Forum One - VCG Partners Vietnam Fund (VVF)

VinaCapital

30 April 2020

Class A NAV/share: USD11.18

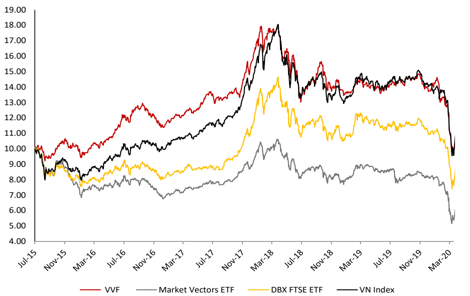
VVF is an actively managed UCITS-compliant fund that invests in equities and equity-related securities of companies that are based in Vietnam or that have substantial exposure to Vietnam, with an objective to outperform the Vietnamese benchmark index over the long term, through bottom up stock picking and disciplined risk management.

Performance summary

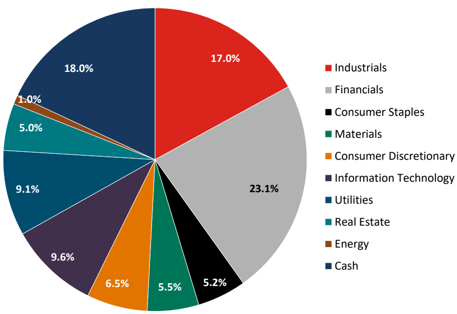
	Fund[1]	VN Index
April 2020 (month-on-month)	16.3%	17.0%
Year-to-date	-18.9%	-20.9%
Annualised return since inception	2.4%	2.4%
Sharpe ratio (annualised since inception)	0.01	0.01
Annualised standard deviation	19.9%	22.4%
Tracking error	6.5%	

[1]Fund information calculated from Class A shares

Performance Chart



Sector Allocation



Top holdings

Ticker	Market Cap (USDm)	Sector	% of NAV	2020F PE	Div Yield
FPT	1,478	Information Technology	9.6%	9.8	3.9%
VCB	10,765	Financials	8.6%	13.0	0.0%
VTP	318	Industrials	6.5%	16.2	1.6%
MBB	1,642	Financials	6.3%	5.4	0.0%
PNJ	547	Consumer Discretionary	5.8%	12.2	3.5%
HPG	2,534	Materials	4.8%	7.3	0.0%
VNM	7,359	Consumer Staples	4.6%	15.8	5.1%
SCS	224	Industrials	3.8%	11.4	6.6%
VHM	9,093	Real Estate	3.7%	8.5	1.6%
VSC	61	Industrials	3.5%	7.1	7.7%
VVF Port.				10.5	3.5%
VNIndex				12.2	2.4%

Source: VinaCapital research

Manager's monthly commentary

After the record high monthly loss suffered in March, Vietnam's stock market rebounded strongly in April, despite the continued global spread of COVID-19. The Vietnamese government has done an extraordinary job in containing the outbreak. At the time of writing, Vietnam had only 288 infected cases, of which 56 are active cases, with zero deaths and no new local transmissions in nearly three weeks. Vietnam was among the first nations to re-open after lockdown, with businesses gradually resuming some sense of normalcy since the end of April. Vietnam's effectiveness in managing the outbreak was helpful in restoring positive sentiment to the stock market, despite macroeconomic data showing the huge economic cost of the COVID-19 shutdowns.

The VN Index rallied 17% in April, even in the face of continuously strong foreign outflows of USD296 million in the month and USD728 million YTD. During the month, listed companies reported grim 1st quarter results, with profit declining 27.5% y-o-y. The market's earnings decline came mostly from the huge losses at airline and petrol retailing companies, as well as declining profit at Sabeco (SAB), the largest local beer company. Analysts revised down their 2020 earnings estimates, which are now expected to decline by 6-10%.

