

DRAGON CAPITAL 

**Dominic Scriven - Executive Chairman**

▶ ***Dragon Capital: Vietnam's Premier Investment Manager***

Biggest at c \$2.9bn AUM; oldest at 23 years; long history of outperformance

▶ ***Vietnam Economy: Among best in Emerging Markets***

Sustainable GDP growth of 6-7% while peers are struggling

▶ ***Vietnam Market: Best Value/Growth in Region***

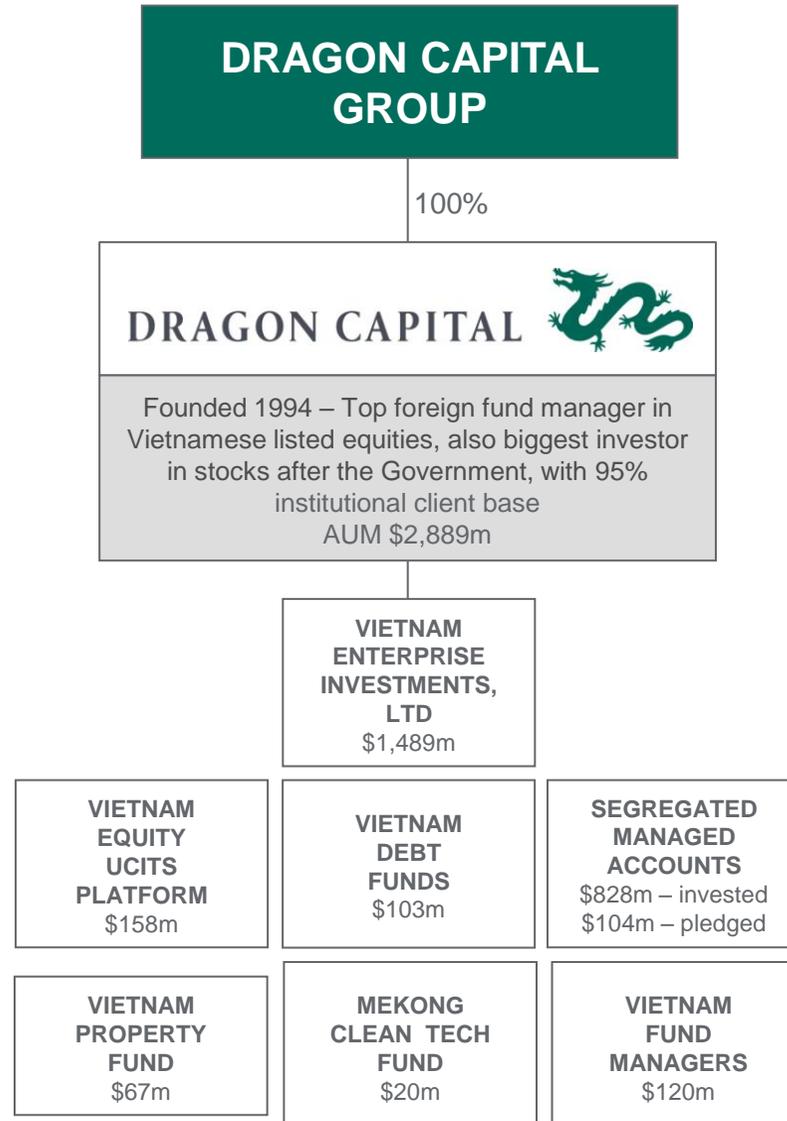
2018 ratings of 12.4x PER, 18.4% EPS growth, 0.7x PEG

▶ ***Vietnam Emerging Index Inclusion?***

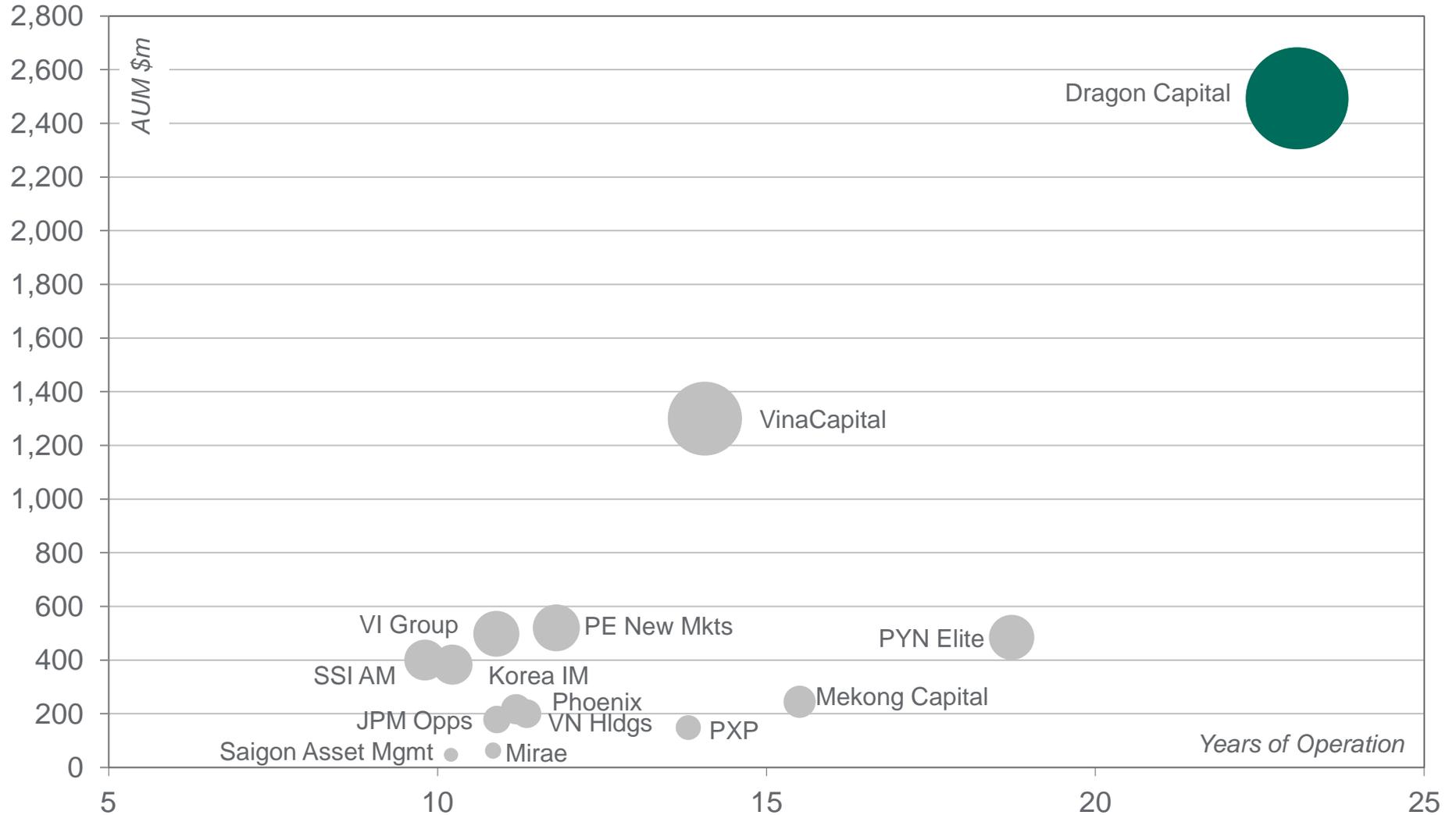
New securities law can resolve FOL issue, thus accelerate the process

## ***Vietnam's No-1 Foreign Institutional Manager***

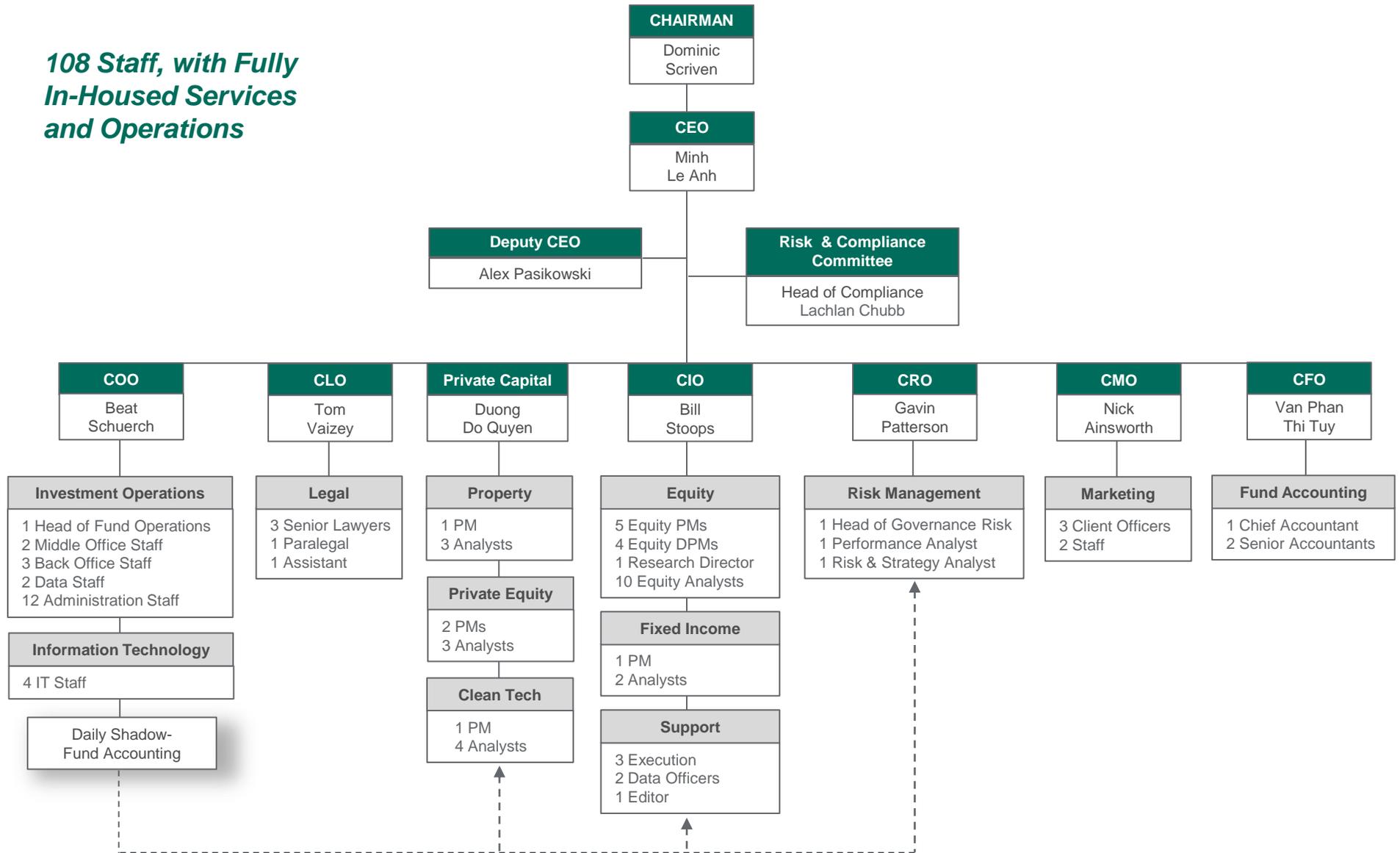
- Founded 1994, AUM \$2.9bn
- Largest investor in listed equity after the Government – \$2.3bn
- Only foreigner manager in fixed income > \$100m
- Property and private-equity funds
- Blue-chip institutional client list
  - biggest family offices
  - top global mutual and pension funds
  - leading developmental institutions
  - biggest sovereign wealth funds
- Dragon Capital is largely owned by management and staff



FOREIGN LISTED-EQUITY FUND MANAGERS – 30 NOV 2017



**108 Staff, with Fully In-Housed Services and Operations**



*In 2014-17, looked at \$2.8bn of deals and taken up \$455m worth. For example:*



*IPO: MobiWorld, the biggest mobile phone distributor, offered 11% for \$28m in 2014. Dragon took \$7m. MWG has greatly expanded since and Dragon is its biggest investor with a 13.5% stake*



*IPO: Biggest developer in HCMC, offered 10% stake or \$120m in Sep 2016; DC subscribed \$23.4m. Prior to this, DC took \$17m convertible pref shares with minimum 15% return in 2015. Total exposure \$43.5m*



*Placing: Pioneer in gated communities offered 26% for \$75m in 2014; Dragon took \$11m. Later, in 2015, Dragon brokered an M&A deal for Khang Dien creating HCMC's biggest raw landbank*



*Pre-Listing: No-1 brewer, an SOE, was ordered onto HOSE after 10 years on OTC; in Nov 2016, just ahead of the move, Dragon secured 0.5%, or \$15.5m, at VND 150,000*



*IPO: Monopoly SOE operator of Vietnam's 22 civilian airports, auctioned 3.5% for \$49m in 2015; Dragon secured 1.3% for \$16m*



