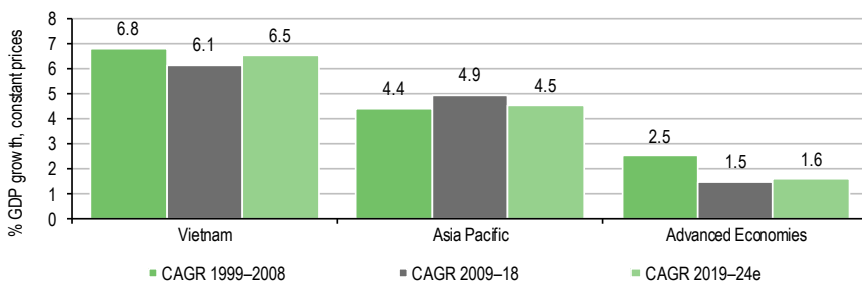


# Vietnam Enterprise Investments

Robust growth underpins long-term opportunities

Vietnam Enterprise Investments (VEIL) is the largest and longest-established closed-end fund focused on investing in Vietnamese equities. The fund aims to deliver long-term capital growth through employing a rigorous bottom-up approach to investing in a relatively concentrated portfolio of 35–40 high-conviction stocks. Over the past 10 years, VEIL has generated annualised NAV and share price returns of 10.3% and 14.0%, respectively. Better than expected Q319 GDP growth of 7.3% suggests Vietnam's economy is relatively resilient in an environment of slowing global economic growth, which has been exacerbated by a trade recession triggered by the US-China trade dispute. Furthermore, the manager is finding plenty of exciting long-term investment opportunities in Vietnam.

## Vietnam is one of the world's fastest-growing economies



Source: International Monetary Fund, Edison Investment Research

## The market opportunity

The outlook for Vietnam's economy is positive, underpinned by multiple secular trends, including a favourable demographic profile, a rapidly increasing middle class with growing disposable income, and urbanisation. The IMF forecasts Vietnam's growth over the five years to 2024 to accelerate from the previous five-year period, making it one of the world's fastest-growing economies.

## Why consider investing in VEIL?

- Managed by Dragon Capital, the longest-established independent investment manager based in Vietnam.
- A well-resourced team of fund managers and sector specialist analysts support rigorous bottom-up research and evaluation of environmental, social and governance (ESG) factors.
- Strong long-term performance track record.

## Discount has narrowed

VEIL currently trades at a 9.9% discount to NAV, which is narrower than its three-year average of 14.1%. The board actively monitors the discount and has the ability to manage an imbalance of supply and demand for VEIL's shares when deemed to be in shareholders' best interests. Focused on capital growth, the fund has not paid a dividend since its inception.

Investment companies  
Vietnamese equities

19 November 2019

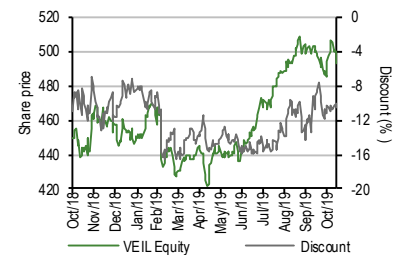
**Price** 496.5p  
**Market cap** £1,082.7m  
**AUM** £1,199.6m

NAV\* 551.0p  
Discount to NAV 9.9%

\*Excluding income. As at 14 November 2019.

Yield 0.0%  
Ordinary shares in issue 218.1m  
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 421.5p  
NAV\* high/low 583.0p 486.0p

\*Including income.

## Gearing

Gross\* 1.3%  
Net\* 0.1%

\*As at 31 October 2019.

## Analysts

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**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

- 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.
- 7 April 2019: Annual results to end-December 2018 – NAV TR -1.3% in sterling terms versus -6.1% for the VN Index.