The fund's class A NAV per share increased 16.3% in April. Earnings growth of the fund's portfolio in Q1 was more upbeat at an average of 9.1% versus the negative growth of 27.5% of the market. Leading the fund's recovery was FPT (+24.6%), which announced positive quarterly earnings results with revenue and net profit increasing 17% and 19.3% respectively. Software outsourcing (+29% y-o-y) and telecom services (+27% y-o-y) were the key growth drivers. Despite possible short-term headwinds from the escalation of COVID-19 in the US and EU (which could cause project delays and deter new project acquisitions), we believe FPT's software outsourcing business could emerge as a long-term beneficiary. There will be increasing demand for digitalization while potential clients may decide to diversify away from Chinese and Indian peers whose operations and project delivery ability have been disrupted by the outbreak. As of the end of April, FPT was traded at 3Y PEG 0.7x and 2020 P/E of 9.8x. The company will pay the second tranche of its 2019 cash dividend at USD0.04 per share in May while the 2020 cash dividend was approved during the recent Annual Shareholder Meeting at USD0.085 per share, equivalent to a dividend yield of 3.9%.

Hoa Phat Group (HPG, +28.6%) was another major contributor to the fund's performance in the month. The company's Q1 results topped expectations, as revenue rose 28.5% y-o-y and net profit climbed 26.9% y-o-y. The growth was attributed to the strong performance of its agriculture business, which saw earnings jump five times on rising pork prices. Meanwhile, construction steel recorded 8% y-o-y earnings growth, outperforming the sector as the company expanded market share to 32% in Q12020 from 26% at the end of 2019, with sales volume increasing 5% y-o-y versus the 15% volume drop of the sector. HPG's steel segment continued to do well in April, delivering sales volume of 270,000 tonnes in construction steel (+14.0% y-o-y), despite the social distancing measures in place during the first 22 days of the month. We expect HPG will be one of the beneficiaries of the acceleration of public investment (which is part of the Government's COVID-19 response) with its highly competitive production costs, nationwide distribution network, and high quality products

Our mid-cap holdings in the logistics sector have also delivered encouraging financial performances, reporting positive quarterly earnings growth. Of note, Viettel Post, the e-commerce delivery company (VTP, +20%), announced that revenue surged 84% y-o-y and net profit soared 26% y-o-y. Viconship, the sea-port operator (VSC, +27.3%) and Saigon Cargo, the air cargo terminal operator (SCS, +15.5%) reported earnings growth of 41% and 8% respectively, on slight volume growth and cost efficiencies. We expect slower growth in Q2 and the near-term outlook could be more challenging for these companies due to Vietnam's three-week social distancing period in April as well as global supply chain disruption. However, we think they should be able to weather this difficult period and rebound in subsequent quarters given their healthy balance sheets, net cash positions (virtually no debt for SCS and VSC) and positive cashflows.

Laggards in April included Vietcombank (VCB, +10.5%) and Vinamilk (VNM, +9.6%). For Q12020, although the banking sector reported 3.4% earnings growth, VCB announced net profit declined 11.1% y-o-y as the bank was much more aggressive among Vietnamese banks in accelerating its frontloading of provisions (+43% y-o-y) to prepare for COVID-19 impact. While Q120 total operating income (TOI) rose a modest 4% y-o-y, we should see a boost in TOI from the exclusive bancassurance deal with FWD in the following quarters. In a base case scenario, we expect 5% net profit growth in FY2020 and ROE will be maintained at 19%. VCB has been one of the best bank franchises in Vietnam with good asset quality and we believe the bank has a strong war-chest and a proven ability to be resilient during this turbulent time. We forecast earnings growth can recover to 15-18% in FY2021-2022.

VNM's Q1 profit (-1% y-o-y) slightly trailed our forecast mainly due to the escalation of COVID-19, which resulted in undermining revenue from the school milk program under extended school closures. The company expects sales and profit will return to growth trajectory in subsequent quarters as schools re-open in May and from good export growth (24% y-o-y in April). The company is traded at a reasonable valuation of 2020P/E of 15.8x and provides a good dividend yield of 5.1%. VNM has defensive characteristics with pristine balance sheets, a high cash balance (net cash of USD 400million as of end Q12020) and greater clarity to future cash-flow potential.