*New-Share Auction: No-1 building materials company, a listed SOE, auctioned 28.1% in new shares in Jun 2017. Dragon secured half of the issue, or \$42m, which topped it up to 13.6% of VGC, after previous smaller deals*



*Placing: Military Bank, the no-4 listed commercial bank, opened FOL from 10% to 20%, or 160.0m shares, in Feb 2016; Dragon worked out structures to buy 64.2m shares for \$51m*



*Pre-IPO: Spin-off of retail arm of tech firm FPT, which offered 35% or \$47m in Jul 2017 to Dragon and one other investor. DC took almost 60% of the issue, with a listing expected in 1Q18.*



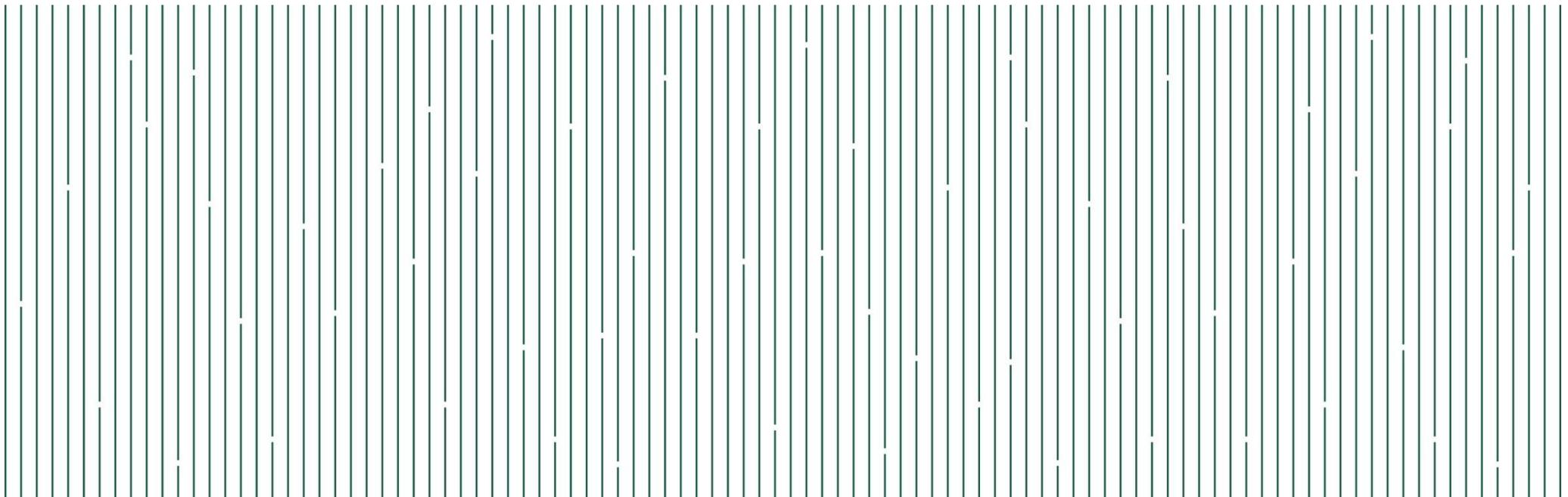
*IPO: SOE agri-machinery company owning stakes in lucrative foreign automotive JVs offered 12.5% stake at auction in Aug 2016; Dragon purchased 2.3% or \$20m*



*IPO: No-10 bank by assets, with the biggest consumer finance operation, offered 11% for \$282m in Aug 2017. Dragon secured 24% of the 4x over-subscribed deal for \$68m (and more on the OTC, ahead of the issue, at lower prices)*

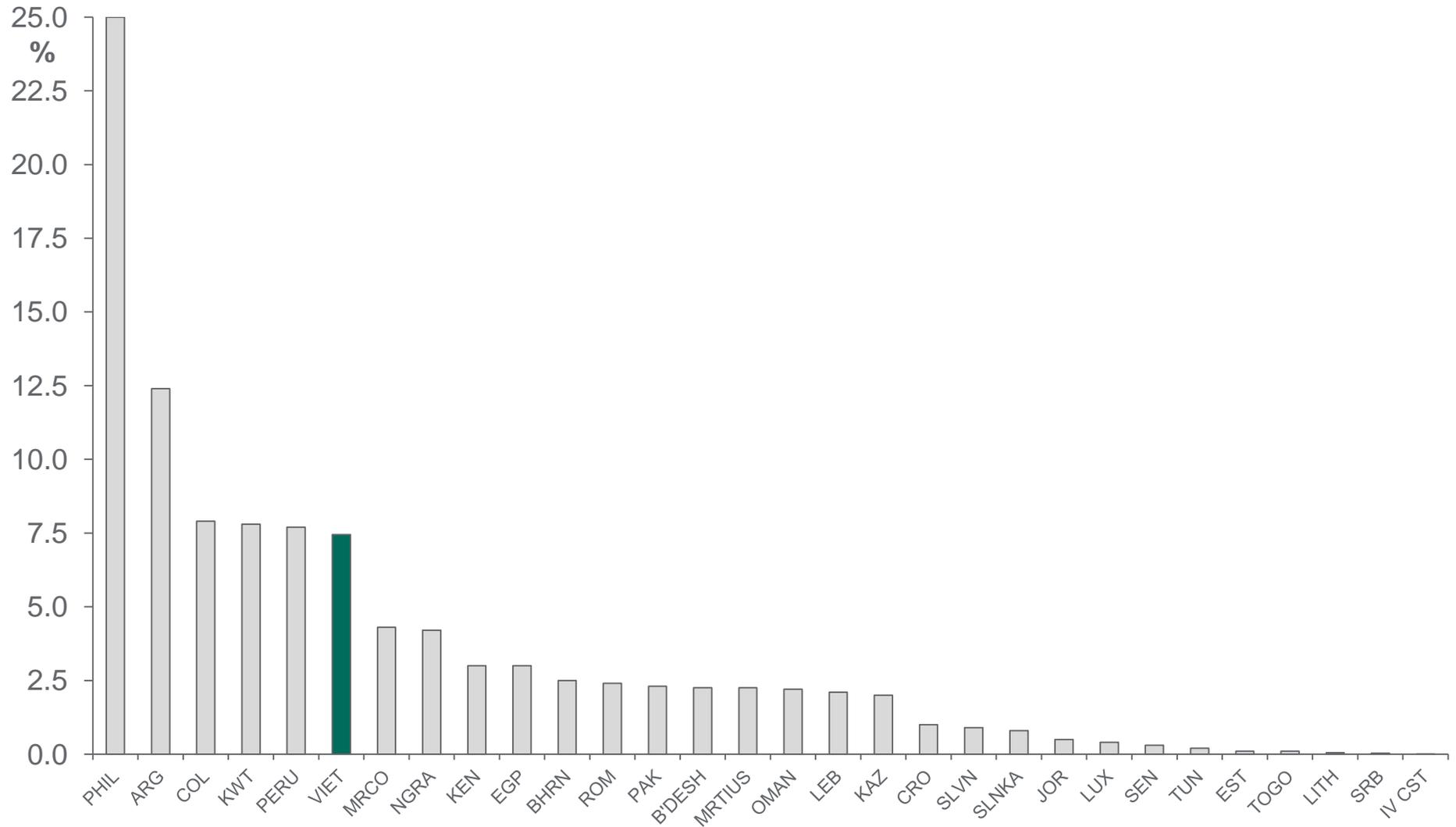
- Focused on value/growth opportunities
- 10-person research team supporting five senior PMs and four deputies
- Analysts cover 70-80 portfolio companies as well as potential opportunities
- Analysts start by looking for low PERs, low PBRs, high EPS growth, high yields
- Also qualitative criteria: core business focus, operating discipline, management professionalism, industry leadership, corporate governance