#### Forthcoming

AGM	June 2020
Annual results	September 2020
Year end	31 December

#### Capital structure

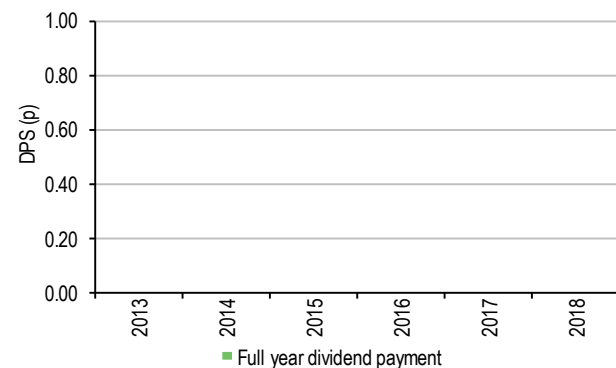
Ongoing charges	2.25% (see page 7)
Net gearing	0.1%
Annual mgmt fee	Tiered: 2.00%; 1.75%; 1.50% of net assets
Performance fee	None
Company life	Indefinite
Loan facilities	US\$60m

#### Fund details

Group	Dragon Capital
Manager	Vu Huu Dien
Address	PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands
Phone	+84 8 3823 9355
Website	www.veil-dragoncapital.com

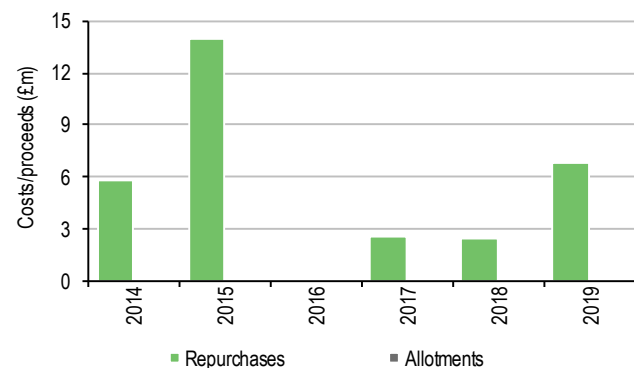
#### Dividend policy and history (financial years)

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

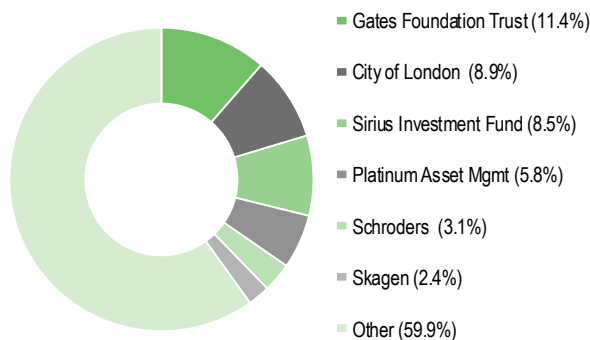


#### Share buyback policy and history (financial years)

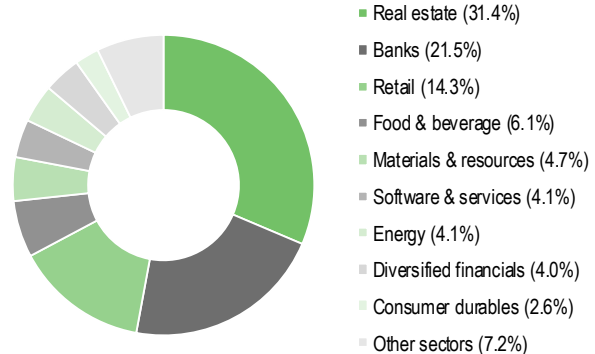
VEIL has annually renewed authority to repurchase up to 14.99% of its issued capital.



#### Shareholder base (as at 6 November 2019)



#### Portfolio exposure by sector (as at 31 October 2019)



#### Top 10 holdings (as at 31 October 2019)

Company	Sector	Portfolio weight %		VN Index weight %
		31 October 2019	31 October 2018	31 October 2019*
Mobile World	Retail	11.2	8.1	1.6
Vinhomes	Real estate	7.7	4.5	8.8
ACB	Banks	7.0	7.3	N/A
Khang Dien House	Real estate	6.7	6.0	0.4
Military Bank	Banks	5.5	5.2	1.6
Hoa Phat	Materials and resources	4.2	4.6	1.8
FPT	Software services	4.1	2.8	1.2
Sabeco	Food & beverage	3.2	5.7	4.9
Dat Xanh	Real estate	3.0	3.0	0.2
Vinamilk	Food & beverage	2.9	3.3	6.7
<b>Top 10 at each date</b>		<b>55.4</b>	<b>50.5</b>	

