

Vietnam's economy is in sound health as H1 data confirms positive momentum, but near-term market volatility may return



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Senior Economist

Macroeconomics:

- ▶ PMI surged to 54.7 from 50.3 in May, the strongest improvement in business conditions since June 2022. Consumption for the manufacturing sector increased by 10.8% YoY in 1H24 vs a decrease of 2.2% in H1 2023.
- ▶ Credit growth has reached nearly 6% YTD, equivalent to a 15% YoY increase, the highest since October 2022.
- ▶ International arrivals exceeded 8.8 million, a 58.4% YoY increase and 4.1% higher than the same period in 2019.

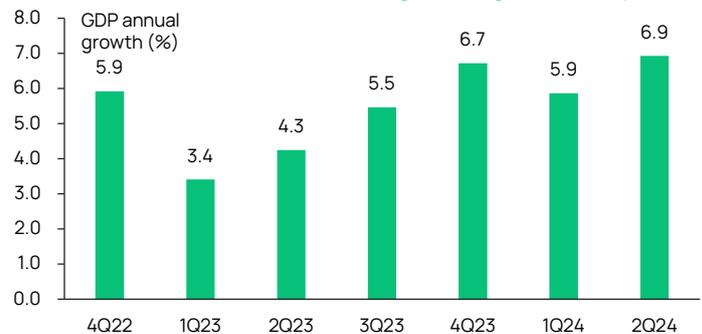
Stock Market:

- ▶ Despite continued foreign outflows of \$650 million in June, the VNI showed resilience, declining just 1.2%.
- ▶ The Fed nearing a rate cut decision, solid 2Q24 earnings outlook, and a final draft on non-prefunding requirement serve as upcoming catalysts for the VNI.
- ▶ Our broad market view remains cautious, emphasizing stock selection, given some sectors' valuations are already pricing in excessive future growth.

CHART OF THE MONTH

- Vietnam's GDP grew by 6.9% year-on-year in Q2 2024, marking the 11th consecutive quarter of growth.
- Updated AI technology in electronics and mobile devices has fuelled a new production cycle, causing the manufacturing sector to accelerate sharply at the end of the second quarter.
- With a 6.4% YoY growth in 1H24, the Government has revised its annual growth target from 6.0-6.5% to 6.5-7.0%. This adjustment corresponds to projected year-on-year growth rates of 7.4% for Q3 2024 and 7.6% for Q4 2024.

GDP Growth is Showing Strong Recovery



Monthly Insights

Vietnam continued its upward trajectory as GDP advanced 6.9% in 2Q24, marking the 11th consecutive quarter of growth. Q1 GDP growth was revised upwards to 5.9% from 5.7%, resulting in a 6.4% growth rate for the first half of 2024, the second-highest for this period since 2020. This strong performance exceeded expectations and was driven by the processing and manufacturing sectors (+8.7%). PMI reflected this momentum, jumping to 54.7 in June from 50.3 in May. Domestic consumption also grew in Q2, with an 8.8% overall increase. Goods consumption rose by 7.7%, F&B services jumped by 17.5%, and tourism surged by over 30%, evidencing a robust recovery with foreign visitors to Vietnam stable at 1.2-1.4 million per month.

We estimate global merchandise trade to resume with a 1.2% YoY increase in 1H24 after a 3% YoY decline in 2023, positively impacting Vietnam's export activities. The total export-import turnover of goods in 1H24 is estimated at \$369.6bn, up 16.0% YoY, with exports rising by 14.9% and imports by 17.3%. Key export groups saw substantial YoY growth, including electronics, computers, and components (+28.6%), machinery, equipment, tools, and parts (+16.2%), and phones and components (+11.3%).

From a policy perspective, Vietnam has maintained stable interest rates, with lending rates largely unchanged since the end of 2023 despite deposit rates rising approximately 50-100bps across various tenors. The VND's depreciation (4.8% YTD) against a strengthening USD and rising inflation may limit monetary policy options, making fiscal policy the primary growth driver for the remainder of the year. Public investment disbursement has been slow, fulfilling just 29.4% of the H1 target, indicating substantial room for expansion in the latter half of 2024. Additionally, ongoing reductions in taxes and fees, combined with a 30% increase in the base salary for state employees and a 6% hike in the minimum wage, are likely to bolster purchasing power to the end of 2024.

