Vietnam Enterprise Investments

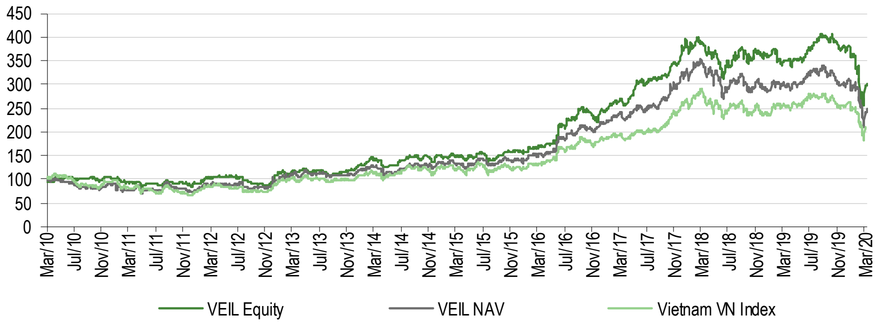
Well positioned for recovery and long-term growth

Investment companies
Vietnamese equities

29 April 2020

Vietnam Enterprise Investments (VEIL) is the largest and longest-established closed-end fund focused on investing in Vietnamese equities. The fund has a solid long-term performance track record (see chart below), delivering annualised NAV total returns of 10% and 8% over five and 10 years respectively. Vietnam appears to be managing the spread of the COVID-19 virus well, and is advanced in the resumption of normal economic activity. Its GDP growth of 7.0% in 2019 was one of the fastest rates globally, and while growth will be disrupted this year, economic prospects remain bright. Vietnam's equity market fell sharply in response to the pandemic, and forward P/E valuations are now relatively modest, and at an unusually large c 30% discount to global equities, which may present an attractive entry opportunity for longer-term investors.

10-year total return (rebased): Strong long-term performance



Source: Refinitiv, Edison Investment Research

The market opportunity

Long-term economic prospects for Vietnam are bright, short-term disruptions notwithstanding. These are driven by multi-decade secular trends, including rising incomes, urbanisation and industrialisation. Vietnam is also a beneficiary of the trend for multinationals to diversify manufacturing capabilities from China. The IMF has recently published its updated forecast for Vietnam's GDP growth, expecting it to fall sharply to 2.7% in 2020 but to rebound to 7.0% in 2021.

Why consider investing in VEIL?

- Managed by Dragon Capital, the longest-established foreign institutional investor in Vietnam-listed equity.
- The team is experienced and well resourced, with a rigorous bottom-up approach to finding quality companies that can deliver long-term capital growth.
- VEIL is well placed to benefit from an expected increase in infrastructure spending, and the resumption of government-led privatisations.

Scope for discount to narrow

As at 27 April, VEIL traded at an 9.3% discount to NAV, which is narrower than its three-year average of 13.3%. There is scope for this discount to narrow over time if Vietnam's strong economic prospects can attract broader investor interest, and VEIL continues to deliver a solid performance.

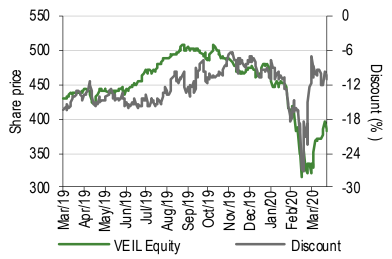
Price	**390.0p**
Market cap	**£849.7m**
AUM	**£939.6m**

NAV*	430.0p
Discount to NAV	9.3%

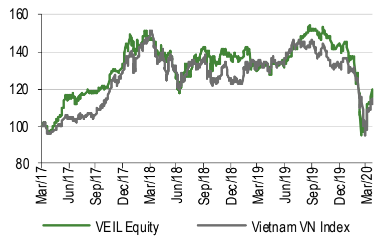
*Excluding income. As at 27 April 2020.

Yield	0.0%
Ordinary shares in issue	220.1m
Code	VEIL
Primary exchange	LSE
AIC sector	Country Specialists: Asia Pacific
Benchmark	VN Index

Share price/discount performance



Three-year performance vs index



52-week high/low	509.0p	315.0p
NAV** high/low	583.0p	360.0p

**Including income.

Gearing

Gross*	2.1%
Net cash*	2.2%

*As at 31 March 2020.

