

VinaCapital 2017 Investor Conference Review

VinaCapital hosted a wide range of speakers at its twelfth annual investor conference, held at the Park Hyatt Saigon from 11-13 October 2017. A record 150 guests heard presentations from both established listed companies and startups alike, as well as experts on private equity, real estate, and banking. Additionally, VinaCapital's fund managers provided updates on their performance over the past year, as well as their views on the opportunities – and their strategies for capitalizing on them – over the next 12 months. For the benefit of investors who were unable to attend the conference, a brief recap follows.

Venture Capital/Tech

Kicking off the conference was Minh Le, founder of **VNG** (formerly Vinagames), who told the audience about his experience starting the company over a decade ago and growing it into one of Vietnam's top tech companies, offering gaming, messaging, and online payment apps, among others. In a discussion with VinaCapital CEO Don Lam, Minh spoke about the issues facing Vietnamese startups today, including funding, exits, and government policies to facilitate the development of the tech industry. He also spoke about how the company was working to follow up on the MOU it signed with NASDAQ earlier this year, and the possibility that it could become one of the few Vietnamese companies to list on a foreign exchange.



Minh Le, founder of VNG (r), chats with VinaCapital CEO Don Lam

The tech theme continued into the second presentation by **Rever**, which is anticipating the convergence of real estate tech and fintech. Co-founder and CFO Minh Phan provided an overview of their product, which combines robust property listings featuring 360-degree views and a variety of tools for both consumers and real estate agents. Minh described the massive growth potential in this field, using Chinese company Lianjia as an example. Lianjia started as a brick-and-mortar agency in 2001 and has evolved into a real estate tech company, with investors such as Tencent, Baidu and Vanke, with a valuation of over USD6 billion.

Later in the day Group CEO of **Yeah1 Network** Brian Tiong outlined the media company's plan to go from the largest digital network in Asia to the third-largest in the world (up from seventh at present), and taking a larger piece of the USD2.2 billion global digital advertising spending. Providing viewers with a mix of community-generated content and produced programming, Yeah1 already owns half of all online video views in Vietnam, with 62 million subscribers across its YouTube network. Yeah1 is aiming to parlay its leading position in Vietnam into regional markets such as Thailand, Indonesia, and the Philippines, a move that could bring in USD500 million in regional digital ad revenue. The company is presently focused on building out its four advertising-rich verticals of content for kids, music, beauty, and games. Yeah1 is profitable, and expects 2018 revenue to grow by 175%.

Macroeconomy

Chief Economist Michael Kokalari offered his views on Vietnam's economy. With GDP expanding ahead of consensus expectations, low inflation, strong consumer confidence, and robust foreign direct investment, Mike believes the next 12 months should see a continuation of current positive trends. Foreign capital inflows are expected to continue to play a key role in the country's development, in terms of both FDI and FII. Calling Vietnam "Emerging Market Asia on steroids," Mike

illustrated how Vietnam has gone from an underperformer to an outperformer in just four years. Touching on the frequent comparison between Vietnam and China, Mike noted some of the similarities but also the significant differences, such as China's ability to better mobilize resources and its quicker pace of SOE and other economic reforms, and Vietnam's faster rate of FDI. While banking sector reform bears watching, Mike is confident that the macroeconomic landscape over next year should support continued market growth.



Chief Economist Michael Kokalari

Private Equity

One of VinaCapital's core focuses for the next year is private equity, and noted expert **Dr. Per Stenius** of the Reddal consulting firm provided an interesting overview of where the market in Vietnam currently stands compared to regional peers. Using the examples of Korea, Taiwan, and Malaysia to illustrate how other countries in the region have successfully developed their economies, Dr. Stenius noted that in order to sustain growth and maximize potential Vietnam will need to focus on building domestically owned, globally strong, higher value-add companies and the infrastructure to support them. Additionally, improving local firms' capacity to absorb FDI spillovers, supported by targeted industrial policies, are key. In terms of PE firms, Dr. Stenius noted that foreign firms drive up deal size and valuations, but in reality, there is a limited number of suitable, attractive, and available targets. Family-owned industrial businesses – especially those amidst a generational shift – could provide significant opportunities for PE investors, which need to help these companies address product development, innovation, and productivity gaps to expand regionally and potentially globally.



