

Lumen Vietnam Fund – Monthly Comment September 2020

In September 2020, the Lumen Vietnam Fund (LVF) increased by +5.3%, clearly outperforming the Vietnam All Share Index (VNAS)'s, which returned +4.63% on a total return dollar basis. YTD 2020 the fund's NAV increased by +2.4% vs VNAS decline of -0.44%.

Table 1: Asset Classes performance in September 2020

Equities (total return)		Fixed income	
US	-3.73%	US gov bonds	0.14%
Eurozone	-1.81%	EU gov bonds	1.31%
Switzerland	0.52%	US corp bonds	-0.29%
UK	-1.59%	EU corp bonds	0.30%
Japan	0.62%	US high yield	-1.04%
EM (USD)	-1.58%	EU high yield	-0.61%
China (USD)	-2.73%	EM sovereign	-1.85%
		EM corp	-0.54%

Commodities (spot)

Gold	-4.21%
Oil (Brent)	-9.56%

Fund Commentary

The Financials, Consumer Discretionary and Energy are sectors that contributed significantly to the out-performance of the LVF in September. Our new investments in the Automobiles & Part sector since July 2020 has delivered a total return of 19.7% within 3 months. Two investments in the banking and insurance sector have delivered superior performance compared to local peers. Furthermore, our investment in the energy transportation delivered strong performance due to better-than-expected business performance. Year-to-date the outperformance was driven by superior performance of our existing and newly initiated investments in selected mid-cap and large cap companies in the following sectors: Information Technology, Materials, Industrials, Consumer Staples, Energy and Banks.

Per valuation, the LVF Portfolio is attractive at a trailing earnings multiple of 10.37 times.

Vietnam Economy activities is regaining momentum

The country's September PMI climbed back to 52.2 from 45.7 compared to August 2020 to show initial improvement signs in the business conditions. Importantly, 3Q2020 GDP increased by +2.62% YoY (1Q2020: +3.68% YoY, 2Q2020: +0.39% YoY) to result in 9M2020 GDP growth of by +2.12% YoY. Recoveries came from all economic sectors (industrials, agriculture and services).

The General Statistics Office of Vietnam (GSO) estimated the nation's September 2020 trade surplus of USD 3.5bn to yield a 9M2020 record high of USD 17bn, up +133% YoY (9M2019: USD 7.3bn). Accordingly, 9M2020 exports and imports registered at USD 202.9bn, up +4.2% YoY, and USD 185.9bn, slight down -0.8% YoY, respectively.

Regarding inflation, the September CPI was up by +0.12% MoM and +2.98% YoY mainly due to tuition fee hikes in 44 provinces and cities. Average 9M2020 CPI increased by +3.85% YoY, but it inched up only +0.01% YTD, the lowest YTD CPI growth since 2016.

September also witnessed the highest FDI monthly disbursement of USD 2.4bn, up by +6.6% YoY, compared to the beginning of this year.

Ample liquidity to jumpstart the economy

Although lending rates have gone through significant cuts, the credit growth was only 4.81% YTD (8.9% YoY) by 16 September 2020 while the State Bank of Vietnam (SBV)'s revised 2020 target of 10% YoY (initial target: 14% YoY). M2 growth, on the other hand, was much higher at 7.58% YTD (12.8% YoY). Excess liquidity should help push up pricing of other asset classes such as equities and properties.

In a special report issued by the State Bank of Vietnam around USD 97.84bn of loans, roughly 25% of the total economy lending at from commercial banks, has been affected by COVID-19. To counterbalance this difficulty commercial banks support borrowers in form of extending maturities (USD 13.8bn) and lowering lending rates for existing loans (USD 50.6bn). To further back the economy, the SBV said to keep the possibility of another policy rate cut, if needed, on the table.

Accelerating public investment in infrastructure projects

The Ministry of Transportation (MoT) is examining tenders to start the construction of 3 North-South Expressway projects, which will be funded by the state budget and expected to be completed by 2022. Biddings for other 5 projects, also in the North-South Expressway, will be opened in early October 2020 with the aim to be finalized by the end of this year. The MoT is working with leading state-owned commercial banks to clear the barriers to project financing. Co-ordination among authorities show strong commitment of the Government to facilitate infrastructure development and public investment.

Travel and Aviation Industry to re-open

Da Nang city resumed all activities on 5 September 2020 after going into lock-down on 27 July 2020. Vietnam has gone through 25 days clear of locally-transmitted coronavirus cases. Therefore, the Ministry of Transportation (MoT) decided to slowly re-open flight routes including i) Taiwan, Guangzhou (China), Japan, and Korea from 15 September, and ii) Cambodia and Laos from 22 September with a maximum of 2 round trips per week for each route.

To further support the industry, the MoT already approved fee reductions for some aeronautical and non-aeronautical services, for instance, reduced 50% for take-off and landing fees. In addition, this measures from the MoT also allows removals of floor pricing for regulated aeronautical services (such as apron leasing, check-in counter leasing, fueling and ground handling services) and non-aeronautical services (including space leasing at passenger terminals, air cargo terminals, and utilities services at airports).

Vietnam sees initial positive effect of EVFTA European-Vietnam Free Trade Agreement

Right after EVFTA took effect on 1 August 2020, 71% of Vietnamese goods to the EU had immediately enjoyed tax exemptions. Among those sectors that immediately experienced positive effect, shipments of the Vietnamese fishery products to the EU (3rd largest fisheries export market of Vietnam), increased by around 10% MoM (notably shrimp that rose by 20% MoM and tuna that picked up 11% MoM). About 220 related tax lines, most of which ranging from 6% to 22% have been reduced to 0% immediately after the agreement came into effect. The remaining tax lines will be phased out to zero after 3-7 years. Deputy Minister of Agriculture and Rural Development said that Vietnamese fishery enterprises have had good preparation to enjoy the benefits from EVFTA and the sector will continue to record impressive growth.

Update on Vietnam market upgrade into Emerging Markets:

Draft changes to Securities Laws to prepare for Vietnam market upgrade

The Ministry of Finance (MoF) is proposing changes to the Securities Laws to solve the issues for market upgrade, including (i) Securities borrowings mechanism; (ii) Intraday trading mechanism; (iii) Circuit breakers when necessary; (iv) Trading band adjustments if needed; (v) Expansion of market participants (securities-trading accounts allowed for individuals from 15 years old and above).

Per FTSE Russell's recent review in September 2020, Vietnam is still on the Secondary Emerging Market watch-list rather than official inclusion mostly due to the country's pre-trading check (to ensure fund availability prior to trade execution) issue. The first two changes mentioned above will aim to fix such issue in order to push Vietnam to Emerging status by next annual review.

Outlook: Vietnam remains among most attractive investment destination

We expect Vietnam economy to recover quickly as China recovered post-pandemic. There are reports that Chinese economy and travel activity increased by almost 90%.

Looking at further time horizon, Vietnam continues to arise as the most attractive investment destination. According to the latest report by Euromonitor, Vietnam ranked as the 2nd most attractive M&A market globally, with expectation on increasing level of investment activities into the country amid and after the Covid-19 pandemic. The country scores 102 and 94.6 out of the maximum of 250 in 2020 and 2021, staying behind only the US which scores of 108.9 and 112.5 respectively in 2 years.