Analysts

Helena Coles +44 (0)20 3681 2522
Sarah Godfrey +44 (0)20 3681 2519
investmenttrusts@edisongroup.com
Edison profile page

Vietnam Enterprise Investments is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

Vietnam Enterprise Investments' (VEIL) investment objective is to achieve medium- to long-term capital growth by investing in the equity securities of companies primarily operating in, or with significant exposure to, Vietnam. VEIL adopts a bottom-up approach to investment selection and does not set portfolio allocations with reference to index weightings. The VN Index is used as a performance benchmark, which VEIL seeks to outperform on a rolling three-year basis.

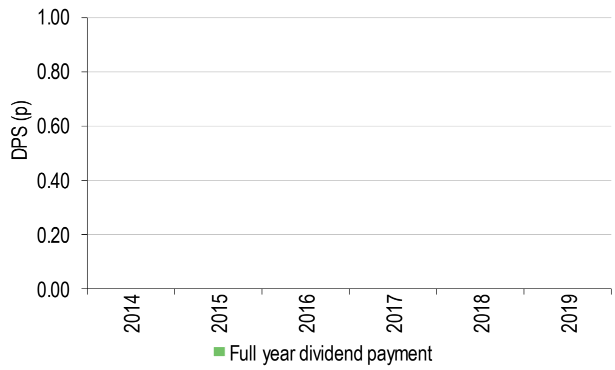
Recent developments

- 23 April 2020: Annual results to end-December 2019 – NAV TR -0.9% in sterling terms versus 5.9% for the VN Index.
- 9 September 2019: Interim results to end-June 2018 – NAV TR +0.4% in sterling terms versus +5.2% for the VN Index.
- 16 May 2019: Announced appointment of Professor Entela Benz-Saliasi as non-executive director with immediate effect.

Forthcoming		Capital structure		Fund details	
AGM	June 2020	Ongoing charges	2.25% (see page 7)	Group	Dragon Capital
Interim results	October 2020	Net cash	2.2%	Manager	Vu Huu Dien
Year end	31 December	Annual mgmt fee	Tiered: 2.00%; 1.75%; 1.50% of net assets	Address	PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands
Dividend paid	N/A	Performance fee	None		
Launch date	11 August 1995	Company life	Indefinite	Phone	+84 8 3823 9355
Continuation vote	See page 8	Loan facilities	US$60m	Website	www.veil-dragoncapital.com

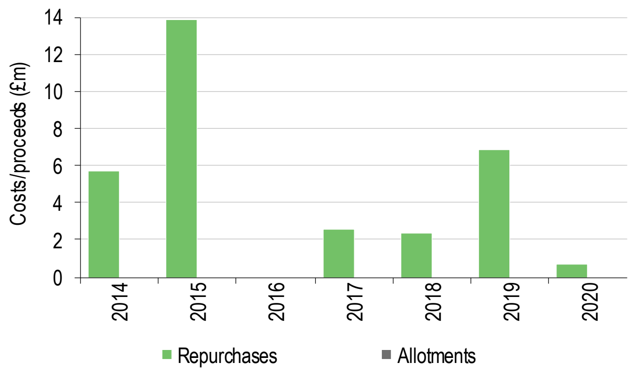
Dividend policy and history (financial years)

VEIL's investment objective is to achieve capital growth and there is currently no intention to pay a regular dividend.

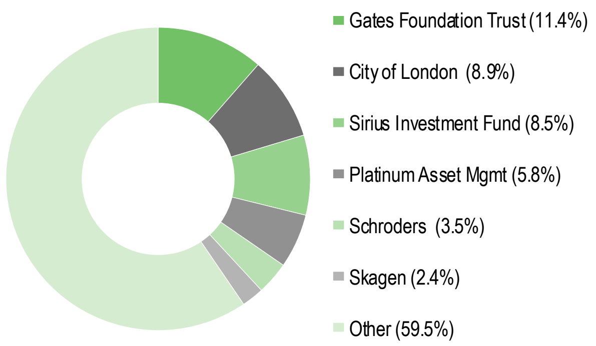


Share buyback policy and history (financial years)