We continue to invest in well-managed companies with solid balance sheets and cash flow characteristic, attributes that should make them more resilient in an economic downturn. At the same time, we expect to build up positions in stocks with strong recovery prospects post COVID-19, potentially in the retailing, logistics, and industrials sectors; and get back to being fully invested.

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Macroeconomic Commentary

COVID-19 impact had a severe impact on Vietnam's growth and inflation in the month of April. Thankfully, the public health measures that Vietnam's Government have taken "flattened the curve", so the number of active COVID-19 cases in Vietnam never came close to overwhelming the country's hospitals, nor has it experienced one related death. Vietnam only experienced a brief three-week "lock down" after which most of the economy re-opened.

Many have asked how Vietnam has contained COVID-19 to only 288 cases at the time of writing. Vietnam has vigilantly fought this pandemic on three fronts:

1. Pervasive contact tracing was implemented early on. Those identified as having the virus (categorised as "F0") are immediately sent to special care hospitals. Those who were in direct contact with an F0 (categorised as "F1"), predominantly close friends and families, are quarantined at special government-managed facilities for at least 14 days. F2 individuals are those that have had indirect contact with a F0 or direct contact with a F1 and must be quarantined at home for 14 days. Testing of these individuals is done regularly.
2. Homes or entire apartment floors have been locked down (no entry or exit) for 14 days if an F0 patient is discovered at the location. Even the largest hospital in Hanoi was locked down for 14 days.
3. Aside from the closure of all hotels, restaurants, and non-essential services, Vietnam also restricted travel within the country as well as international arrival. In certain cities, the local government required all arrivals from other parts of the country to be quarantined in special government-managed facilities for at least 14 days. All international arrivals (which is essentially limited to "experts") are quarantined in government-managed facilities for at least 14 days.

Anecdotally, some say that Vietnam's warm weather may play a role in reducing the viral impact while others have pointed to some benefit from the BCG vaccine, which everyone in Vietnam receives when they are young, could be a factor in the low number of cases.

That said, COVID-19 had a major impact on the country's economy due to the partial lockdown during most of the month of April, which severely reduced domestic consumption. Furthermore, Vietnam's open economy is highly exposed to the on-going plunge of growth in the rest of the world due to the importance of exports, which are equivalent to about 100% of GDP, as well as tourism.

Retail sales plunged 26% yoy, which dragged down the growth rate of real retail sales (i.e., stripping out the impact of inflation) from +1.6% yoy in 1Q20 to-9.6% yoy in 4M20, versus +8.8% in 4M19. Part of that drop was attributable to a 38% yoy fall in tourist arrivals in 4M20, which was driven by a 48% plummet in the arrival of Chinese tourists who typically account for about one-third of the visitors to Vietnam.

The manufacturing sector's deterioration accelerated in April, with Vietnam's PMI plunging from 41.9 in March to 32.7 in April. Manufacturing output growth fell from 7% yoy in 1Q20 to 3% in 4M20, driven by a drop in the growth in the production of mobile phones from 11% to 3.8% in 4M20. The drop in the manufacturing of mobile phones reflects the fact that global cell phone shipments fell by an unprecedented-11.8% yoy in Q1, according to IDC.

The slowdown in the Vietnam's manufacturing sector was also driven by an accelerated drop in the production of clothes and footwear, and by the fact that some automobile assembly plants shut down (most of Vietnam's FDI factories have not been shut down due to COVID-19). The manufacturing sector contributes nearly 20% to the country's economy, so the drop in manufacturing output growth from 11% yoy in 4M19 to 3% yoy in 4M20 would subtract about -1.5%pts from Vietnam's GDP growth rate.