Dr. Per Stenius

Real Estate

Cushman & Wakefield Vietnam Managing Director Alex Crane provided an overview of the key segments of the property market. Office space in HCMC continues to be in high demand, while rents should remain stable. In Hanoi, offices located in core locations are performing well, although he is seeing yield compression in the CBD. With more international retailers entering the market (H&M and Zara recently, Uniqlo expected), retail should do well, although underperforming shopping centers need to be repositioned. With tourism on the rise, hospitality in HCMC, Hanoi, and Danang should all see good performances, with the latter benefiting from increasingly becoming a convention location, thanks to more direct flights from around Asia. The apartment market will see some challenges, as sales slow, although quality projects will retain values. Meanwhile landed properties continue to see good demand and supply, which should support price increases in the mid-term. Finally, the industrial segment is the most robust of all, with stable growth and price projections, thanks to the continued strong flow of FDI into manufacturing.



3. ACTUAL CONSTRUCTION PICTURES

Lunchtime Keynote Speakers

During lunch on day one, attendees heard from **George Wood**, a construction veteran with nearly 50 years of experience on high profile projects around the world, currently serving as project manager of the Landmark 81 skyscraper for **Coteccons Construction**. Upon completion, the 461-meter building will be the tallest such structure in Vietnam and Southeast Asia. George described his experiences on



www.Coteccons.vn

the project over the past year, particularly the state-of-the-art technology being used on the project as well as the high importance placed on safety on the site. Speaking of his work in the UK, Australia, the Middle East and Vietnam, George noted that they all had one thing in common: “Gravity.” Landmark 81 is expected to be topped off in the first half of 2018.

Day two’s lunch saw retail banking expert **Rahn Wood** offer his views on what the sector needs to do to grow. While deposits and loans have grown at a “staggering rate” over the past five years, total income has not risen as fast. Although just a small percentage of Vietnamese are currently banked (31%), growth opportunities for the sector will be limited so long as banks continue to place an emphasis on physical banking. With Vietnamese people among the world’s most enthusiastic users of mobile digital services, banks would be well-served by developing better digital products, improving risk management, and improving efficiency. Banks that follow through on these and other recommendations are likely to be the rising stars of the industry.

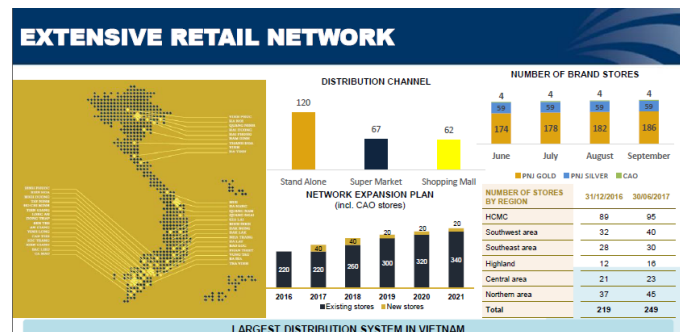
Company Reports

The conference featured representatives from several companies in which VinaCapital funds have invested. While it may lack the flash of tech startups, stationery company **Thien Long Group** is generating strong growth thanks to market dominance at home and exports to 50 countries on five continents. Company director Thien Ta described the ingredients of the company’s success: a culture of innovation and creativity, low staff turnover, and a focus on research & development for products and manufacturing processes. This focus has led to average yearly revenue growth of 15.4%. In 2017, the company expects to surpass USD100 million in revenue.



Thien Long Group has been a Forbes Vietnam Top 50 company since 2013

As the leading jewelry retailer in Vietnam, the name **PNJ** is well-known to VinaCapital investors, as we have regularly highlighted the company’s strong growth in our fund reports. With 249 retail outlets around Vietnam, PNJ has embarked on an aggressive expansion strategy to capture an even larger part of the market, which remains dominated by mom-and-pop stores. Physical stores are not the sole way PNJ sells its products, and Chairwoman Dung Cao described the company’s “omnichannel retailing strategy”, encompassing digital, kiosks, and call centers, among other channels. This overall approach appears to be effective: same-store sales rose 22% and 20% for gold and silver, respectively. Meanwhile, gross profit for the first nine months of 2017 has nearly equaled that for all of 2016, while gross revenue for the period was up 24% compared to the same period in 2016.