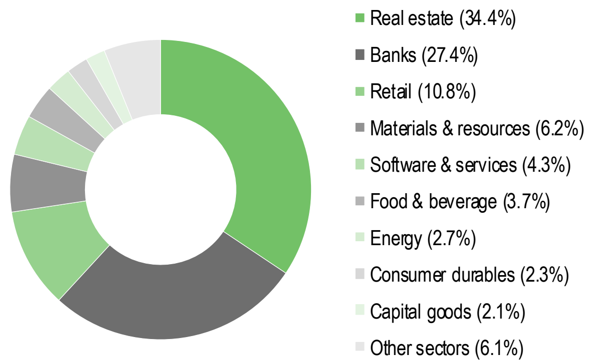
VEIL has annually renewed authority to repurchase up to 14.99% of its issued capital.



Shareholder base (at 20 April 2020)



Portfolio exposure by sector (at 31 March 2020)



Top 10 holdings (as at 31 March 2020)

Company	Sector	Portfolio weight %		VN Index weight %
		31 March 2020	31 March 2019	31 March 2020*
Mobile World	Retail	8.6	8.0	1.2
ACB	Banks	8.0	7.1	N/A
Vinhomes	Real Estate	7.9	6.3	7.9
Khang Dien House	Real Estate	7.1	6.5	0.4
Hoa Phat	Mat's/Res	5.7	4.4	2.0
Military Bank	Banks	4.8	5.2	1.4
FPT	Software services	4.2	3.0	1.2
Hai Phat Investment	Real Estate	3.9	2.0	0.2
Vietcombank	Banks	3.8	2.1	9.9
VP Bank	Banks	3.0	1.3	1.8
Top 10 at each date		**57.0**	**45.8**	

Source: VEIL, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A not in March 2019 Top 10.

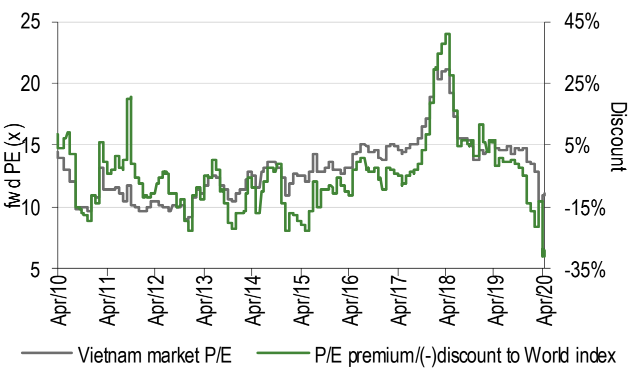
Market outlook: Long-term prospects remain bright

Vietnam's economy started 2020 in robust shape. Its 2019 GDP growth of 7.0% was one of the fastest globally, and the outlook was for it to sustain a similar level of growth in the current year, standing to benefit from a de-escalation of US-China trade tensions, and seemingly better prospects for global growth. The outbreak of COVID-19 has dramatically changed this outlook, with the impact of the disease including both demand and supply shocks around the world, and Vietnam's economy will also suffer a setback. However, the country appears to be relatively well placed to cope with the virus. Its government, drawing on its experience of SARS in 2003, responded rapidly and rigorously with extensive testing and tracking of those infected with the disease and, to date, the number of cases in Vietnam is relatively modest, with no reported fatalities. The government has also responded with debt relief and monetary easing, and further policies aimed at stimulating economic activity are expected in due course, including an uplift in infrastructure spending.

Vietnam's stock market fell by up to 31% in March as investors sold aggressively. Although the VN Index has rebounded significantly in April, as shown in Exhibit 2, Vietnamese equity valuations remain below their 10-year average, especially in forward P/E terms, and trade at an unusually large discount to global equities of over 30%. The long-term outlook for Vietnam's economy and stock market, however, remains bright, driven by multi-decade secular trends including its ability to attract foreign investment, growing incomes and urbanisation. These trends are unlikely to be derailed by the current COVID-19 disruptions. In its latest April 2020 World Economic Outlook, the IMF is forecasting Vietnam's GDP to grow by a modest 2.7% in the current year, but return to a robust 7.0% in 2021.