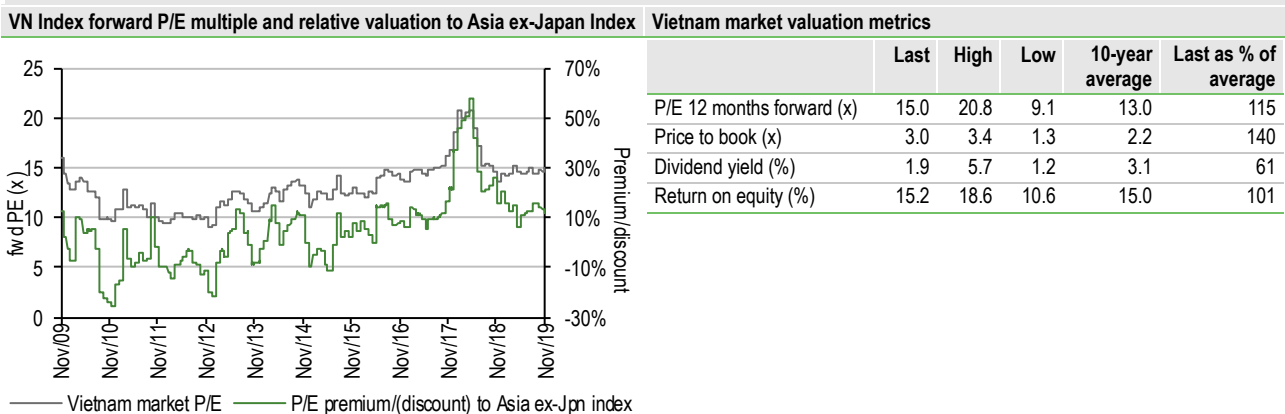
Source: VEIL, Edison Investment Research, Bloomberg, Refinitiv, Morningstar. Note: \*N/A where not a constituent of the VN Index.

## Market outlook: Strong economic prospects

A better than expected Q319 GDP growth rate of 7.3% suggests Vietnam's economy has been relatively resilient thus far in the current environment of slowing global economic growth. Manufacturing was a bright spot, growing 12.7% year-on-year, but the construction, trade and retail sectors were also strong contributors to Q319 growth. Although Vietnam could stand to benefit over the longer run from multinationals diversifying their manufacturing facilities beyond China, it may not be immune to the short-term effects of the US-China trade dispute, which has contributed to a manufacturing contraction in many economies around the world. Vietnam's October PMI at 50.0 indicates the sector is not contracting; however, this reading has fallen for the fourth consecutive month.

As shown in Exhibit 2 (LHS), the Vietnam equity market valuation became overstretched in 2017, trading at a P/E multiple premium approaching 60% relative to Asia ex-Japan equities. It has since come back to more reasonable levels and currently trades at a mid-teens multiple, which is comparable to other developing Asian markets (except China). Vietnam's economic growth prospects, however, are among the strongest in the region. As shown in the chart on the front page, the IMF forecasts Vietnam's GDP to grow at a compound rate of 6.5% pa between 2019 and 2024, an acceleration over the previous five-year period. This is significantly faster than the forecasts for Asia-Pacific and advanced economies, and should underpin solid prospects for Vietnam's equity market.

**Exhibit 2: Vietnamese market valuation metrics**



Source: Refinitiv, Bloomberg, Edison Investment Research. Note: Index valuations at 8 November 2019.

## Fund profile: High conviction in Vietnamese equities

VEIL is the largest and longest-established listed fund focused on Vietnamese equities. It was launched in August 1995 as a closed-ended fund, incorporated in the Cayman Islands, and was originally listed on the Irish Stock Exchange. In July 2016, it de-listed from the Irish Stock Exchange and was admitted to the Main Market of the London Stock Exchange; it has been included in the FTSE 250 Index since July 2017.

VEIL's investment objective is to deliver long-term capital growth. It aims to outperform the VN Index on a rolling three-year basis by employing a rigorous fundamental investment approach that is unconstrained by benchmark considerations. The portfolio is relatively concentrated, with 35–40 holdings representing the manager's highest-conviction investment ideas. Most of its companies 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 the HSX or HNX within one year.

VEIL is permitted to invest in unlisted companies, although these tend to be those with visible plans for listing in the near term.

