Vietnam Equity (UCITS) Fund (VEF)

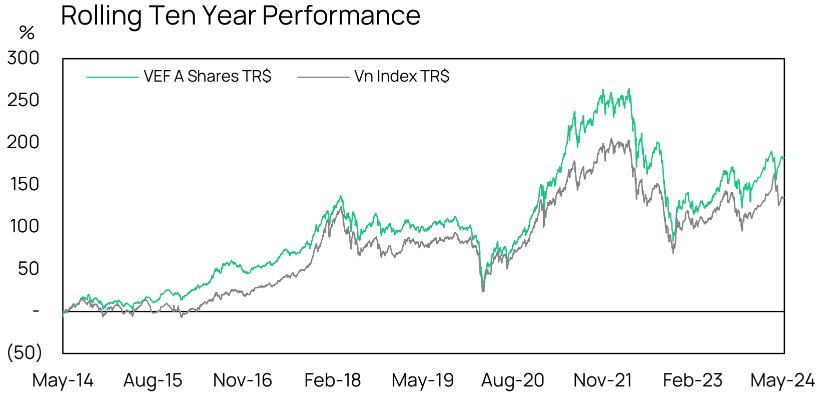
May 2024

Quynh Le
Lead Portfolio Manager

At a Glance

- VEF rose 4.9% in May, 0.6% ahead of the VNI's return.
- We continued our rebalancing activities by reducing banking holdings that have rallied well year-to-date.
- We made the decision to reallocate those funds into materials. This was not due to a bearish outlook on banks but rather an opportunity to capitalise on the potential outperformance of materials, and possible legislative changes to provide further upside.

Rolling Ten Year Performance



Performance

All reporting on this page is in total return US dollar terms from the last business day in Vietnam unless otherwise stated

	Net Assets	NAV/Share	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
VEF A (USD)	$226.63mn	$31.64	4.9	1.3	11.7	21.9	-8.3	43.4	182.4
VEF B (EUR)	€68.85mn	€1,647.12	3.7	1.3	15.0	21.2	4.5	50.4	N/A
VNI (Reference Index)	N/A	N/A	4.3	-1.9	7.2	10.4	-9.7	31.4	134.8

Fund Commentary

Capitalising on the strong YTD performance of some of our bank holdings, we slightly reduced these positions at a profit to reallocate into the materials sector, focusing particularly on steel and fertiliser companies. We increased our investment in steel producers HPG and introduced Hoa Sen Group (HSG), which specialises in galvanised steel. In May, HSG achieved a 12.4% increase in stock price after Q1 revenue growth reached $364mn (+32.5% YoY), with FY24 revenue forecast at $1.4bn, reflecting an EPS growth of 20.6% YoY. This impressive performance was supported by a significant expansion in gross profit margin, notably benefiting from improved pricing spreads between galvanised products and input costs.

We increased our stake in DCM (+22.3% MoM), anticipating the potential upcoming VAT law changes to reduce input costs by 7-10%. DCM is in sound financial health, marked by strong earnings prospects and a debt-free balance sheet. We project DCM's NPAT to increase by 43% YoY in 2024 due to steady urea prices and input costs and the substantial 84% reduction in depreciation expenses as outlined below.

We also topped up MWG, which saw a 15.3% MoM gain. This decision aligns with our strategic focus on leading companies within the retail sector, where 20% of the portfolio is now concentrated. MWG's continued strength is evident in its 4M24 sales growth of 16.8% YoY, significantly helped by key growth driver, BHX. With BHX's 4M24 sales surging 43.1% YoY, this strongly implies its 18-month restructuring plan is now bearing fruit. We are encouraged by MWG's robust sales growth across all segments and believe the company is on track to exceed its full-year guidance.