PNJ’s retail network is the most extensive in Vietnam

Established in 1996, **Orient Commercial Bank (OCB)** may not yet rank among Vietnam’s top ten retail banks, but it is among the best managed with an expansion strategy targeting the growing middle class and small and medium enterprises. Having completed a five-year restructuring plan, OCB has cleaned up its loan portfolio and instituted stringent risk management practices to become a “top ten best bank” with growth double the industry average. CEO Tung Nguyen noted that 2017 is the first year of a multi-year expansion strategy which focuses on earnings growth (expected to be around 100% in 2017 and 30% in 2018), controlling costs, and developing a comprehensive digital strategy. The bank expects to list on the Ho Chi Minh Stock Exchange before the end of 2019.

Mobile phones are among Vietnamese consumers' favorite products, and **FPT Retail** is well-positioned to build on an already strong position as the second-largest consumer electronics retailer in the country. In business since 2012, FPT Retail has grown revenue 11 times in five years, while profit has risen six times in three years. Deputy CEO Viet Anh Nguyen said that the company expects to record over USD600 million in revenue in 2017 on the back of a focus on premium products and a store expansion strategy that will bring the chain to more provinces, where smartphone penetration remains low. Online sales are also becoming an increasingly important channel. FPT's compounded annual growth rate of revenue and profit before tax is expected to be over 25% and 35% per annum, respectively, during the 2016 – 2019 period, more than double market growth of 8-10%,

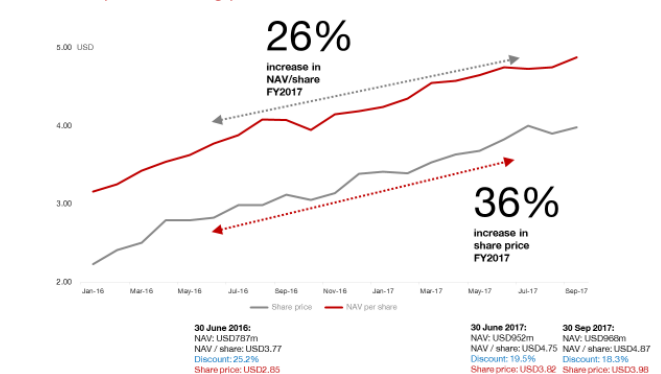
Infrastructure development is a key focus of the government, and **Tasco** is one of the most successful companies operating in the sector today. Responsible for building and operating toll roads, Tasco is currently testing an automatic payment system for paying tolls similar to those in use in developed countries. The company has also amassed significant real estate holdings, and has successfully built and launched three residential projects in Hanoi.

Fund Updates

VinaCapital Vietnam Opportunity Fund (VOF):

The 2017 financial year was a rewarding one for VOF, with Managing Director Andy Ho highlighting a 26% increase in NAV per share and a 36% increase in share price; significant progress was also made on reducing the discount. As at 30 June 2017, the fund's net asset value stood at USD952 million. Andy noted that a number of factors drove the fund's performance, including receipt of USD100 million in cash from exits in equities, USD126 million from the sale of direct real estate and operating assets, and USD220 million deployed into new investments, including private and public equity, privately negotiated deals, and bonds. The capital markets portfolio, which currently makes up 70% of NAV, has delivered 23.4% and 26.0% over a rolling three-year and five-year annualized return – much higher than the VN Index (USD terms), ETFs, and the MSCI EM.

VOF – a repeat of strong performance¹



1. For the fiscal year from 30 June 2016 to 30 June 2017, unaudited, USD terms. FY2018 YTD Slip figures are unaudited. Non-restricted | VinaCapital

On the private equity and privately negotiated front, Andy said that during the 2017 calendar year the fund has reviewed 25 deals, and at this point the fund is actively considering five opportunities valued at approximately USD105 million. The privatization of state-owned enterprises has received a great deal of media attention this year, drawing greater interest from international investors. Andy noted that private company owners are asking for higher valuations, and that competition for deals in general has become much more intense. Nevertheless, Andy said the fund is focused on effectively deploying cash into privately negotiated deals in companies with strong growth outlooks for the next 3-5 years.