The equity market was relatively flat in June, with a TR\$ performance of -1.2%. Despite ending the month negatively, this performance showed resilience amidst significant foreign outflows from the VNI of \$650mn. This is not unique to Vietnam, however, as most Asian markets are facing similar pressures, and the liquidation of the iShares Frontier & Select EM ETF, with c.\$120mn AUM in Vietnam, further contributed to the redemptions. However, as the Fed nears a rate cut decision, Vietnam's equity market could benefit from a more stable and improved macro backdrop. The upcoming 2Q24 earnings season is expected to be solid, with preliminary earnings showing a YoY growth of 14-17% led by the retail, brokerage, materials, and IT sectors. The release of the final draft circular on non-prefunding requirements in July may further boost the VNI outlook and investor sentiment, reinforcing the government's commitment to a FTSE Emerging Market upgrade. Nonetheless, with some sectors' valuations pricing in excessive future growth, our broad market view is one of caution, emphasizing stock selection with a sufficient margin of safety; domestic investors absorbing the substantial foreign selling pressure with leveraged positions could potentially lead to a return of market volatility.

Vietnam Equity (UCITS) Fund (VEF)



Quynh Le
Lead Portfolio Manager

At a Glance

- VEF finished the month relatively flat at -0.2%, outperforming the VNI's decline of -1.2%.
- We trimmed some well-performing stocks and used the profits to top up in high-conviction retail, broker and port operator names.
- We were encouraged by the excellent H1 GDP and macro data and expect Q2 earnings results to reflect the overall economic recovery.

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)	\$232.40mn	\$31.59	-0.2	-2.7	11.5	15.8	-14.3	40.6	177.7
VEF B (EUR)	€74.45mn	€1,664.81	1.1	-1.6	15.8	18.4	-3.4	52.5	N/A
VNI (Reference Index)	N/A	N/A	-1.2	-5.4	6.0	4.9	-16.2	30.4	126.5

*Reporting dates from March 28 - June 28 due to UK public holidays

Fund Commentary

In June, we strategically took profit by trimming positions that had performed well, allowing us to make room for growth stocks with higher near-term potential. We increased our holdings in recovery stocks including port operators and selected brokerages, capitalising on the decline in their stock prices following the delay of the new KRX trading system, which temporarily depressed investor sentiment in the brokerage sector.

The iShares Frontier & Select EM ETF liquidation impacted some of our large-cap holdings, particularly in the banking and real estate sectors, which were sold off heavily and became top negative contributors to monthly performance. Additionally, profit-taking by local investors added to the minor downward adjustment after strong H1 stock rallies. In the energy sector, PVD's stock price temporarily stalled after a period of exceptional performance. Estimated revenue for 2Q24 is expected to be negatively affected by FX movements, leading to flat profit growth and a fall in favour. The purchase of new rigs was also slightly delayed, resulting in earnings being shifted towards 2025 rather than the previously anticipated H2 2024. Nevertheless, we remain optimistic about the company's growth prospects, with earnings forecast to rise 36% in 2024 and 71% in 2025.

Positive contributions came from the IT and retail sectors, which continue to perform strongly in line with our investment thesis. Additionally, ACV delivered a robust 17.9% stock return, reflecting the resurgence in tourism and its strong growth prospects as outlined below. We are confident in the portfolio's positioning and encouraged by the strong H1 economic numbers, with the portfolio 2024 EPS growth now forecast at 25.2%.

Stock in Focus: Airport Corporation of Vietnam (ACV)

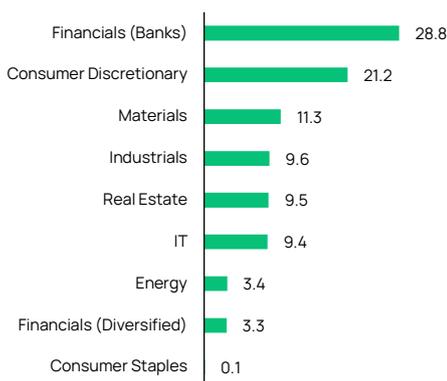
Formed in 2012, ACV has become a key player in the aviation sector, managing and operating 22 airports across Vietnam. With a market capitalisation of \$10.3bn, ACV plays a critical role in facilitating both domestic and international air travel, thus supporting Vietnam's economic growth and tourism industry. ACV's investment appeal lies in its quasi-monopoly position and significant growth potential driven by the rebound in international passenger traffic. The company's preliminary H1 2024 results show a revenue of \$440mn, (+21.7% YoY), and PBT of \$239mn, (+14% YoY). This surge is attributed to the strong recovery in international passengers, forex gain, and lower provision for bad receivables.