EMS/ Frontier Markets: charts supplied by EFG Hermes

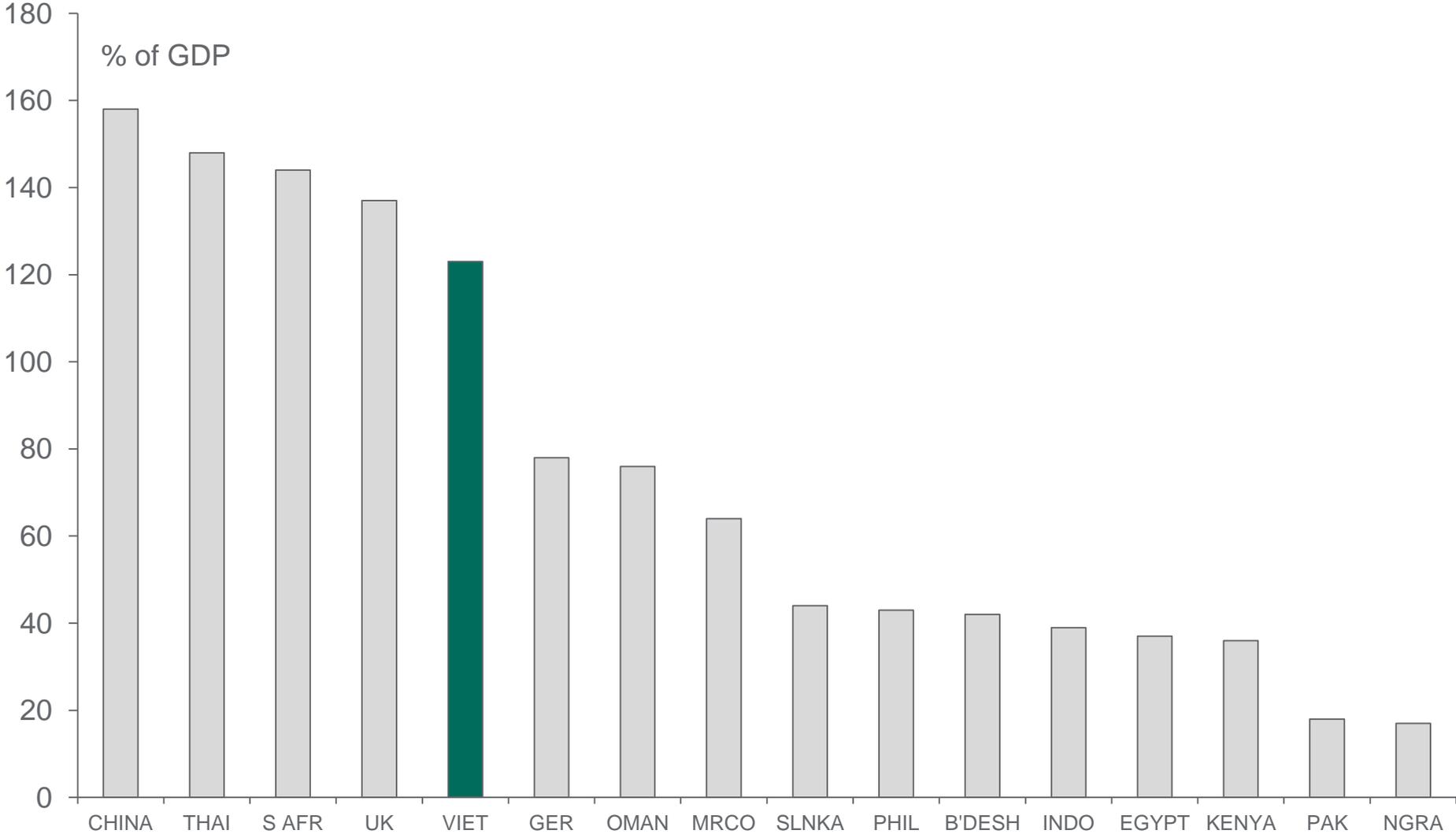


# FRONTIER EM INDEX COUNTRY WEIGHTS

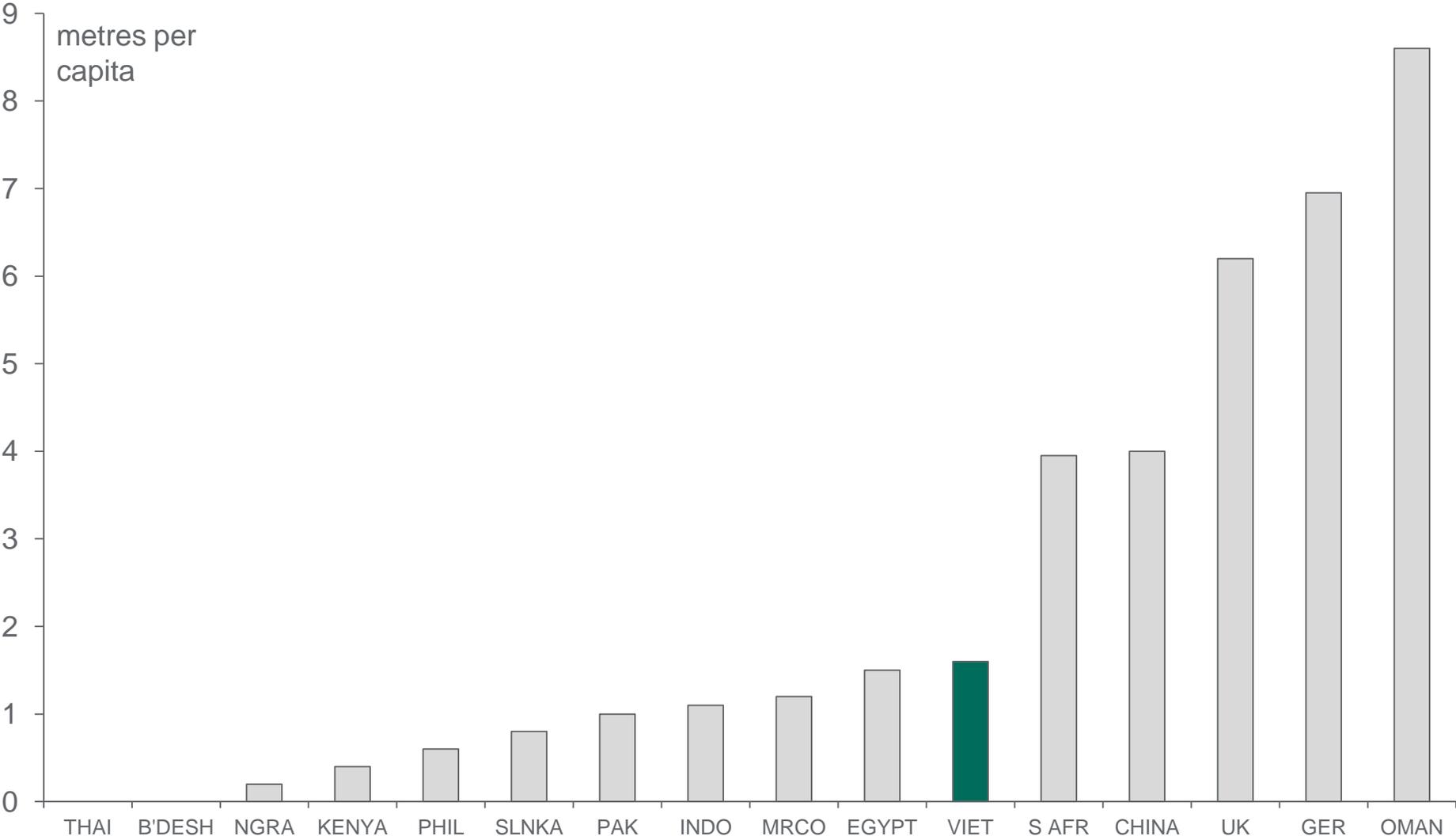
DRAGON CAPITAL



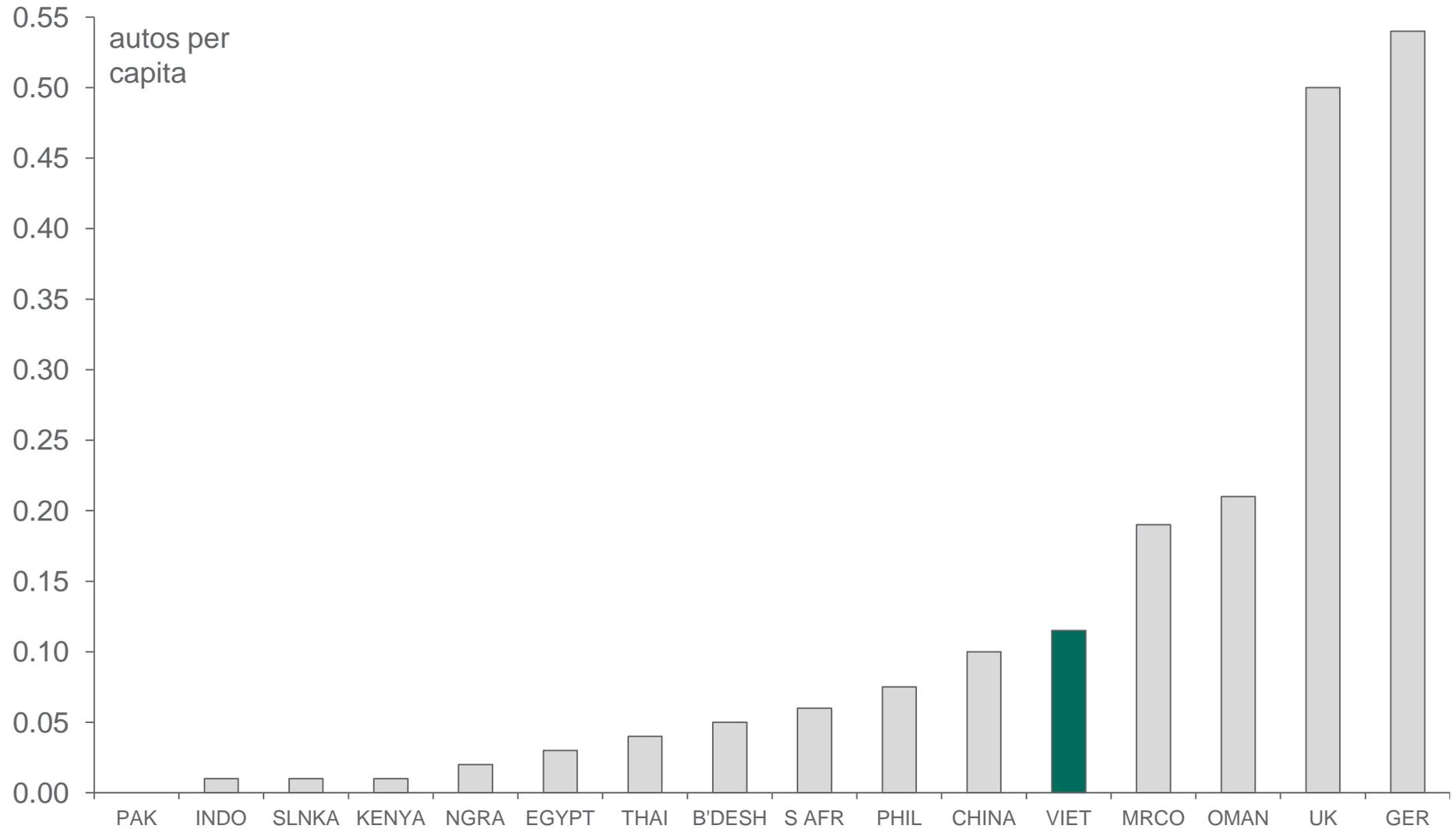
# CREDIT



# PAVED ROADS



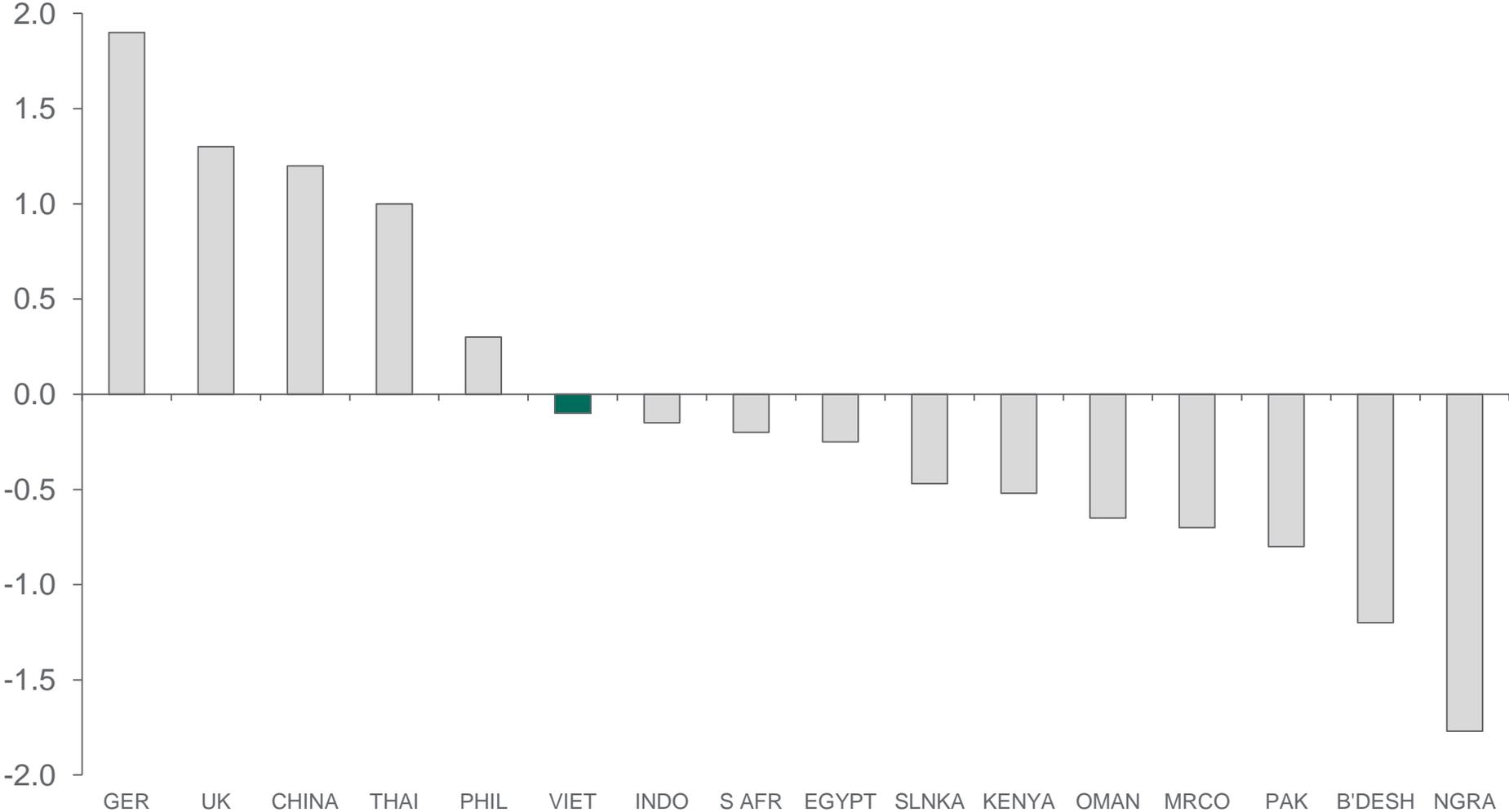
# AUTOMOBILES



# ECONOMIC COMPLEXITY INDEX

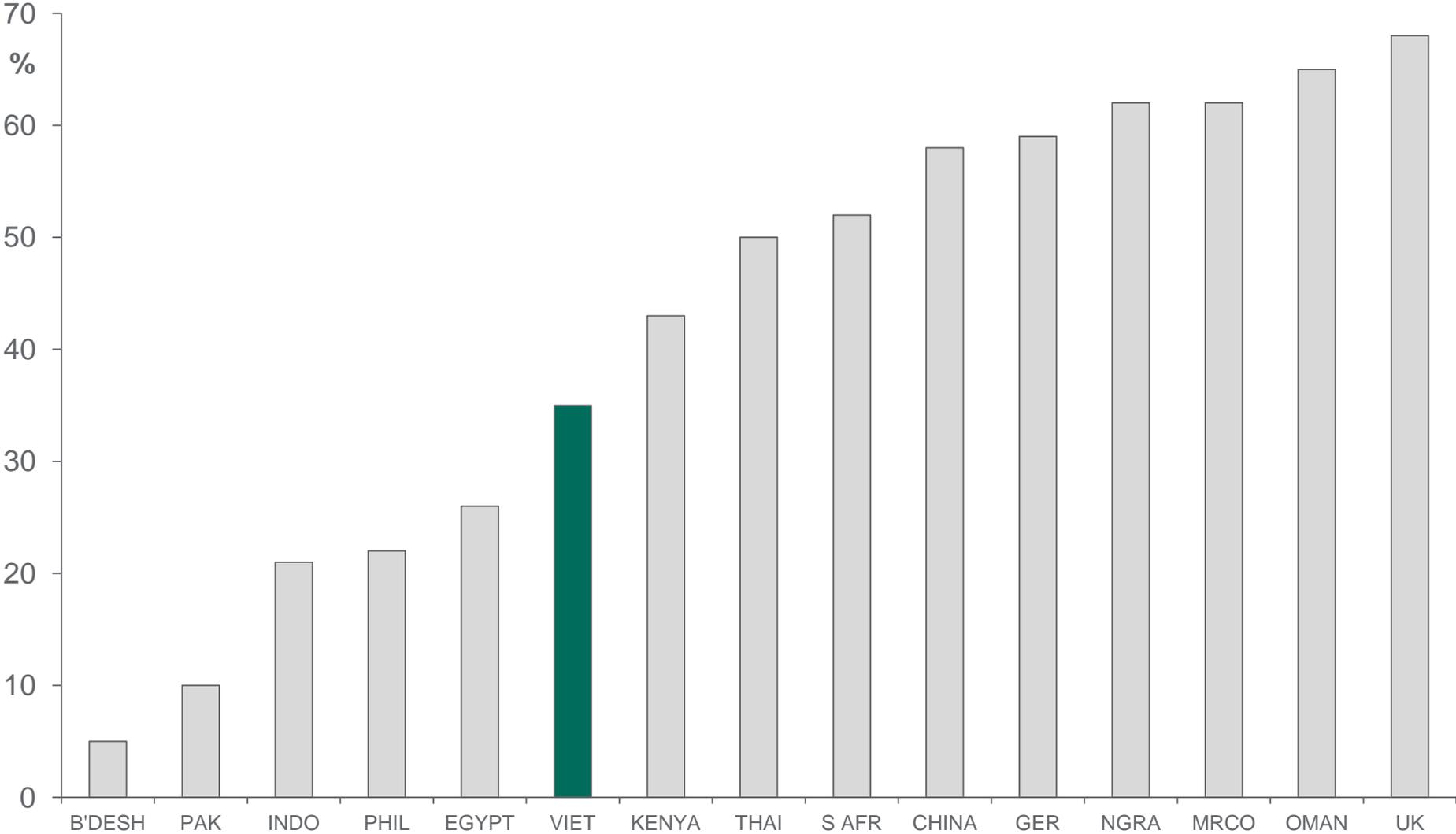


THE ECONOMIC COMPLEXITY INDEX MEASURES THE RELATIVE COMPLEXITY OF A COUNTRY'S EXPORTS

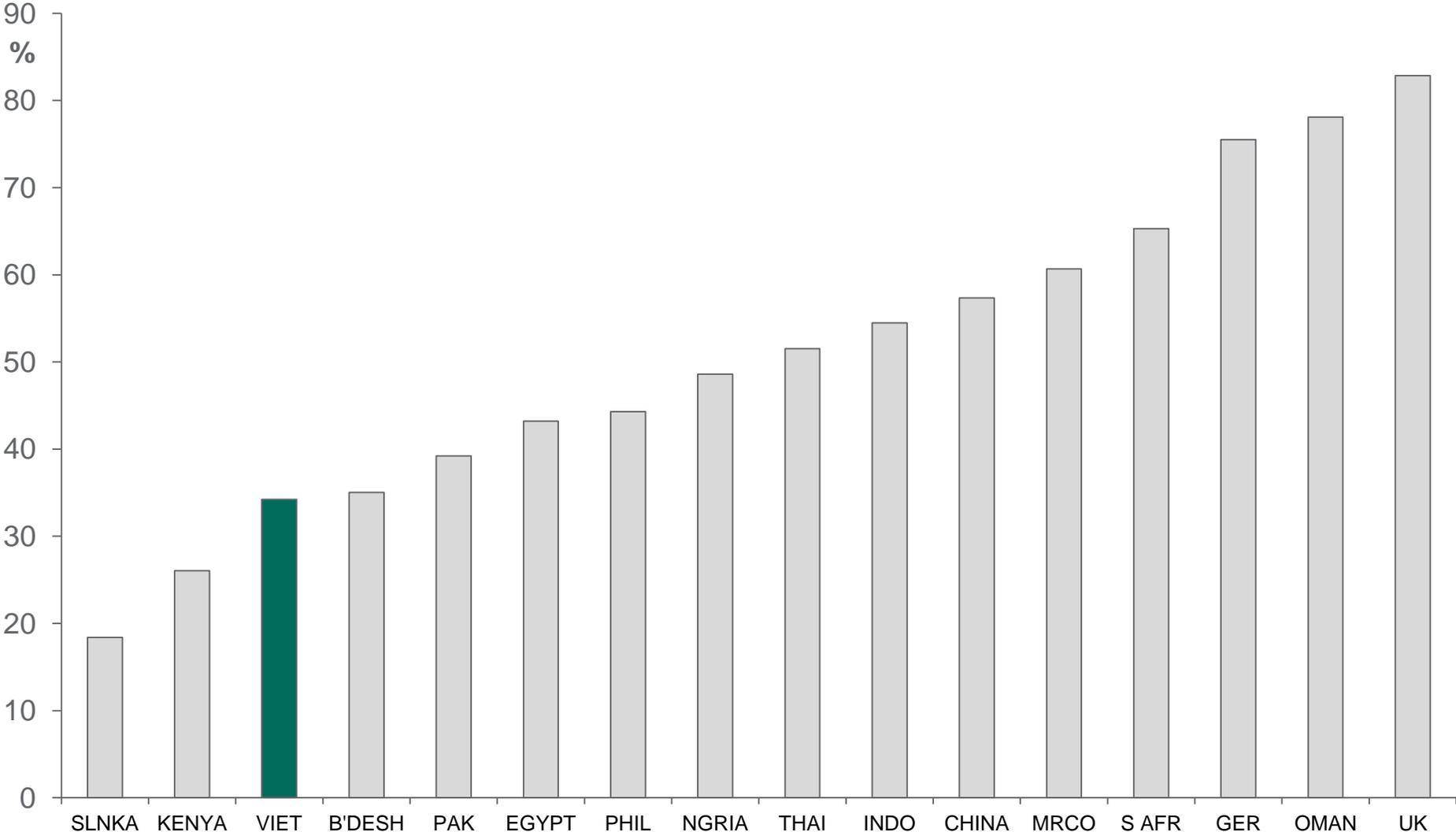


Source: The Observatory of Economic Complexity

# SMARTPHONE PENETRATION

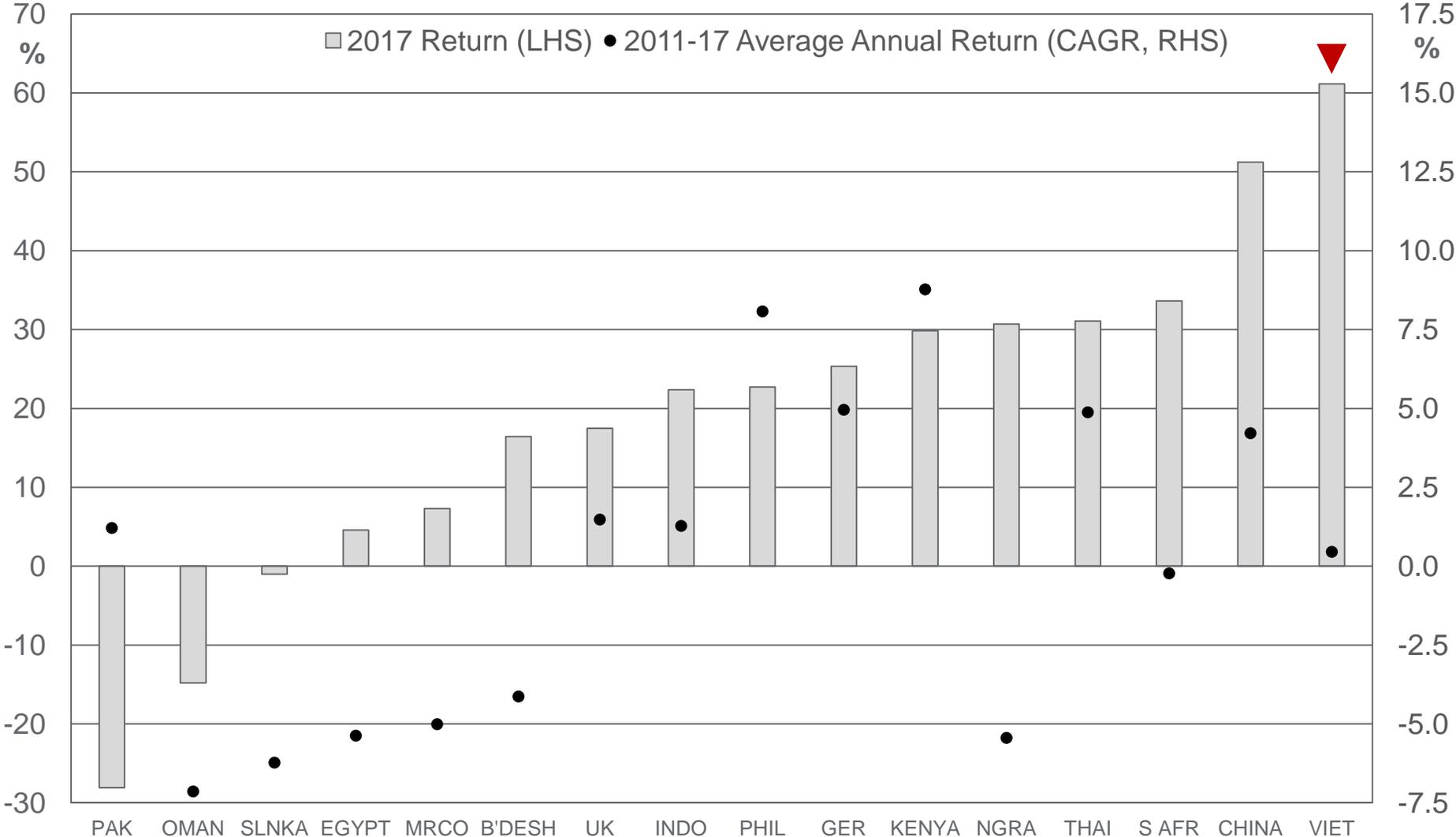


# URBANISATION

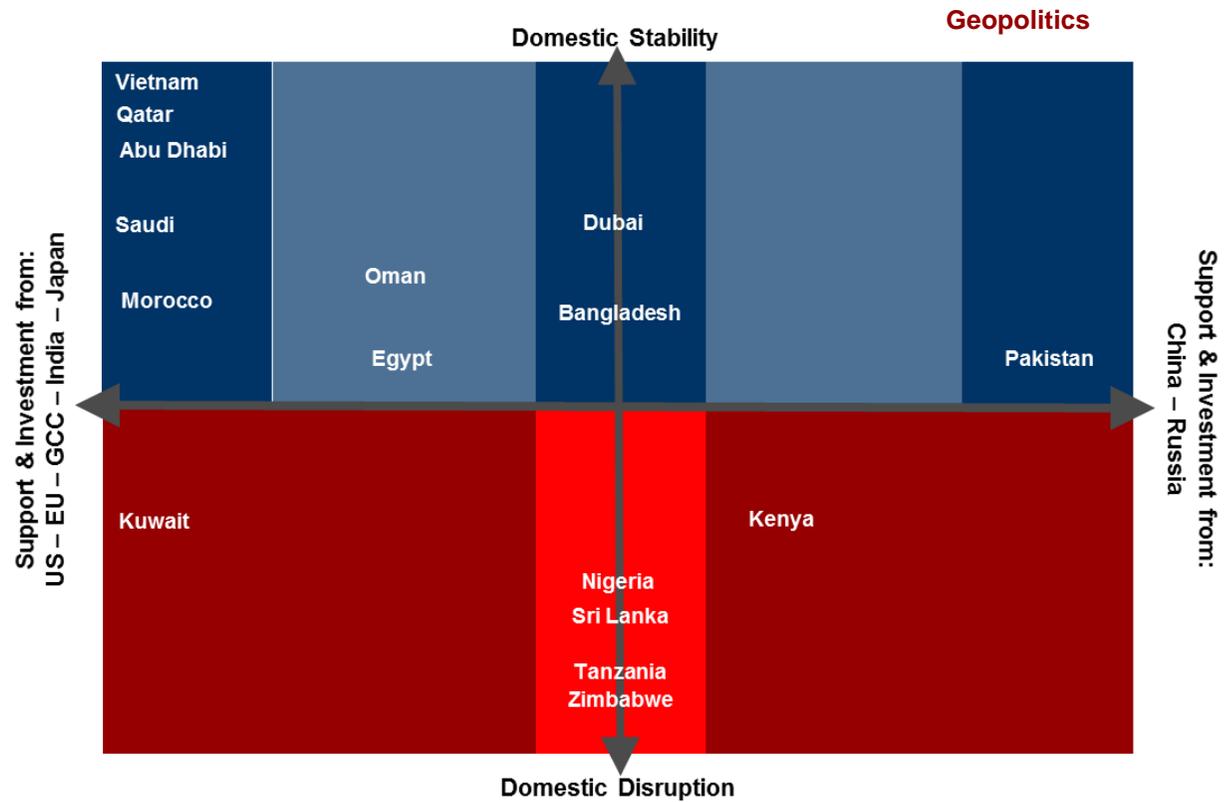


Source: World Bank World Development Indicators

# 2017 RETURN VS 2011-17 AVG RETURN



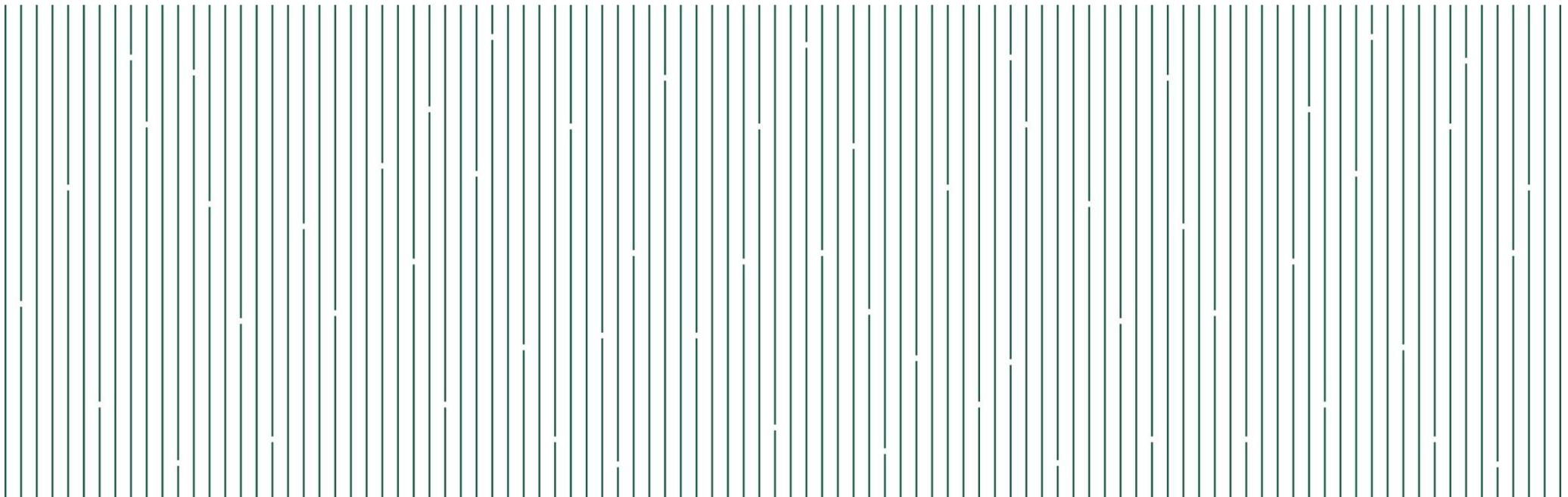
## US or China centric



Source: Al Arabiya, China Daily, Exotix



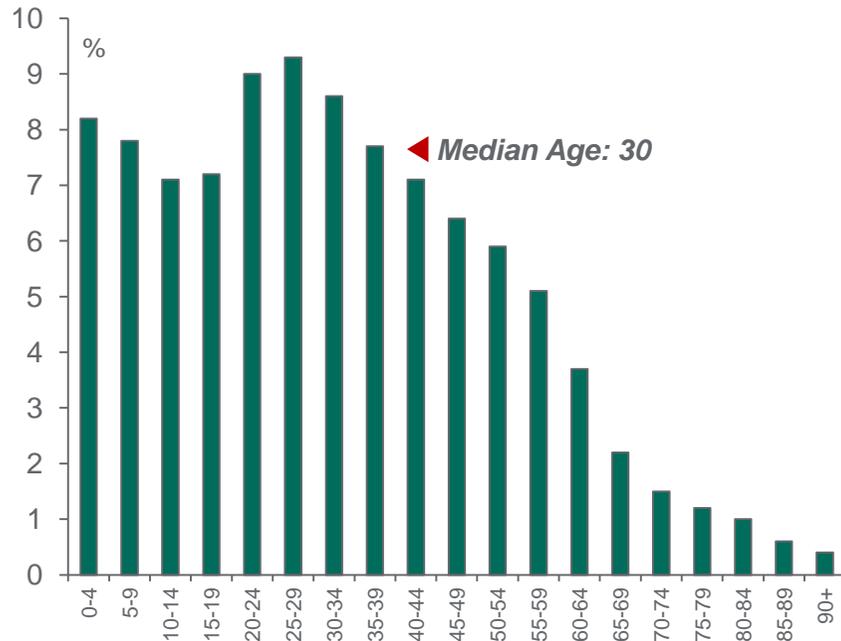
## Vietnam in Detail



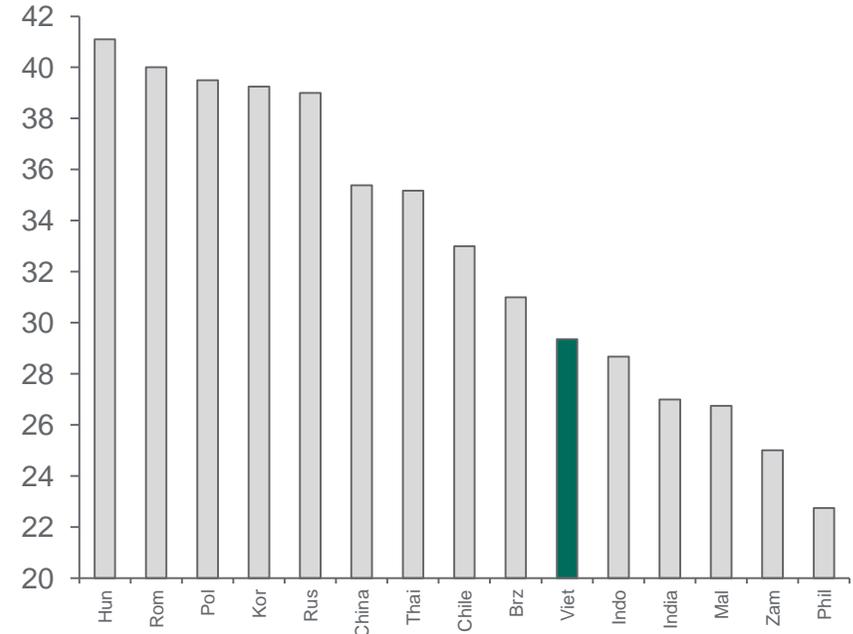


- Youthful demographics; growing middle class
- Political stability
- Single-party rule has earned legitimacy
- Confucian social and cultural values
