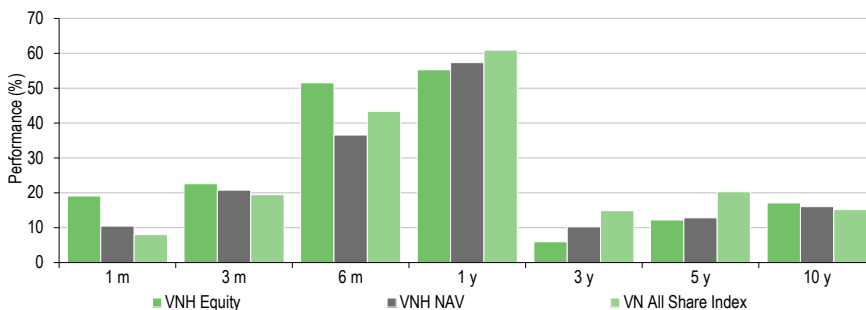


# VietNam Holding

The next five years and beyond

In early 2021, the 13th National Congress of the Communist Party of Vietnam elected a new politburo government for the next five years. There is strong continuity in the government's structure and Dynam Capital (Dynam), which took over management of VietNam Holding (VNH) nearly three years ago, describes the government's mandate as 'pro-business'. Dynam states the government emphasises economic growth with a big push to develop domestic infrastructure, including a new international airport and urban metro systems in Hanoi and Ho Chi Minh City. Vietnam handled COVID-19 well and recorded 2.9% GDP growth in 2020 versus a decline in the world economy of 3.5% (IMF data). This growth paves the way for the continued expansion of domestic consumption and Dynam's investment team chooses a tightly focused selection of businesses set to benefit from the positive demographic, industrial and urbanisation trends.

## VNH's relative performance (TR) has strengthened over the past 12 months



Source: Refinitiv, Edison Investment Research. Note: Data to end-May 2021.

## Why VNH?

According to the manager, VNH is differentiated from its two London-quoted peers (VEIL and VOF) by three major factors. Dynam only manages equities and is 100% focused on VNH (no fixed income, real estate or commodities, no house money or other mandates). It has also been a signatory to the United Nations Principles for Responsible Investment (PRI) for over a decade, the longest of the three funds. Dynam considers ESG principles an integral part of its investment process. We believe VNH's slightly wider discount than peers' average of 16.6% (18.1% three-year average for VNH) has the potential to narrow and reward patient investors.

## The analyst's view

We believe this country specialist fund offers investors exposure to a high-growth frontier market with conviction stock ideas across the market cap spectrum. The transformation that Vietnam began 30 years ago is in full swing. The country provides an array of investment opportunities and VNH is well positioned to provide exposure to these. In particular, c 60% of the fund is focused on the mega trends of industrialisation, urbanisation and consumption, supported by the country's recent new five-year plan. VNH's performance relative to the index can be volatile, as it is a very concentrated fund. Over the past month (to end-May), the top four holdings (39% of NAV) drove strong outperformance vs the index (19% NAV TR vs 8% for the index), resulting in the fund's NAV outperforming over one and three months.

**NOT INTENDED FOR PERSONS IN THE EEA**

Investment trusts  
Vietnamese equities

28 June 2021

**Price** 262.0p

**Market cap** £111.7m

**AUM** £138.3m

NAV\* 324.5p

Discount to NAV\* 19.3%

\*Including income. As at 25 June 2021.

Yield 0.0%

Ordinary shares in issue 42.6m

Code VNH

Primary exchange LSE

AIC sector Country Specialists: Asia Pacific

Benchmark VN All Share index

52-week high/low 263.0p 147.0p

NAV\* high/low 324.5p 170.7p

\*Including income.

## Gearing

Net cash at 30 April 2021 2.9%

## 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 appointment of the current manager, Dynam Capital.

## Bull points

- Environmental, social and governance (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 £112m (note: up from c £75m 12 months ago) limits liquidity to some extent.
- Wider than peers' double-digit discount.
- The trust has relatively high fees for an LSE-listed trust, but is in line with its two peers, as Vietnamese equities are expensive to run.

