

Lumen Vietnam Fund – December 2020 Monthly Report and 2021 Outlook

Fund Commentary

Lumen Vietnam Fund ended the month of December with a strong positive return of **+9.47%** for Class R USD, ending this complex and exceptional year 2020 with a performance of **+25.95%** for class R USD outperforming the VNAS Vietnam All Share Index (2020: +24.42%).

Asset class performance in December 2020

Equities (Total return)		Fixed income	
US	3.8%	US Gov bonds	8.9%
Eurozone	3.4%	EU Gov bonds	0.1%
Switzerland	5.7%	US Corp bonds	0.4%
UK	4.9%	EU Corp bonds	0.4%
Japan	4.8%	US high yield	1.9%
EM (USD)	6.1%	EU high yield	0.8%
China (USD)	3.6%	EM sovereign	1.7%
		EM Corp	1.5%
Commodities (spot)			
Gold	6.8%		
Oil (Brent)	8.0%		

Source: Bloomberg

Out-performance in 2020 came from experienced implementation of bottom up approach and high quality stock selection. Top contributors comprise mainly mid-cap stocks in certain sectors such as Industrial properties, Retails, Food & Beverage, Banks, Financials, Power, Logistics and Residential properties. Among the top performing companies, four of them are newly acquired since end of 2019 and early 2020; five companies are among long term holdings but were overweighted during first half of 2020. During same period, LVF acquired some new large cap stocks, two of them have generated high double-digit performance since portfolio investments and are in the Residential property and Bank sector. In addition, selective investments of stocks in some lagging sectors such as Energy, Consumer Services also helped to contribute to the out-performance at year-end period.

During 2020, LVF has experienced significant rebalancing activities. In first four months of the year, LVF started to increase positions in banking sector by including a leading state owned bank that finally delivered bottom line growth of around 20% in 2020, according to initial estimated result. LVF has gradually took profit from this banking stock in the last quarter of the year, when share price surged by more than 40% against acquisition price. Taking advantage of frequent available cash balance, the portfolio has grabbed certain blocks of some full foreign ownership investments, and continue to keep them as a core long term position. Since November, LVF has accumulated a new name in banking sector, one among small private commercial banks, traded at big discount to industry average. During the year, LVF has divested from positions in consumer service sector at premium, construction materials sector, diversified financial sectors; and accumulated new positions in sectors such as Energy, Consumer Discretionary, Residential property, Logistics and Industrials.

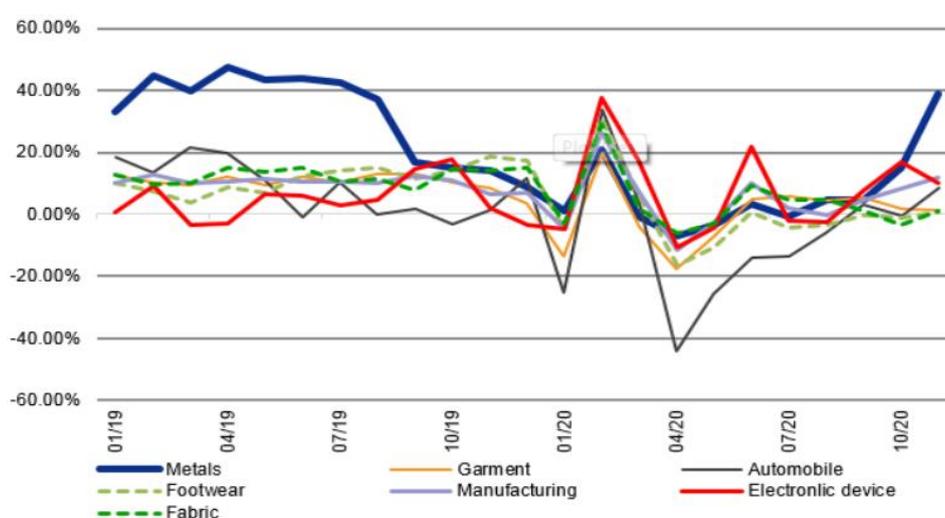
Market Commentary

Vietnam beats 2020 GDP growth expectation

The country's 4Q2020 GDP growth surprisingly closed at +4.48% YoY (3Q2020: +2.69% YoY), making a full year GDP growth of +2.91% YoY. This performance put the country in top rank among the fastest growing economy in 2020 globally despite the global pandemic difficulties. The GDP growth was supported broad based by strong manufacturing recovery, solid international trade activities, improving retail sales and significant state budget spending into the infrastructure.

The Production Manufacturing Index - PMI of Vietnam rose to 51.7 in December, up from 49.9 in November and back to the level seen in October. The industrial production index increased by 9.5% YoY in December, marking the highest growth since February 2020, arriving at a full year growth of 3.4%. This strong growth was led by electronics components, communication equipment, consumer electronics, steel and basic iron.

Figure 1: Monthly Index of industrial production (IIP) of major manufacturing industries in Vietnam



Source: VNDirect Research, GSO, and Finpro

Export and import activities were strong in December, up by 17.6% YoY and 22.7% YoY respectively, making whole year performance at 6.5% YoY and 3.6% to arrive at USD281 billion and USD262 billion. Vietnam recorded a trade surplus of USD19.1 billion in 2020, a sharp increase compared to USD10.9 billion in 2019.

Retail sales increased by 2.6% YoY in 2020 despite the impact of Covid-19. December alone was impressive at 9.4% YoY growth. Domestic mobility continues to recover. Monthly number of passengers carried increased for four consecutive months, up by 17.4% MoM in December.

As of 21 December 2020, Vietnam's credit volume increased +10.14% YTD (or +11.62% YoY). The optimistic industry performance has been driven by stronger retail lending, specifically household business (mom-and-pop store) lending, while SME and corporate lending are on the way. The exciting prospect should continue to 2021 as lending rates are forecasted to remain at the current low level.

The public investment disbursement reached USD29.4 billion in 2020, up by more than 40% YoY. FDI disbursement stayed resilient, declining by merely 2% YoY despite the absence of international flights

since March. Although FDI disbursement (down by 25% YoY) was impacted, positive developments in the last quarter signals strong recovery in 2021. In 4Q2020, both FDI commitments and implementations increased strongly 31.7% QoQ and 21.7% QoQ respectively.

Cyclical recovery and strong growth momentum to be expected in 2021: Robust manufacturing production and domestic consumptions will be the main fulcrum of Vietnam’s 2021 growth

2021 will be a very important year: Starting with the National Congress in late January and followed by the general election in May. It also marks the first year in its new 5-year period 2021-2025. According to the Government’s targets, Vietnam aims to achieve a GDP growth rate of 6.5% to 7% p.a. on average in this period, which comprise of two phases: 2021-2022 as recovery phase and 2023-2025 as expansion phase.

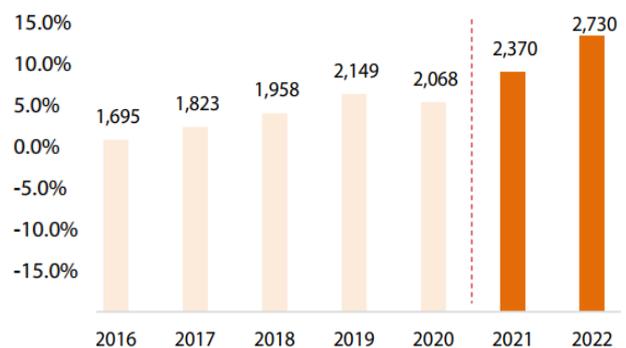
The Government will continue its monetary and expansionary fiscal policies in 2021 to support the economy growth.

Figure 2: Total retail sales of good and services in 2020 (VND tn)



Source: General Statistics Office of Vietnam (GSO)

Figure 3: Disposable income per capita (USD)



Source: Economist Intelligence Unit

Figure 4: Total product consumption growth (%)

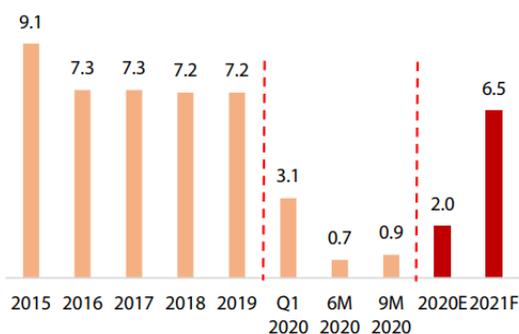
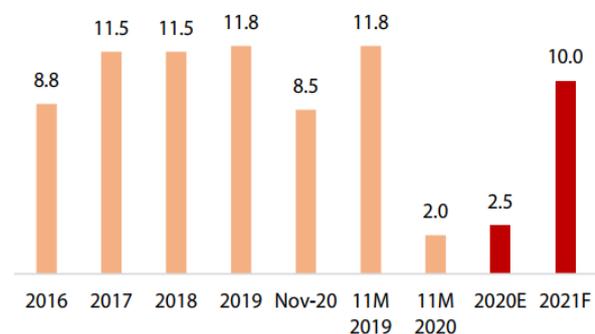


Figure 5: Total retail sales of consumer goods and services growth (%)



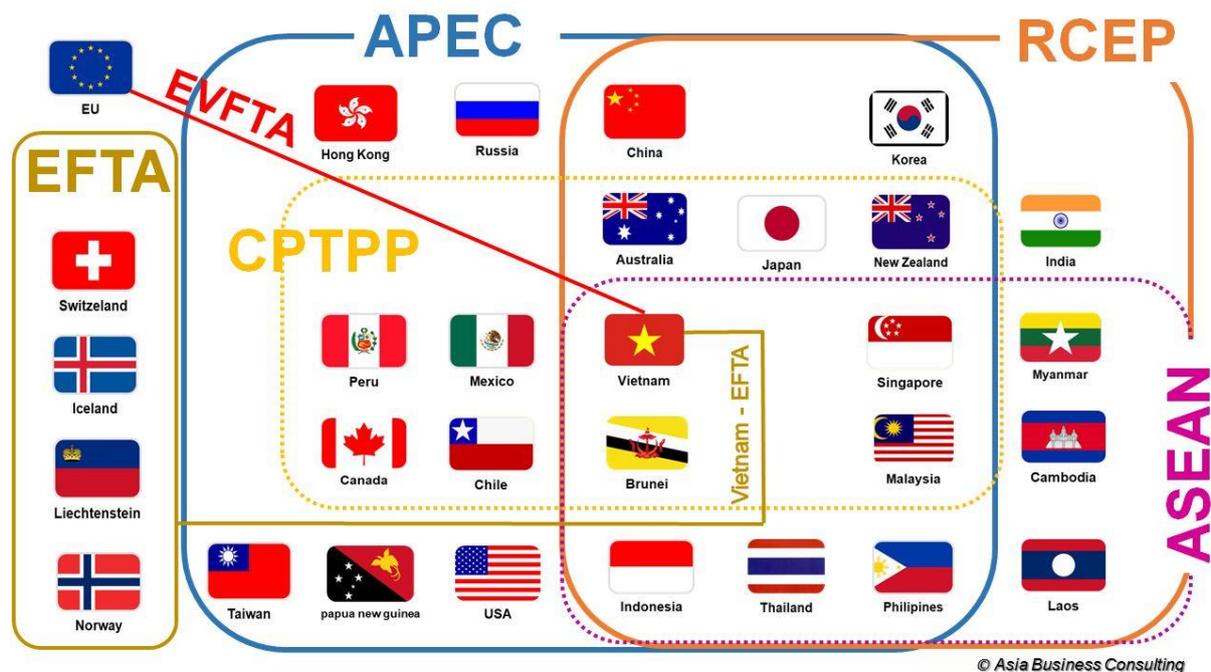
Source: GSO and Rong Viet Securities

With the recovery of FDI disbursement and private investment activities, resumed international flights, strong public investment, we expect manufacturing production and retail consumption will record strong rebound. The Manufacturing production is expected to expand by around 8% YoY while retail sales and trade activities to be back to double digit growth horizon in 2021.

In addition, these areas will see clearer impact from newly signed Free Trade Agreement such as EVFTA, RCEP and UKVFTA. We note that the UKVFTA, signed in Hanoi on 11 December 2020, came just in time following the EVFTA ratified in August.

Under UKVFTA, 99% of tariffs between two countries will be eliminated over a span of 7 years from the current 65% level. Additionally, Vietnam could negotiate a more competitive advantage over its regional peers in terms of bilateral free trades with the UK, to which China, India, Thailand, Malaysia, Indonesia, Philippines, and Myanmar have not fostered yet. The UK is Vietnam's second biggest import market (after Germany) in the region. Further growth for Vietnamese exports to the UK is vast as Vietnam's UK export share is just below 1%, currently. Key export products shall include mobile phones, textile and garment, machinery, footwear, fish and seafood, electronics, and wooden furniture.

Figure 6: Overview of Vietnam's Free Trade Agreements Network



Market Outlook

Infrastructure developments continue to accelerate in 2021 to support economic recovery

The State-Owned Enterprises SOE's and private companies might see more involvements in public infrastructure construction projects in 2021. For instance, the government recently agreed to assign Airports Corporation of Vietnam (ACV: HSX), a listed SOE, to construct two key aviation projects, which are Long Thanh International Airport - phase 1 and Terminal 3 of Tan Son Nhat International Airport at estimated cost of VND 109.1tn (USD 4.7bn) and VND 11tn (USD 0.5bn), respectively. Both projects will be launched in 1H2021.

Moreover, five sub-projects (using the Public-Private Partnership format) in the eastern section of the North-South Expressway with a total projected capital expenditure of VND 50,157bn (US 2.2bn) will

also start constructions in 2021. The implementation of these major infrastructure projects certainly increases economic growth.

The Government's budget plan for 2021-2025 shows continued support for public investment. The total public investment for the period 2021-2025 is estimated at USD118.5 billion, which is 40% higher than the budget of the previous 5-years. Planned public investment for 2022 and 2023 will be 9.4% and 13.2% higher than the planned budget for 2020, respectively. Quality public investment will continue to play as one important growth drivers in the next 3-5 years to the country.

Important economic reforms and new legal frameworks will unlock the growth catalysts of certain sectors such as the Renewable Energy sector

There are abundant of new reforms to enhance the business environment in Vietnam, reflected in the new laws that come into effect from January 2021, including the Laws of Investment, Enterprises Law, Securities Law, Public Private Partnership Law, Environment Protection Law, and guidelines on SOE reforms.

Relating to the real estate sector, changes in Law of Investment and Law on Construction will help to partly solve certain legal issues in project approval process, and unlock the supply side, which has been very low in the Southern provinces for the last 3 years. The renewable energy sector will benefit from the supportive policies on green energy, introduced in the National Energy Master Plan No.8. Local manufacturing such as car production will enjoy 0% import tax on raw materials and component parts which have not been produced domestically yet. In addition to that, the Government is also considering exemption of special consumption tax for localized parts, and preferential credit package for the automotive industry.

High expectation on the performance of the Vietnamese stock market in 2021: Financial reforms and technology trading platform enhancement to boost faster market upgrade

The revised Securities Law will come take place in January 2021 and will enhance the transparency and effectiveness of the market, accelerating the Vietnamese equity market upgrade into Emerging Markets status. Some important changes in the Law and guidelines documents include (i) introduction of non-voting depositary receipts as a good solution for foreign investors to invest into full foreign ownership limit companies ; (ii) lifting the foreign ownership limit to 100% automatically for all sectors that are not subject to restriction by the Government; (iii) raising the standards for the public offering and information disclosure; (iv) introducing day trading and short sell mechanism that will be applied once the technical trading system of the stock exchanges, securities depositary center and custodian banks are ready. With high effort in improvement of legal framework and technology, Vietnam is expected to be upgraded to the FTSE secondary emerging market by September 2021 (to be officially upgraded in 2022), and into emerging market group of MSCI by 2023.

Updates on State-Owned Enterprise (SOE) reform

In order to provide more quality goods in the market, privatization of the SOEs and further state divestment in large State groups will be another priority to the Government in the next 3 years. The Ministry of Planning and Investment (MPI) is drafting a proposal to the Prime Minister (PM) on the SOE classification. One of the main changes will be the reduction of the state ownership threshold in state-owned commercial banks from 65% and above to the range of 50% to 65%. The government is also working a plan to develop dominant SOEs to be leaders in vital industries. The initial plan is below:

- Energy: PetroVietnam, Vietnam Electricity, Vinacomin, and Petrolimex (PLX: HSX)
- Investment, Finance, and Banking: State Capital Investment Corporation (SCIC), Vietcombank (VCB: HSX), Vietinbank (CTG: HSX), BIDV bank (BID: HSX), and Agribank

- Telecom: Vietnam Posts and Telecommunications Group (VNPT), MobiFone, and Viettel
- Agriculture: Vietnam Rubber Group (GVR: UpCOM), Vinafood I, and Vinafor
- Infrastructure: Vietnam Railway, Vietnam Airlines (HVN: UpCOM), Vinalines, and Airport Corporation of Vietnam (ACV: HSX)
- Industrials: Vinachem, Vicem, and Vinatex (VGT: UpCOM).

The government will hold a 100% stake in PetroVietnam (IPO to occur only after 2025), Vietnam Electricity, Viettel and SCIC; and a simple majority (greater than 50%) is applied in remaining firms. Moreover, the government might revise Decree 126/2017 to further grant the PM the power to reduce the SOE stake sales to strategic partners (including foreign ones), when necessary.

2021 Earnings and Valuation Outlook

As of 31 December 2020, the VNAS Index was traded at a 2020E PE of 14.7x and 2021F PE of 12.2x, while earnings are forecasted to recover +21% YoY for 2021 per Bloomberg estimate. On the other hand, the LVF portfolio was traded at a 2020E PE of 14.6x and 2021F PE of 10.9x, with its 2021 earnings forecast growth of +33% YoY.

We expect that the equity market performance in 2021 will not only reflect corporate earnings but also certain re-rating factors due to strong momentum from both local and foreign investors. In addition, the market upgrade will help Vietnam index to be traded closer to the regional emerging market valuation, which is currently at 20%-40% premium to the Vietnam indices. In December, market liquidity has reached more than USD600 million per session, an increase of 2 times compared to 2019. Market capitalization reached 84% GDP to arrive at USD230 billion by the end of 2020, up by 20% compared to 2019.

