EDISON

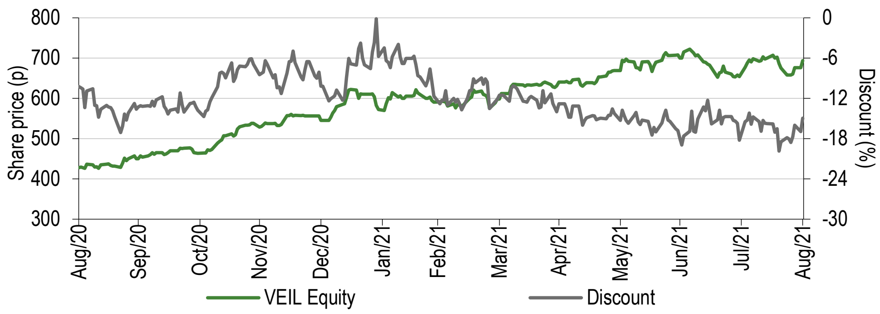
Vietnam Enterprise Investments

Taming the beast

Investment trusts
Vietnamese equities

Throughout its over 25-year history, Vietnam Enterprise Investments (VEIL), the largest and longest-established Vietnamese equities closed-end fund, has seen many economic ups and downs. Despite economic growth being held back by the new wave of the COVID-19 pandemic in H221, investment manager Dragon Capital views the setback as temporary. Expecting better pandemic control from Q421 and with economic growth momentum rebuilding, the team looks to 2022 with cautious optimism. The last quarter of 2019 and most of 2020 marked a period of portfolio repositioning for the fund. VEIL is well positioned for longer-term investors looking for an exposure to the fast-developing Vietnamese economy via a relatively large and liquid listed equities fund.

VEIL's share price performance (TR) and a discount (cum-fair)



Source: Refinitiv, Edison Investment Research. Note: Data to end-August 2021.

Why VEIL now?

Although VEIL's c 14% discount to NAV is the narrowest of the three London-quoted stocks in the peer group (vs VietNam Holding, VNH, and VinaCapital Vietnam Opportunity Fund, VOF), it has widened materially since the start of the year (see the chart above), as Vietnam was thrown back into the COVID-19 pandemic. This coincided with an improvement in performance over the same period. We believe there is a scope for the discount to narrow substantially as the country reopens, and the Vietnamese market performs strongly again. The team searches for future winners to add to the market-leading portfolio businesses that are ready to accelerate their growth and deliver attractive returns to investors.

The analyst's view

Before the COVID-19 pandemic, VEIL's team focused the portfolio (reducing the number of holdings from 41 in 2019 to 28 by end-2020) to leverage high conviction holdings and address a dip in short-term performance. We believe VEIL's improved relative performance is likely to continue as the transformed portfolio is overweight in the sectors that could deliver long-term capital growth, including banking, real estate, logistics and retail. In addition, VEIL is well positioned for the economic recovery in Vietnam. Dragon Capital continues to pursue investment opportunities, by investing in listed companies and capturing three mega trends in Vietnam: infrastructure development and urbanisation, middle-class formation and increasing penetration of financial services.

NOT INTENDED FOR PERSONS IN THE EEA

10 September 2021

Price	**706.0p**
Market cap	**£1,512.7m**
AUM	**£1,765.8m**
NAV*	828.0p
Discount to NAV*	14.3%

*Including income. At 9 September 2021.

Yield	0.0%
Ordinary shares in issue	214.0m
Code	VEIL
Primary exchange	LSE
AIC sector	Country Specialists: Asia Pacific
Benchmark	VN index

52-week high/low	722.0p	426.0p
NAV* high/low	869.0p	500.0p

*Including income.

Gearing

Net gearing at 24 August 2021	2.5%

Fund objective

Vietnam Enterprise Investments' (VEIL's) 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. The VN Index is used as a performance benchmark, which VEIL seeks to outperform on a rolling three-year basis.

