EDISON

VinaLand

Property market beginning to improve

Investment companies

Vietnam's property market is now showing signs of emerging from several years of weakness, as the economy stabilises and the availability of credit from the banking system increases. VinaLand (VNL) adopted a three-year realisation and distribution policy in 2012 that has been held back by market conditions, but the company believes there is scope to get back on track. VNL is set to hold an EGM by November 2015, and we would expect the company to consult shareholders on a new investment strategy prior to this. In the meantime, the near 40% discount to NAV provides a substantial valuation cushion.

12 months ending	Total share price return	Total NAV return	Vietnam VN Index return US$ (%)	Total return MSCI AC Asia ex Japan	Total return MSCI World Index
31/07/12	(37.4)	(14.9)	5.3	(11.9)	(1.4)
31/07/13	(7.3)	(18.4)	21.9	8.3	24.0
31/07/14	22.8	(1.1)	26.0	18.9	16.6
31/07/15	(0.2)	(2.2)	5.2	(6.0)	5.5

Source: Thomson Datastream. Note: All total returns in US$ terms.

Recovery should aid realisations strategy

VinaLand has a diversified portfolio of investments in Vietnamese property and development projects. Following market weakness and in response to a wide discount, VNL's investment policy was modified in 2012 to focus on a three-year realisation and distribution programme. This policy targeted realisations of US$250m and a distribution to shareholders of US$142m, but a weaker than expected market recovery has meant that disposals to end June 2015 have only realised US$74m with distributions of US$29m. Encouragingly however, these sales have realised a premium to NAV of over 8%. Against an improving market background, the company reports a number of active negotiations that could lead to higher value sales, potentially putting earlier targets within reach (see page 6).

A better environment for property

After a period of high inflation and lower growth, the Vietnamese economy appears to have stabilised and, looking ahead the IMF forecasts a compound annual GDP growth of 5.9% for 2015-20. Credit availability has improved, alleviating an impediment for property developers and buyers. Helped by this more favourable background the property market appears to be on a gradually improving trend, led by the residential sector. As ever there are risks to this positive outlook, including the possibility of renewed tensions with China or disappointing growth in this large neighbouring economy.

Valuation: The discount has stabilised

The fund's discount to NAV has stabilised at around 40% over the last year. While well below the five-year peak of 65%, there should be scope for significant further narrowing if the improving trend in the property market is confirmed and the company is able to increase the pace of realisations over the next few months.

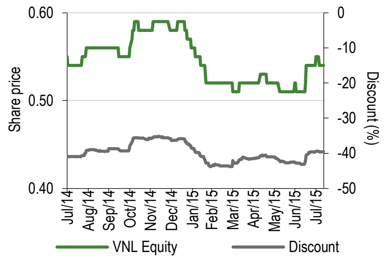
17 August 2015

Price	**US$0.54**
Market cap	**US$234m**
NAV*	US$0.90
Discount to NAV*	40.0%
Yield	Nil

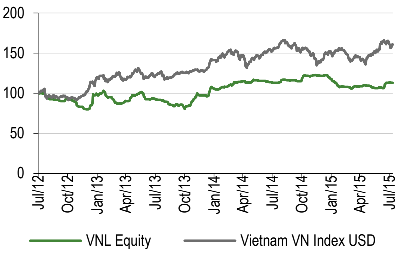
*As at 30 June 2015.

Ordinary shares in issue 30 June 2015	430.1m
Code	VNL
Primary exchange	AIM
AIC sector	Asia Pacific Vietnam

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	US$0.59	US$0.51
NAV* high/low	US$0.92	US$0.89

*Excluding income.

Gearing (30 June 2015)

Fund (ZDP)	7.4%
Projects	20%

Analyst

Andrew Mitchell +44 (0)20 3681 2500

investmenttrusts@edisongroup.com

Edison profile page

VinaLand is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

VinaLand (VNL) is a closed-end Cayman Islands registered, exempted company. Launched in 2006, it has a diversified portfolio of Vietnamese property and property development projects. In November 2012, shareholders approved a three-year cash return period focusing on realising c US$250m and making cash distributions of c $US142m.