FDI inflows declined nearly 10% yoy in 4M20; as about half of FDI inflows in recent years have funded the development of new factories, COVID could continue to impact the country's manufacturing output growth next year. That said, there are an increasing number of articles appearing in the international business media highlighting the likelihood multinational companies will increasingly move their production facilities from China to Vietnam once the medical issue completely abates.

In contrast to the negative points outlined above, the 58% YTD plunge in the Brent oil price at the end-April (and a 11% drop during the month of April) prompted a near 30% cut in local petrol prices, which in turn led to a drop in inflation from 4.9% yoy in March to 2.9% in April.

Additionally, Vietnam's exports have remained more resilient than its regional peers, growing by nearly 5% yoy in 4M20 according to the General Statistics Office (in the month of April exports fell -4% yoy, versus-24% yoy in Korea). As a result, the country's trade surplus expanded from nearly USD1 billion in 4M19 to USD3 billion in 4M20.

The widening trade surplus coupled with falling inflation led to a 1.3% appreciation in the unofficial value of the VN Dong during the month of April. As at the end of April the VND had depreciated by 1.2% YTD.

Macroeconomic indicators

	2019	Apr-20	2020YTD	Y-O-Y
GDP growth[1]	7.0%			
Inflation (%)	5.2%			2.9%
FDI commitments (USDbn)	22.6	3.3	9.9	32.20%
FDI disbursements (USDbn)	20.4	1.3	5.2	-9.70%
Imports (USDbn)	253.1	20.4	79.9	2.10%
Exports (USDbn)	264.2	19.7	82.9	4.70%
Trade surplus/(deficit) (USDbn)	11.1	0.7	3	
Exchange rate (USD/VND)[2]	23,190	23,505	1.3%	

Sources: GSO's estimate, Vietnam Customs, SBV, VCB, MPI |1. Annualized rate, updated quarterly| 2.(-) Denotes a devaluation in the currency

Key terms

	Class A[1]	Class B	Class C	Class D	Class E	Class F[3]	Class G
Currency	USD	USD	EUR	EUR	USD	GBP	JPY
Min. Investment	500,000	5,000	500,000	5,000	500,000	3,000,000	10,000,000
Management fee	1.25%	2.00%	1.25%	2.00%	1.25%	1.25%	2.00%
Performance Fee	None	15%[2]	15%[2]	15%[2]	15%[2]	None	None
Bloomberg	FOVCPVA LX	FOVIEBU LX	FOVIECE LX	FOVIEDE LX	FOVIEEU LX	-	FOVCPVG LX
ISIN	LU1163030197	LU1163027052	LU1214542463	LU1214545136	LU1286782559	LU1286782716	LU1286783011

[1] Class A Shares are restricted to former shareholders of VNI.
[2] 15% of the outperformance of the NAV per Share over the Adjusted Reference NAV as described in Section IX of the Forum One-VCG Partners Vietnam Fund Prospectus.
[3] UK investors should note that Class F Shares will comply with the restrictions on the payment of commissions or rebates as a result of the UK Financial Conduct Authority's Retail Distribution Review (RDR).

Fund information

Launch date	14 July 2015
Legal Entity Identifier (LEI)	5493003GR1U7LK7K6767
Trading Period	Daily Subscriptions/Redemptions
Fund Size	USD32.4m
Incorporation	Luxembourg
Registered	UK, The Netherlands, Germany, Singapore, Austria, Switzerland, Sweden
Management company	Edmond de Rothschild Asset Management (Luxembourg)
Investment manager	VinaCapital Fund Management JSC
Depository Bank	Edmond de Rothschild (Europe)
Auditor	PwC Societe Cooperative Luxembourg
Swiss representative	First Independent Fund Services Ltd, Klausstrasse 33, CH-8008 Zurich, Switzerland
Swiss paying agent	NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, P.O. Box, CH-8022 Zurich, Switzerland

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