## Analysts

Victoria Chernykh +44 (0)20 3077 5700

Sarah Godfrey +44 (0)20 3681 2519

[investmenttrusts@edisongroup.com](mailto:investmenttrusts@edisongroup.com)

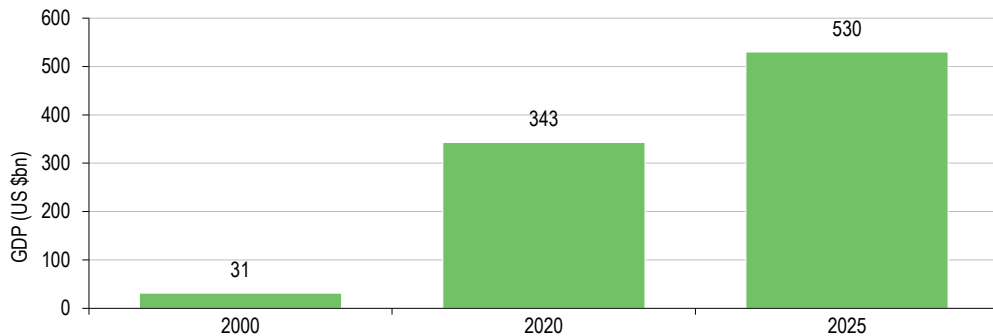
[Edison profile page](#)

**VietNam Holding is a research client of Edison Investment Research Limited**

## Focused equity portfolio captures economic growth

Dynam believes that Vietnam is currently going through an acceleration in economic growth. Exhibit 1 illustrates that at the turn of the millennium, the Vietnamese economy was worth c US\$30bn. This has now grown more than 10 times to c \$340bn (in nominal terms). The team expects it to reach US\$0.5tn within five years.

**Exhibit 1: GDP growth of Vietnam (US\$bn)**



Source: Dynam Capital, Edison Investment Research

Vietnam is a very open economy for international trade. The Global Economics think tank ranks Vietnam eighth in the world by trade openness (which is exports plus imports as a percentage of GDP). For example, during 2020, Vietnam successfully concluded a number of trade agreements, including entering the Regional Comprehensive Economic Partnership, covering the Asia-Pacific region, initiating an EU free trade agreement and entering into a free trade agreement with the UK towards the end of the year. Vietnam has already become a key part of the global supply chain. Its trade volumes are around twice its GDP and further international collaboration is likely to stimulate its economy and growth in trade. According to Dynam, one of the key forward-looking themes in Vietnam during 2020 was the relocation of manufacturing from other countries globally (particularly from China) to Vietnam.

Like China, Vietnam uses a five-year planning cycle. At the end of every five-year period, the government assesses its achievements, outstanding matters and future priorities. In our opinion, this system benefits investors, who get a better understanding of forthcoming social, economic and political issues. Each five-year plan sets out a budget and related areas of expenditure.

In February 2021, the country entered the next stage of economic progression with a new five-year plan. It focuses on reducing corruption and market inefficiencies and encourages investment in domestic infrastructure.

Given this backdrop, Dynam Capital continues to pursue investment opportunities, capturing three mega trends in Vietnam by investing in listed companies. Two of these trends, industrialisation (c 33% of thematic exposure in VNH's portfolio at end-April 2021) and urbanisation (c 17%) are directly linked to the government's key goal of developing infrastructure. The third largest thematic exposure, consumer (c 11%), aims to capture growth in consumption by the middle class, as the economy grows and income per capita increases. As the Vietnamese population's disposable income grows, they become more sophisticated consumers of goods and services as proportionately less of their income is needed for essentials like food.

The portfolio contained 28 holdings at end-April 2021 (22 holdings at end-April 2020), that is a few holdings more than the targeted 20–25 range. As shown in Exhibit 2, two major changes over the

past 12 months were the increase in banks' weighting (+14.5pp) from a low level (15.7% at end-April 2020) and a reduction in the retail sector (-8.2pp).

Exhibit 3 shows the two major retail positions that were reduced by the team: jewellery retailer Phu Nhuan Jewelry (-4.4pp) and mobile services giant Mobile World (-2.2pp). The Dynam team believes there will be an overhang in the retail sector from the COVID-19 economic crisis and resulting lockdowns. The sector is still overweight as it is a sizeable part of the consumer theme for Dynam, and the team retains conviction in the remaining retail holdings. Both holdings remain in the top 10 within the portfolio.

The team is currently upbeat about Vietnamese banks. Dynam points out that banks in Vietnam are more regulated than other industries, which forces them to adopt standards of best practice. This encourages them to maintain healthier balance sheets and operational resilience. The growth potential in the banking sector is vast, given the government's current growth plans for the economy and e-commerce developments. We note that the team was underweight banks before 2020 which, coupled with the previous overweight position in retail, was one of the major reasons for the fund's relative underperformance versus its two closest peers, and believe, it took courage to buy into them during the uncertainty of 2020. As it supplies businesses with capital, the banking sector is one of the key parts of the growing economy amid its demographic, industrial and urbanisation trends. This high-growth sector incorporates the three major themes that Dynam is pursuing.