- Inflation stabilised at c.2%
- Sound currency, BoP surpluses
- FDI \$16bn in 2016
- Strong export economy
- Robust domestic economy
- Balanced, sustainable GDP growth of 6-7%
- Any threats would mostly be external

POPULATION AGE COHORTS, 2016



COMPARATIVE MEDIAN AGES, 2016



- Vietnam’s baby boom started in the early 1980s, giving it best all-round demographics in EM’s
- Median age of 30 means population is still young, but old enough to have disposable income
- This creates a conveyor belt of more producers and consumers, fewer dependents
- The war experience of 1945-78 gave a further twist to youth demographics
- It promoted gender equality, high female labour participation and a much bigger work force

- Vietnam is an emerging modern economy with single-party rule – not a “Communist dictatorship”
- Single-party rule has earned legitimacy by delivering jobs and growth, harnessing youth demographics as a boon, not a time bomb
- Single-party rule is administered lightly: internet is not censored, policy debate is tolerated on social media, consensus is sought within Government
- Vietnam is a conservative country in any event, with Confucian social values
- A deep work ethic, reverence for education, primacy of the family, a bias for law and order
- It is racially homogenous and un-religious: no ethnic or sectarian fanaticism, no break-away regions
- A Party clean-up underway since the 2016 Five-Year Congress has returned the leadership to a more harmonious pursuit of open-market reform
- More technocrats on Politburo now (eight out of 19 members) and in Hanoi / Saigon city governments



*Nguyen Tan Dzung*  
**Ex-Prime Minister**  
Former Big Boss; Voted Out for Divisiveness, Corruption



*Nguyen Phu Truong*  
**General Secretary**  
New Big Boss; Leads More Honest and Inclusive Gov't

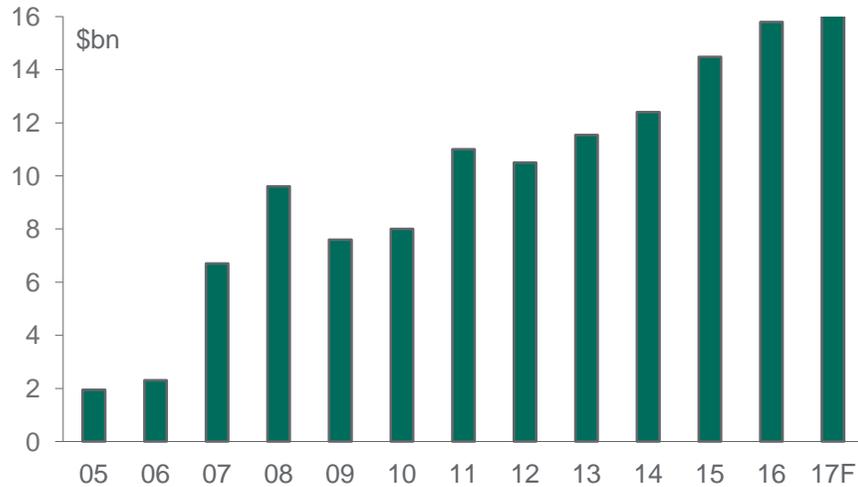


*Nguyen Xuan Phuc*  
**Prime Minister**  
Working in Harmony with GenSec on Macro Policy

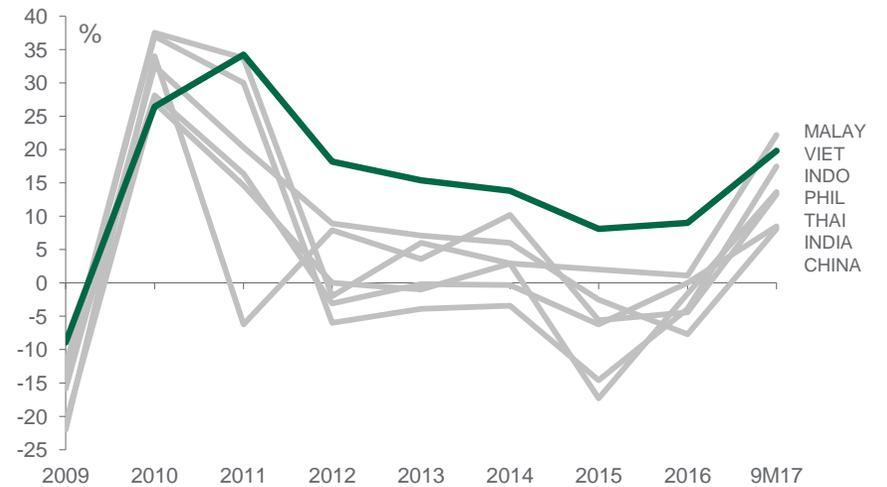


*Dr Vuong Dinh Hue*  
**Senior DPM / Politburo**  
Uber-Technocrat Leading the Pragmatic Reformists

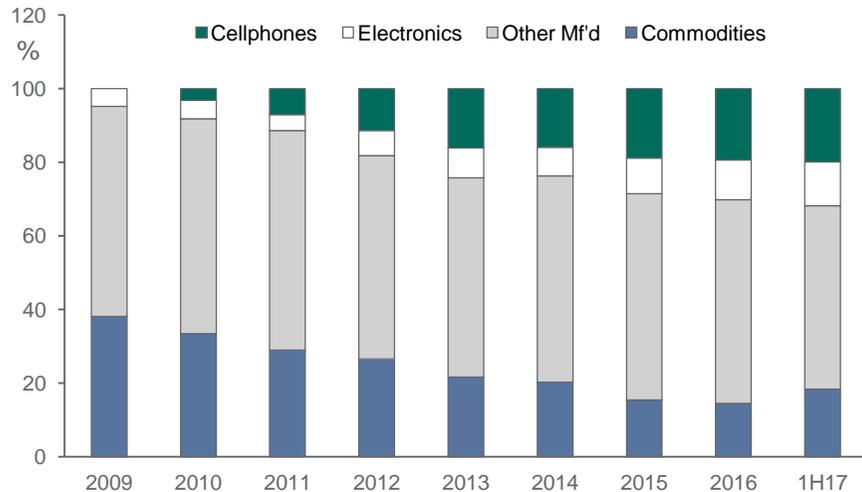
**MASSIVE ONGOING FDI FLOWS...**



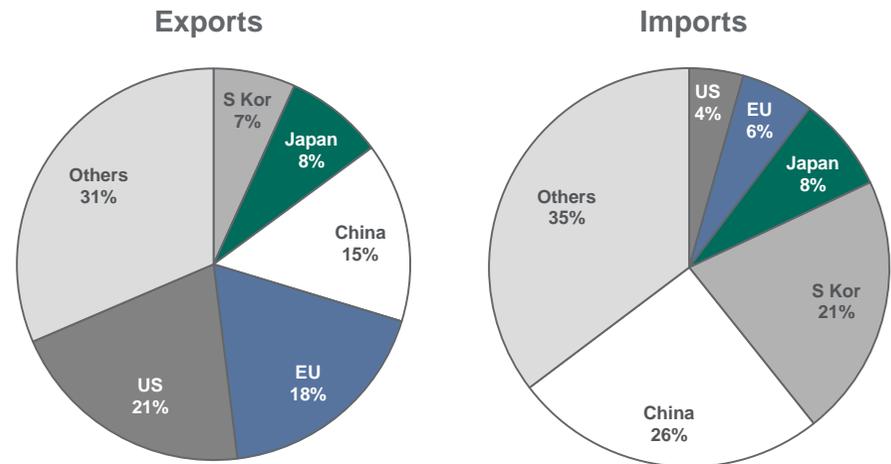
**...HAVE BUILT ASIA'S TOP EXPORT MACHINE...**



**...WHICH HAS AN EVER-IMPROVING PRODUCT MIX...**

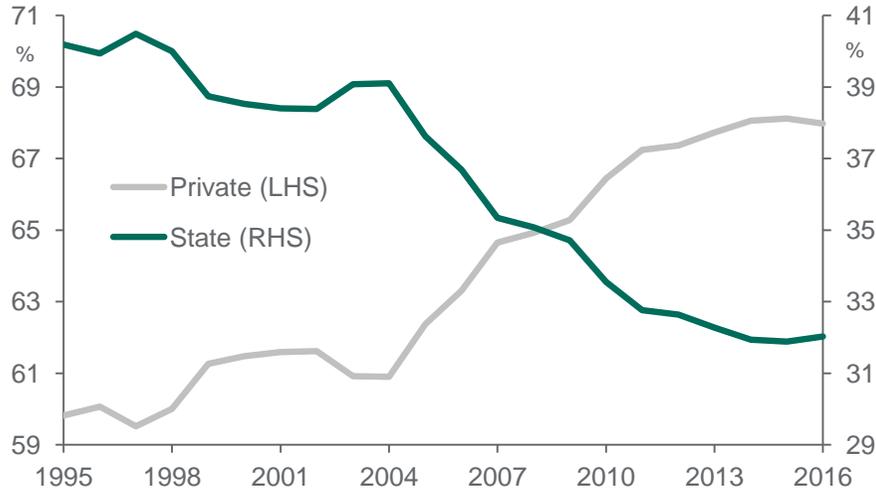


**...AND WELL-DIVERSIFIED TRADING PARTNERS**

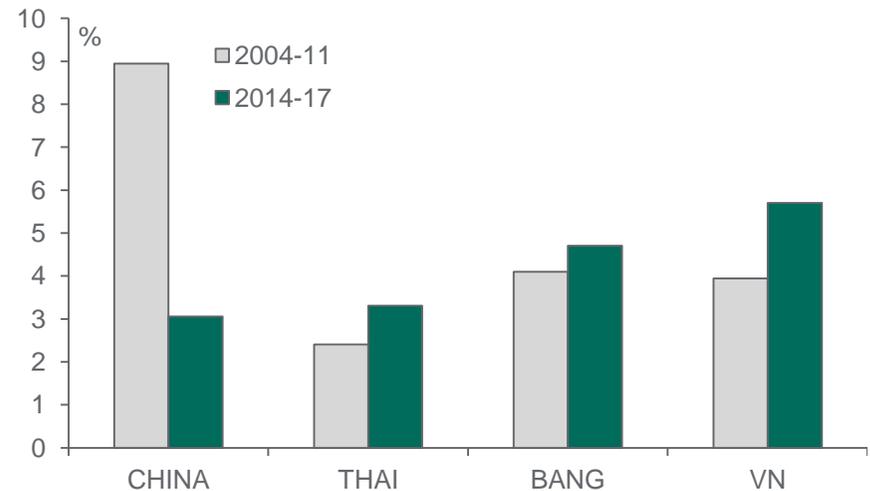


Sources: DC, GSO, BBG

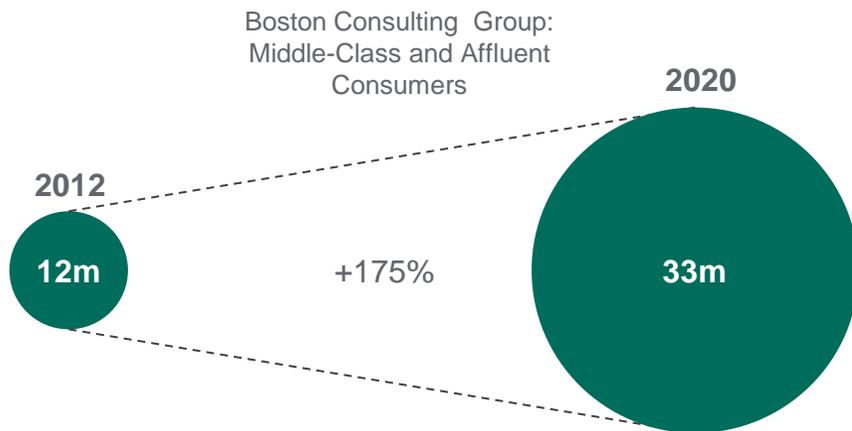
...AND RISING PRIVATE GDP OWNERSHIP...



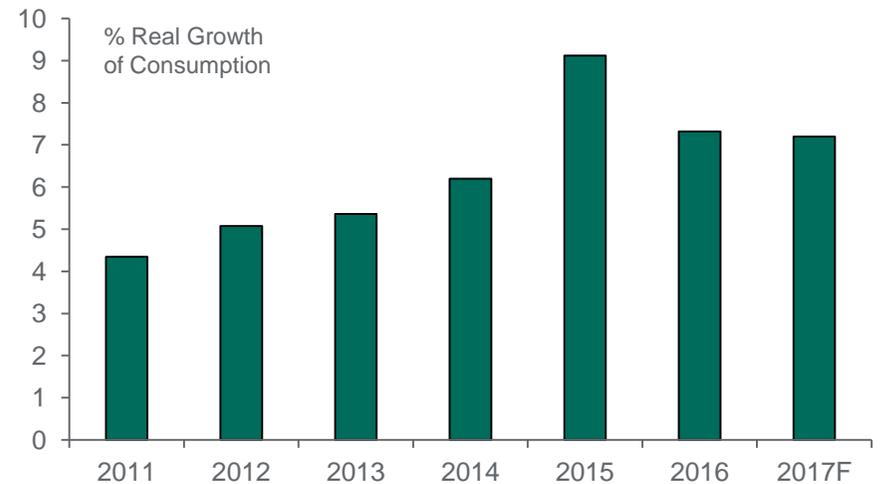
...HAS POWERED SUPERIOR PRODUCTIVITY GROWTH



NOW THE MIDDLE CLASS IS RAMPING UP...



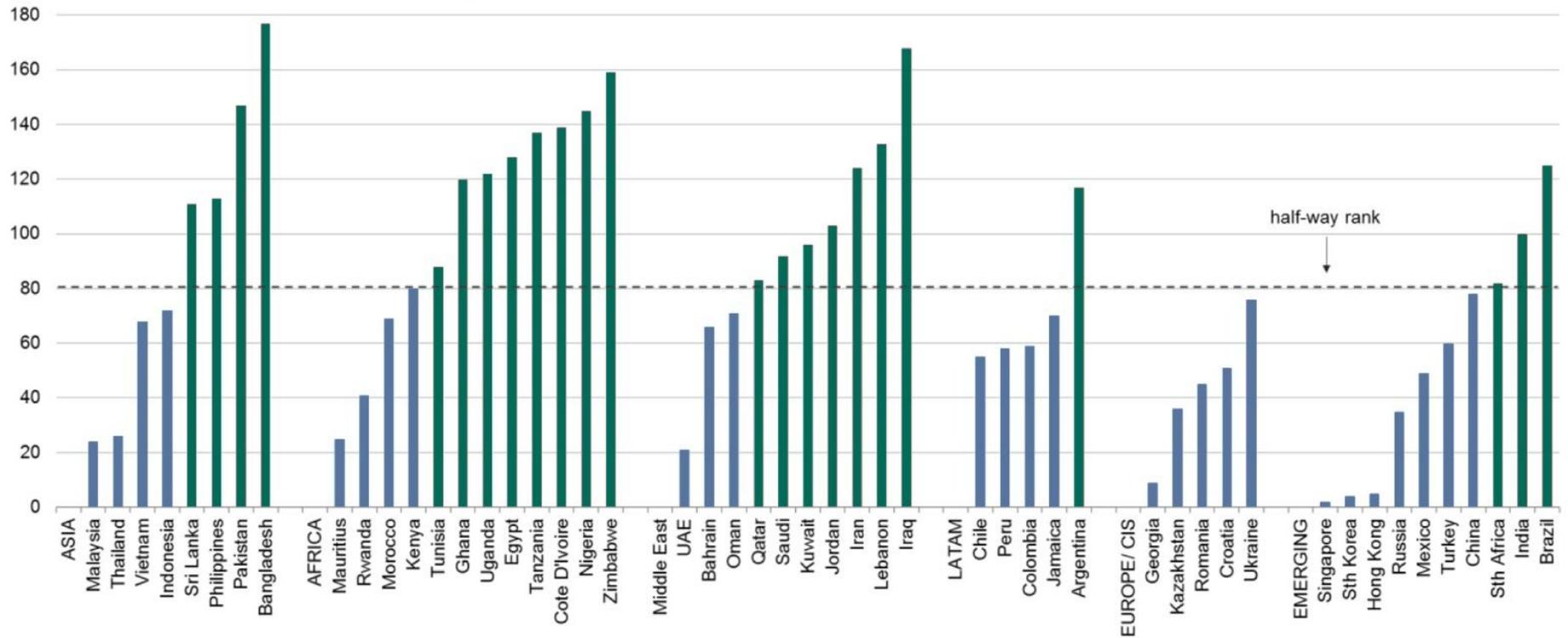
...DRIVING CONSUMPTION AND THE DOMESTIC ECONOMY



Sources: DC, GSO, BCG

# EASE OF DOING BUSINESS

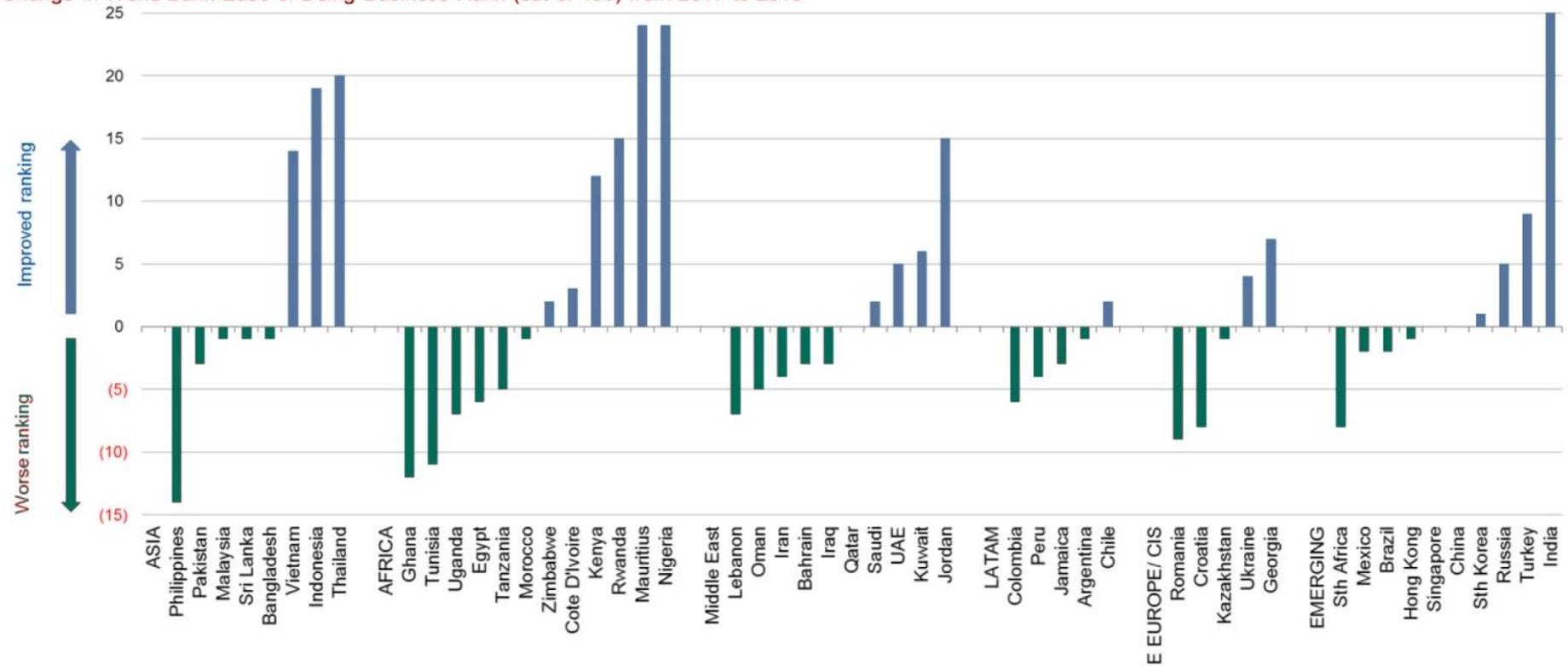
2018 World Bank Ease of Doing Business Rank (out of 190)



Source: WB

# EASE OF DOING BUSINESS

Change in World Bank Ease of Doing Business Rank (out of 190) from 2017 to 2018



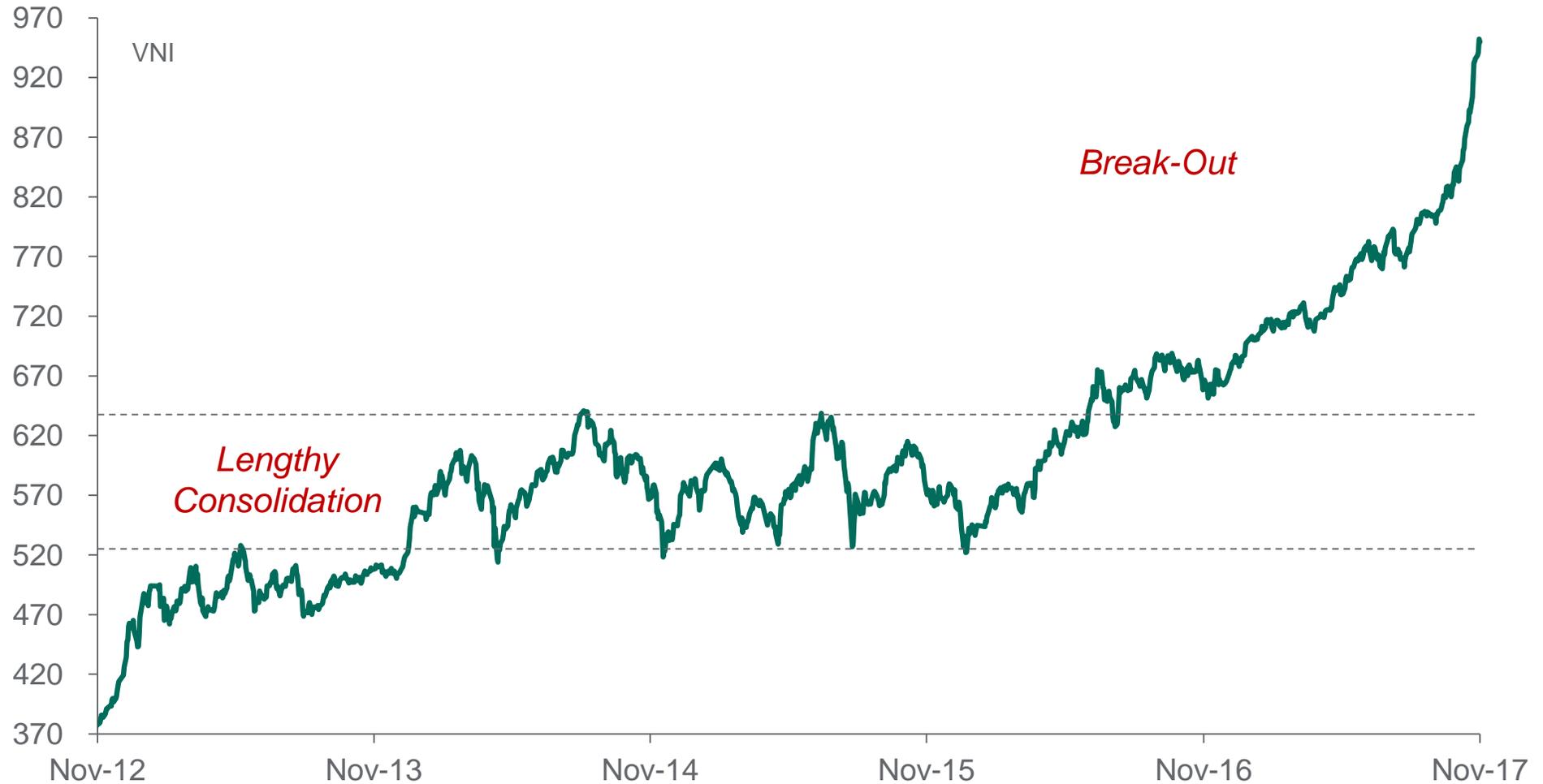
Source: WB



# MARKET PERSPECTIVE



## CONSOLIDATION FOR THREE YEARS, NOW FOLLOWED BY DEFINITIVE BREAK-OUT



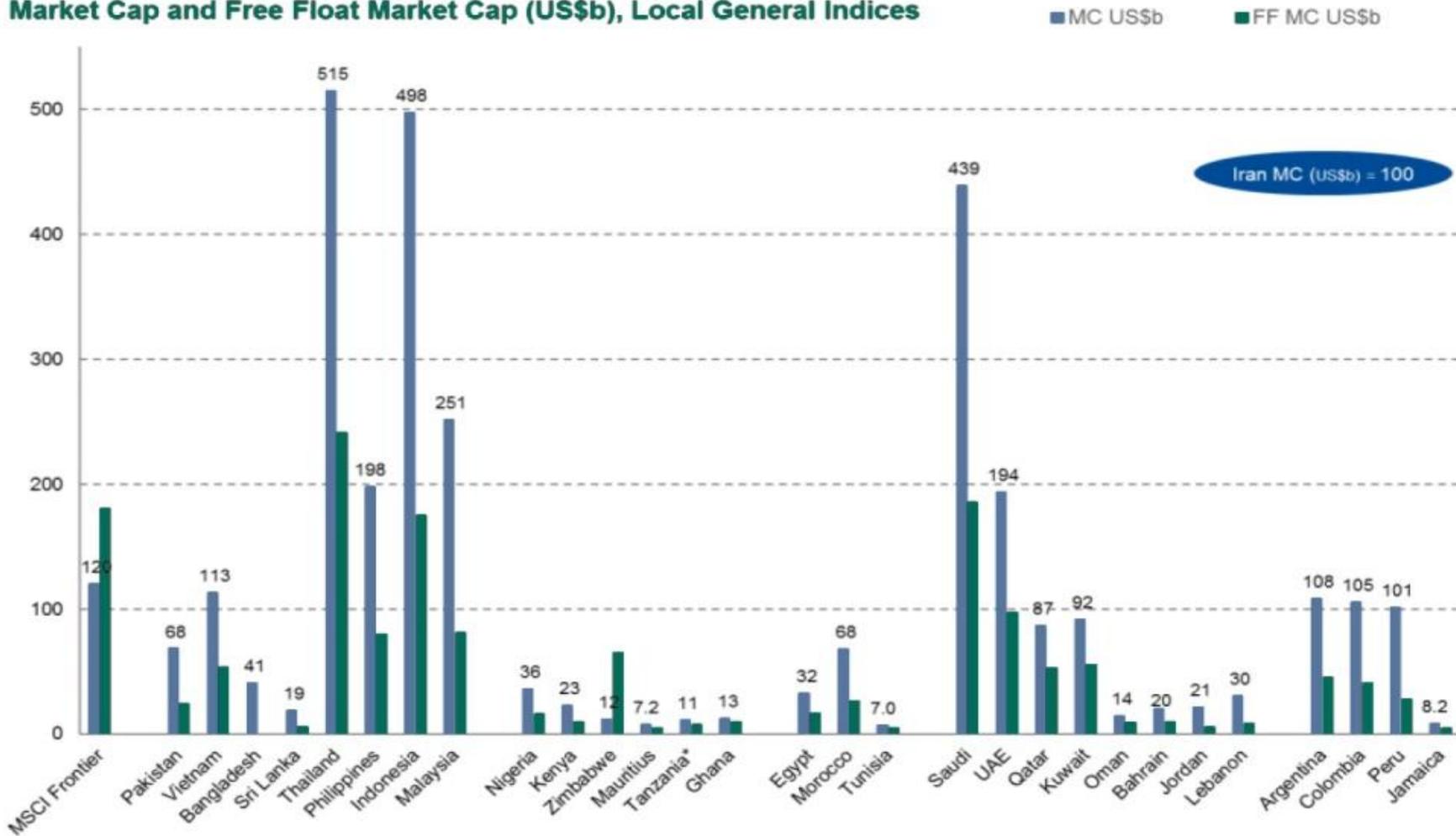
Source: Bloomberg, DC

## TOP 50 2015-18\*

30 Nov – VNI 950	unit	2015	2016	2017E	2018F
P/E Ratio	x	24.4	20.3	16.8	14.0
EPS Growth	%	-6.0	19.1	18.7	20.0
PEG	x	neg	1.1	0.9	0.7
Sales Growth	%	10.3	17.5	20.2	12.7
NPAT Growth	%	-3.0	22.2	22.0	22.9
Net DER	x	0.5	0.3	0.3	0.2
ROE	%	12.3	16.3	19.3	20.4
Yield	%	2.3	2.2	1.8	1.8

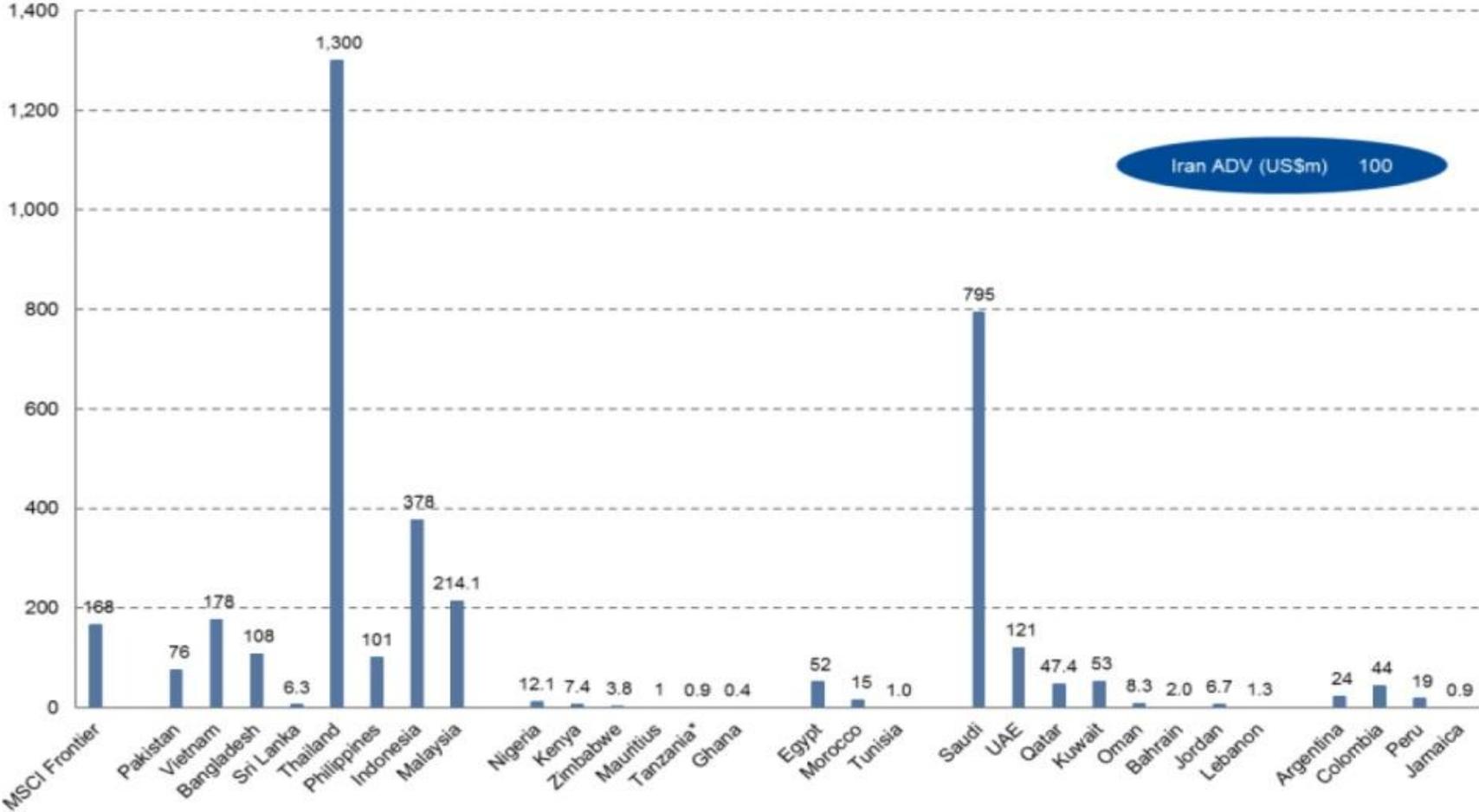
\*DC Top 50 consists of the top 50 names by market cap in the combined Saigon and Hanoi exchanges, less several names that are considered as sub-standard from an investment and/or a transparency perspective. Also, earnings are weighted for amount of stock actually listed. Sources Bloomberg, DC

