

# Vietnam Equity Special Access Fund (VESAF)

31 March 2019

NAV/share: VND11,864 (USD0.5113)

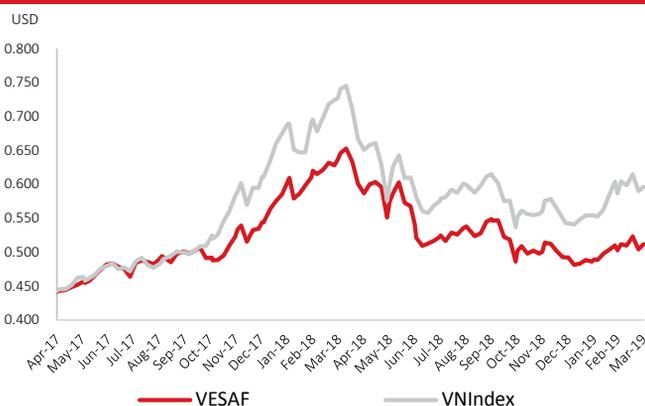
VESAF is a fund that invests in all equity opportunities unencumbered by foreign restriction or size. The strategy of the fund is to take meaningful stakes in companies with a robust franchise that we believe can benefit from the domestic growth of the country.

## PERFORMANCE SUMMARY

	Fund	VN Index
March 2019	1.7%	1.6%
Year-to-date	3.9%	9.8%
Cumulative since inception	16.3%	35.5%

\* Performance figures are in USD (net off operating and management fees)

## PERFORMANCE CHART



TOP 5 HOLDINGS	SECTOR	NAV (%)	2019F PE (x)	ROE (%)
FPT	Technology	12.2%	8.9	19.0
PNJ	Consumer Discretionary	7.8%	13.8	26.9
MWG	Consumer Discretionary	7.5%	10.4	29.8
MBB	Financials	7.1%	6.1	19.2
SCS	Industrials	4.3%	16.3	42.7
<b>Total</b>		<b>39.0%</b>		

## EQUITY ALLOCATION

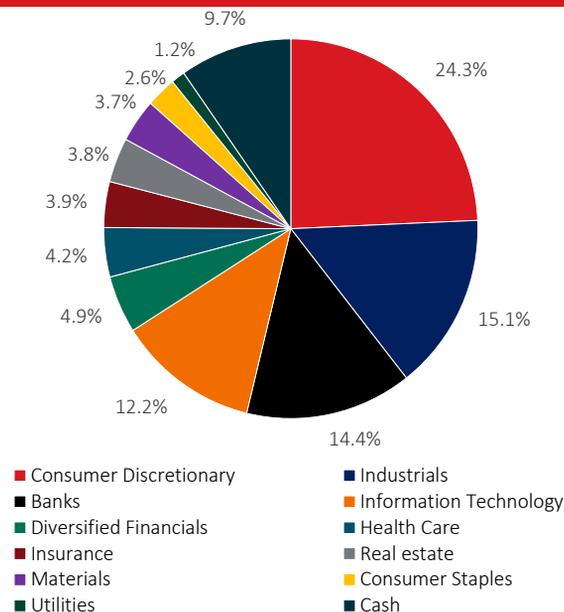
Small- & mid- cap	78%
Stocks traded on UPCoM	7%
Stocks at full Foreign Ownership Limit	51%

- Small- & mid- cap: stocks with market capitalization below USD2 billion
- UPCoM: Unlisted Public Company Market

## FUND INFORMATION

Structure	Open-ended fund
Launch date	25 April 2017
Fund size	VND217bn (USD9.3m)
Domicile	Vietnam
Valuation policy	NAV
NAV frequency	Weekly
Fund Manager	VinaCapital Fund Management JSC
Auditor	PwC (Vietnam) Ltd
Administrator & Custodian bank	Standard Chartered Bank (Vietnam) Ltd
Management fee	1.75%
Subscription/ Redemption frequency	Weekly on every Tuesday (T), requests must be submitted by 10:30am on T-1
Subscription charges	Subscription amount below VND2bn: 2% Subscription amount of VND2bn or above: 0%
Redemption charges	None
Currency	VND

## SECTORS ALLOCATION



See reverse side for important information

- Classified: Public

**MANAGER'S QUARTERLY COMMENTARY**

The new year has brought with it a new wave of optimism, with equities and credit rallying strongly across the world. The VN Index ended the first quarter up 9.8% in USD terms, buoyed by strong foreign inflows and hopes for a truce in the trade war between the US and China. Given the stability of the currency and outstanding macro outlook, foreign investors were strong buyers across the three bourses, and for the first three months of 2019 net foreign inflows totalled USD202 million. Of this amount, 80% came into the two foreign ETFs and a local ETF that tracked the large-cap index (VN30). As a result, the stock market's Q1 gain was mostly driven by large cap stocks with available foreign room (+10.8%), while stocks that are at full foreign ownership only inched up 1%. Of note, Vingroup family stocks contributed more than half of the Index's gain, increasing an average of 23% and accounting for 23.6% of the Index's weight. However, as foreign flow reduced in March, we saw money flow return to selective mid and small-cap stocks with appealing growth and valuation.