#### Exhibit 2: Portfolio sector exposure at 30 April 2021

% unless stated	Portfolio 30 Apr 2021	Portfolio 30 Apr 2020	Change (pp)	VNAS index weight	Active weight vs index (pp)	Company weight/index weight (x)
Banks	30.2	15.7	14.5	27.2	3.0	1.1
Industrial Goods & Services	18.6	22.5	(3.9)	9.9	8.7	1.9
Real Estate	16.4	17.5	(1.1)	25.1	(8.7)	0.7
Telecommunications	10.5	14.7	(4.2)	3.4	7.0	3.0
Retail	9.8	18.0	(8.2)	4.7	5.1	2.1
Financial Services	6.8	0.0	6.8	6.0	0.9	1.1
Food & Beverage	1.5	1.9	(0.4)	10.8	(9.3)	0.1
Construction & Materials	1.2	0.0	1.2	3.6	(2.4)	0.3
Chemicals	1.1	0.0	1.1	1.0	0.1	1.1
Utilities	0.9	6.5	(5.6)	1.2	(0.3)	0.7
Other sectors	0.0	0.0	0.0	7.0	(7.0)	0.0
Cash	2.9	3.3	(0.4)	0.0		
	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>		

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

Exhibit 3 illustrates that within the top 10 holdings in the portfolio 12 months ago, two of the banks, Vietnam Prosperity JSC Bank and Vietnam Joint Stock Commercial Bank, had their weights materially increased, by 6.5pp and 5.9pp, respectively. Saigon Thuong Tin Commercial (4.2% portfolio weight at end-April 2021) is a new addition to the portfolio's allocation to banks.

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

Company	Industry	30-Apr-21	30-Apr-20	Change
FPT Corp	Telecommunications	10.5	14.7	(4.2)
Hoa Phat Group	Industrial goods & services	10.3	5.4	4.9
Vietnam Prosperity JSC Bank	Banks	9.1	2.6	6.5
Vietnam Joint Stock Commercial Bank	Banks	8.8	2.9	5.9
Military Commercial Bank	Banks	5.4	6.4	(1.0)
Mobile World	Retail	5.2	7.4	(2.2)
Vinhomes JSC	Real estate	4.9	1.8	3.1
Khang Dien House	Real estate	4.7	6.0	(1.3)
Phu Nhuan Jewelry	Retail	4.6	9.0	(4.4)
Saigon Thuong Tin Commercial	Banks	4.2	N/A	N/A
<b>Top 10 holdings</b>		<b>67.7</b>	<b>70.8</b>	

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

The telecommunications and industrial sectors had their weightings reduced by 4.2pp and 3.9pp, respectively, as the team took profits from stocks that performed well and reinvested cash into banks and financial services (which increased by 6.8pp).

Anticipating lower growth potential from a number of sectors, including food & beverages, construction & materials, chemicals and utilities, the team allocates to each less than a 2.0% weighting. A small increase in construction & materials (+1.2pp) as well as chemicals (+1.1pp), represent the industrialisation and urbanisation trends.

## Performance

Exhibit 4 illustrates a material improvement in relative performance over the past few months. VNH's favourable positioning in relation to the cyclical market recovery has paid off. The top 10 holdings, including the industrial group Hoa Phat and two banks, Vietnam Prosperity JSC Bank and Vietnam Joint Stock Commercial Bank, to which the team added during 2020, drove the outperformance. While VNH does not have a benchmark, we have used two Vietnamese equity market indices for comparative purposes. The fund has outperformed the VN Index (385 members, the broader market index of the two) and the VN All-Share Index (259 members) over six months and one year by 9.2% and 6.3%, and 12.1% and 9.2%, respectively, on a net asset value (NAV) total return basis.

VNH still lags both indices over the period of Dynam's tenure (from July 2018) and over the last three years. During FY19–20, VNH had a sizeable overweight position in the retail sector (18% at end-April 2020, reducing to 9.8% at end-April 2021, see Exhibit 2). The team held high-conviction names, which are still in the portfolio, albeit with reduced weightings, including Mobile World (MWG), Phu Nhuan Jewelry (PNJ) and retail-related Vincom Retail (VRE), as well as Thien Long Group (TLG, now sold) at a time when the retail sector was underperforming. VNH also held more smaller-cap companies in the portfolio, which underperformed the larger caps during that period (around 2018, the small caps traded at a discount of about 30% to the large caps). Following the addition of banks and a few other large-cap stocks, the portfolio is more balanced between small and large caps. In addition, the two tender offers since Dynam's appointment potentially contribute to the fund's historical underperformance. The team conducted a \$40.7m tender offer in FY19 to restructure the fund (June year end, see [our initiation note](#) for more details) followed by another offer for c \$19.6m in FY21. The company also bought back 0.5m shares (just over 1% of the share capital) during FY21.

During the last six months of FY20 and in early FY21, Dynam was gradually adding to banks and financial services, which performed strongly over these periods, while reducing poorly performing retail, in order to reposition the portfolio towards more cyclical sectors, which should support performance.