Stock in Focus: Petrovietnam Fertilizer & Chemicals Corporation (DCM)

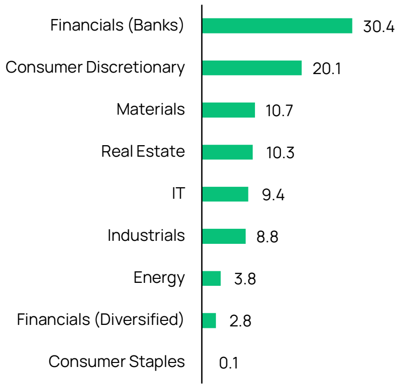
Established in 2008, DCM is one of Vietnam's leading fertiliser producers, specialising in Urea and NPK (nitrogen, phosphorus, and potassium) with a market cap of $800mn. DCM plays a crucial role in Vietnam's industrial and agricultural sectors, significantly contributing to the nation's food security. Our conviction in DCM stems from stable urea and input costs, excellent cash flow, a debt-free balance sheet, and a possible VAT law change. DCM was awarded "Top 10% of factories with the lowest energy consumption in the world", having successfully lowered energy consumption per ton by 8% since operations began, underscoring its effective cost management. Its recent acquisition of Korea-Vietnam Fertilizer (KVF) has doubled NPK production and enhanced market access, helping its growth prospects and highlighting its strong cash position.

Commanding higher margins with increasing demand, the KVF acquisition will allow DCM to capture a larger market share. DCM has also been managing its cost structure; its urea plant fully depreciated as of September 2023, leading to a significant 84% reduction in depreciation expenses. Additionally, DCM controls input costs by securing favourable gas supply agreements, bolstering its competitive advantage. With $63mn in capital expenditure slated for 2024, including the acquisition of KVF, a new office in HCMC, and the development of a carbon dioxide plant, underscore DCM's plans for growth. Proposed changes to VAT law, expected to be effective from 2025, will reclassify fertiliser products. This will allow DCM to apply for a 7-10% rebate on input materials, such as gas, which constitutes approximately 70-75% of the company's total cost of goods sold, significantly reducing costs and increasing margins. We believe DCM is well-poised to capitalise on the growing demand for fertilisers in Vietnam and its export markets, encouraged by its recent acquisition, cost management and the proposed VAT law amendment.

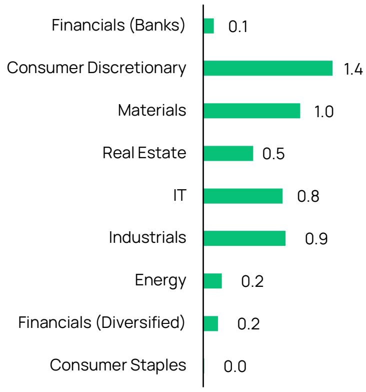
Top Ten Holdings (56.4% of AUM)

Company	Ticker	Sector	VEF (%)	VNI (%)	CH (%)
FPT Corporation	FPT	IT	9.4	3.4	8.8
Mobile World	MWG	Consumer Disc.	8.6	1.8	15.3
Phu Nhuan Jewelry	PNJ	Consumer Disc.	6.0	0.6	-1.6
FPT Retail	FRT	Consumer Disc.	5.6	0.5	5.4
MB Bank	MBB	Financials (Banks)	5.4	2.3	-0.6
Hoa Phat Group	HPG	Materials	4.7	3.3	10.3
Asia Com. Bank	ACB	Financials (Banks)	4.4	1.9	8.8
Techcombank	TCB	Financials (Banks)	4.3	3.3	3.6
Gemadept	GMD	Industrials	4.3	0.5	-0.9
Vietcombank	VCB	Financials (Banks)	3.9	9.6	-4.8

Sector Breakdown



Monthly Contribution



Vietnam Update

DRAGON CAPITAL

May 2024

Earnings from the private sector cut through the noise, presenting a possible route to market equilibrium

Minh Dang
Head of Research

Macroeconomics:

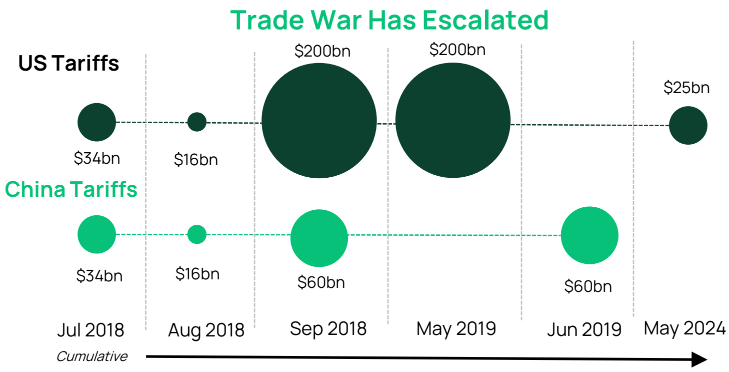
- The domestic gold price disparity has narrowed from 25% to below 10% after the SBV sells gold to retailers.
- The VND/USD rates in the official and black markets gradually stabilised, thanks to a drop in domestic gold prices and a cooling DXY in global markets.
- Domestic interest rates have risen slightly by 30-50bps across tenors, with participation from both SOEs and private banks.

Stock Market:

- The VNI increased 4.3% as the market found equilibrium after the recent FX volatility was priced in and the top positions of government were restored in early May.
- Our analysis of investment styles indicates a robust, alpha-driven market which favours high quality companies with strong earnings prospects.
- Margin lending reached healthy levels as the VNI's risk-reward profile improved on attractive valuations.

CHART OF THE MONTH

- **US-China Trade War 2.0:** Escalation is evident with a new $25bn tariff package on high-tech items.
- **FDI Exodus:** This is expected to accelerate the shift of production away from China to regions including Vietnam. FDI disbursement in Vietnam has reached $8.2bn, +7.8% YoY, while newly registered capital has amounted to $11.7bn, +2.0% YoY.
- **Several prominent projects:** $740mn bio-BDO factory from Hyosung (SK), $454mn from Trina Solar (CN), and $275mn silicon photovoltaic plant from Gokin Solar (CN).



Monthly Insights

The political turbulence that impacted the markets in April has eased after leadership elections were held in May. Mr Tô Lâm was elected as the new President of Vietnam, and Mr Trần Thanh Mẫn was appointed as Chairman of the National Assembly. All four top political positions have now been filled with no indication of change in policy direction. The stability in pro-growth policies should continue to support both fiscal and monetary initiatives. Despite these positive developments, public investment disbursement is anticipated to contract in 5M24 by 4.7% YoY. This decline can be partly attributed to the change in government positions and the turnover of provincial leadership. Additionally, the depreciation in the dong by 4.8% YTD has prompted foreign contractors to delay disbursements. We do not anticipate any significant acceleration in public spending in the short term, but we do believe the major obstacles are now overcome. Our view remains optimistic that disbursement could begin to improve towards year-end, particularly as the SBV has unveiled new guidelines to stimulate credit expansion. Commercial banks are now encouraged to target a system-wide credit growth from 2.5% at the end of May to 5-6%, and work towards a reduction in lending rates by 1-2% by the end of Q2 2024.

Year-to-date market returns demonstrate a robust, alpha-driven market, underscored by a pronounced bias towards stock selection based on earnings and business outlooks. Our analysis of various investment styles, including asset valuation, earnings valuation and growth, quality, stability, and momentum, reveals that the companies with performance in the top decile outshone those in the bottom decile in five out of six categories, indicating a market driven by fundamentals rather than speculation. The most significant performance differential was noted in quality, defined by ROIC, ROE, and cash flow generation, where top companies returned 24.7% compared to 4.9% for the bottom decile. The spread between low and high earnings multiples was the second largest, with companies at the lower end of the P/E and EV/EBITDA spectrum yielding 23.3%, compared to 8.3% by those at the higher end, trailing the index by approximately 4%. Market segmentation by size showed little divergence, as the VN30, mid and small-caps all revealed similar returns, indicating investors are prioritising company prospects over market capitalisation.

At the sector level, there was a sharp divergence in investor sentiment in response to policy impacts. The IT services sector surged over 50%, buoyed by optimism around Vietnam's semiconductor and AI potential, while the real estate sector lagged with a 3.8% return. As investors shift focus to earnings growth and visibility for 2024, some large-cap real estate companies face significant challenges due to their reliance on policy unlocking initiatives, prompting a cautious wait-and-see approach. Additionally, we observed much faster growth momentum in private companies compared to State-Owned Enterprises (SOEs), which are often constrained by political mandates. For example, state-owned banks may offer lower lending rates than their commercial counterparts, or some SOEs may delay projects until they receive clearer political guidance and confirmed government mandates. Despite these disparities, the overall stock market performance remains healthy, underpinned by strong fundamentals with 2024F PE of 11.6x and EPS growth of 18.5%. The private sector, in particular, is showing strong recovery momentum and is expected to continue driving the economy and market forward.