The fund's NAV per share increased 3.9% in Q12019, underperforming the VN Index as we have limited exposure to the large cap stocks which rallied strongly during the quarter. Instead, we continue to focus on quality stocks at full foreign ownership limits (FOL) at reasonable valuations and under-valued mid-cap stocks with better-than-market growth. The FOL stocks did not perform as well as the broader market during the quarter due to a lack of access, although they are in high demand from foreign investors. Ongoing off-exchange transactions showed foreigners are willing to pay price premium from 20%-40% for stocks like FPT, PNJ or MWG.

During March, most of our core holdings released guidance or held their Annual General Meetings (AGM), which shed light on their financial plans and strategies for the year ahead. Of particular note was FPT Corporation (FPT, +7.8% in Q1), which provided upbeat guidance, including revenue and profit-before-tax of USD1.1 billion (+15% y-o-y) and USD191 million (+16% y-o-y), respectively. Software outsourcing will continue to be the main growth driver for FPT in the foreseeable future, with a focus on digital transformation. The company also introduced its young top management team, which is expected to fuel the company's long-term growth, and approved a cash dividend of USD0.09 per share, implying a dividend yield of 4.4%.

Retail companies such as MWG and PNJ also announced optimistic business targets for the year, which project earnings growth varying from 23% to 25%. Meanwhile, Military Bank (MBB) stated that it aims to achieve a pre-tax profit of USD427 million in 2019, an increase of 27% y-o-y. Notably, MBB recently paid first tranche of cash dividend of USD0.03 per share, translating into dividend yield of 2%.

Solid growth is also expected in the logistics sector, with Saigon Cargo Service (SCS) announcing 2019 guidance of USD33 million in revenue (+ 12% y-o-y) and USD23 million in profit-before-tax (+15% y-o-y). SCS recently reported its Q1 2019 international cargo volume numbers, which grew by 16% y-o-y, largely driven by new customer Japan Airlines, which started working with SCS from May 2018.

***New stock***

As mentioned in the previous report, we added a large position in Phuoc Hoa Rubber (PHR) in February. The rationale was that we no longer see PHR as an agriculture/commodities company (the rubber business contributed just 0.8% of profit in FY 2019), but rather a company that is tapping its vast land holdings of around 4,500 hectares in Binh Duong province (a two-hour drive from Ho Chi Minh City) and selling them to third-party industrial park developers. The size of PHR's land bank is sufficient for them to sell or develop for the next five years. During the recent AGM, the company revealed they will transfer land to Vietnam-Singapore Industrial Park (VSIP), the most successful industrial zone developer in Vietnam, to form VSIP 3, as well as a plan to divest their stake in another industrial park. These and other plans should generate strong cash flow and annual projected net profit of USD43 million over the next three years. The company will pay a cash dividend of USD0.17 per share, indicating a yield of 7%. The stock returned 19% in March and has increased 30% since we bought, and we partially realised profit during the rally.

The fund's exposure to FOL stocks remained at the conviction level of 51%, while most of the remaining positions are in mid-cap stocks. Foreign ownership restriction is a matter being watched closely with keen interest by foreign investors especially as the State Securities Commission is working on the new Securities Laws, slated for release in Q3. However, there is widespread skepticism amongst the investor community that FOL will not be drastically removed given the complicated nature of ministry level controls on the various companies which are currently subject to these ownership restrictions. We expect that FOL will remain for at least another 1-2 years and will be very happy if it is removed sooner.

The fund's portfolio is traded at a compelling valuation of 10x trailing P/E and 9.2x 2019F P/E compared with 16.6x trailing P/E and 16x 2019F P/E of VN Index, according to Bloomberg.

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## Enquiries

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## Disclaimer

The current Prospectus, the Fund Charter as well as the semi-annual, annual reports of Vietnam Equity Special Access Fund (“the Fund”) are the sole binding basis for the purchase of Fund shares. These documents can be obtained in English and free of charge from the Investment Manager’s website (<https://wm.vinacapital.com/en/vietnam-equity-special-access-fund-vesaf>). This document is prepared by VinaCapital Fund Management Joint Stock Company (“VinaCapital”) for the information of shareholders in the Fund and other eligible recipients, on the basis of information obtained from sources VinaCapital considered to be reliable, but VinaCapital does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness. The information contained in this document is for background purposes only and is subject to updating, revision and amendment, and no liability whatsoever is accepted by VinaCapital or any other person, in relation thereto. Please refer to the Fund’s prospectus for more information on the Fund and its risks. This document is neither a prospectus nor an offer or invitation to apply for shares and neither this document nor anything contained herein shall form the basis of any contract of commitment whatsoever. Past performance is not necessarily guidance to the future. The value of shares in the Fund and the income derived there from may go down as well as up. You are advised to exercise caution in relation to this document. If you are in any doubt about this document or any information contained in this document, you should obtain independent professional advice. The information contained in this document is strictly confidential and is intended only for the use of the individual or entity to which VinaCapital has provided the report. No part of this report may be reproduced or distributed without the prior consent of VinaCapital.