Exhibit 2: Vietnamese market valuation metrics

VN Index forward P/E multiple and relative valuation to world equities



Vietnam market valuation metrics

	Last	High	Low	10-year average	Last as % of average
P/E 12 months forward (x)	11.1	21.1	9.0	13.1	85
Price to book (x)	2.0	3.4	1.3	2.1	94
Dividend yield (%)	2.6	5.7	1.4	3.1	83
Return on equity (%)	15.5	18.5	11.2	15.0	103

Source: Refinitiv, Edison Investment Research. Note: Index valuations as at 27 April 2020.

Fund profile: Long-established Vietnam expertise

VEIL was launched in August 1995, and is the largest and longest-established fund focused on Vietnamese equities. It is a closed-ended fund, incorporated in the Cayman Islands, and was previously listed on the Irish Stock Exchange. VEIL listed on the London Stock Exchange in July 2016, becoming a constituent of the FTSE 250 Index from July 2017.

The fund aims to deliver long-term capital growth and to outperform the VN Index on a rolling three-year basis through investing in Vietnamese equities, employing a rigorous bottom-up approach. The manager, Vu Huu Dien, is not constrained by index considerations, and the relatively concentrated portfolio of around 35–40 holdings represents his and his team's highest-conviction ideas over a long-term horizon. The board has approved gearing up to 10% of NAV or $100m, whichever is lower; however, it is seldom above 5%. VEIL may also invest in unlisted companies, with a clear mandate to list within 18 months. As at end-March 2020, almost all of its holdings are listed on one of Vietnam's three exchanges: the Ho Chi Minh Stock Exchange (HSX), the Hanoi Stock Exchange (HNX) and the Unlisted Public Companies Market (UPCoM), an exchange for newly listed state-owned companies, which must transfer to either of the HSX or HNX within one year. As at end-March 2020, unlisted companies account for just 0.4% of the fund.

The fund manager: Vu Huu Dien

The manager's view: Vietnam able to recover strongly

The manager expects the short-term impact to Vietnam's economy from COVID-19 to be significant. Prior to the outbreak, the Dragon Capital team had forecast Vietnam's GDP to grow by c 7%. However, developments have warranted a sharp downward revision to these expectations. The team has evaluated multiple scenarios and, currently, its base case expectation is for 2020 GDP growth to be 4.9%. This assumes that the virus is contained, and that economic activity returns to normal by July or August. This GDP growth level would nevertheless be slower than that experienced in 2008 during the global financial crisis. The team has also significantly pared back earnings expectations for 2020, from 17% EPS growth at the beginning of the year, to a contraction of 2%. In the manager's view, even though there has been a sharp fall in equity prices, the implied forward P/E multiple of Dragon Capital's proprietary universe of stocks (representing around 80% of the index), is less than 9x, and presents attractive value for the longer-term investor.

Dien is also positive on Vietnam's ability to recover strongly from the current crisis. He believes the Vietnamese government has handled the virus outbreak well, which helps cement the country's attractiveness as a place for foreign investment at a juncture when many multinational companies are shifting their manufacturing capabilities to improve diversification, and reduce dependency on China. He also notes that government debt levels are relatively modest, and can accommodate significant fiscal stimulus measures. He explains that ambitious infrastructure spending and privatisation programmes have been stalled over the past two years due to a crackdown on corruption, and unfavourable market conditions. Dien believes the government is now more motivated to resume these programmes, which Dragon Capital expects could reach c US$30bn, representing around 5.5% of GDP, over the next few years. He believes the portfolio is very well positioned to benefit from an uplift in infrastructure and construction spending.

Asset allocation

Investment process: Rigorous and bottom-up

The manager follows a rigorous and bottom-up investment process, aiming to find quality companies with sustainable growth drivers, that trade on reasonable valuations. There are over 1,700 companies listed in Vietnam and a screen is applied to whittle this down to an investible universe on size, quality and liquidity criteria. In-depth analysis is then undertaken on around 140 stocks, focusing on assessing management quality, financial strength, and the intrinsic value of the business. Environmental, social and governance (ESG) evaluations are also key considerations. This investment process requires local expertise, and is time-intensive; Dien is supported by two portfolio managers as well as the resources of Dragon Capital's investment team of 11 sector specialists. Dragon Capital is one of the earliest-established investment managers in Vietnam, and benefits from a long history of engagement with company managements. The firm is a signatory of the Principles for Responsible Investment (PRI), which has awarded it high A+ and A ratings.