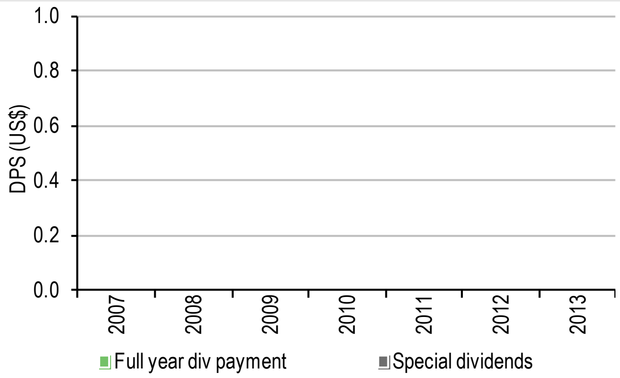
Recent developments

- 19 June: 0.4m shares repurchased taking overall repurchases to US$37.9m or 13.97% of shares in issue since start of the share buyback programme in October 2011.
- 9 April: sale of stake in Vung Bau project in southern Vietnam for a net US$4.7m, 2.9% above the NAV at end 2014.
- 18 March: sale of stake in Sai Gon Quy Nhon hotel for a net US$0.63m, 27.3% above the end 2014 NAV.

Forthcoming		Capital structure		Fund details	
AGM	Q415	TER FY14	2.31%	Group	VinaCapital
Full year figures	November 2015	Project level gearing	20%	Manager	David Blackhall
Year end	30 June	Fund level gearing	7.4%	Address	17th Floor, Sun Wah Tower 115 Nguyen Hue, Dist. 1 Ho Chi Minh City, Vietnam
Dividend paid	N/A	Annual management fee	See page 8		
Continuation vote	November 2015	Company life	Subject to cont. vote	Phone	+848 3821 9930
		Loan facilities	N/A	Website	www.vinacapital.com

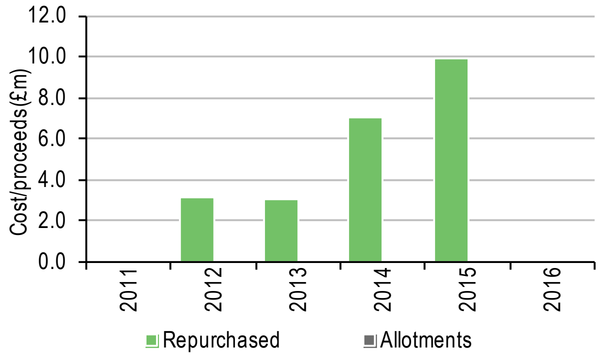
Dividend policy and history

VinaLand has not paid dividends so far, preferring to make distributions to shareholders via buybacks.

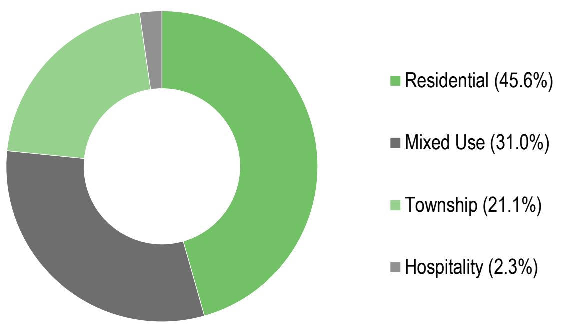


Share buyback policy and history

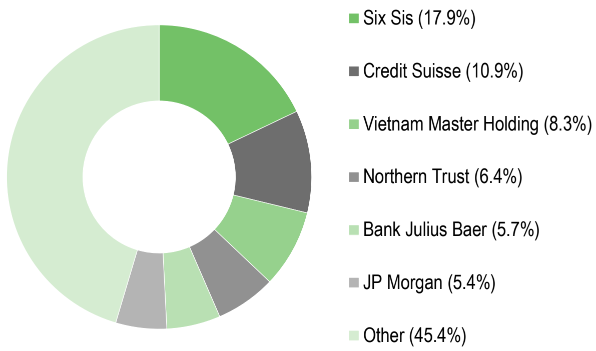
The share buyback programme was started in October 2011 following investor feedback as to the best method of distribution. The programme is ongoing, as agreed by the board, and all shares acquired under the programme are cancelled.



