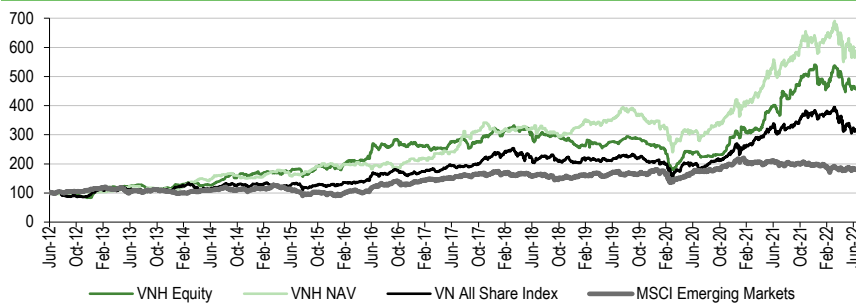


# VietNam Holding

Made in Vietnam

VietNam Holding (VNH), managed by Dynam Capital (Dynam), a Vietnamese equities closed-ended fund, has given away some of its performance gains of the past two years during the challenging H122. While down 10.5% year to date, VNH's NAV outperformed its benchmark VN All Share Index (VNAS, -14.6% TR). Over the past three years, VNH returned c 69% on a NAV total return (TR) basis to end-June 2022, after the current investment manager took over in 2018, outperforming the VNAS Index (c 50% TR) over this period. Despite the current gloomy global macroeconomic outlook, the manager expects VNH's robust portfolio to withstand the uncertain times and pick up momentum when the global economy turns the corner. The ESG principles embedded in the investment process support the quality of the portfolio holdings.

## VNH outperformed Vietnamese and EM equities over the last 10 years



Source: Refinitiv, Edison Investment Research. Note: Data to end-June 2022.

## Why VNH?

While remaining a relatively small sized investment trust, VNH has sufficient AUM and agility to operate on the Vietnamese market. Retail investor participation and active new account openings, which boosted 2021 country's equities considerably, continue into 2022. These are likely to further support strong Vietnamese equity market performance over the medium to long term, as the country's capital markets gradually mature and expand. Despite global uncertainty, Dynam expects economically sensitive sectors like industrials and retail, where VNH is overweight the benchmark, to perform strongly, as the domestic economy continues to accelerate post the pandemic, enabling VNH to outperform the benchmark in the next 12 months.

## The analyst's view

We believe this country specialist fund offers investors exposure to a high-growth frontier market with conviction stock across the market cap spectrum, which can be held as part of a global growth portfolio. VNH's NAV has outperformed the VNAS and MSCI EM indices over one, three, five and 10 years. VNH's board is proactive and, having listened to shareholders, executes tender offers and share buybacks to manage the discount, as it deems necessary. Between November and December 2021, the discount to NAV narrowed from c 15% to c 5%, but volatile equity markets in H122 saw the discount widening to the mid-teens again.

## Investment trusts Vietnamese equities

29 July 2022

**Price** 309.0p  
**Market cap** £90.2m  
**AUM** £105.4m

NAV\* 359.9p  
Discount to NAV\* 14.1%

\*Including income. As at 28 July 2022.

Yield 0.0%

Ordinary shares in issue 29.2m

Code/ISIN VNH/GG00BJQZ9H10

Primary exchange LSE

AIC sector Country Specialists: Asia Pacific

Benchmark VN All Share Index

52-week high/low 358.0p 242.0p

NAV\* high/low 423.4p 310.1p

\*Including income.

## Gearing

Net cash at 30 June 2022 6.1%

## Fund objective

VietNam Holding's investment objective is to achieve long-term capital appreciation by investing in a diversified portfolio of companies that have high growth potential and an attractive valuation. The fund has experienced several significant changes since September 2017, including a new board and the appointment of the current manager, Dynam Capital.

## Bull points

- ESG considerations are a key part of the manager's approach.
- A very concentrated portfolio (c 20–25 holdings) and mid- to small-cap focus gives investors exposure to less well researched, high-growth companies.
- The proactive board is committed to promoting shareholders' interests.