Key Indicators

Item	Unit	2019	2020	2021	2022E	2023E	2024F
GDP	$bn	334.4	346.6	366.1	408.8	430.0	463.0
Real GDP Growth	%	7.4	2.9	2.6	8.0	5.1	6.0
Services Growth	%	7.3	2.5	1.2	10.0	6.9	8.0
Agriculture Growth	%	2.0	2.8	2.9	3.4	2.6	2.8
Ind'l and Const'n Growth	%	8.9	3.3	4.1	7.8	3.5	5.0
Retail Sales Growth	%	11.8	2.6	-3.8	10.2	8.3	8.5
Prices							
CPI (Average YoY)	%	2.8	3.2	1.8	3.2	3.3	4.0
Money, FX and Interest Rates							
Money Supply M2	%	14.8	14.5	8.9	6.2	10.0	11.5
Average Lending Rate	%	9.7	8.6	8.5	13.7	8.7	8.2
5-yr VGB	%	1.9	1.1	0.9	4.7	1.6	1.4
VND : $	$1	23,150	23,085	22,800	23,550	24,250	25,000
External Sector							
Trade Balance	$bn	10.8	19.9	3.3	12.4	28.0	29.3
Current Account	$bn	12.2	15.1	-7.8	-1.5	17.4	20.7
Current Account / GDP	%	3.6	4.3	-2.1	-0.4	4.0	4.5
FDI Registered	$bn	36.0	28.5	38.5	27.7	36.6	38.0
FDI Disbursement	$bn	20.4	20.0	19.8	22.4	23.2	24.2
FX Reserves	$bn	80.0	98.0	106.5	85.0	89.0	100.0
Public Debt Fiscal Balance							
External Debt	$bn	122.8	130.1	138.8	141.2	138.0	140.3
Government	$bn	47.7	49.0	47.9	48.8	44.4	44.5
Enterprises (incl. FDI)	$bn	75.0	81.1	90.9	92.4	93.6	95.8
External Debt (% GDP)	%	36.7	37.5	37.9	34.5	32.1	30.3
Fiscal Balance (% GDP)	%	-2.6	-3.4	-4.0	-3.6	-4.0	-3.6

Key Stock Market Data

	HSX		HNX		UPCoM		Total	
	31-May-23	31-May-24	31-May-23	31-May-24	31-May-23	31-May-24	31-May-23	31-May-24
Market cap ($m)	182,509	202,082	11,870	13,163	44,163	58,190	238,542	273,435
Number of stocks	396	394	333	317	869	878	1,598	1,589
Number of large cap stocks (> $400mn)	63	77	7	10	19	18	89	105
Stocks with no room for foreigners	56	60	87	92	213	257	356	409
Market cap of stocks with no room ($mn)	25,616	11,257	2,308	1,849	11,222	20,865	39,147	33,972
Share of Market Cap with No Room (%)	14.0	5.6	19.4	14.0	25.4	35.9	16.4	12.4