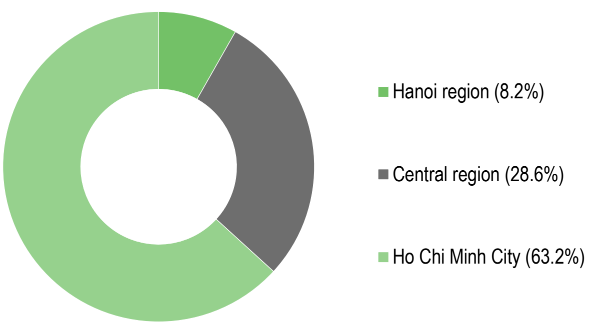
Portfolio composition by property type (as at 30 June 2015)



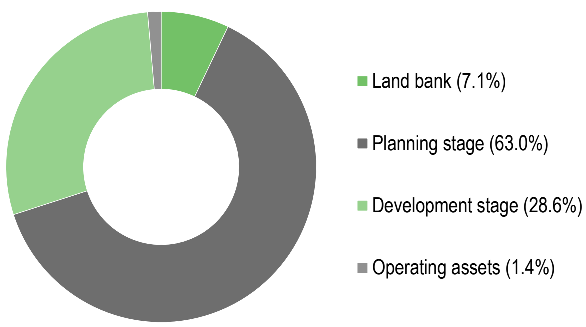
Shareholder structure (as at 19 June 2015)



Portfolio composition by region (as at 30 June 2015)



Portfolio composition by stage of development (as at 30 June 2015)



Source: VinaLand, Edison Investment Research

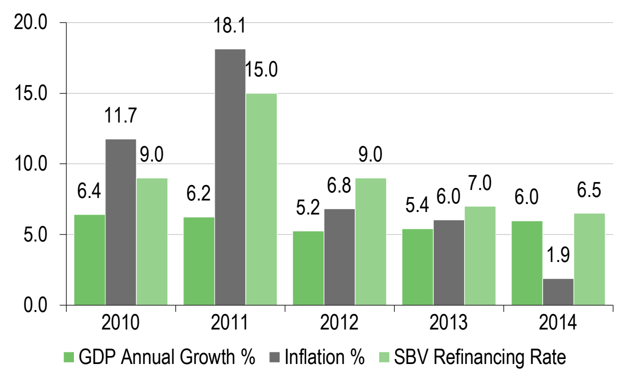
Vietnam property: The cycle is gradually turning

Among the reasons for considering an investment in Vietnam are the country's potential for strong growth over the long term underpinned by a favourable demographic profile and still modest GDP per capita of just above US$2,000, less than 30% of China's level. Over time, if growth is delivered, this should feed through to rising demand for higher quality residential, office and retail properties.

The Vietnamese economy has experienced some volatility over recent years. Growth was strong following the global financial crisis, but accommodative monetary and fiscal policies meant that inflation accelerated to an average 18.6% in 2011. Subsequent monetary tightening brought inflation under control, but caused GDP growth to fall to around 5% (2012). Banks were affected by rising commercial property NPLs, liquidity dried up and property market sentiment suffered.

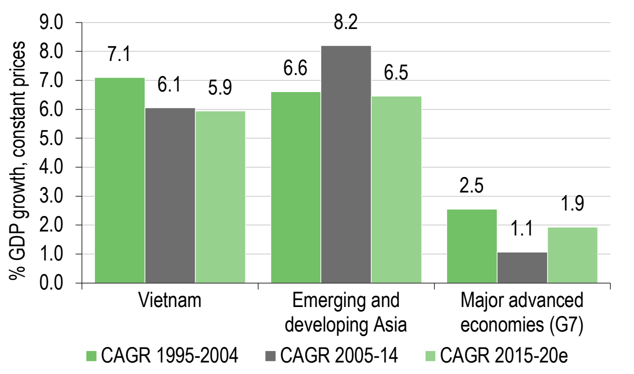
Both 2013 and 2014 saw improvement with inflation falling, interest rates decreasing and growth steadying (Exhibit 2). IMF forecasts from April 2015[1] are for Vietnam's GDP to grow at a compound rate of 5.9% between 2015 and 2020. While modestly below the 2005-14 rate, this should still be substantially ahead of G7 countries,, and only slightly below the growth estimated for the emerging and developing Asia grouping as a whole (Exhibit 3). While there are risks to growth, including the potential for China's growth normalisation to be disrupted, there is also the possibility of favourable surprises with the Trans-Pacific Partnership, free trade agreement, holding out the prospect of easier access to substantial markets including Japan and the US.