## **The fund manager: Vu Huu Dien**

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### **The manager's view: Vietnam is an outstanding opportunity**

Vu Huu Dien believes Vietnam has many positive investment characteristics that make it a particularly attractive market for the long-term equity investor. These include social and political stability, and a well-managed economy that is fast-growing, yet with manageable inflation and a stable currency. In his view, its economic prospects are underpinned by a number of structural factors, such as a growing working-age population, urbanisation and rising consumption. Vietnam has a population of c 97 million and Dien notes the country adds around one million new entrants into the workforce each year, helped by a culture of gender equality, which results in high female participation. He believes Vietnam's demographic profile, with a median age of 31 years, to be attractive: young enough to be economically active, yet at the point of generating disposable income. In the manager's view, a highly educated workforce and its Confucian work ethic are among the factors that have made the country an attractive destination for foreign direct investment (FDI), which has helped develop its strong manufacturing capabilities. Dien expects Vietnam to continue to attract FDI, and he thinks the country is a beneficiary of multinationals looking to add or diversify capacity in Asia.

Dien argues that the risks to Vietnam's outlook are likely to be externally driven, including the US-China trade dispute and protests in Hong Kong, which may further aggravate the relationship between these two economic giants. These international issues have a global impact, but Vietnam has been a relatively safe haven so far. Dien thinks it unlikely that the US will target Vietnam on trade issues despite its rising trade surplus. He believes the size of Vietnam's trade with the US, while growing, is insufficiently significant for it to be targeted, and that the country represents a geopolitical counterbalance to China's ambitions in the region. Dien also expects that, should the US take issue with Vietnam on trade, its government is likely to prefer a path of co-operation rather than retaliation, which should militate against an economically damaging outcome. He notes that the Vietnam stock market largely reflects the domestic economy, and relatively few export-oriented companies are listed. The manager believes Vietnamese equities to be attractively valued, and is finding plenty of long-term opportunities. Dragon Capital's research team monitors its own universe of 60 stocks (covering c 75% of the market), which is currently trading on a forward 2020 P/E multiple of c 11x, based on the team's expectations for 18% EPS growth.

## **Asset allocation**

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### **Investment process: Rigorous fundamental process**

VEIL follows a disciplined bottom-up investment process to find well-managed companies with sustainable growth that trade on reasonable valuations. It has a well-resourced investment team of three portfolio managers (led by Vu Huu Dien) who are supported by 10 sector specialist analysts. Around 1,600 stocks are screened by quality, size and liquidity criteria, which results in a universe of around 135 stocks that are subject to in-depth analysis. Key components of the process include getting to know the managements of companies, evaluating financials and determining the intrinsic value of the business. Assessment of a company's environmental, social and governance (ESG) standards is integrated into the investment process, and Dragon Capital's reputation and size help facilitate effective engagement with managements. Dragon Capital is a signatory of the Principles for Responsible Investment (PRI), which has awarded the group high A+ and A ratings.

The manager is not constrained by index considerations and the portfolio typically holds 35–40 stocks, representing his highest-conviction, long-term investment ideas. The portfolio is materially different from the benchmark VN Index, which means its performance can diverge meaningfully.

## Current portfolio positioning

Exhibit 3 shows VEIL's sector exposures as at end-October 2019. The manager is focused on key domestic themes of rising income, the growth of the middle class and urbanisation, and over two-thirds of the portfolio is invested in the real estate, banks and retail sectors. The most significant sector change over the past year is a 7pp increase to real estate, which accounts for 31.4% of VEIL's portfolio. This largely reflects the additions to the position in Vinhomes after participating in its IPO in May 2018. As at end-October 2019, Vinhomes was the second largest holding in the portfolio, at 7.7% of NAV. The company is Vietnam's leading property developer, focused on the mid- to high-end segment of the market. The manager believes Vinhomes is very well placed for growth over the next few years, with around 40% share of the premium residential sales market and a vast land bank, which at some 20 times the size of its next largest competitor, in Dien's view, should be sufficient for around 15 years of development.

VEIL's exposure to the retail sector increased by 4pp over the past year, reflecting an addition to Vincom Retail and strong performance from holdings including Mobile World, the portfolio's largest stock (11.2% as at end-October 2019). Investors had been sceptical about Mobile World's diversification into food stores, giving the manager the opportunity to accumulate shares at weaker levels. The company's businesses, however, have continued to be strong, and it recently announced eight-month results, reporting a 37% increase in post-tax profits.