The accelerating construction of Long Thanh Airport and the expansion of existing major airport hubs should increase ACV's total capacity by over 50% to a passenger throughput of 180 million passengers by 2027. Long Thanh Airport expects to make a profit in its second year of operations while other expansion projects are expected to be profitable in their first year. Consistently running at over-capacity due to high demand from domestic and North-East Asian markets, they are significant drivers of ACV's long-term growth. In Q1 2024, ACV served 28 million passengers resulting in impressive top and bottom-line growth of 19.4% YoY and 78.6% YoY, respectively, outperforming expectations. The company is also awaiting the amendment of Decree 140/2020 which will allow it to pay stock dividends to raise equity for its upcoming expansion projects. ACV's revenue and NPAT for 2024-25 are estimated to reach \$911mn (+15.8% YoY) and \$1.0bn (+10.5% YoY), and \$386mn (+33.9% YoY) and \$439mn (+14.0% YoY), respectively. These projections are based on an assumed 14% YoY growth in total passenger numbers for 2024 and a normalised growth rate of 10% YoY for 2025. Short-term catalysts include the continued recovery of passenger numbers, lower airline-related provisions, and the approval to pay pending stock dividends from 2019. We estimate EPS growth for 2024 and 2025 at 35.9% and 14.0%, respectively.

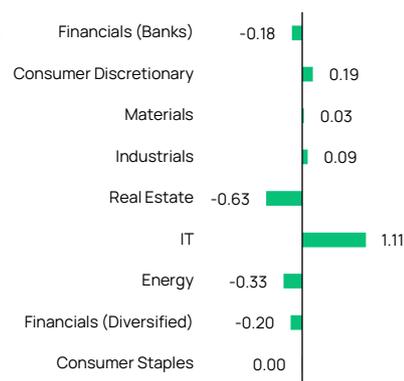
Top Ten Holdings (57.0% of AUM)

Company	Ticker	Sector	VEF (%)	VNI (%)	CH (%)
FPT Corporation	FPT	IT	9.4	3.7	12.2
Mobile World	MWG	Consumer Discretionary	8.9	1.8	-1.1
Phu Nhuan Jewelry	PNJ	Consumer Discretionary	6.2	0.6	1.7
FPT Retail	FRT	Consumer Discretionary	6.1	0.5	3.8
MB Bank	MBB	Financials (Banks)	4.8	2.3	2.1
Gemadep	GMD	Industrials	4.7	0.5	-1.0
Hoa Phat Group	HPG	Materials	4.6	3.6	-1.0
Techcombank	TCB	Financials (Banks)	4.2	3.2	-0.6
Asia Com. Bank	ACB	Financials (Banks)	4.2	2.1	-3.4
Sacombank	STB	Financials (Banks)	3.9	1.1	3.4

Sector Breakdown



Monthly Contribution



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Key Indicators

Item	Unit	2019	2020	2021	2022E	2023E	2024F
GDP	\$bn	334.4	346.6	366.1	408.8	430.0	465.6
Real GDP Growth	%	7.4	2.9	2.6	8.0	5.1	6.8
Services Growth	%	7.3	2.5	1.2	10.0	6.9	7.5
Agriculture Growth	%	2.0	2.8	2.9	3.4	2.6	3.0
Ind'l and Const'n Growth	%	8.9	3.3	4.1	7.8	3.5	7.8
Retail Sales Growth	%	11.8	2.6	-3.8	10.2	8.3	6.4
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	12.5	12.7
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	25,500
External Sector							
Trade Balance	\$bn	10.8	19.9	3.3	12.4	28.0	25.1
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	4.4
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	86.0
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	30.1
Fiscal Balance (% GDP)	%	-2.6	-3.4	-4.0	-3.6	-4.0	-3.6

Key Stock Market Data

	HSX		HNX		UPCoM		Total	
	30-Jun-23	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23	30-Jun-24
Market cap (\$m)	189,436	199,771	12,090	12,993	44,520	64,749	246,046	277,514
Number of stocks	395	395	332	315	866	878	1,593	1,588
Number of large cap stocks (>\$400m)	66	75	8	10	18	18	92	103
Stocks with no room for foreigners	59	62	90	91	215	261	364	414
Market cap of stocks with no room (\$m)	25,487	17,067	1,873	1,896	11,313	25,338	38,673	44,300
Share of market cap with no room (%)	13.5	8.5	15.5	14.6	25.4	39.1	15.7	16.0