## Bear points

- The relatively small market cap of c £90m limits liquidity and increases volatility, to some extent.
- Very strong 2021 performance could limit 2022 return potential to an extent.
- The trust has relatively high fees for an LSE-listed trust, but is in line with its two peers, as Vietnamese funds are expensive to run.

## Analyst

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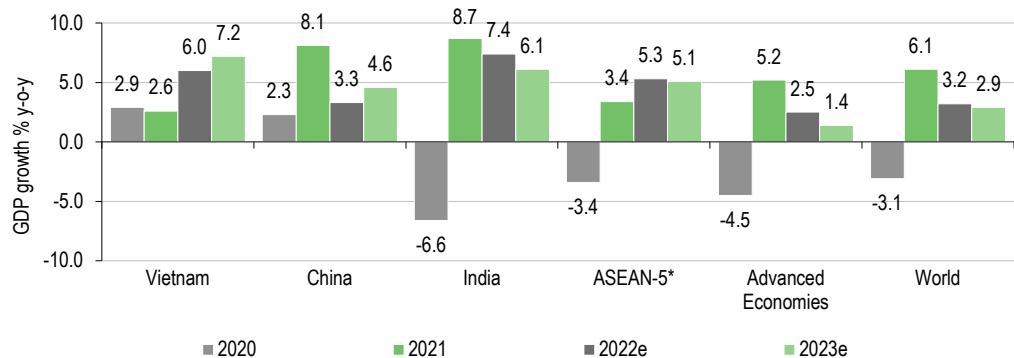
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## The manager's view: Vietnam is in good shape

Vietnam's economy continues to grow and remains on track to outpace growth in the world economy during 2022 and 2023 (Exhibit 1), as global recovery from the pandemic stalled this year because of the war in Ukraine. This revived growth in Vietnam comes despite the economic slowdown resulting from the COVID-19 pandemic in 2020–21. According to International Monetary Fund (IMF) data at July 2022, Vietnam's GDP will grow by 6.0% in 2022 and 7.2% in 2023, while global GDP is forecast to grow by 3.2% in 2022 and slowdown in growth to 2.9% in 2023. The IMF also expects Vietnam to grow faster than ASEAN-5 and advanced economies. In Q222, the Vietnamese economy grew 7.7%, exceeding expectations and 0.7% growth in G20 countries.

**Exhibit 1: Vietnam remains one of the fastest growing world economies**



Source: IMF at end-July 2022, Edison Investment Research. Note: \*Indonesia, Malaysia, Philippines, Singapore and Thailand.

Given its prominence in the global supply chain, Vietnam posted a trade surplus of more than US\$700m in H122. Exports and imports have been very stable and resilient during 2020-21 due to a diversity of trading partners, despite the global economic slowdown from the pandemic.

Following a full reopening of the economy post the pandemic, Dynam expects a boost to investment activities and a growing number of new projects and feasibility assessments in H222. The team also believes the growing Vietnamese consumer market will drive economic growth further.

Dynam expects the domestic economy to benefit from an increased amount of government spending on infrastructure, which was under budget in the first half of 2022. Infrastructure spending has a multiplier effect on economic growth, accelerating the pace of urbanisation and leading to growth in real estate development and trade.

Dynam expects controlled inflation in Vietnam for two reasons. The team believes that while Vietnam needs to import energy, its future consumption level is predictable and stable, and the country's ability to export food would more than offset payment for its imported energy.

Dynam considers the key risks for Vietnam to be external. The team believes that a potential global recession would hit exports and production growth and could also affect the banking sector.

## Portfolio update

Dynam continues to adopt an agile approach to capture investment opportunities within three megatrends in Vietnam by investing in listed companies: industrialisation (c 28% of thematic exposure in VNH's portfolio at end-June 2022), urbanisation (c 19%) and consumer (c 18%). This is

demonstrated by the team's ability to adapt the portfolio to the rapidly changing market environment by adjusting exposure to the market segments the team believes have the best potential.

The portfolio contained 24 holdings at end-June 2022 (27 holdings at end-June 2021), within the targeted 20–25 range. Exhibit 2 presents the portfolio sector dynamics during the first six months of 2022 and its positioning relative to the VNAS Index.