Exhibit 3: Portfolio sector exposure at 31 October 2019						
% unless stated	Portfolio 31 October 2019	Portfolio 31 October 2018	Change (pp)	VN index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Real estate	31.4	24.5	7.0	27.8	3.6	1.1
Banks	21.5	21.3	0.1	24.3	(2.8)	0.9
Retail	14.3	10.3	4.0	1.9	12.4	7.5
Food & beverage	6.1	8.9	(2.8)	14.2	(8.1)	0.4
Materials & resources	4.7	8.0	(3.3)	3.6	1.0	1.3
Software & services	4.1	2.8	1.3	1.3	2.8	3.2
Energy	4.1	5.6	(1.6)	8.5	(4.4)	0.5
Diversified financials	4.0	5.3	(1.4)	3.0	1.0	1.3
Consumer durables	2.6	2.7	(0.1)	0.9	1.8	3.0
Transportation	2.5	4.5	(2.0)	5.0	(2.5)	0.5
Capital goods	2.2	1.6	0.6	2.2	(0.0)	1.0
Pharmaceuticals	1.5	1.5	0.0	0.9	0.7	1.8
Automobiles & components	1.2	3.0	(1.8)	0.4	0.7	2.8
Other sectors	0.0	0.0	0.0	6.1	(6.1)	0.0
	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>		

Source: VEIL, Edison Investment Research

The manager also initiated a position in Vingroup, the parent company of Vinhomes and Vincom Retail. Vingroup is a large conglomerate with a broad range of businesses. In the past, Dien has been reluctant to invest in this company in view of a lack of transparency in its underlying operations. This has improved significantly with the listing of Vinhomes and Vincom Retail, and the manager believes there may be further listings in the pipeline, which would also help unlock value in the company. He thinks the group's supermarkets and convenience store business, VinMart, may be a potential IPO candidate following a US\$500m investment in the company by Singapore's sovereign wealth fund, GIC. Dien notes that the transaction implied a valuation higher than that of Mobile World, Vietnam's largest retailer.

Sales over the past 12 months to end-October 2019 included the long-held position in low-cost airline VietJet. The company has performed well since it launched its services in 2011. Operating in an oligopoly environment, it increased its share to c 45% of the passenger aviation market. Two new operators are set to enter the low-cost air travel market this year, and the manager believes

intensifying competition will create a more challenging environment, potentially depressing profitability. He has also disposed of power generation company PV Power, which VEIL had held prior to its listing, benefiting from the stock's re-rating when it transferred from UPCoM to the HSX in January 2019. The manager thinks the outlook for profitability has deteriorated, with pressure on tariffs from the government, as well as rising input prices. Over the past year to end-October 2019, VEIL also took profits from several positions that have outperformed, including in Vietnam Engine and Agricultural Machinery (VEAM) and Saigon Beer.

## Performance: Strong medium- and long-term returns

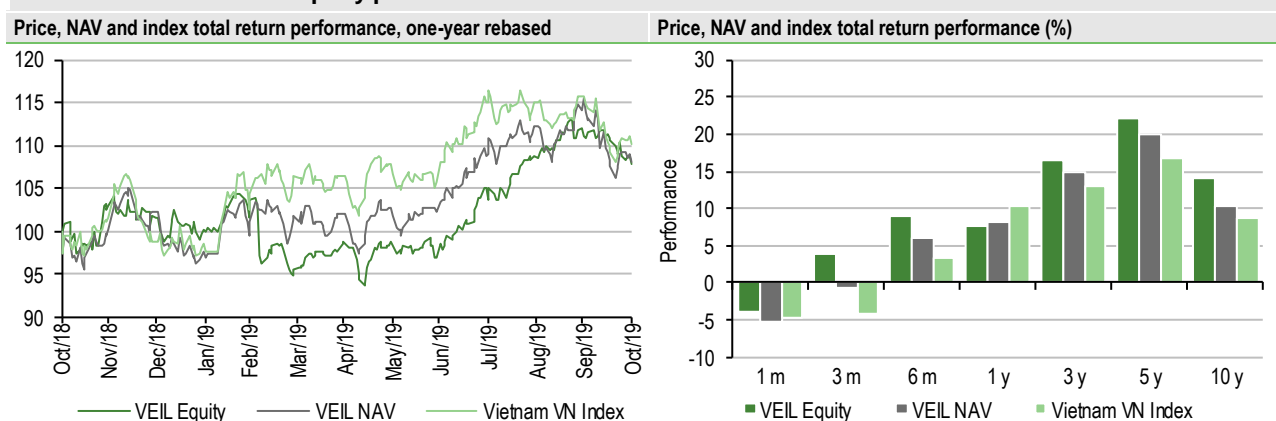
As shown in Exhibits 5 and 6, VEIL has a solid track record for medium- and long-term NAV total return and share price performance, outperforming the VN Index over three, five and 10 years. Over these periods, VEIL has also significantly outperformed the VN30 and MSCI Emerging Markets indices. Performance over one year has lagged. Most of this underperformance occurred during Q119 when the market experienced sizeable foreign inflows, which concentrated buying in the largest and most liquid index stocks. VEIL was underweight some of the large-cap outperformers, as its focus on quality companies trading on reasonable valuations often leads it to stocks outside of the well-researched larger firms.