Exhibit 2: Vietnam growth, inflation and policy rate



Source: IMF, VinaCapital

Exhibit 3: Vietnam GDP growth compared



Source: IMF World Economic Outlook (April 2015)

Within the property market, the overall picture can be summarised as one of gradual recovery led by the residential sector, the largest component of VinaLand's portfolio. Greater availability of credit and the more stable economy are positive factors. VNL has reported increased activity in the landed property market (villas and townhouses) while noting that asking prices have generally been slightly lower to encourage buyers (JLL report -3.6% for Q2 versus the same period last year). Condominium supply and demand have picked up substantially with CBRE reporting new launches up 174% and 91% year-on-year in the first half of 2015 for Ho Chi Min City and Hanoi respectively. Sales in Ho Chi Min City in H115 were equal to sales for the whole of 2014. In other sectors, CBRE notes stable rents and vacancy in the Ho Chi Min City office market, but lower rents in Hanoi, while oversupply in retail property in Hanoi is pressuring rents there.

Two laws opening up residential ownership to foreigners and permitting foreign corporations to sub-lease properties and buy buildings for their own use should be helpful for the short- to medium-term development of the property market. The manager reports early indications that the new laws are having a positive impact on foreign investment.

[1] Since April the IMF has modestly reduced its global growth estimate for 2015 to 3.3% but retained its 2016 forecast at 3.8% and also left the emerging and developing Asia regional forecasts unchanged.

Fund profile: A Vietnamese property specialist

VinaLand (VNL) is a closed-end investment company incorporated in the Cayman Islands, launched and quoted on AIM in 2006. Managed by VinaCapital Investment Management (VCIM), it has a portfolio of real estate development projects and assets in Vietnam. Currently in a three-year cash return period, the company is not making new investments except where this is required to further existing projects, facilitating their eventual realisation at the highest possible value.

VNL reports in US dollars and the Vietnamese dong is managed with a crawling peg against the dollar, reducing but not eliminating currency volatility. In recent years, moves in the exchange rate have been relatively narrow and the State Bank of Vietnam has indicated that the exchange rate will not depreciate by more than 2% in 2015.

VCIM is part of the VinaCapital Group, which was founded in 2003. It has a diversified portfolio of c US$1.5bn of assets under management, with teams covering capital markets, private equity, fixed income, venture capital, real estate and infrastructure. The VCIM investment team for VNL is led by managing director, David Blackhall who has 28 years' experience in property, design and construction, with the last 20 years in real estate fund and asset management; he joined VinaCapital in 2007. Assisting him are deputy managing directors Anthony House and Oai Nguyen. House has more than 26 years' experience in real estate development and construction management, with the last eight years in Vietnam. Nguyen joined VinaCapital in 2013 and has 19 years' experience in real estate funds and asset management. A further 40 staff support the investment team. Following the adoption of the revised investment strategy in 2012, the team has been organised to focus on realisations, land licensing and approvals.

The fund manager: David Blackhall

The manager's view: The recovery is gathering momentum

Blackhall notes that after difficult years in 2013 and 2014, the Vietnamese property market is showing signs of revival. This is most obvious in the residential market, but he has also seen indications of increased interest in the commercial market during Q215. Feeding into this improvement is greater stability in the economic background, and the fact that there is greater credit availability as banks have begun to deal with some of the backlog of non-performing loans. Residential mortgages are now on offer with rates substantially below previous levels at under 9%, although the manager comments that mortgage rates are less influential in Vietnam than some western markets, as families typically provide significant financial support to younger buyers, seeing property as an investment that provides something of an inflation hedge.

On the realisation process, Blackhall reports that there are a number of very active discussions and other negotiations at various stages. Clearly, there can be no certainty until a deal is signed, but the manager is hopeful that, if market conditions remain as they are now, VNL may be able to reach its target for realisations, following collection of receivables during 2016. The fact that most of the current discussions are with local investors is positive, as they are likely to be more confident that they can deal with licensing and other government requirements and possibly less influenced by any fluctuations in sentiment towards a frontier market such as Vietnam.

Looking ahead, Blackhall sees the change in foreign ownership rules (providing foreign owners with greater opportunities and rights in relation to property ownership) as being positive and this is supported by early indications of new foreign interest in both residential product and larger projects. He does, however, highlight the lead up to the February 2016 election will likely be characterised by continued positive sentiment, which should be helpful for the property market at the margin, reinforcing the positive trend that currently appears to be in place.

Asset allocation

As at end March 2015, VNL's portfolio comprised 25 projects with a NAV of US$383.5m. Since launch, 21 investments have been divested, the latest being stakes in operating hotel Sai Gon Quy Nhon and hospitality development project Vung Bau in Phu Quoc which were sold in March/April, both at premiums to their NAVs at November 2012 and at end December 2014 (see Exhibit 1, recent developments).

The top ten investments (Exhibit 4) account for c 77% of total NAV. Nearly 62% of total NAV is accounted for by projects at the planning stage, while 29%, comprising four projects, are in development. The residual comprises land bank (c 7%) and operating assets (c 1% hotels).

By property sector, the largest exposures are to residential (45%), mixed use (31%) and township (22%). Hospitality (hotels), at less than 3%, is now much smaller than it has been, following earlier disposals.

Exhibit 4: Top 10 investments as at 30 June 2015

Investment	Location	Sector	VNL stake	VOF stake	Site area (ha)	NAV (US$)	% of VNL NAV	Status
Century 21	South	Residential	75.0%	25.0%	30.1	76.9	17.9%	Planning
Danang Golf & Beach Integrated Development	Central	Residential	75.0%	25.0%	248.3	57.1	13.3%	Development
Dai Phuoc Lotus	South	Township	54.0%	18.0%	198.5	34.3	8.0%	Development
VinaSquare	South	Mixed Use	46.5%	15.5%	3.1	30.2	7.0%	Planning
Pavilion Square	South	Mixed Use	90.0%	0.0%	1.4	28.6	6.7%	Planning
Times Square Hanoi	North	Mixed Use	65.0%	0.0%	4.0	26.0	6.1%	Planning
Aqua City	South	Township	40.0%	0.0%	250.2	21.7	5.1%	Planning
Trinity Park	South	Residential	75.0%	25.0%	33.7	20.3	4.7%	Planning
Green Park Estate	South	Mixed Use	62.9%	33.9%	15.7	18.4	4.3%	Planning
Capital Square	Central	Mixed Use	60.6%	20.2%	6.6	16.8	3.9%	Development
Total top 10 investments						330.2	77.0%	
Remaining investments						98.4	23.0%	
Total portfolio						**428.5***	**100.0%**	

Source: VNL. Note: A number of VNL's holding companies include VinaCapital Vietnam Opportunity Fund (VOF) as a joint venture partner. VOF investments are managed by VinaCapital, but VOF is not part of VNL's ownership structure. *Column does not sum due to rounding differences.

Investment structure and valuation policy

Each of VNL's property investments is held within a Vietnam incorporated entity or other investment structure, which in turn is owned by an offshore holding company. The location of the offshore holding company is determined by a number of factors, including regulatory structure and tax considerations. VinaCapital Vietnam Opportunities Fund holds a joint venture position in seven of VNL's top 10 projects.

Land assets are held at cost (less an impairment adjustment) until they receive an investment licence or similar documentation that represents a legally enforceable and transferable right of ownership. Once title has been received, assets are included in the annual revaluation programme. At end June 2015, 6.4% of assets were held at cost or below cost.

Estimated fair values for all portfolio investments are provided twice annually on a rolling quarterly basis by established independent valuers including, among others, Savills, CBRE, Cushman & Wakefield, JLL and HVS, based on recent market transaction history and a range of relevant metrics. In addition to the biannual revaluations, the manager reviews the entire portfolio on a quarterly basis to determine whether there have been any material changes to projects, or any other developments that would indicate a material change in property values.

Divestment strategy followed, but not at any price

Since the November 2012 EGM, there have been 10 full divestments and one partial divestment (Capital Square Phase 1), which generated total proceeds of US$74m and net proceeds of

US$70.8m. Total distributions to shareholders via the share buyback programme have been US$29m. This compares with the original target of c US$250m of total proceeds and US$142m of distributions by November 2015, a shortfall in realisations of US$176m and in distributions of US$113m.