Current portfolio positioning

Exhibit 3 shows VEIL's portfolio by sector as at end-March 2020, which reflects the manager's key long-term investment themes of growing domestic consumption, industrialisation and increasing penetration of financial services. The three largest exposures are to real estate, banks and retail. Real estate accounts for 34.4% of VEIL's portfolio, and has increased by 6.2pp over the past year. This partly reflects the addition of Vingroup last year, which we discussed in our November 2019 review, but also continued additions to Vinhomes and Becamex IDC (BCM). BCM is a developer and operator of industrial parks and, in the manager's view, is benefiting from Vietnam's significant growth in foreign direct investment (FDI), which should continue to be underpinned by the shift and diversification of manufacturing bases from China to Vietnam.

The manager has also added to the portfolio's weight in banks over the past year (+6.3pp). A new position in Vietnam Commercial Bank for Industry and Trade (CTG) was introduced in January. CTG is one of the three largest state-owned banks, and Dien expects the bank to be able to raise capital, which should support a valuation re-rating. He notes that CTG trades at a significant discount to the two other large state-owned banks, which he largely ascribes to their superior capital positions. CTG has been on the manager's radar for purchase for some time, and Dragon Capital was able to negotiate the purchase directly with a strategic shareholder, at an off-market price that it believes to be value-accretive.

Exhibit 3: Portfolio sector exposure at 31 March 2020

% unless stated	Portfolio 31 March 2020	Portfolio 31 March 2019	Change (pp)	VN index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Real estate	34.4	28.3	6.2	27.9	6.6	1.2
Banks	27.4	21.1	6.3	26.2	1.2	1.0
Retail	10.8	11.4	(0.6)	1.4	9.4	7.7
Materials & resources	6.2	5.1	1.2	4.1	2.1	1.5
Software & services	4.3	3.0	1.3	1.3	3.0	3.2
Food & beverage	3.7	8.1	(4.4)	12.9	(9.2)	0.3
Energy	2.7	5.3	(2.5)	6.9	(4.1)	0.4
Consumer durables	2.3	2.8	(0.4)	0.7	1.6	3.1
Capital goods	2.1	2.2	(0.0)	3.6	(1.5)	0.6
Pharmaceuticals	2.1	1.7	0.4	1.1	1.0	1.9
Transportation	2.0	3.6	(1.6)	4.6	(2.6)	0.4
Diversified financials	1.7	4.8	(3.1)	2.9	(1.2)	0.6
Automobiles & components	0.2	2.7	(2.6)	0.4	(0.2)	0.5
Other sectors	0.0	0.0	0.0	5.9	(5.9)	0.0
	100.0	**100.0**		**100.0**		

Source: VEIL, Edison Investment Research

Over the past 12 months, VEIL has continued to reduce its holding in dairy producer, Vinamilk. This company has been a source of cash for some time. As one of the largest and best-known companies in Vietnam, Vinamilk's investment story is well understood and, in the managers' opinion, is reflected in a demanding valuation, especially compared to less well discovered opportunities elsewhere. The manager also trimmed brewery company SABECO, and expects its Q120 results to be severely depressed by the government's restrictions on alcohol consumption and sales as part of its COVID-19 countermeasures. VEIL has also disposed of its holding in oil and gas company PetroVietnam, reflecting Dien's negative view on prospects for the company's profitability as off-take terms, determined by the regulator, changed to its detriment.

The portfolio held net cash of 2.2% as at end-March 2020 and the manager has indicated that this level has since increased following some small trims, and should rise further in the coming weeks as a number of privately negotiated sales to strategic buyers come to a conclusion. The manager believes that this cash, combined with the flexibility afforded by its loan facility of US$60m, puts VEIL in a strong position to make purchases at opportune moments. Furthermore, the manager expects the government to resume its ambitious privatisation pipeline later this year. He notes that historically, Dragon Capital has been sought as an investor for companies looking to raise capital, on account of its long-standing relationships with corporates, large asset size and blue-chip reputation as an asset manager. In Dien's view, some of the companies in the privatisation pipeline are very attractive franchises, offering a unique opportunity for early investors.