#### Exhibit 2: Portfolio sector exposure at 30 June 2022

% unless stated	Portfolio 30 Jun 2022	Portfolio 31 Dec 2021	Change (pp)	VNAS weight 30 Jun 2022	Active weight vs index (pp)	Company weight/ index weight (x)
Banks	22.3	24.6	(2.3)	33.1	(10.8)	0.7
Industrial goods and services	18.3	11.4	6.9	7.9	10.4	2.3
Retail	17.8	12.5	5.3	3.1	14.8	5.8
Real estate	14.9	20.3	(5.4)	20.0	(5.2)	0.7
Telecommunications	11.5	8.7	2.8	8.1	3.4	1.4
Financial services	3.8	12.9	(9.1)	4.3	(0.5)	0.9
Food, beverage and tobacco	2.7	6.0	(3.3)	9.3	(6.6)	0.3
Construction and materials	2.7	0.2	2.5	4.3	(1.6)	0.6
Chemicals	0.0	0.0	0.0	2.4	(2.4)	0.0
Consumer products and services	0.0	0.0	0.0	0.8	(0.8)	0.0
Energy	0.0	0.0	0.0	0.6	(0.6)	0.0
Basic resources	0.0	0.0	0.0	1.2	(1.2)	0.0
Insurance	0.0	0.0	0.0	0.4	(0.4)	0.0
Utilities	0.0	0.0	0.0	1.8	(1.8)	0.0
Technology	0.0	0.0	0.0	0.5	(0.5)	0.0
Automobiles and parts	0.0	0.0	0.0	0.1	(0.1)	0.0
Healthcare	0.0	0.0	0.0	0.3	(0.3)	0.0
Travel and leisure	0.0	0.0	0.0	1.8	(1.8)	0.0
Cash	6.1	3.4	2.7	0.0	N/A	N/A
	100.0	100.0		100.0		

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

The key sector changes over the past six months were an increase in the two cyclical sectors, retail (+5.3pp) and industrial goods and services (+6.9pp) and a reduction in banks (-2.3pp), financial services (-9.1pp), real estate (-5.4pp) and food, beverage and tobacco (-3.3pp). The team reduced exposure to strongly performing banks, the financial services and real estate sectors and invested in cyclical stocks, expecting them to outperform as the economy continues to accelerate post the pandemic. As the portfolio management team's expectations that banks and real estate would perform well in 2021 materialised, it trimmed the positions. Cash also went up 2.7pp, as the team took profits from strongly performing investments.

A major part of the reduction in financial services included the sale of three of the four owned market-leading brokerage businesses: Ho Chi Minh City Securities (HCM), Viet Capital Securities (VCI) and SSI Securities Corp (SSI) all exited at a profit.

Exhibit 3 illustrates that the weightings for two of the top 10 retail stocks, Mobile World Investment Corp and Phu Nhuan Jewelry, increased by 1.8pp and 5.1pp, respectively.

#### Exhibit 3: Top 10 holdings (%)

Company	Industry	30-Jun-22	31-Dec-21*	Change
FPT Corp	Telecommunications	11.5	8.7	2.8
Mobile World Investment Corp	Retail	9.2	7.4	1.8
Gemadep	Industrial goods & services	8.5	6.5	2.9
Phu Nhuan Jewelry	Retail	8.1	N/A	5.1
Saigon Thuong Tin Commercial	Banks	5.6	6.3	(0.7)
Khang Dien House	Real Estate	5.4	6.0	(0.6)
Hai An Transport & Stevedoring	Industrial goods and services	5.4	N/A	2.4
Military Commercial Bank	Banks	5.2	5.2	-
Vietnam Prosperity JSC Bank	Banks	4.6	4.8	(0.2)
Vietnam Joint Stock Commercial Bank	Banks	4.0	4.6	(1.5)
<b>Top 10 holdings</b>		<b>67.5</b>	<b>N/A</b>	

Source: VNH, Edison Investment Research. Note: Figures subject to rounding. \*N/A where not in 31 December 2021 top 10.

The team also added to two top 10 industrial holdings, Hai An Transport & Stevedoring (+2.4pp) and Gemadept (+2.9pp), as well as the top holding, telecommunications giant FPT (+2.8pp).