As noted previously, the delay in the cash realisation process reflects a slower than expected market recovery and VNL has been selective in its divestment strategy, weighing the potential internal rate of return from holding or continuing to develop a project against the value available from an immediate disposal. Risks related to any investment in developing a project are carefully contained with an emphasis on securing anchor tenants and/or equity co-investors. As evidence of the balanced approach taken and supporting the credibility of valuations, aggregate disposals made from November 2012 to the end of March 2015 achieved an uplift of 8.5% versus NAV or 31.6% compared with the NAV (includes partial divestment) at the time of the EGM. This is encouraging for investors as it lends support to the idea that there is scope for the managers to continue the disposal process without eroding NAV.

Exhibit 5: Realisations since November 2012

Project	Location	Property type	VNL ownership	Exit announced	Net proceeds	Exit value versus NAV at exit
30 Nguyen Du	Hanoi	Operating office	65.0%	Jan 13	US$3.2m	7.9%
Sheraton Hotel	Nha Trang	Operating hotel	66.7%	May 13	US$3.1m	15.1%
Signature One	HCMC	Residential development site	70.0%	Jul 13	US$2.7m	(3.3%)
Hao Khang	HCMC	Residential development site	70.0%	Oct 13	US$4.6m	2.8%
Prodigy Pacific	Hanoi	Operating hotel	100.0%	Dec 13	US$1.7m	(5.5%)
Vina Properties	Hanoi	Operating hotel	53.0%	Jan 14	US$16.1m	19.2%
Movenpick & other	Hanoi & other	Operating hotels		Jul 14	US$19.9m	4.5%
Marie Curie	HCMC	Mixed Use development site	64.5%	Jul 14	US$10.9m	14.3%
Saigon Quy Nhon	Quy Nhon	Operating hotel		Mar 15	US$0.6m	27.3%
Vung Bau Phu Quoc	Phu Quoc	Hospitality development site		Apr 15	US$4.7m	2.9%
Capital Square Phase 1 (partial)	Danang	Commercial development site		N/A	US$3.2m	(3.5%)
Total/average					**US$70.8m**	**8.5%**

Source: VinaLand

By November 2015, VNL estimates it may achieve a further US$36m of disposals, bringing the running total to US$110m, and make a further US$16m available for distribution (giving a total of US$45m). Management looks to achieve total disposals of approximately US$275m and distributions of US$115m by May 2016 (incremental sales and distributions of US$165m and US$70m respectively compared with November 2015). This requires a significant step-up in the rate of transactions, but if the property market does continue on an improving trend the appetite for larger deals should grow, potentially allowing VNL to conclude more substantial sales than have been possible so far in the cash return period.

Next steps

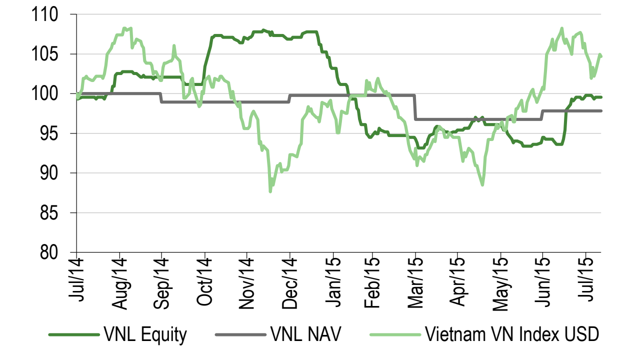
With an EGM pending in November this year the company and shareholders are likely to be considering the options for the future. VNL has not made any comments on this so far but we assume they will be beginning to gauge shareholders' views on the best course of action. We would assume the alternatives might include: (1) formalising an extension of the current realisation strategy to, for example November 2016 given that this already allows for the collection of receivables in 2016; or (2) a new realisation strategy over a longer period, perhaps up to three years. It seems unlikely that either of these options would have a negative effect on the valuation of the shares, while clarification of the next steps could have a positive influence.