Top 25 Companies by Market Cap

No	Company	31-May Price (VND)	Price YTD (%)	Mkt Cap ($m)	Wt in VNI (%)	PER 2022 (x)	PER 2023 (x)	PER 2024F (x)	PBV 2022 (x)	PBV 2023 (x)	PBV 2024F (x)	Yield 2022 (%)	Yield 2023 (%)	Yield 2024F (%)
1	Vietcombank	87,200	8.6	19,148	9.60	14.4	15.6	15.3	2.8	2.7	2.4	0.9	-	-
2	BIDV	47,100	8.5	10,549	5.30	14.1	15.2	14.2	2.0	2.1	2.0	0.2	0.1	-
3	Airports Corporation VN	103,500	56.8	8,852	-	32.8	22.1	24.0	4.2	2.9	3.6	-	-	-
4	PV Gas	80,100	6.1	7,228	3.60	12.9	15.3	18.1	3.1	2.7	2.7	3.0	4.1	3.8
5	Hoa Phat Group	28,600	12.6	7,187	3.30	12.6	24.3	15.2	1.1	1.6	1.6	2.2	-	1.2
6	Vietinbank	31,900	17.7	6,730	3.40	9.2	8.5	8.3	1.2	1.2	1.2	2.9	-	-
7	FPT Corporation	134,600	40.1	6,716	3.40	17.0	20.7	24.3	3.9	4.9	5.7	2.6	2.4	2.3
8	Vinhomes	38,850	-10.1	6,646	3.30	7.2	5.6	5.5	1.4	1.0	0.8	4.5	-	-
9	Vingroup	43,550	-2.4	6,542	3.30	23.4	79.1	867.5	1.9	1.5	1.4	1.7	-	-
10	Techcombank	47,000	52.4	6,505	3.30	4.5	6.2	7.6	0.8	0.8	1.1	0.1	-	3.2
11	VP Bank	18,000	-1.3	5,611	2.80	6.0	14.5	10.1	1.1	1.1	1.0	-	5.2	3.0
12	Masan Consumer	196,000	124.8	5,525	-	9.3	8.8	17.4	2.3	2.4	4.2	0.2	0.4	-
13	Vinamilk	65,400	-2.0	5,370	2.70	19.9	17.6	16.1	5.1	4.4	4.2	5.1	5.8	5.9
14	MB Bank	21,750	19.2	4,518	2.30	4.4	4.7	5.3	1.0	1.0	1.0	-	2.3	-
15	Masan Group	76,600	14.3	4,306	2.20	37.1	229.0	58.0	5.1	3.6	3.9	1.0	0.3	0.2
16	Asia Commercial Bank	24,650	22.8	3,762	1.90	5.1	5.7	6.1	1.2	1.3	1.3	-	3.6	1.7
17	Mobile World	63,600	48.6	3,654	1.80	15.2	373.3	28.9	2.6	2.7	3.6	1.2	1.2	0.8
18	Sabeco	58,300	-5.2	2,938	1.50	20.1	19.6	19.8	4.5	3.3	3.2	2.3	4.2	6.0
19	Binh Son Refining	22,800	22.6	2,777	-	2.7	6.7	12.4	0.8	1.0	1.2	3.3	3.8	3.1
20	HD Bank	23,250	14.5	2,661	1.30	4.9	5.8	5.6	1.0	1.3	1.2	-	4.3	-
21	LienViet Post Bank	25,800	63.8	2,593	1.30	5.0	7.2	13.2	0.9	1.2	1.8	-	-	-
22	Becamex IDC	60,800	-3.3	2,472	1.20	48.8	26.9	37.1	4.9	3.5	3.2	0.9	1.3	1.2
23	Vietnam Airlines	27,800	126.9	2,419	1.20	neg	neg	7.5	neg	neg	neg	1.3	1.1	-
24	VEAM Corp	44,000	27.9	2,297	-	6.4	7.4	9.9	1.9	1.8	2.4	11.1	12.3	11.4
25	Vietjet Air	107,100	-0.8	2,279	1.10	neg	253.7	26.7	4.0	3.8	3.4	-	-	-

Fund Information

DRAGON CAPITAL

May 2024

Fund	Bloomberg	ISIN	LEI	SEDOL	CUSIP	Listed
VEIL	VEIL LN	KYG9361H1092	213800SYT3T4AGEVW864	BD9X204	G9361H109	London (Main Market)
VEF-A	VIETNAM ID	IE00BD5HPH84	254900EVTJZ4VAUG4M43	-	-	-
VEF-B	VIETEUR ID	IE00BV8WVB25		-	-	-
VEF-C	VIETGBP ID	IE000LEKRJK0		-	-	-

Price Providers	Funds	Bloomberg	Contact
Jefferies International	VEIL	JCEF	Michele White / Trevor Hunt +44 207 898 7127 invcos@jefferies.com
SEI Investments	VEF	-	Transfer Agency Department TADublin@seic.com

VEF	
Subscription & Withdrawals	Daily

The Fund has appointed **SEI Investments – Global Fund Services Limited** as its fund administrator and transfer agent, and **SEI Investments – Depositary and Custodial Services (Ireland) Limited** as its depositary. A range of third-party fund platforms also include VEF in their product offerings, including Clearstream (www.clearstream.com), Fundsettle (www.euroclear.com), Banco Inversis (www.inversis.com), IFSAM (www.ifsam.lu), Pareto Securities (www.paretosec.com), Attrax (www.attrax.lu), MFEX (www.mfex.com), and Allfunds (www.allfunds.com).

Marketing / Investor Relations	
Will Ross	willross@dragoncapital.com
Rachel Hill	rachelhill@dragoncapital.com
Ailsa Cuthbert	ailsacuthbert@dragoncapital.com
Kenji Hamada	kenjihamada@dragoncapital.com
Steven Mantle	stevenmantle@dragoncapital.com
Thanh Le	thanhle@dragoncapital.com

DISCLAIMER

This document has been prepared and is distributed by Dragon Capital Management (HK) Limited for the information of existing investors, and other eligible recipients. This update has been provided to you following your express request to be included in such distributions, and your confirmation of eligibility. If you wish to unsubscribe from future updates at any time, please email unsubscribe@dragoncapital.com.

This document does not constitute or form part of, and should not be construed as, an offer to sell or issue, or the solicitation of an offer to purchase, subscribe to or acquire, securities of any entity, or any vehicle to be incorporated in connection with any possible transaction, or an inducement to enter into investment activity in any country, or in any other jurisdiction in which such offer, solicitation, inducement or sale would be unlawful prior to registration, exemption from registration or qualification under the securities laws of such jurisdiction. No part of the document, nor the fact of its distribution, should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever.

No disclosure, reference or other information included in this document shall be considered as offering or solicitation of any product or service. Nothing in this document shall be construed as investment advice or a recommendation to acquire or invest in any securities or other instrument or financial product. Any investment performance and market information provided in this presentation, including information about any particular companies, are provided for illustrative purposes only and are not investment recommendations.

No person is promulgating or providing any financial or other advice to any person, and is not making and does not intend to make an offer or solicitation in relation to any product, whether referred to in this document or otherwise. Any person requiring investment advice should consult a suitably qualified professional adviser prior to taking any investment decision.

The information contained in this document is subject to updating, and the accuracy, certainty or completeness of such information is not guaranteed. No representation or warranty, express or implied, is made, and no liability whatsoever is accepted by any other person, in relation thereto.

This document must not be distributed or otherwise made available to third parties without the consent of Dragon Capital, and then only to such recipients who have confirmed that distribution of such information is in compliance with all securities laws and regulations which apply to them.

For UK investors in VEIL: According to an analysis performed on behalf of VEIL by KPMG, VEIL does not meet the definition of an "offshore fund" for the purposes of the Offshore Fund Regulations in the UK. On the basis of this analysis, the Offshore Fund Regulations do not apply to VEIL, and therefore the reporting fund status regime is not relevant to VEIL or its UK investors. Please contact us if you require the full analysis from KPMG.

For Swiss Investors in VEF: This is an advertising document. The representative for Vietnam Equity (UCITS) Fund ("VEF") in Switzerland is Waystone Fund Services (Switzerland) SA, Av. Villamont 17, 1005 Lausanne, Switzerland, and the paying agent is Helvetische Bank AG, Seefeldstrasse 215, CH-8008 Zurich, Switzerland. The VEF prospectus, key information document (PRIIP-KID), the articles of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.

For Belgian investors in VEF: This is an advertising document. This document is intended only for professional investors (A) that are "qualified investors" in the meaning of Article 2, (e) of the EU Regulation 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, as amended from time to time or any successive legislation that may enter into force (each, a "Qualified Investor"), and (B) any such Qualified Investor shall act in its own name and for its own account and shall not act as intermediary, or otherwise sell or transfer, to any other investor, unless any such other investor would also qualify as a Qualified Investor.

For Italian investors in VEF: This is an advertising document (*materiale di marketing*). For professional investors only.

UCITS HAVE NO GUARANTEED RETURN AND PAST PERFORMANCE DOES NOT GUARANTEE FUTURE PERFORMANCE