**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 (%)
31/10/15	7.2	8.5	3.6	(1.4)	(11.1)
31/10/16	61.1	50.3	44.3	34.7	38.7
31/10/17	28.8	26.1	16.1	19.9	16.7
31/10/18	14.0	11.2	12.9	11.9	(8.7)
31/10/19	7.8	8.1	10.2	2.8	10.9

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

**Exhibit 5: Investment company performance to 31 October 2019**



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

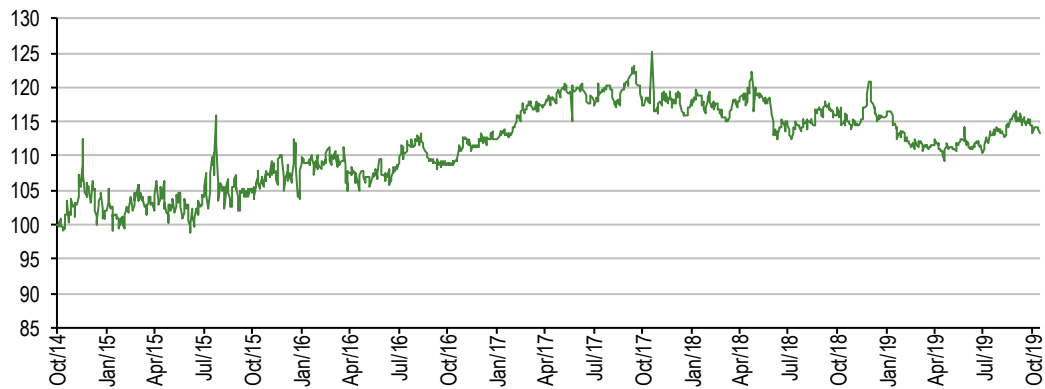
**Exhibit 6: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Vietnam VN Index	1.0	8.5	5.4	(2.2)	9.5	26.4	60.4
NAV relative to Vietnam VN Index	(0.5)	3.7	2.5	(1.9)	5.0	14.5	14.8
Price relative to Vietnam VN30 Index	1.3	4.8	4.1	4.9	14.7	49.0	99.1
NAV relative to Vietnam VN30 Index	(0.2)	0.2	1.3	5.2	9.9	34.9	42.5
Price relative to MSCI Emerging Markets	(3.1)	8.6	9.7	(2.8)	34.0	87.6	94.0
NAV relative to MSCI Emerging Markets	(4.5)	3.8	6.7	(2.5)	28.5	70.0	38.9

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2019. Geometric calculation.



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

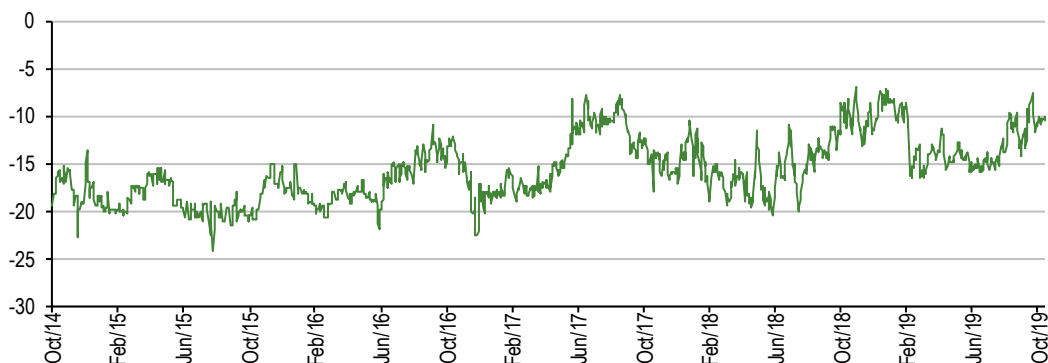


Source: Refinitiv, Edison Investment Research

## Discount: Narrower than average

VEIL is currently trading at a 9.9% discount to NAV, which is narrower than its three-year average of 14.1%. The board seeks to avoid large fluctuations in the discount relative to similar single country investment companies investing in Asia ex-Japan, taking market conditions into consideration. It has the ability to manage an imbalance in the supply and demand for the shares through buy backs.