Performance: Yet to follow the market's lead

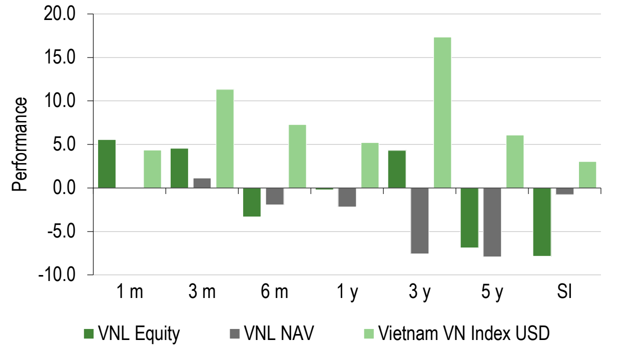
The Vietnamese stock market has seen a strong performance year to date, with the VN Index in US$ terms recording a total return of over 13% reflecting the more favourable economic background. Given the lagged response of the property market to changes in the economy and relatively stable property valuations it is not surprising that VNL's share price has lagged this recent strength (see Exhibit 6 below), despite signs that the property market has turned. Similarly, over the longer term, VNL's NAV total return has tended to lag the stock market index (Exhibit 7) with the widening of the discount at various points amplifying the share price underperformance.

Exhibit 6: Investment company performance to 30 June 2015

Price, NAV and benchmark total return perf, one year



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three- and five-year performance annualised. SI = since launch 22/03/2015.

Exhibit 7: Share price and NAV relative total return performance (geometric calculation), to 30 June 2015

	One month	Three months	Six months	One year	Three years	Five years
Price relative to Vietnam VN Index (US$)	1.2	(6.1)	(9.9)	(5.2)	(29.7)	(47.9)
NAV relative to Vietnam VN Index (US$)	(4.2)	(9.2)	(8.6)	(7.0)	(51.1)	(50.8)
Price versus MSCI AC Asia Ex Japan	12.7	18.9	0.2	6.2	(6.2)	(45.5)
NAV versus MSCI AC Asia Ex Japan	6.7	15.0	1.6	4.1	(34.8)	(48.5)
Price versus MSCI World Index	3.7	4.6	(9.4)	(5.4)	(25.5)	(60.9)
NAV versus MSCI World Index	(1.8)	1.2	(8.1)	(7.3)	(48.2)	(63.1)

Source: VinaLand, Thomson Datastream, Edison Investment Research

Discount: Stabilising as prospects improve

The discount has stabilised at around 40% over the last year (see Exhibit 8). If management can achieve the increased pace of disposals they are aiming for, then there should be scope for a substantial narrowing of the discount from the current level. Even more modest progress and further evidence of improvement in the property market could support a less conservative valuation.

Exhibit 8: Discount to NAV over five years (%)

Source: VinaLand, Thomson Datastream. Note: Negative values indicate a discount.

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Capital structure and fees

Since the announcement of the share buyback programme in October 2011, VNL has spent US$37.9m buying back and cancelling 69.8m shares, representing 13.97% of the share capital, leaving the number of ordinary shares outstanding at 430.13m as at end June 2015.

In December 2013, a subsidiary of VNL issued zero dividend preference (ZDP) shares raising $25m to provide additional financial flexibility. Issued at 100p, the shares mature in 2016 with a payment of 126p. At the end of March, the ZDPs were equivalent to 7.3% of NAV while project-level, non-recourse, bank debt stood at 19.9% of NAV.

At launch, the company had a life of seven years, but is now subject to a continuation vote every three years with the next one due in November this year.

The management fee for the 12 months to 21 November 2015 is a fixed US$6.5m (prior 12 months US$7.5m), with subsequent fees and the management contract then subject to negotiation, depending on the outcome of the forthcoming continuation vote. The managers are incentivised to realise assets and return capital to shareholders through a realisation fee (capped at US$28.2m), payable based on the level of distributions made to shareholders from contracted divestments signed prior to 21 November 2015. At the end of FY14, a realisation fee of US$27.3m had been accrued. The total expense ratio for FY14 was 2.31%, slightly higher than FY13 (2.15%).

The board

The five members of the board, all independent of the fund manager, are Michel Casselman (chairman from November 2013, director since 2011), Nicholas Brooke (previously chairman 2010-13 and a director since inception in 2006), Nicholas Allen (appointed 2010), Charles Isaac (director since 2011) and Daniel McDonald (appointed February 2014).

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place
88 Phillip Street, Sydney
NSW 2000, Australia

Wellington +64 (0)4 8948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand