Vietnam Enterprise Investments Limited (VEIL)

DRAGON CAPITAL

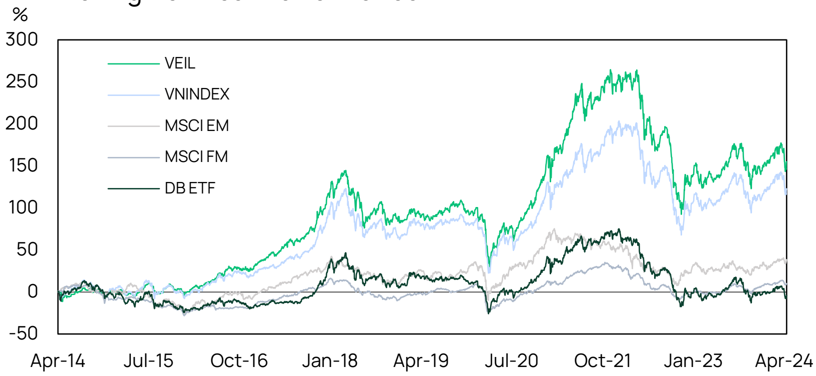
May 2024

Tuan Le
Lead Portfolio Manager

At a Glance

- The market rebounded in May with VEIL increasing by 4.7%, slightly ahead of the VNI's 4.3%, led by gains in the materials and consumer discretionary sectors.
- We proceeded with our rebalancing by selectively allocating to promising names in the consumer, materials, and real estate sectors.
- FX pressures persisted but we are encouraged by the recent weakening DXY and domestic gold prices.

Rolling Ten Year Performance



Performance

	Net Assets / Market Cap	NAV/share	Disc/Prem	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
VEIL NAV (USD)	$1,817.6mn	$9.22	N/A	4.7	-1.1	6.3	11.8	-17.9	42.3	179.4
VNI (Reference Index)	N/A	N/A	N/A	4.3	-1.9	7.2	10.4	-9.7	31.4	134.8
VEIL Share Price (USD)	$1,533.7mn*	$7.68	-16.7	5.5	3.2	8.1	12.4	-19.1	37.8	N/A
VEIL Share Price (GBP)	£1,204.5mn*	£6.03	-16.7	3.3	2.6	8.3	9.4	-9.9	36.4	N/A

**Market capitalisation*

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

Fund Commentary

We continued to rebalance the portfolio in May by strategically rotating between our banking holdings, trimming those with strong performance and topping up in names we feel have more room to run. We also increased exposure to mid-cap property developers, anticipating the upcoming legislation in August to aid sector recovery by year-end. We introduced Nam Long Group (NLG) to our portfolio, a standout among mid-cap developers due to its sizeable and ready-to-go land banks, proven execution capabilities, and a low-risk profile. We forecast NLG will achieve 2025F revenue of 284mn, a YoY growth of 30% with NPAT and EPS growth of 28%. We also topped up in MWG, taking advantage of its exclusion from the Diamond ETF and its strong growth prospects from increasing CE sales, BHX profitability and overall retail segment recovery.

FDI is tracking ahead of 2023, presenting a bullish outlook for industrial sectors. On this basis we increased our position in IDC, a mid-cap industrial park (IP) developer known for its high-quality assets and effective management team. IDC's substantial land banks are located in prime areas, enhancing their appeal. IDC leases its land in phases, aligning with demand before clearing new blocks to maintain inventory. This phased approach ensures IDC meets demand without extending cash flow, and avoids the high costs of maintaining a fully clear land bank. IDC is forecast to return 17% revenue growth in 2024 and 35% NPAT and EPS growth, with a forward PE 10.9x. These projections are supported by a substantial backlog of unrealised profits from the handover of over 200ha in 2023 and 1Q24. IDC's 470ha Tan Phuoc 1 IP project has now completed its legal paperwork, with guidance to start development in 2024 and land sales from Q3 2025, ensuring a sustainable long-term growth trajectory for the company.