Gemadept, a market-leading Vietnamese logistics company (the third largest, holding 8.5% portfolio weight at end-June 2022), recently presented at VNH's webinar on global supply chains. It is the largest private logistics operator in Vietnam, with a widespread network of ports, and the second biggest seaport operator. Port operations in Vietnam have grown 25–30% on average annually over the last five years. VNH first invested in the company in August 2019 and since then Gemadept's market cap has more than doubled to the current US\$725m. VNH currently has a US\$6.9m (at 31 May 2022) holding in Gemadept, including an unrealised gain of US\$4.9m.

Over the past six months, VNH has disposed of its food and beverages holding Quang Ngai Sugar and an industrial park operator Long Hau Corp, as the company's operational performance no longer meets the investment team's expectations.

## Performance

### VNH's performance

Exhibit 4 shows VNH's discrete performance over the past five years; Dynam is responsible for the last four. In the 12 months to end June 2020, including the fund's transition period, VNH underperformed the Vietnamese indices. It returned 9.0% on a NAV TR basis over the 12 months to end-June 2022, outperforming both the Vietnam VN (-4.7% TR) and VNAS (-5.4% TR) indices, demonstrating the fund's strong alpha relative to these two indices.

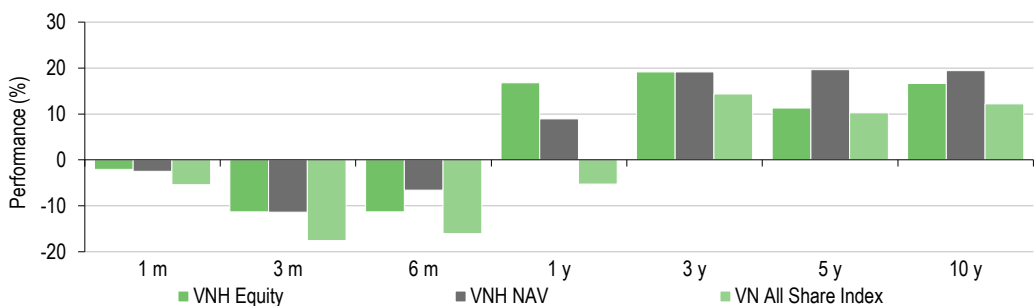
**Exhibit 4: Five-year discrete performance data**

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN All-Share Index (%)	Vietnam VN Index (%)	MSCI Emerging Markets (%)
30/06/18	11.9	4.9	13.3	20.7	4.3
30/06/19	(9.6)	(7.9)	(3.6)	1.2	2.5
30/06/20	(15.8)	(12.5)	(8.5)	(10.5)	(3.3)
30/06/21	72.1	78.3	72.3	54.3	23.9
30/06/22	16.8	9.0	(5.4)	(4.7)	(17.5)

Source: VNH, Refinitiv, Bloomberg. Note: All % on a total return basis in GBP.

Exhibit 5 illustrates that VNH outperformed VNAS over all periods shown. These include one, three and six months as well as the one- and three-year periods, all during Dynam's tenure since 2018.

**Exhibit 5: Ten-year performance to end-June 2022**



Source: VNH, Refinitiv

VNH's favourable position in relation to the cyclical market recovery has paid off in terms of disposals of three brokerages and taking profits from positions in banks and real estate. Dynam invested the proceeds in retail and industrial stocks. The team believes that in the renewed economy these sectors have further performance potential. In our view, this shift should further support VNH's performance in 2022.

VNH's share price outperformed the index over the past three years on a TR basis (69% versus 50%, respectively, to end-June 2022).

Exhibit 6 presents the averages for the Vietnam peer group of three London-listed trusts, where VNH remains the smallest. VNH's market cap is above £90m, despite the tender offers in November 2020 and September 2021 (see below for details).

As the current manager was appointed in July 2018, the one- and three- year NAV TRs are most relevant. VNH ranks top over one and three years, on a NAV TR basis, following a very strong performance in 2021. If the domestic recovery continues, higher exposure (relative to the benchmark) to cyclical stocks, such as retail and industrials, positions the fund well to continue its sustainable outperformance of the indices.

VNH's smaller size compared with its two closest peers means it can respond faster to the changing market environment to reposition the portfolio. Its increased exposure to logistics and transport businesses, such as Gemadept and Hai An Transport & Stevedoring, aims to capture export-led investment opportunities. Vietnam is one of the top world exporters of ready-made products, including textiles and electronic equipment, as well as food. It is likely to remain an active exporter to a number of various trading partners, particularly those looking to find alternatives to supplies from Russia and China.

