



**Master Portfolio**

**31 Mar 2017**

**Vietnam Market Update**

**Economic Development:**

The first quarter of 2016 ended with mixed macroeconomic indicators:

- Q1/2017 GDP growth was 5.1% yoy, lower than the 5.5% in the same period of last year, mainly due to a slowdown in the construction (+6.1% vs. +9.9%) and in the mining sector (-10% vs. -1.2%). However, there were improvements in the manufacturing (+8.3% vs. +7.9%) and in the agriculture sector (+2.0% vs. -1.2%). The service sector, which contributed the biggest portion to GDP (44.0%), was still strong, growing at a rate of 6.5% yoy (Q1/2016: 6.1%).

- The Nikkei Vietnam Manufacturing Purchasing Managers' Index rose to 22-month high of 54.6 in March, posted readings of higher than 50 for every month so far in 2017, indicating a consistent expansion of manufacturing activities.

- The March CPI increased 4.65% yoy, mainly due to strong price increases in the medical, transportation and education sectors. The medical sector price level went up by 35.9%, even more than in the same period of last year, when it rose by 26.4%. In all 2016, however, medical prices surged 55.7%. The adjustment of the service prices in the medical sector is almost exclusively regulated by the Vietnamese government. Thus for the rest of this year, prices should rise only gradually upon subsidy cuts.

- Exports rose to USD 43.7bn, up 12.8% yoy. But imports increased by 22.4% to reach USD 45.6bn, causing a trade deficit of USD 1.9bn. There was strong growth of imports for manufacturing activities such as machinery and equipment (+28.3%) as well as computers and electronic equipment (+15%). Higher imports also resulted from the recovery of commodities price such as oil products (up 56.6% in terms of value, while volume was down 4.3%) and of steel products (value up 45.4%, volume down 5.3%)

- The VND/USD exchange rate was unchanged in March (0.1% ytd), but it is under pressure of depreciation due to strong import activities and higher interest rate differential between the VND and the USD. We still expect the VND to remain under moderate depreciation pressure of some 3-4% this year.

**Financial Market:**

The Vietnam's stock market continued to rise in March. The VN-Index inched up 1.9%, and the number of advancers was more than double the number of decliners. The index increase was led by Vinamilk (+9.1%, contributing for 57% of the index rise). The strange phenomenon – FAROS construction - continued its non-stop rise (contributing for 18%) and is now trading at a P/E of 144x.

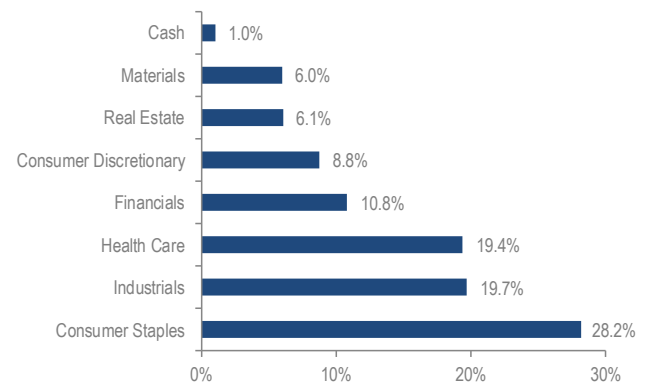
Foreign investors continued their strong buying activities with net purchases of USD 103mn (including all three bourses), so ytd net purchases amounted to USD180 mn. In March, ETFs only contributed a minor portion of the total cash inflow (about 3%).

Average daily trading reached USD 169mn on the three bourses, up 38.5% yoy, +19.5% vs. 2016 average. However, the cash inflow focused on speculative stocks

**Portfolio structure as of 31 March 2017 (USD)**

Equities	95.50%
Fixed-income securities	3.48%
Cash	1.02%
<b>Total</b>	<b>100.00%</b>

**Sector allocation**



**Holdings**

Ticker	Company Name	% Portf
IMP	Imexpharm Pharmaceutical	18.35%
VNM	Vietnam Dairy Products JSC	13.42%
BMP	Binh Minh Plastics	11.15%
NTP	Tien Phong Plastics	7.47%
DRC	Danang Rubber JSC	7.32%
DBC	Dabaco Group	6.42%
TDH	Thu Duc Housing Devel. Corp.	6.06%

**Monthly performance in USD**

2017	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Master Portfolio	4.1%	-1.1%	6.9%										10.1%
FTSE VN TR	2.7%	2.1%	4.7%										9.8%
VN Index TR	6.1%	1.2%	1.9%										9.4%



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**Financial Market (cont.):**

such as FAROS construction and the related FLC Group (total 24.0% of the trading volume of the VN- Index). Vietjet Air, which has a P/E of 16.8x and which was only listed on the Ho Chi Minh Stock Exchange (HOSE) on 28 Feb 2017, and Novaland, a real estate company with elevated financial leverage, listed at the end 2016, were also among the top 10 traded stocks. These are just some examples of the current prevailing investment style. In particular, speculative investors rush to buy rising stocks regardless of their financial fundamentals and business models, hoping to find other investors that pay even higher prices later on.

The privatization activity at large state-owned companies have come to a halt due to the difficulty in seeking a fair price. Airport Corporation of Vietnam (ACV, 2016 P/E of 41x) executed its IPO in December 2015 at an average price of VND14,344/share. Before the IPO, Aeroports de Paris asked to buy ACV at a price of around VND20,000 /share. However, the stock price surged to VND51,000/share after the IPO mainly thanks to its small free float volume, which was a dilemma for Aeroports de Paris and the deal was off the table. A similar situation can now be observed at Hanoi Beer (BHN, 2016 P/E of 24x) and Saigon Beer (2016 P/E of 29x). In order to meet their divesting plans and to deal with the decayed state budget, it is highly possible that state owners will sell their stakes in these companies at much lower than the current market prices. The BHN stock may already display first signs for this trend: the stock price surged from VND54,600 to VND225,800/share after two months of listing, but retreated to VND 77,000 currently. If this trend continues, it might put the general market valuation under pressure, making it more attractive for new investors to purchase shares at lower levels.

By the end of March, the top 50 stocks by market cap on the two main bourses were trading at an average 2017F P/E of 16.8x, while the regional markets Thailand, Malaysia and the Philippines were trading at 14.9x, 16.8x and 18.0x respectively.

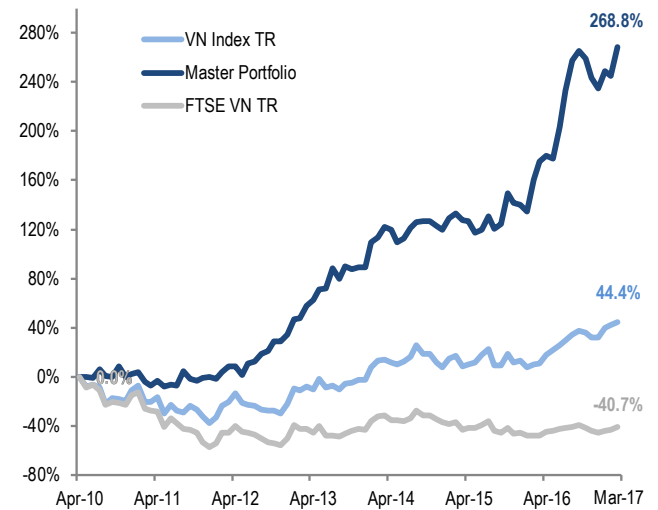
**Activities:**

The portfolio's NAV increased by 6.9%, while the FTSE Vietnam Index gained 4.7% in March. The biggest contributors to performance were Imexpharm (IMP, +15.4%), Vinamilk (VNM, +9.1%) and Binh Minh Plastic (BMP, +10.0%).

IMP is the highest-quality domestic drug producer, trading at a 2017 P/E of 24.3x by the end of March. Its valuation is now close to the level of the Asia Pac ex Japan health care sector of 24.7x. But IMP has brighter growth prospects (2017-2020 CAGR of 25%). The stock showed a strong rally at the end of the month as the market was reassessing the possibility of an acquisition by foreign investors.

In March, we reduced BMP and VNM as these stocks have already surpassed our 2017 year-end's target prices. At the same time, we see more price potential in other stocks. We increased positions in Da Nang Rubber (DRC), in Phu My Fertilizer (DPM). DRC (a tire maker, 2017 P/E of 11.1x) and DPM (an urea producer, 2017 P/E of 9.7x) are leading companies in their industries. Their stocks have high dividend yields of 8.0% and 10.3% respectively. Recently, DRC's stock price dropped significantly due to investors' concerns that the sudden surge of natural rubber may severely hurt the company's bottom line. However, DRC was quick to increase its selling price thanks to its pricing power, almost entirely offsetting the impact from the higher rubber price. DPM's bottom line is expected to remain unchanged yoy in 2017, but its new project – the NPK factory - is to add significant growth from 2018 onwards.

**Performance since 26 April 2010 (USD)**



**Portfolio Statistics**

Annualised volatility in %	Total	Downside	Total	Downside
- Portfolio	16.76	5.72	15.38	6.36
- FTSE	11.17	6.54	16.14	12.65
- VNI-TR (USD)	9.56	3.25	15.66	10.74
Sharpe ratio (x)	1.81		1.13	
Sortino ratio (x)	5.30		2.74	
Annual return (USD) in %				
- Portfolio	34.00		18.44	
- FTSE	14.19		-4.45	
- VNI-TR	30.64		8.18	
- Risk free rate	0.58		0.75	
Vs. reference	VNI-TR	FTSE	VNI-TR	FTSE
Information ratio (x)	0.25	1.24	0.68	1.43
Alpha (%)	3.94	21.59	13.09	20.40
Beta (x)	0.98	0.87	0.62	0.52
Return indicated by beta (%)	30.06	12.41	5.35	-1.96

**Valuations**

Valuation	P/E		EPS Growth		P/B		Yield
	2016 (x)	2017 (x)	2016 (%)	2017 (%)	2016 (x)	2017 (x)	
Master Portfolio	16.4	16.6	15.3	3.2	3.2	3.0	4.1
FTSE VN TR	16.5	15.2	14.0	8.8	2.4	2.1	2.5
VN Index TR	18.9	16.8	4.3	12.1	2.4	2.3	2.3