VVF/VESAF: Thu Nguyen, Managing Director, provided an update on two funds: VVF, the open-ended, UCITS-compliant fund, and the Vietnam Equity Special Access Fund (VESAF), our newest fund launched in April 2017. VVF currently stands at USD77 million, and the fund's Class A NAV per unit has increased 37% since inception in July 2015; year-to-date, the fund has increased 18.6% (as of 29 September 2017). With a preference for companies in the infrastructure & utilities, consumers & retailing, and construction & construction materials sectors, Thu highlighted the opportunities she saw in the market stemming



Thu Nguyen describes the opportunities she sees in the market

from continued strong retail sales, accelerated urbanization and new listings and state divestments (although these have progressed fairly slowly). VESAF invests in OTC and listed securities in Vietnam, and because it is domiciled in the country, is not subject to foreign ownership limitations. Small- and mid-cap stocks currently make up 59% of the portfolio. The fund is up 13.8% in USD terms since inception at the end of April to 29 September.

VinaLand (VNL): Managing Director David Blackhall gave an update on the fund's performance over the past year, noting that it was ahead of target in terms of asset divestments and distributions to shareholders. Since the previous investor conference, VNL's share price has risen to USD0.82 (from USD0.69) while the discount between share price and net asset value has fallen to 13.6% (from 22.7%). Additionally, the divestments completed over the past 12 months have brought the fund's debt to zero. Commenting on future opportunities in real estate, David identified three areas of interest: the small-but-growing warehouse segment, which is poised to offer high returns on the back of the manufacturing sector's growth; landed properties, which are seeing steady demand; and coastal-mixed use developments in areas that are infrastructure-ready.

DFJV/Venture Capital: Phuc Than, Managing Director of DFJV, outlined plans to wind-up the venture capital joint venture as it comes to the end of its ten-year lifespan. Pointing out the success of two of the fund's investees, Chicilon and Yeah 1, Phuc noted how the venture capital landscape in Vietnam has evolved over the decade that DFJV has been in existence. Asian investors in particular are keen to participate in the budding tech scene, and VinaCapital will launch a fund in early 2018 that capitalizes on this interest.

Conference Takeaways

This is clearly an exciting time to be investing in Vietnam. Although the economy's growth may make it more difficult to uncover the "hidden gems," we believe that there remain many opportunities to realize significant gains. While much has been made regarding the acceleration of the privatization of state-owned enterprises, the fact is there are very few such entities that are either interesting to us and/or are offered at reasonable valuations. Indeed, we believe Vietnam's blossoming private sector generally offers better growth prospects, especially from a private equity standpoint. We look forward to sharing our experiences and perspective over the course of the next year and at the 2018 investor conference.

Copies of select presentations from the investor conference are available upon request. Please contact ir@vinacapital.com to request presentations, or to receive more information about VinaCapital and its funds. If you attended this year's conference, you should have received a link to a quick online survey, which will remain open until 30 October. We welcome your feedback and suggestions as to how we can make our investor conferences even more engaging. Alternatively, please send your thoughts via email to [Christopher Fitzwilliam-Lay](mailto:Christopher.Fitzwilliam-Lay@vinacapital.com).

Disclaimer

© 2017 VinaCapital Group (VCG). All rights reserved. This report has been prepared and is being issued by VCG or one of its affiliates for distribution in Vietnam and overseas. The information herein is based on public sources believed to be reliable. With the exception of information about VCG, VCG makes no representation about the accuracy of such information. Opinions, estimates and projections expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCG and are subject to change without notice. VCG has no obligation to update, amend or in any way modify this report or otherwise notify a reader thereof in the event that any of the subject matter or opinion, projection or estimate contained within it changes or becomes inaccurate.

Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or to sell any securities or any option, futures, or other derivative instruments in any jurisdiction. Nor should it be construed as an advertisement for any financial instruments. Officers of VCG may have a financial interest in securities mentioned in this report or in related instruments. This research report is prepared for general circulation and for general information only. It does not have regard to the specific investment objectives, financial situation or particular needs of any person who may receive or read this report. Investors should note that the prices of securities fluctuate and may rise and fall. Past performance, if any, is no guide to the future.

Any financial instruments discussed in this report may not be suitable for all investors. Investors must make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular financial situation and investment objectives. Past performance does not guarantee future results. This report may not be copied, reproduced, published, or redistributed by any person for any purpose without the express permission of VCG in writing. Please cite sources when quoting.