**Exhibit 4: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years	SC*
Price relative to Vietnam VN All-Share index	10.3	2.7	18.0	7.7	(12.5)	(21.1)	31.4	(6.5)
NAV relative to Vietnam VN All-Share index	2.3	1.2	6.3	9.2	(11.4)	(19.9)	14.7	(18.6)
Price relative to Vietnam VN index	13.1	9.8	21.2	-0.1	(10.2)	(18.9)	35.0	(4.0)
NAV relative to Vietnam VN index	4.9	8.2	9.2	2.1	(9.0)	(17.7)	17.8	(16.5)
Price relative to MSCI Emerging Markets	19.4	20.6	39.9	17.8	(4.8)	(10.9)	170.0	5.4
NAV relative to MSCI Emerging Markets	10.8	18.8	26.1	19.4	(3.6)	(9.6)	135.6	(8.2)

Source: Bloomberg, Dynam Capital, Edison Investment Research. Note: Data to end-May 2021. Geometric calculation. \*SC denotes the performance since the start date of the current manager on 16 July 2018.

The portfolio is now well positioned to benefit in 2021 from its allocation to economically sensitive sectors like banks, industrials and retail, should the economy continue to perform well supported by the global cyclical recovery and ongoing domestic growth.

Exhibit 5 shows VNH's discrete performance over the past five years, where Dynam is responsible for the last three. While this concentrated fund's return was more negatively affected by the market slump in March 2020 than Vietnam VN Index and Vietnam VN All-Share Index, the fund bounced back well in 2021. VNH returned 57.4% on an NAV total return (TR) basis over 12 months to end-May 2021, outperforming the Vietnam VN Index by 2.0% and the Vietnam VN All-Share Index by 13.3%, demonstrating the fund's strong alpha relative to these two indices.

#### Exhibit 5: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Vietnam VN All-Share Index (%)	Vietnam VN Index (%)	Vietnam VN30 Index (%)	MSCI Emerging Markets (%)
31/05/17	18.4	37.8	35.1	23.1	32.7	44.2
31/05/18	26.5	(1.1)	22.8	34.0	31.8	11.0
31/05/19	(17.3)	(5.9)	(1.0)	(1.4)	(6.7)	(3.2)
31/05/20	(7.5)	(9.5)	(4.9)	(8.4)	(2.2)	(2.2)
31/05/21	55.3	57.4	44.1	55.4	28.1	31.8

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

Exhibit 6 presents the averages for the Vietnam peer group of three London-listed trusts. VNH's market cap has grown materially from £75m (at end November 2020), as the fund has performed strongly over the past few months, and now exceeds £100m, but it remains the smallest among its Vietnam peers. This growth came despite the tender offer in November 2020 and the trust buying back 298,000 shares (£0.1m) over six months to end May 2021. VNH currently has 42.6m shares outstanding.

As the current manager was appointed in July 2018, the one-year NAV total return is still the most relevant, where it ranks second (by margin), sharing the top TR position with VEIL (up from third at end-November 2020). VNH's stellar performance over the past three months and during May, in particular, boosted the one-year TR. If the recovery continues, higher exposure (relative to the benchmark) to banks and some other cyclical stocks, such as industrials, positions the fund well to result in sustainable outperformance to the indices.

VNH has a different mix of sectors, compared to its two peers, but all three funds currently have high exposure to cyclicals. VEIL is slightly more overweight banks (33% versus 30% for VNH, 27% for the VN All-Share index) and has more real estate (26% versus 16%, 25% for the index) in particular, while all other sectors are represented in VEIL at less than 10% (end-May 2021 portfolio). VOF's highest weighting is in construction & materials (24% versus 1% in VNH, 4% for the index). VOF allocates a 20% weighting to financial services (including banks) and to the real estate sector.

While VNH's ongoing charges are 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 \$300m and 1.5% on NAV between \$300m and \$600m. The board notes that the initiative lowers the total expense ratio (TER) of the fund 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	107.0	60.83	31.1	83.9	400.6	(17.5)	3.08	No	100	0.0
Vietnam Enterprise	1,449.1	60.85	45.8	194.8	549.1	(14.2)	2.19	No	100	0.0
VinaCapital Vietnam	781.8	39.4	38.3	135.1	318.9	(16.2)	1.72	Yes	100	2.1
Simple average	779.3	53.7	38.4	137.9	422.9	(16.6)	2.33		100	0.7
<b>Rank</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>			<b>2</b>
Vietnam VN Index		35.0	26.7	113.6	225.3					

Source: Morningstar, Bloomberg, Refinitiv, Edison Investment Research. Note: \*Data to end-May 2021. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

---

## General disclaimer and copyright

This report has been commissioned by VietNam Holding and prepared and issued by Edison, in consideration of a fee payable by VietNam Holding. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

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

1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342

Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia