banks) and increased its weighting to financials from 35% at December 2023 to 40% at February 2024.

### VNH remains focused on ESG

VNH integrates ESG in its investment process, as well as in the day-to-day management of its portfolio. In 2023, it received the highest score (five stars) from the United Nations' Principles for Responsible Investing, and a third-party evaluator confirmed that its portfolio had a c 40% lower carbon footprint than VNAS on average over the last three years. Despite being a minority holder in its portfolio companies, the manager is involved in improving ESG criteria across its holdings (and broader Vietnam corporate environment) through a variety of initiatives. The CIO of Dynam Capital is co-founder of the Vietnam Institute of Directors (VIOD) and representatives of VNH, VIOD and Dynam Capital regularly advise VNH's portfolio companies on investor relations. In 2023, VNH sponsored and supported the inaugural ESG investor conference in Vietnam and will be supporting this year's edition in May 2024.

In March 2024, VNH appointed Connie Hoang Mi Vu as an independent non-executive director, following the retirement of Sean Hurst and Damien Pierron at the December AGM. Ms Vu will expand VNH's ESG expertise with her vast experience in the field. She is a partner at Raise Partners, a consultancy that advises clients on ESG strategy and partnerships. She has over 20 years of experience in ESG and international development and is one of Vietnam's leading experts on human trafficking, modern slavery and labour migration. Ms Vu is a board member of the Belgium Luxembourg Chamber of Commerce Vietnam and has been based in Vietnam since 2006.

While VNH focuses on ESG's value-unlocking capabilities, we note that close cooperation and insight into companies' corporate culture also provides VNH with risk mitigation tools. This is especially important in Vietnam, an economy with still emerging governing structures. VNH's capabilities were highlighted in 2022 amid the real estate crisis (as described in [our earlier note](#)). The manager highlights that the recent resignation of President Vo Van Thuong is unlikely to affect the real economy and business, despite media turmoil around the topic.

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