Performance: Solid long-term performance

As shown in Exhibits 5 and 6, VEIL has a solid long-term track record, and over five and 10 years, its NAV total return has meaningfully outperformed the VN Index (its benchmark), and the VN30 and MSCI Emerging Markets indices. Performance over shorter periods has lagged the benchmark. The portfolio is typically underweight the large-cap component of the index, as the manager usually finds less well discovered opportunities in mid- to small-sized companies. This has been unfavourable for VEIL over the three-year period. Shorter-term, markets have been exceptionally turbulent over the past three months. The Vietnam equity market collapsed in mid-March, and subsequently rallied towards the end of the month. This rally was extremely concentrated among a handful of large-cap companies, which once again worked against the portfolio. The manager is committed to investing in companies that can deliver long-term capital growth, and is not influenced by shorter-term performance issues.

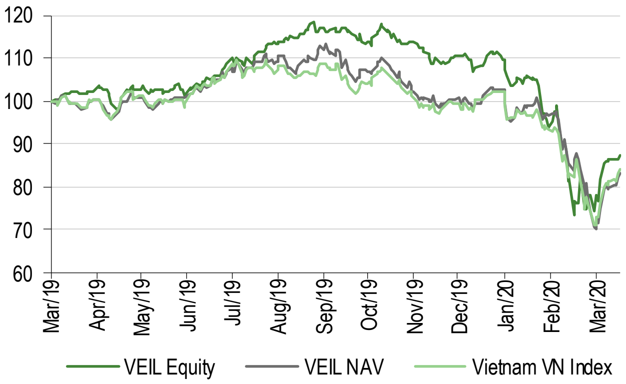
Exhibit 4: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN Index (%)	Vietnam VN30 Index (%)	MSCI Emerging Markets (%)
31/03/16	10.6	11.5	5.2	1.1	(8.8)
31/03/17	60.5	61.1	49.7	41.2	35.2
31/03/18	47.0	46.3	49.0	51.2	11.8
31/03/19	(11.3)	(13.0)	(9.9)	(16.0)	0.1
31/03/20	(22.1)	(30.0)	(29.0)	(29.2)	(13.2)

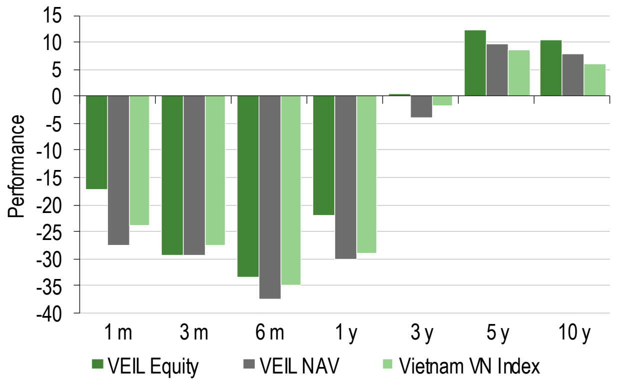
Source: VEIL, Refinitiv, Bloomberg. Note: All % on a total return basis in pounds sterling.

Exhibit 5: Investment company performance to 31 March 2020

Price, NAV and index total return performance, one-year rebased



Price, NAV and index total return performance (%)



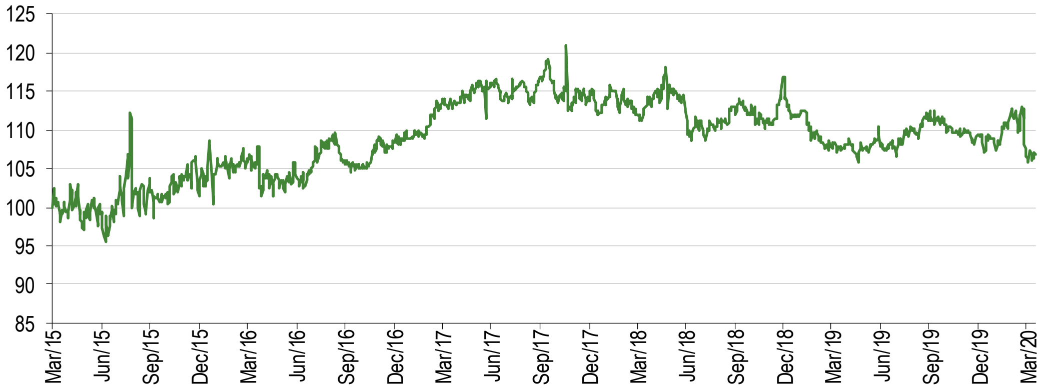
Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Vietnam VN Index	6.7	(1.9)	1.2	6.9	6.2	30.0	85.5
NAV relative to Vietnam VN Index	(3.6)	(2.0)	(2.8)	(0.9)	(6.2)	9.9	28.8
Price relative to Vietnam VN30 Index	8.5	(2.4)	1.8	7.1	11.6	51.7	122.0
NAV relative to Vietnam VN30 Index	(1.8)	(2.4)	(2.2)	(0.7)	(0.8)	31.6	65.2
Price relative to MSCI Emerging Markets	(4.3)	(11.1)	(18.5)	(8.9)	4.4	60.3	132.3
NAV relative to MSCI Emerging Markets	(14.6)	(11.1)	(22.5)	(16.8)	(8.0)	40.2	75.5

Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Data to end-March 2020. Arithmetic calculation.

Exhibit 7: NAV total return performance relative to VN Index over five years

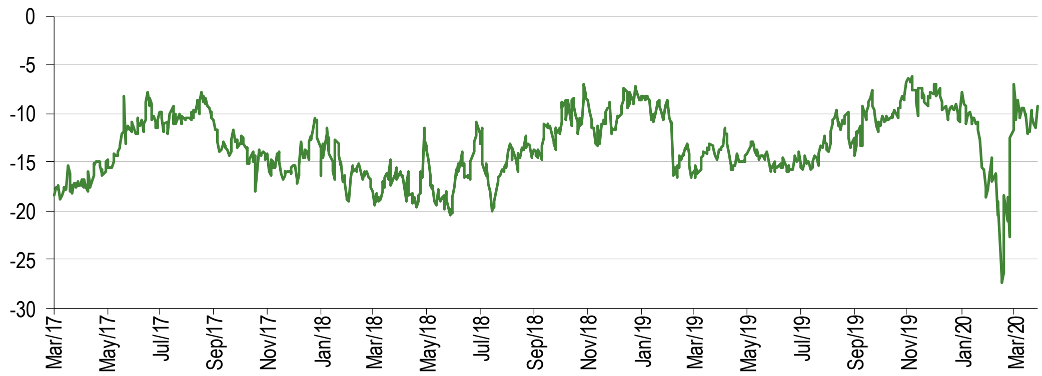


Source: Refinitiv, Bloomberg, Edison Investment Research

Discount: Swift recovery from sharp sell-off

As shown in Exhibit 8, concerns over the impact of the coronavirus led to a very sharp sell-off in VEIL's shares, and its discount to NAV widened to 27.3%. This discount has since recovered to more normal levels, and is now below its three-year average of 13.3%. The board seeks to avoid large fluctuations in the discount relative to similar single-country investment companies investing in Asia ex-Japan, taking market factors into consideration, and has the ability to manage an imbalance in the supply and demand for the shares through buybacks. Although the discount has been volatile recently, the board believed there to be limited benefit to making repurchases in extreme market conditions, and activity has been modest.

Exhibit 8: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

VEIL has two classes of shares in issue: ordinary shares and non-redeemable management shares. Dragon Capital owns all of the 1,000 non-redeemable shares, which confer the right to appoint two members to the board, and carry one vote per share. Management shares are not entitled to dividends, and in a wind-up, are subordinate to ordinary shareholders for the return of capital. The company does not have a fixed life, however, at the forthcoming FY20 AGM, a special resolution will be introduced to wind up the fund, effective 31 December 2022. If it is not passed, the board will next table the special resolution in the 2025 AGM to wind up the company on 31 December in the second year following the AGM, and thereafter at five yearly intervals.

The board has the authority (renewable annually) to repurchase up to 14.99% of shares in issue; during 2019, the company repurchased 2.1m ordinary shares at a total cost of £9.3m. The repurchases represent c 1% of the current 220.1m shares outstanding. The board has approved gearing of up to 10% of NAV or $100m, whichever is lower. VEIL has a $60m borrowing facility with Standard Chartered, and as at end-March 2020, the fund had net cash of 2.2%. The alternative investment fund manager (AIFM), Enterprise Investment Management – a subsidiary of Dragon Capital – is paid an annual management fee of 2.0% of NAV up to $1.25bn and 1.75% of NAV between $1.25bn and $1.5bn. This reduces to 1.5% of NAV above $1.5bn, and there is no performance fee.