**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. There are 1,000 management shares in issue, all owned by Dragon Capital. These shares confer the right to appoint two members to the board and carry one vote each. Management shares are not entitled to dividends, and in a wind-up situation, ordinary shareholders have priority over management shareholders in the return of capital. The board has the authority (renewed annually) to repurchase up to 14.99% of shares in issue, and year-to-date, the company has repurchased 1.5m ordinary shares, representing 0.7% of outstanding shares, at a cost of £6.9m. There are currently 218.1m shares in issue and 2.9m shares held in treasury.

VEIL is permitted to borrow up to 20% of NAV for the purposes of investment flexibility. The company has a \$60m borrowing facility with Standard Chartered, of which \$20m was drawn, as at end-September 2019. 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, reducing further to 1.5% of NAV above \$1.5bn. There is no performance fee.

## Dividend policy and record

VEIL's objective is to deliver capital growth for shareholders over the medium to long term, rather than income, and no dividends have been paid since the fund's launch.

## Peer group comparison

Exhibit 9 shows the 10 members of the AIC Country Specialists – Asia Pacific sector with market capitalisations above £75m. This is a diverse group of funds, investing across a broad geographic region with a wide variation of economic development, making direct comparisons less relevant. We therefore focus on the Vietnam subgroup of three funds. VEIL is the largest of the Vietnam funds. Its NAV total return ranks first over one, three and five years, and second over 10 years. Its ongoing charge ranks joint-highest; however, unlike the other two Vietnam funds, VEIL does not have a performance fee. It ranks first in terms of discount to cum-fair NAV, with a considerably narrower discount than its two subgroup peers.

% 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	1,082.7	8.1	51.7	147.4	165.6	(9.9)	2.25	No	100	0.0
Aberdeen New India	280.4	17.7	19.1	66.7	193.1	(12.8)	1.17	No	106	0.0
Aberdeen New Thai	94.2	3.3	20.5	40.1	320.7	(12.7)	1.45	No	104	3.3
Fidelity China Special Situations	1,183.1	10.8	9.9	76.2		(8.3)	0.93	Yes	123	1.8
India Capital Growth	84.4	(2.4)	(11.6)	26.9	74.8	(14.9)	2.02	No	100	0.0
JPMorgan Chinese	236.3	38.7	45.8	91.5	182.9	(9.6)	1.34	No	110	1.1
JPMorgan Indian	763.4	17.2	4.0	49.3	129.1	(8.3)	1.09	No	100	0.0
VietNam Holding	94.8	0.0	(1.2)	64.4	120.7	(17.1)	2.25	Yes	100	0.0
VinaCapital Vietnam Opportunity Fund	622.4	(1.3)	28.4	92.9	166.1	(14.8)	1.70	Yes	100	2.5
Weiss Korea Opportunity	117.5	5.5	2.5	27.0		(4.7)	1.89	No	100	2.9
<b>Peer group average</b>	<b>455.9</b>	<b>9.8</b>	<b>16.9</b>	<b>68.2</b>	<b>169.1</b>	<b>(11.3)</b>	<b>1.61</b>		<b>104</b>	<b>1.2</b>
<b>Rank in peer group</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>5</b>	<b>1=</b>		<b>5=</b>	<b>6=</b>
<b>Vietnam subgroup average</b>	<b>608.1</b>	<b>2.3</b>	<b>26.3</b>	<b>101.6</b>	<b>150.8</b>	<b>(15.9)</b>	<b>2.06</b>		<b>101</b>	<b>0.8</b>
<b>Rank in subgroup</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1=</b>		<b>1=</b>	<b>2=</b>

Source: Morningstar, Bloomberg, Edison Investment Research. Note: \*Performance data to end-October 2019. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## The board

The board consists of six directors, five of whom are independent and non-executive. The sixth member, Dominic Scriven (appointed in May 1995) is the founder of Dragon Capital and is a non-independent director. 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)



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