Bull points

- VEIL is managed by Dragon Capital, Vietnam's longest-established, independent, foreign institutional investor (founded in 1994).
- The strategy for long-term investors is led by the experienced team applying a quality-growth approach to listed and pre-listed blue-chip businesses.
- VEIL is well placed to benefit from an expected increase in infrastructure spending and the resumption of government-led privatisations.

Bear points

- The trust has relatively high fees for an LSE-listed trust, but is in line with its two peers, as Vietnamese equities are expensive to run.
- While VEIL is c 41% of Dragon Capital's AUM, the manager also runs segregated money and house mandates.
- Soft setback in performance in 2020 due to portfolio restructuring.

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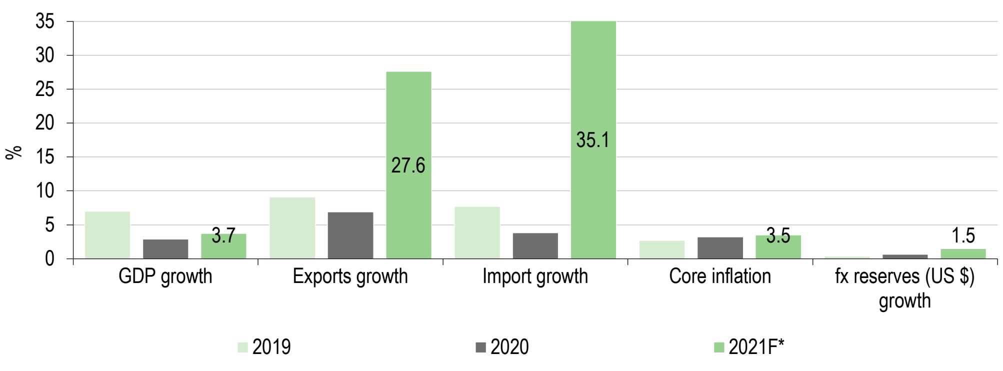
Vietnam will overcome its short-term challenges

The economy and COVID-19

Dragon Capital sees a robust Vietnamese economy behind the current setback. Despite Vietnam suffering a negative economic shock in Q221 from the 'COVID-19 crunch', Dragon's team believes the resulting economic slowdown will be temporary. Given the government's success in containing previous waves of COVID-19, the team expects it to operate the country and the economy effectively while controlling this latest wave.

To date, the Vietnamese government has delivered years of stable economic growth (6.8% average annual GDP pre-pandemic growth over the past five years, according to Dragon Capital), consistently implementing a pro-market macroeconomic policy. Although Dragon Capital does not give a forecast for 2022 due to uncertainty about the speed and success of the expected economic recovery, it believes 2022 looks 'promising'.

Exhibit 1: Macroeconomic indicators in Vietnam: historic and forecast



Source: Dragon Capital at end-August 2021, Edison Investment Research. Note: *2021 GDP growth forecast was reduced in August 2021 from 6% (June 2021 forecast) due to the slowdown effects of the 2021 COVID-19 wave.

Vietnam is battling its biggest wave of COVID-19 cases to date. The country was hardly affected by the COVID-19 pandemic in 2020 and the economy grew nearly 3% that year, when most other countries' economies shrank. The latest wave started in April 2021 and has accelerated sharply since early July. The government ordered lockdowns in about third of the country's provinces that month. In the capital of Hanoi, citizens have been urged to stay at home while bars and restaurants are shut, as are other services including salons and gyms.

The Dragon Capital team expects the hard lockdown in the country's largest metropolis, Ho Chi Minh City (HCMC), with a population of about approximately 12 million people, will start to ease now that c 50% of residents have had their first dose of the vaccine. In HCMC, more than 88% of the population aged 18 and over have received one jab. Dragon Capital connects restrictions easing in HCMC and across the country with the success of the country's vaccination programme. The government aims to fully vaccinate 70% of the population aged 18 and over by early 2022. The goal depends on the availability of vaccines because surveys show that the vast majority (sometimes up to 98%) of Vietnam's population are pro-vaccination. Dragon Capital views the goal as achievable in the expected timeframe as the government has negotiated buying a further 146m vaccine doses (Vietnam's population is close to 100 million), targeted to arrive between August 2021 and Q122 (20.8m/month).

Considering the COVID-19 exit strategies from neighbouring countries, 90–100% of one-dose coverage could be the threshold to relax hard lockdown measures. HCMC and Hanoi (HN) will be the first two cities to complete jabs for all adults with at least one dose by mid-September 2021, making a phased reopening possible from early October. Stabilising the situation in these two large cities is crucial, as together they contribute c 39% of Vietnam's GDP.

The Vietnamese stock market and exchange

The Vietnamese stock market performed very strongly in H121, with the VN Index (the proxy for the market) reaching an all-time high of c 1,400 points in June 2021 (trading at c 1,300 at end-August). The VN Index total return (TR) was 28.5% (for the first six months of 2021 to end-June in pounds sterling), outperforming the MSCI World and MSCI AC Asia ex-Japan indices, which posted 12.8% and 5.0% TR, respectively. The MSCI AC Asia ex-Japan Index was negatively affected by the Chinese equities slump (China comprises close to 40% of the index) in response to a string of regulatory measures by the Chinese government towards the country's listed corporations. Although the Vietnamese stock market has given away some gains in performance since June, as the resurgence of the pandemic took its toll, it still outperformed both indices year-to-date, with a TR of 22.3% versus 17.6% and 0.1% for the indices, respectively.

The Dragon team points out this remarkable surge was driven by local investors. The low interest-rate environment drew local investors into the equity market and new share dealing account openings increased more than threefold in H121 compared to H120. The six-month deposit rate is currently 4%, down from the peak of 15% in 2012 and over 6% between 2013 and 2020, the year the interest rates were lowered. During H121, FPT Group, a local technology company and one of VEIL's top 10 investees, helped with the upgrade of the stock exchange trading system, which had been delayed by the pandemic. This upgrade enables more efficient stock market trading and helps the exchange to cope with higher trading volumes. Further upgrades, including shorter settlement times, are planned for 2022. The team also points out that foreign investor capital flows have reduced in the year to date but it expects them to rebound post-pandemic.

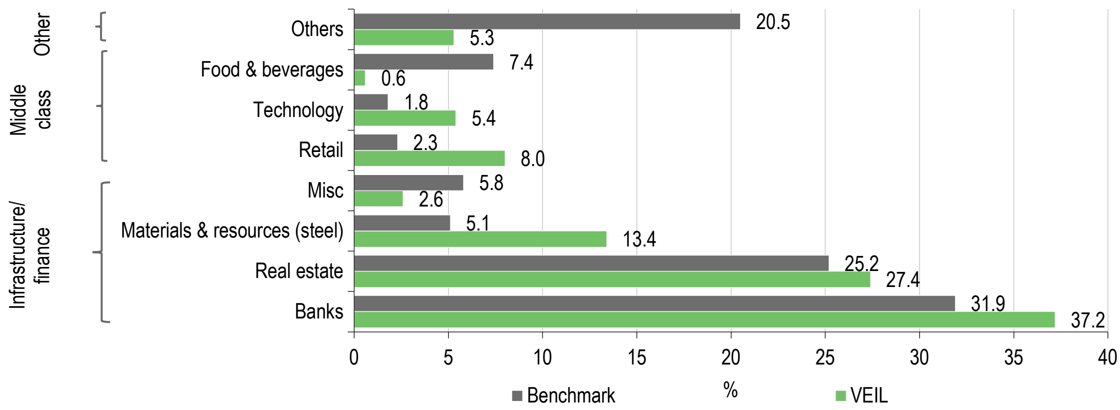
Portfolio positioning

Amid these developments, VEIL's portfolio is positioned to benefit from the lockdown easing and the anticipated boost in economic growth. Before the COVID-19 pandemic, in Q319 and 2020 the team carried out a major portfolio shift, reducing the number of holdings from 41 at end-September 2019 to 28 at end-December 2020. The VN Index contains some 385 stocks, and VEIL's team aims to create alpha and deliver better returns to long-term investors through very high conviction holdings.

The portfolio contained 26 holdings at 24 August 2021, close to the top of the targeted 20–25 range. Although the sector exposure deviates somewhat from the benchmark, the portfolio is made up of high conviction holdings. As shown in Exhibit 3, the top five holdings account for 50.8% of VEIL (at 31 August 2021) and the top 10 account for 77.6%, with a sizeable overweight relative to the index (40.0% in the index top 10).

As shown in Exhibit 2, VEIL has exposure to the two largest sectors, banks (37.2%) and real estate (27.4%), mirroring all three economic mega trends VEIL follows. As Vietnamese people become wealthier, they often buy property and use banking and other financial services more. The technology, retail, and food and beverages sectors capture middle-class consumer growth. The materials and resources sector (with a focus on the steel subsector) is the third largest position, reflecting the strong performance of the sector holdings and top holding Hoa Phat Group (see Exhibit 3), in particular. The team has overweights in retail and technology, as it believes these sectors present good value and growth opportunities. Notably, the retail sector's weight has shrunk from c 14% at end of 2019 to 8%, as it suffered some setbacks during the pandemic and the team found better opportunities elsewhere. The team finds the food and beverages sector too expensive for its earnings potential, so it is underweight.

Exhibit 2: VEIL sectoral breakdown, covering three mega trends



Source: Dragon Capital at 24 August 2021, Edison Investment Research

The team finds limited growth and development opportunities outside the highlighted sectors, which comprise over 20% of the market, but only around 5% of VEIL's portfolio. These include transportation, consumer durables, energy, diversified financials and capital goods sectors.

The Dragon Capital team views the banking sector as one of the key components of the growing economy amid its demographic, infrastructure development and urbanisation trends. The team believes there is vast growth potential in the banking sector, given the government's growth plans for the economy in the private banking space, infrastructure spending and e-commerce developments. It expects the banking sector to grow, driven primarily by retail expansion. Currently, around 60% of the Vietnamese population over 15 years old does not have a bank account, credit card penetration is 3% and 13% of outstanding loan are mortgages. In addition, the team believes that high infrastructure spend will play a crucial role due to the scale of the planned infrastructure programme. The government has a US$120bn plan for 2021–25, which was underway when COVID-19 struck the country with the strongest wave in mid-2021. The Vietnamese economy is worth c US$340bn (in nominal GDP terms, 2020), and the plan is being refreshed, ready to be implemented from 2022.

Exhibit 3 illustrates that within the top 10 holdings in the portfolio, there are four banks. Vietnam Prosperity Bank (VPB, 11.2% of VEIL's portfolio at 31 August 2021) and Asia Commercial Bank (ACB, 9.8%) are among the country's leading private banks. Originating as a specialised bank for foreign trade, Vietcombank (6.8%) operates in multiple sectors, providing customers with a wide range of leading financial services in international trade, traditional services such as capital trading, capital mobilisation, credit and project financing, and modern banking segments, such as forex trading and derivatives, card services and e-banking. Techcombank (3.9%) was founded in 1993 and is one of the largest networks in Vietnam, with 314 branches across 45 cities and provinces.

There are three real estate holdings among the top 10 positions: Vingroup (6.4%), the country's largest property developer, Vinhomes (7.4%), which is part of Vingroup, and Novaland (4.3%). These companies develop townships, which fits well with VEIL's urbanisation theme. The Dragon Capital team draws a parallel with China, noting that Vietnam is around 12 years behind China in terms of GDP per capita (c US$3,500 per year). Chinese property prices grew at a 9.5% compound annual growth rate (CAGR) over the past 15 years and property transactions at 9.8% CAGR. The team anticipates Vietnam will follow China in terms of property market development. It expects 'medium' credit availability in Vietnam to improve to a 'good' level, like China, as the appetite of the Vietnamese people to own property is 'healthy'. The team expects personal income growth in Vietnam at 10–11% per year to edge up towards China's 13–15% per year.

Hoa Phat Group (HPG, 13.9% of the portfolio at 31 August 2021 and VEIL's largest holding) is a key representative of the infrastructure theme. HPG has a market-leading position in the resources and mining sector and is a large player within the Vietnamese steel industry. It expanded over 2020–21 and benefited from growing domestic demand for steel, triggered by the increase of the government's infrastructure spending. The VEIL team believes that, despite the challenges of the COVID-19 resurgence and the potential negative effect on volumes and prices, HPG can weather these times and continue to deliver superior results.

Exhibit 3: Top 10 holdings (%)

Company	Code	Industry	VEIL			VN Index	Vs VN Index
			31-Aug-21	31-Aug-20	Change	31-Aug-21	31-Aug-21
Hoa Phat	HPG	Materials/resources	13.9	7.0	6.9	4.5	9.4
Vietnam Prosperity Bank	VPB	Banks	11.2	3.4	7.8	3.1	8.1
Asia Commercial Bank	ACB	Banks	9.8	8.9	1.0	1.8	8.1
Mobile World	MWG	Retail	8.4	9.7	(1.3)	1.1	7.3
Vinhomes	VHM	Real Estate	7.4	9.0	(1.6)	7.3	0.2
Vietcombank	VCB	Banks	6.8	8.4	(1.6)	7.5	-0.7
Vingroup	VIC	Real Estate	6.4	2.4	4.0	6.5	-0.1
FPT	FPT	Software/Services	5.5	4.3	1.3	1.7	3.8
Novaland	NVL	Real Estate	4.3	1.8	2.4	3.1	1.1
Techcombank	TCB	Banks	3.9	1.8	2.1	3.5	0.4
Top 10 holdings			**77.6**	**N/A**		**40.0**	

Source: VNH, Edison Investment Research. Note: Figures subject to rounding.

Management fee

VEIL has recently reduced its management fees. With effect from 1 July 2021, the management fee is calculated and accrued daily on the following basis:

- 1.85% pa on the first US$1.25bn of the net asset value (NAV) (down from 2.00%);
- 1.65% pa on the portion of the NAV in excess of US$1.25bn and less than or equal to US$1.5bn (down from 1.75%);
- 1.5% pa on the portion of the NAV above US$1.5bn (remains the same).

Performance

Exhibit 4 illustrates VEIL's solid long-term track record. Its NAV TR has outperformed the VN Index (its benchmark) over all time periods shown. The fund also demonstrates a material outperformance relative to the MSCI AC Asia ex-Japan and MSCI World indices over six months, as well as over one, three, five and 10 years. VEIL outperformed the VN 30 Index, the large-cap index, over three, five and 10 years. This performance alpha suggests VEIL could be a good supplement to an Asian or global portfolio.

Exhibit 4: Share price and NAV TR performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Vietnam VN Index	4.3	3.3	3.1	7.2	13.2	23.4	101.0
NAV relative to Vietnam VN Index	0.2	2.9	7.1	13.1	14.7	20.0	83.2
Price relative to Vietnam VN30 Index	7.3	6.9	(3.5)	(6.6)	3.3	13.4	103.5
NAV relative to Vietnam VN30 Index	3.2	6.5	0.2	(1.5)	4.7	10.3	85.5
Price relative to MSCI AC Asia ex-Japan	2.5	6.0	20.8	41.1	19.4	46.8	152.8
NAV relative to MSCI AC Asia ex-Japan	(1.4)	5.6	25.5	48.9	21.0	42.9	130.4
Price relative to MSCI World	2.3	(5.4)	(0.7)	27.7	4.5	24.8	60.3
NAV relative to MSCI World	(1.6)	(5.7)	3.2	34.7	5.9	21.4	46.1

Source: Bloomberg, Dragon Capital, Edison Investment Research. Note: Data to end-August 2021. Geometric calculation.

Seven of the top 10 holdings posted double-digit returns in the year to date (to end-August 2021), driving VEIL's outperformance of the benchmark ytd and over the past 12 months. VEIL's ninth largest holding, with a 4.3% weight, is Novaland, which had a share price performance close to 120% ytd. VPB's share price experienced a large re-rating in H121, following the announcement of the sale of its 49% stake in FE Credit in Q121. It started the year at VND32,500 per share, rose to VND67,700 at end-June and was VND61,600 at end-August. HPG also rallied in H121, with the share price up 69.5% during the period. VEIL's real estate holdings posted a 34% TR during H121, outperforming the VN Index real estate sector by 3%.

The portfolio is also well positioned to benefit in 2021–22 from its allocation to economically sensitive sectors such as banks, real estate and retail, should the economy continue to perform well, following the recovery from the present slowdown and spurred by global cyclical recovery.

Exhibit 5 shows VEIL's discrete performance over the past five years. While this concentrated fund's return was more negatively affected by the market slump in March 2020 than the Vietnam VN Index and Vietnam VN 30 Index, the fund bounced back well in 2021 and now outperforms its benchmark. VEIL returned 70.9% on an NAV TR basis over the 12 months to end-August 2021, outperforming the Vietnam VN Index by 19.9pp It was behind the Vietnam VN 30 Index by 2.5pp, because larger caps outperformed. About 5% of VEIL's portfolio is invested in smaller companies (between US$200m and US$500m market cap) and mid-caps (between US$500m and US$1bn) make up around 5% within the team's high-conviction growth stock theme (our previous note has more on VEIL's thematic exposure).

Exhibit 5: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN Index (%)	Vietnam VN30 Index (%)	MSCI Emerging Markets (%)	MSCI AC Asia ex-Japan (%)
31/08/17	38.4	27.9	16.0	15.8	27.0	27.2
31/08/18	15.5	20.0	26.4	25.9	(1.2)	2.2
31/08/19	7.5	7.4	(0.6)	(7.9)	2.5	0.3
31/08/20	(12.5)	(15.9)	(10.4)	(7.7)	4.5	10.9
31/08/21	61.9	70.9	51.0	73.4	18.2	14.7

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

Exhibit 6 presents the averages for the Vietnamese peer group of three London-listed trusts. VEIL tops the rankings of peers over three, five and 10 years by NAV TR. The trust also performed strongly in the past 12 months, ranking second in the peer group and close to VNH, which added to banks and other cyclicals more aggressively on the way to its share price recovery. The food and beverages sector is now very lightly represented in VEIL with a weighting under 1% (down from 5.3% at end-December 2020). This rating has shrunk as VEIL's two holdings in the food and beverages sector, in particular, held the fund's performance back somewhat. Vinamilk, the country's leading dairy producer, and Sabeco, a large brewing company, both performed poorly over the past 12 months. This disappointing performance has contributed to the reduction in the sector weighting in VEIL's portfolio. The VEIL team still holds modest positions in both stocks despite their premium valuations, as it believes the businesses' leading positions indicate fairly high earnings and return potential.

VEIL's ongoing charges rank second in the peer group and it does not charge a performance fee. Its discount to cum-fair NAV is the narrowest in the Vietnam subgroup.

Exhibit 6: Country specialist – Vietnam peer group*

% 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	1,502.0	70.9	54.4	143.5	530.0	(14.0)	2.19	No	103	0.0
Vietnam Holding	83.2	77.5	42.2	66.6	399.0	(16.1)	3.08	No	100	0.0
VinaCapital Vietnam	770.6	50.7	45.7	100.7	334.3	(19.5)	1.72	Yes	100	2.1
Simple average	**785.3**	**66.4**	**47.4**	**103.6**	**421.1**	**(16.5)**	**2.33**		**101**	**0.7**
Rank	**1**	**2**	**1**	**1**	**1**	**1**	**2**		**1**	**2**

Source: Morningstar, Bloomberg, Refinitiv, Edison Investment Research. Note: *Data to end-August 2021. Net gearing is total assets less cash and equivalents as a percentage of net assets.

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