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

Hung Nguyen
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.

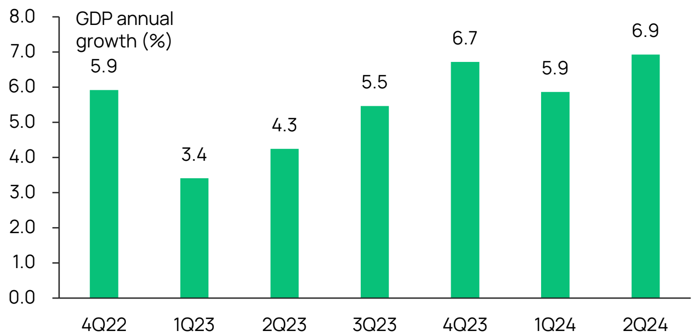
Stock Market:

- 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, emphasising 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, emphasising 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 Enterprise Investments Limited (VEIL)

DRAGON CAPITAL

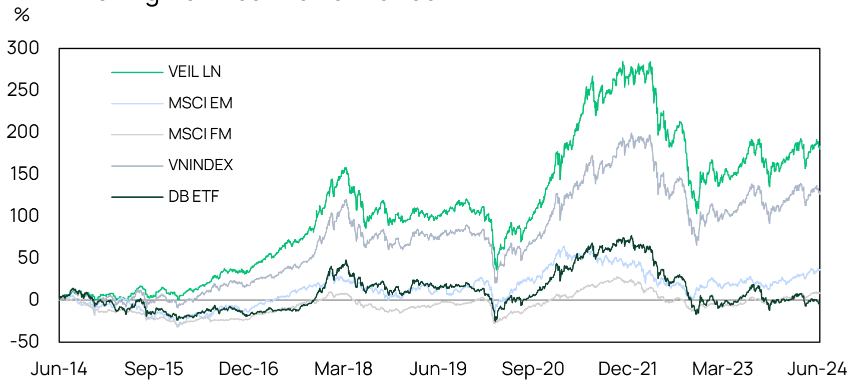
June 2024

Tuan Le
Lead Portfolio Manager

At a Glance

- After our recent portfolio restructuring activities, the rebalancing is now near completion, and we are now comfortable with the stock and sector weightings.
- The fund is now well-positioned to capture alpha as the market and economy improve, underpinned by strong H1 economic data.
- This was reflected by VEIL's gain over the VNI by 0.9% in June and is now at parity with a 6.0% return YTD.

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 / Market Cap	NAV/share	Disc/Prem	1 Month	3 Months*	YTD	1 Year	3 Years	5 Years	10 Years
VEIL NAV (USD)	$1,793.2mn	$9.19	N/A	-0.3	-4.3	6.0	6.1	-22.1	39.7	180.2
VNI (Reference Index)	N/A	N/A	N/A	-1.2	-5.4	6.0	4.9	-16.2	30.4	126.5
VEIL Share Price (USD)	$1,453.7mn*	$7.45	-19.0	-3.0	-0.4	4.9	-0.1	-23.0	34.2	N/A
VEIL Share Price (GBP)	£1,149.3mn*	£5.89	-19.0	-2.3	-0.5	5.8	0.5	-15.9	35.1	N/A

**Market capitalisation*

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

Fund Commentary

While still maintaining an overweight position, we have finished trimming our high-concentration names. We have topped up in companies operating in sectors we believe are best positioned to outperform the market, such as banking, retail, manufacturing, property, and industrial parks. In Q2, the retail sector was the biggest alpha contributor. Our rotation into MWG and FRT proved fruitful, generating returns of 19.9% and 10.5% respectively, contributing to the portfolio's outperformance. We have high conviction in the sector and expect it to continue its recovery, bolstered by domestic consumption growing 8.8% in Q2, VAT cuts, minimum wage increases, and tourism revival. The IT sector also added significantly to VEIL's performance, with FPT rising 26.3% in Q2 and 12.2% in June following NVIDIA's delegation and $200mn partnership with FPT.

The property sector faced challenges, with a 14.6% decline in Q2 due to slow pre-sales and weak earnings. However, we remain optimistic about a sector recovery in H2 as the new land law comes into effect, expecting delayed projects to resume. We maintain an overweight position in select residential developers, having increased our exposure to KDH and added NLG which have large land banks and new launch pipelines.

We remain confident that 2024 will be a year of growth and recovery, with H1 GDP coming in strong at 6.4%. Despite FX pressures and potential inflation rises, we believe macro headwinds are unlikely to derail Vietnam's current growth path. We are also looking at engaging in several capital-raising activities as credit demand continues to rise and remain ready to take advantage of potential capital market opportunities as they occur.

Stock in Focus: Vietnam Prosperity Bank (VPB)

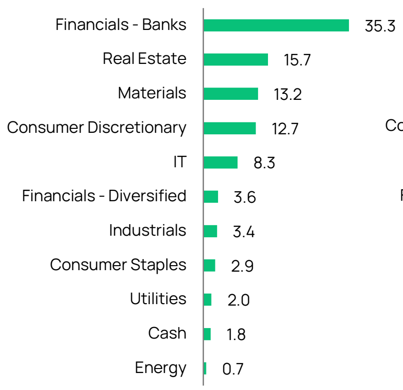
Established in 1993, VPB is one of Vietnam's leading banks, with a market capitalisation of $6.1bn. They operate a vast network of branches with the highest customer base in Vietnam of 20 million people, approximately 30% of the adult population. The bank's customers are notably young, with 35% aged 18-30 and 75% under 45, positioning VPB for long-term value creation. VPB's five-year performance has been marked by a CAGR of 11.1%, driven by strong credit growth at 24.1% CAGR and effective OPEX optimisation, resulting in some of the lowest staff and asset expenses among its peers. VPB was one of the first movers in the consumer lending segment and now dominates 60% of the market through FE Credit.

2023 was a bad year for VPB but we anticipate a turnaround. Earnings were adversely affected by weakened net interest margins (NIM) due to high funding costs and weak credit demand, along with elevated non-performing loans (NPLs). However, VPB had strong performance in 1Q24, with NPAT of $140mn (+40.7% YoY). This was driven by a rebound in top-line growth and improved contributions from FE Credit, which has undergone significant cost restructuring with an approximate 30% reduction of employees. The lending arm's credit disbursement is also recovering at $408mn in 1Q24 vs $268mn in 1Q23. We anticipate it to become profitable in 1H24, acting as a key catalyst for growth. SMBC's $1.5bn strategic placement last year elevated VPB to one of the most well-capitalised banks in Vietnam, with a CAR of 16%. We like VPB's strong market positioning, and expected recovery of FE Credit, NIM, and credit growth leads us to estimate 2024 revenue growth of 23% and NPAT and EPS growth of 42%.

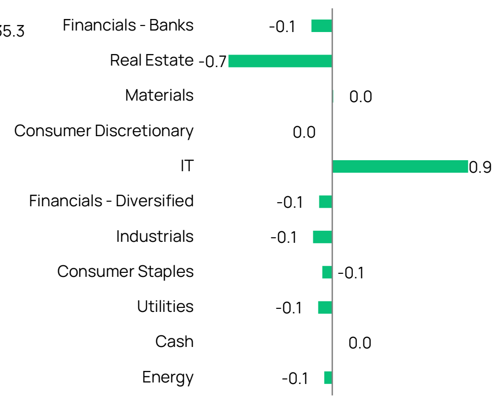
Top Ten Holdings (60.4% of AUM)

Company	Ticker	Sector	VEIL (%)	VNI (%)	CH (%)
Mobile World	MWG	Consumer Discretionary	8.8	1.8	-1.1
Hoa Phat Group	HPG	Materials	8.6	3.6	-1.0
FPT Corporation	FPT	IT	8.3	3.8	12.2
Asia Com. Bank	ACB	Financials (Banks)	7.1	2.1	-3.4
VP Bank	VPB	Financials (Banks)	7.1	2.9	3.6
Vietcombank	VCB	Financials (Banks)	6.1	9.4	-2.3
Techcombank	TCB	Financials (Banks)	4.8	3.2	-0.6
MB Bank	MBB	Financials (Banks)	3.5	2.3	2.1
SSI Corporation	SSI	Financials (Divis'd)	3.1	1.0	-2.2
Khang Dien House	KDH	Real Estate	2.9	0.6	1.9

Sector Breakdown



Monthly Contribution



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 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	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

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

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