While VNH's ongoing charges are the highest of the three funds (smaller funds tend to incur higher charges), in 2020 the board removed the performance fee for a 25bp increase in the management fee to 1.75% pa on NAV below US\$300m and 1.5% on NAV between US\$300m and US\$600m. The board notes that the initiative lowers the fund's total expense ratio by c 80bp on a forward-looking basis.

#### 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 Holding	90.2	9.0	69.3	64.0	339.0	(14.1)	2.57	No	94	0.0
Vietnam Enterprise	1,352.4	(5.7)	55.5	87.0	436.5	(17.3)	1.90	No	99	0.0
VinaCapital Vietnam	800.1	5.1	58.5	82.5	325.4	(18.5)	1.66	Yes	99	2.0
<b>Simple average</b>	<b>747.5</b>	<b>2.8</b>	<b>61.1</b>	<b>77.8</b>	<b>367.0</b>	<b>(16.6)</b>	<b>2.04</b>		<b>98</b>	<b>0.7</b>
<b>Rank</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>1</b>		<b>N/A</b>	<b>N/A</b>

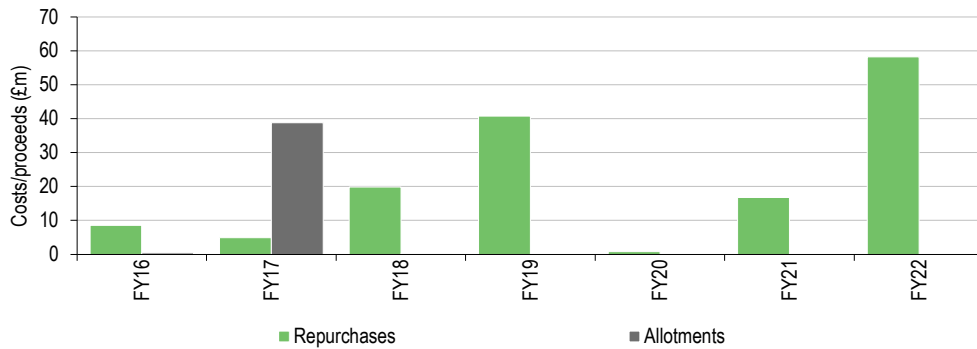
Source: Morningstar, Bloomberg, Refinitiv, Edison Investment Research. Note: \*Data to end-June 2022 in GBP. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## Corporate activity

In August 2021 (FY22), the board announced a tender offer for up to 30% of the company's issued share capital (then 42.6m shares).

In September 2021 it bought back 12.7m shares under the tender offer at US\$4.4528 per share for a total of \$56.7m (equivalent to £41m), which was 30% of the total shares outstanding. Since then, the trust has also bought back c 1.08m shares (c US\$1.18m) under its share repurchase programme. VNH currently has 29.2m shares outstanding.

**Exhibit 7: Share buybacks and issuance**



Source: Morningstar

## The manager: Dynam Capital

Dynam has two managing partners, Craig Martin, the chairman, and Vu Quang Thinh, the chief investment officer, and a dedicated team of 12 professionals based in Vietnam. The manager follows a growth at a reasonable price (GARP) investment process, unconstrained by any index, to invest in a highly concentrated portfolio of 20–25 conviction stocks. Dynam employs both bottom-up and top-down analysis in its investment approach.

The approach remains focused on three core themes: industrialisation (best-in-class manufacturers, international logistics); urbanisation (purposeful real estate, transportation, clean energy and clean water); and domestic consumerism and its enablers (sustainable retail, domestic logistics, products and finance). These themes are interlinked, as industrialisation and urbanisation foster further robust growth in GDP and domestic consumption. The team looks for companies that are well-managed industry leaders with strong competitive positions and healthy balance sheets, yet which are attractively valued.

Dynam invests across the market cap spectrum, but typically favours small- and mid-cap companies, as these are often less well researched and more open to engagement. VNH's relatively small size gives it the flexibility to invest in companies further down the market capitalisation spectrum.

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