Dividend policy and record

VEIL's objective is to deliver long-term capital appreciation and is not focused on generating an income; therefore, the fund has not paid a dividend since its inception.

Peer group comparison

Exhibit 9 shows the 10 members of the AIC Country Specialists – Asia Pacific sector with a track record of at least three years. This is a diverse set of funds across different countries and mandates, for example, only around half of the VinaCapital Vietnam Opportunity Fund is invested in listed equities, making direct comparisons less relevant. We also present Vietnam subgroup data. VEIL is the second largest fund in the AIC sector, and the largest among the Vietnam subgroup. Over five and 10 years, its NAV total return ranks second, but first within the subgroup. Over one and three years, VEIL ranks seventh and fourth respectively in the sector, and has also lagged its Vietnam peers. VEIL's ongoing charges are the second highest; however, it does not charge a performance fee. Its discount to cum-fair NAV is best compared against the subgroup, where it ranks first and is considerably narrower than its peers.

Exhibit 9: Country specialists – Asia Pacific peer group as at 27 April 2020*

% 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 (%)
Vietnam Enterprise Investments	849.7	(30.0)	(10.9)	60.0	111.1	(9.3)	2.16	No	102	0.0
Aberdeen New India	211.9	(23.0)	(16.1)	6.3	70.9	(16.7)	1.17	No	109	0.0
Aberdeen New Thai	68.9	(35.1)	(29.8)	(16.9)	108.6	(12.7)	1.45	No	112	4.5
Fidelity China Special Situations	1,222.7	(6.3)	8.5	50.1		(10.1)	0.93	Yes	124	1.7
India Capital Growth	47.8	(45.0)	(47.6)	(24.4)	(15.0)	(31.9)	1.86	No	100	0.0
JPMorgan China Growth and Income	269.7	16.1	47.1	74.6	167.3	(11.7)	1.26	No	113	0.0
JPMorgan Indian	377.3	(32.9)	(30.8)	(14.5)	20.2	(16.8)	1.06	No	104	0.0
VietNam Holding	67.9	(29.7)	(34.9)	38.2	53.2	(22.4)	2.88	Yes	100	0.0
VinaCapital Vietnam Opportunity Fund	484.8	(18.9)	(7.5)	56.1	110.1	(24.0)	1.70	Yes	100	3.1
Weiss Korea Opportunity	106.9	(11.1)	(16.5)	7.9		(2.9)	1.89	No	100	3.1
Peer group average	370.7	(21.6)	(13.9)	23.7	78.3	(15.9)	1.64		106	1.3
Rank in peer group	**2**	**7**	**4**	**2**	**2**	**2**	**2**		**6**	**7=**
Vietnam subgroup average	**467.4**	**(26.2)**	**(17.8)**	**51.4**	**91.5**	**(18.6)**	**2.25**		**101**	**1.0**
Rank in subgroup	**1**	**3**	**2**	**1**	**1**	**1**	**2**		**1**	**2=**

Source: Morningstar, Bloomberg, Edison Investment Research. Note: *Performance data to end-March 2020. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

VEIL's board consists of six directors, five of whom are independent and non-executive. Dominic Scriven (appointed in May 1995) is non-independent, and is the founder of Dragon Capital. Chairman Stanley Chou has served the board as the senior independent director since January 2016 and assumed his current role in June 2019. The other directors and their dates of appointment are Derek Loh (March 2011), Gordon Lawson (July 2014), Vi Le Peterson (April 2018) and Entela Benz-Saliasi (May 2019).

Frankfurt +49 (0)69 78 8076 960	London +44 (0)20 3077 5700	New York +1 646 653 7026	Sydney +61 (0)2 8249 8342
Schumannstrasse 34b	280 High Holborn	1,185 Avenue of the Americas	Level 4, Office 1205
60325 Frankfurt	London, WC1V 7EE	3rd Floor, New York, NY 10036	95 Pitt Street, Sydney
Germany	United Kingdom	United States of America	NSW 2000, Australia