**Market Cap and Free Float Market Cap (US\$b), Local General Indices**



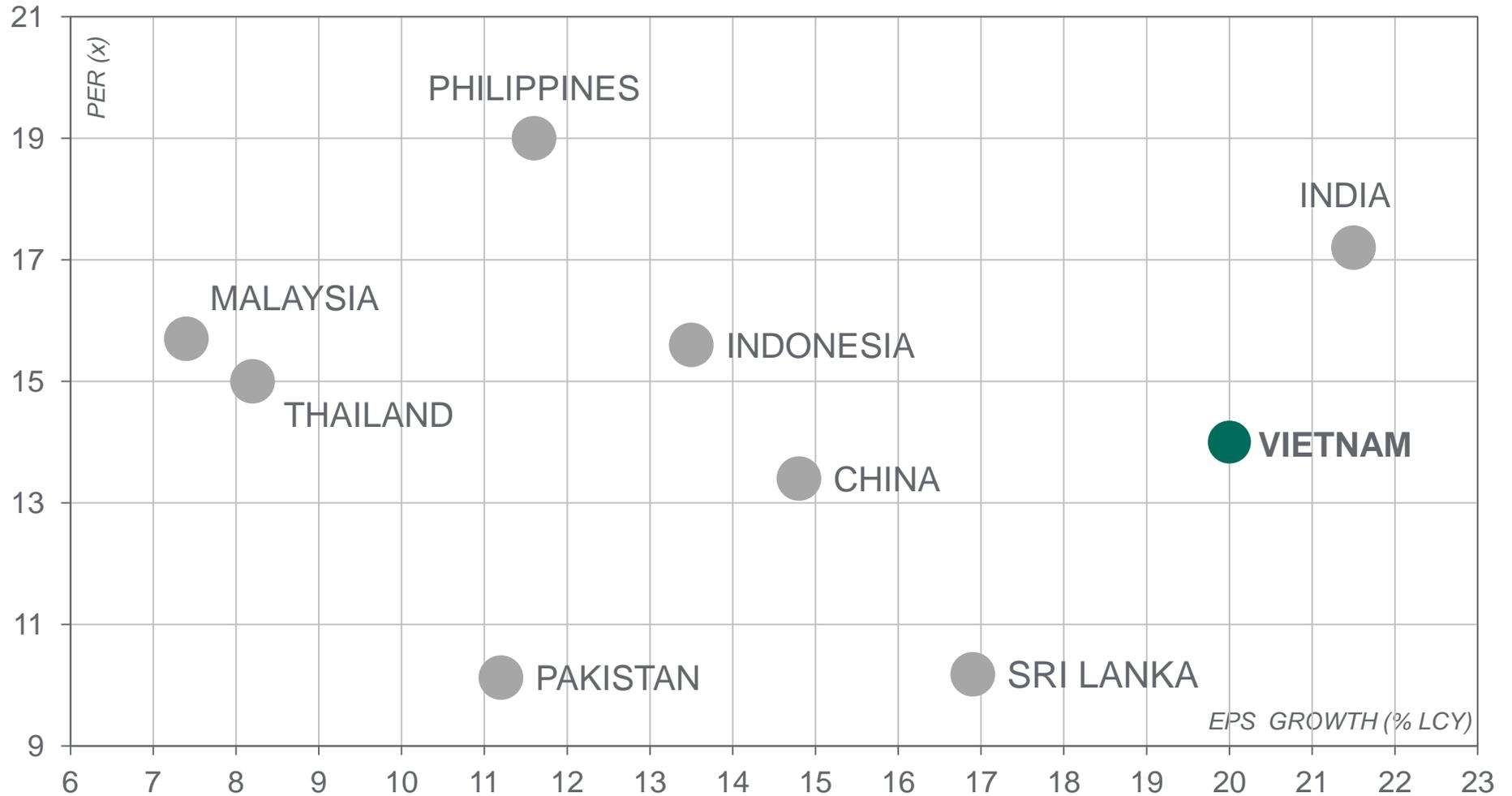
Source: Bloomberg. Share prices 12 October 2017

**ADV 6m (US\$m), Local General Indices**



Source: Bloomberg. Share prices 12 October 2017

2018 PER / EPS GROWTH, 30 NOV 2017



Sources: Bloomberg trailing PERs, IBES forward EPS growth, Dragon Capital all Vietnam

## ***Foreign Ownership Limits – 2018***

- Reconciliation of Investment Law, Securities Law and various Decrees will allow companies to terminate their own FOLs with no legal risks from next year

## ***Provident Fund Management – 2018***

- Laws approved in March 2016; launch of industry expected sometime next year

## ***Derivatives Trading – Recently Commence***

- VN30 Index futures were introduced in Jul 2017 and now trade up to \$100m/day on 7x leverage; covered warrants are coming in Jan 2018

## ***Privatization – Accelerating***

- \$2.2bn done since 2014; up to \$18bn in likely IPOs and scheduled secondary divestments into 2019 (plus \$2bn in private-sector deals into 2H18)

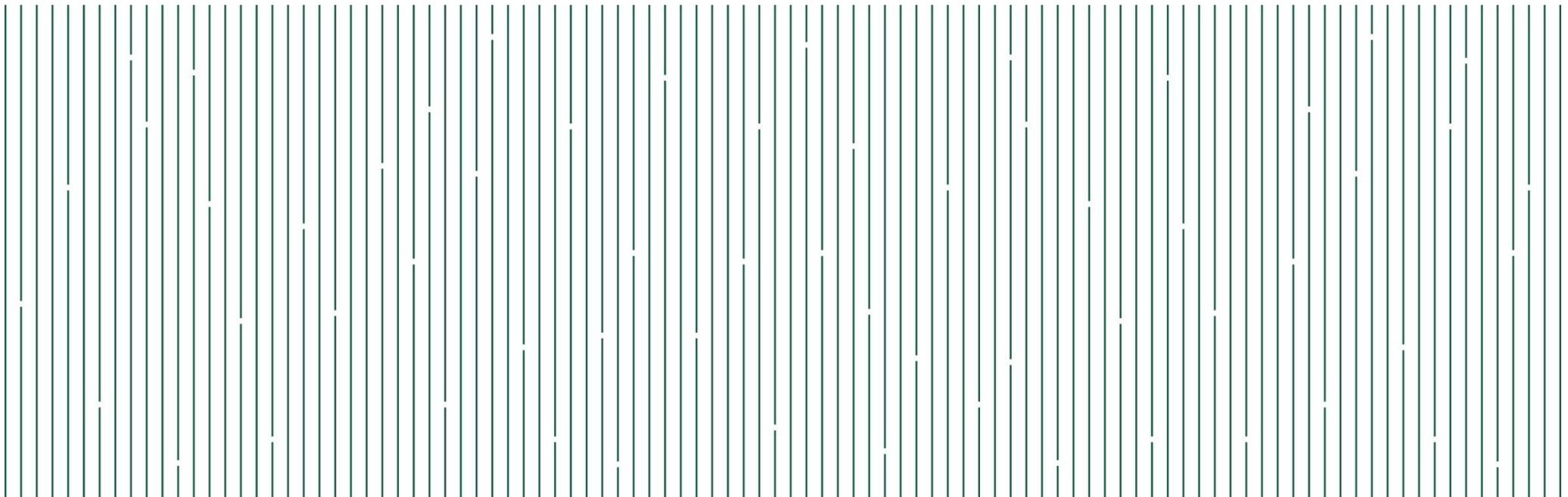
- Current program, launched in 2014, called for sale of stakes in 430 SOEs by 2016
- So far about 265 SOES have been done, raising \$2,200m
- Government recently issued a guidance list of 140 more companies to be IPO'd
- 2015 parent book values were \$12bn and upward revaluations will certainly occur
- Government urgently needs the money as fiscal deficits persist at 6% of GDP
- The pipeline for 4Q17-2019 has been mounting steadily and could be very sizeable

Company	Date	Stake (%)	Value (\$m)
<b>PRIVATIZATIONS</b>			
Vocarimex	Sep-2014	63.0	43
Vietnam Air	Nov-2014	12.8	158
Viglacera	Feb-2014	7.3	9
Vinatex	Sep-2014	48.4	119
SASCO	Sep-2014	47.0	41
Dam Ca Mau	Dec-2014	24.4	71
ACV	Dec-2015	3.5	50
Tin Nghia	Feb-2016	45.0	42
Vissan	Mar-2016	28.0	104
VEAM	Aug-2016	12.6	108
IDICO	Oct-2017	18.5	58
Becamex	Nov-2017		26
<i>Sub-Total</i>	<i>2014-17</i>	<i>15.7</i>	<i>820</i>
<b>FURTHER DIVESTMENTS</b>			
Viglacera	Jun-2016	9.7	18
Vinamilk	Nov -2016	5.4	497
Sabeco	Nov-2016	-	OTC → HSX
Petrolimex	May-2017	1.5	44
Viglacera	Aug-2017	26.7	85
Vinamilk	Nov-2017	3.3	394
<i>Sub-Total</i>	<i>2016-17</i>	<i>7.8</i>	<i>1,047</i>
<b>TOTAL</b>			
Above IPO's / Placings	-	9.4	1,867
Miscellaneous Others	-	13.4	362
<i>All Deals</i>	<i>2014-17</i>	<i>9.7</i>	<i>2,203</i>

- There is also very active issuance by the private sector
- In the past 12 months alone, \$1.6bn of IPOs and placings
- Issuance has come from all from all across the economy
- Steel, transport, consumer, banks, property and power
- Going into 1H18, the issuance tally could surpass \$2bn
- By deal value, banks and property firms are certainly dominating
- But Vietnam needs more financial penetration
- And urbanization is a key long-term macro driver



# Investment Narratives



Fits DC urbanization and consumer themes, therefore overweight exposure desirable. Two largest firms are Vincom and Novaland (NVL, at the time unlisted but the #1 developer in Saigon)

Governance and transparency concerns and high valuation made Vincom uninvestable for DC. We were not entirely comfortable with NVL either but negotiated a pre-IPO position at a favourable price. Consequently, the team needed to build a sector position close to market weight without exposure to a stock which is over 7% of the benchmark, the sector being close to 16%.

We take on liquidity risk by investing down the market cap curve in cheaper companies and special situations where we see value and a catalyst to realize this by virtue of PMs often being close to senior management, which helps the PM's build confidence in the firms' earnings dynamics.

NVL did well and we began to reduce when the stock began to look expensive vs forecasts and the Chairman began to have politically related problems. The book of 12 smaller stocks includes illiquid positions like Khang Dien House (a pioneer in gated community development), where DC has a 16% holding and a strategic level relationship. In many cases we are offered stock at considerable discounts as a prospective long-term holder. And while the percentage ownership of a company by VEIL might in some cases be high, these are small and manageable in relation to the Fund's size.

We outperformed the sector by 1700 bp, generating approx 300 bp of alpha within the sector, from 29/07/2016- 31/07/2017, during which time Vincom underperformed the sector.

VGC is a leader in construction materials, especially architectural glass, in which the company holds 45% market share.

It has a significant presence in sanitary wares and granite/ceramic/clay-based tiles: as such it forms an important part in the infrastructure foodchain, one of DC core investment themes

The company also holds a large industrial and residential land bank in the north of Vietnam.

Expansion in construction materials segment will be the key driver for top and bottom growth over the next five years due to heavy capex in 2017-2018.

We like the company for its leading position in construction materials, its ambitious expansion plans, and its receptive attitude to minorities that will be vital in steering the company in the post-SOE era.

VGC offered 120m shares, or a 28% stake, in a public auction. Even though offering was 2.6x oversubscribed, DC funds took 50% of the offer and won the entire desired amount at an average price of VND 16,100/sh, which was lower than average winning price of VND 16,175 and a market price of VND 17,600.

This illustrates the potency of DC bidding strategy vs peers in primary markets. Currently, the position is sitting on an unrealized gain of 66% vs our entry price.

DC/VEIL purchased MWG at its listing in 04/2014 at VND 85,000/sh, or 8.4x current earnings.

At that time earnings growth was over 100% and the street felt the numbers had been frontloaded for the sake of the IPO. In addition, two prominent PE funds were selling in the deal.

Our work and conversations with management suggested that the growth was sustainable. By Oct the stock had doubled and we took some profit/reduced exposure.

There was consolidation into 2015 as plans emerged for an expansion away from pure mobile phone retailing, which many felt to be maturing, and into broader CE, which was thought to pose execution risk.

DC was and remains of the view that management had the depth and skill to run many types of retail businesses. Accordingly, toward the end of 2015, DC began to add at VND 80,000 and a PE of 21x.

As the CE results became more visible, the group began to look towards adding a grocery retail business. Again, the street was skeptical of execution, and again, we were not. The purchase at the end of 2015 remains on the books and we continue to add. The house view remains and we own over 12% of the company between the Funds.

Japanese management and technology, Vietnamese demand. What could be better?

Our initial research on this importer of medical instruments from Japan indicated very strong and persistent demand, high margins and a sustainable competitive position.

We purchased the stock in a capital raise on 7-8x earnings.

The association of the firm with a strategic Japanese investor/ PE fund was seen as a positive, as was the foreign ownership level at its maximum.

We were happy to pay the foreign premium, as were many others, and it became a “hot” stock in an under-represented and high-growth business.

The first warning came with another new share issue before the capital raised from the prior one had been drawn down, less than a year later.

We begin to sell , still at a 50% foreign premium, and divested entirely with over 20% gains before the stock collapsed as the Chairman was arrested for fraud: evidently the firm was buying used equipment from Japan and selling it as new .

THANK YOU