Stock in Focus: Hoa Phat Group (HPG)

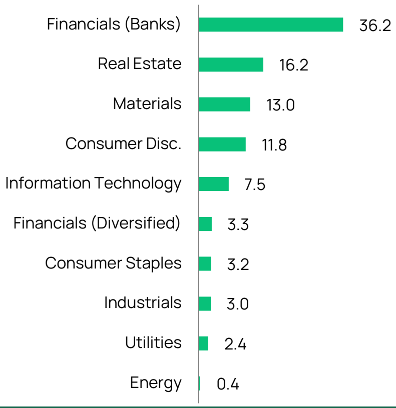
Established in 1992, HPG is Vietnam's largest steel producer with a market cap of $7.3bn, specialising in construction steel, hot rolled coil (HRC), steel pipes, and agriculture. HPG's investment appeal lies in its dominant market position, expanding production capacity, and expansion initiatives that drive significant revenue. HPG's Dung Quat Steel Complex has two phases. Phase 1 produces 5.6mn mt/year of construction steel and HRC. Phase 2 should start operations in Q1 2025, doubling total current capacity with a focus on HRC and c.1mn mt of high-quality construction steel. The new furnaces in Phase 2 are larger, resulting in lower energy consumption, reduced material waste, and higher operational stability, likely resulting in more consistent, higher-quality and higher-margin products. Phase 2 prioritises HRC, which can be sold domestically and internationally, targeting markets such as the US, EU, Southeast Asia, and Mexico. HPG plans to expand into the Middle East, South America, and Africa, reducing concentration risk and potential anti-dumping tariffs.

HPG reported Q1 revenue of $1.2bn (+16% YoY) and NPAT of $113mn (+622% YoY from a low base). HRC sales grew 67% YoY and construction steel by 10% YoY (vs. a 2% sector decline), with domestic market share for construction steel growing by a record 37%. In April, HPG delivered 923k mt of finished steel (+71% YoY and +20% MoM), with construction steel volume at 471k mt (+120% YoY and +24% MoM), driven by recovering demand. We anticipate HPG to lead the sector recovery and continue to capture market share, forecasting 2025F PE at 9.9x with EPS growth of 48.7% YoY.

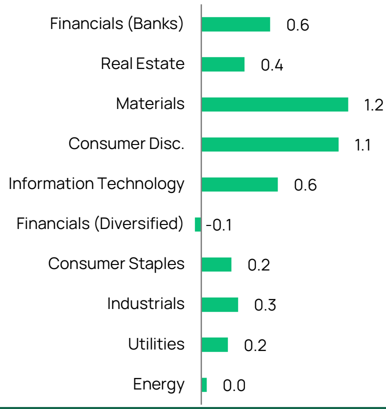
Top Ten Holdings (59.6% of AUM)

Company	Ticker	Sector	VEIL (%)	VNI (%)	CH (%)
Hoa Phat Group	HPG	Materials	8.7	3.3	10.3
Mobile World	MWG	Consumer Disc.	8.3	1.8	15.3
Asia Com. Bank	ACB	Financials (Banks)	7.6	1.9	8.8
VP Bank	VPB	Financials (Banks)	7.6	2.8	1.9
FPT Corporation	FPT	IT	7.5	3.4	8.8
Vietcombank	VCB	Financials (Banks)	6.4	9.6	-4.8
Techcombank	TCB	Financials (Banks)	4.6	3.3	3.6
MB Bank	MBB	Financials (Banks)	3.3	2.3	-0.6
SSI Corporation	SSI	Financials (Divs'd)	2.8	1.0	-1.9
Vinhomes	VHM	Real Estate	2.7	3.3	-5.2

Sector Breakdown



Monthly Contribution



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

Minh Dang
Head of Research

Macroeconomics:

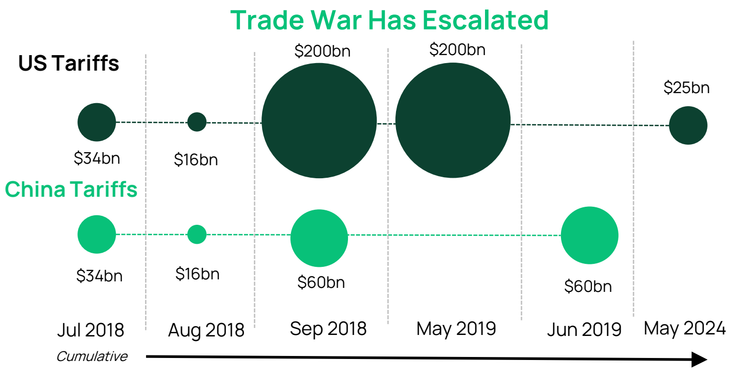
- The domestic gold price disparity has narrowed from 25% to below 10% after the SBV sells gold to retailers.
- The VND/USD rates in the official and black markets gradually stabilised, thanks to a drop in domestic gold prices and a cooling DXY in global markets.
- Domestic interest rates have risen 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

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

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