Top 25 Companies by Market Cap

No	Company	30-Jun Price (VND)	Price YTD (%)	Mkt Cap (\$m)	Wt in VNI (%)	PER			PBV			Yield		
						2022 (x)	2023 (x)	2024F (x)	2022 (x)	2023 (x)	2024F (x)	2022 (%)	2023 (%)	2024F (%)
1	Vietcombank	85,200	6.1	18,711	9.40	14.4	15.6	14.9	2.8	2.7	2.4	0.9	-	-
2	Airports Corporation VN	122,000	84.8	10,436	-	32.8	22.1	30.1	4.2	2.9	4.3	-	-	-
3	BIDV	43,250	-0.3	9,687	4.80	14.1	15.2	13.0	2.0	2.1	1.8	0.2	0.1	-
4	FPT	130,500	57.2	7,489	3.70	16.9	20.6	27.0	3.9	4.9	6.4	2.6	2.4	2.0
5	Hoa Phat Group	28,300	11.4	7,113	3.60	12.6	24.3	14.3	1.1	1.6	1.6	2.2	-	1.2
6	PV Gas	76,600	1.5	6,913	3.50	12.9	15.3	17.3	3.1	2.7	2.6	3.0	4.1	3.9
7	Vietinbank	31,000	14.4	6,541	3.30	9.2	8.5	8.0	1.2	1.2	1.1	2.9	-	-
8	Techcombank	23,350	51.4	6,464	3.20	4.5	6.2	7.5	0.8	0.8	1.1	0.1	-	3.2
9	Vinhomes	37,650	-12.8	6,442	3.20	7.2	5.6	5.5	1.4	1.0	0.8	4.5	-	-
10	Masan Consumer	222,000	154.6	6,259	-	9.3	8.8	19.7	2.3	2.4	4.7	0.2	0.4	-
11	Vingroup	41,200	-7.6	6,190	3.10	23.4	79.1	820.7	1.9	1.5	1.3	1.7	-	-
12	VP Bank	18,650	2.3	5,814	2.90	6.0	14.5	10.4	1.1	1.1	1.0	-	5.2	2.8
13	Vinamilk	65,500	-1.9	5,379	2.70	19.9	17.6	16.1	5.1	4.4	4.3	5.1	5.8	5.9
14	Military Bank	22,200	21.7	4,629	2.30	4.4	4.7	5.4	1.0	1.0	1.0	-	2.3	-
15	Masan Group	74,700	11.5	4,222	2.10	37.1	229.0	56.9	5.1	3.6	3.8	1.0	0.3	0.2
16	ACB	23,800	18.6	4,177	2.10	5.1	5.7	5.9	1.2	1.3	1.2	-	3.6	1.7
17	Mobile World	62,400	47.5	3,585	1.80	15.2	373.3	22.3	2.6	2.7	3.3	1.2	1.2	0.8
18	Sabeco	60,000	-2.5	3,024	1.50	20.1	19.6	20.4	4.5	3.3	3.3	2.3	4.2	5.8
19	Vietnam Airlines	33,200	171.0	2,889	1.40	neg	neg	9.0	neg	neg	neg	1.3	1.1	-
20	LienViet Post Bank	28,200	79.0	2,834	1.40	5.0	7.2	14.4	0.9	1.2	2.0	-	-	-
21	Binh Son Refining	21,700	16.7	2,644	-	2.7	6.7	14.6	0.8	1.0	1.1	3.3	3.8	3.1
22	HD Bank	23,000	13.3	2,632	1.30	4.9	5.8	5.6	1.0	1.3	1.2	-	4.3	-
23	Becamex IDC	63,800	1.4	2,595	1.30	48.8	26.9	38.9	4.9	3.5	3.4	0.9	1.3	1.1
24	VEAM Corp	44,300	28.8	2,313	-	6.4	7.4	10.0	1.9	1.8	2.4	11.1	12.3	11.1
25	Vietjet Air	101,500	-6.0	2,160	1.10	neg	253.7	25.3	4.0	3.8	3.2	-	-	-

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

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